DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2019

[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 2019

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[English Translation for Reference Only]

Auditor's Report

PwC ZT [2020] Shen Zi (2020) No. 20991

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 2019;
- 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 2019 and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

普华永道中天会计师事务所(特殊普通合伙)
PricewaterhouseCoopers Zhong Tian LLP, 11/F PricewaterhouseCoopers Center
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T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

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 (including the disclosures), structure and content of the financial statements 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
17 March 2020 — Signing CPA Jessy Tong

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2019	31 December 2018
Cash and deposits with the central bank	9	11,213,853,558	13,453,814,228
Deposits with other banks	10	4,279,045,017	6,780,363,046
Placements with financial institutions	11	29,962,479,261	25,827,256,895
Derivative assets	12	8,826,063,195	12,784,311,778
Financial assets purchased under resale agreements	13	807,761,935	-
Loans and advances	14	46,689,733,719	44,050,252,052
Financial investments - trading assets	15	6,943,305,682	14,887,478,610
Financial investments - debt instruments	16	2,738,922,846	157,077,499
Financial investments - other debt instruments	17	8,981,002,616	6,888,684,172
Fixed assets	18	64,045,435	80,685,613
Long-term prepaid expenses	19	3,790,294	5,685,656
Deferred income tax assets	20	401,725,074	534,141,741
Other assets	21	2,024,150,765	1,651,679,578
TOTAL ASSETS		122,935,879,397	127,101,430,868

LIABILITIES	Notes	31 December 2019	31 December 2018
Deposits from other banks and financial institutions	22	7,355,752,680	2,345,836,040
Borrowing from other banks	23	16,982,829,100	20,531,762,234
Derivative liabilities	12	8,927,182,171	11,948,654,700
Financial assets sold under repurchase agreements	24	2,980,501,665	3,627,249,015
Due to customers	25	62,294,173,950	60,993,525,647
Payroll and welfare payable	26	178,375,974	133,370,440
Taxes payable	27	159,608,478	114,707,238
Bonds issued	28	7,017,815,151	7,642,480,438
Provision	29	15,018,981	36,912,834
Other liabilities	30	5,176,280,134	8,614,120,198
TOTAL LIABILITIES		111,087,538,284	115,988,618,784
OWNER'S EQUITY	**Notes**		
Paid-in capital	31	8,000,000,000	8,000,000,000
Capital surplus	32	30,052,787	27,262,927
Other comprehensive income	45	51,661,320	23,919,406
Surplus reserve	33	405,704,608	335,374,312
General risk reserve	34	1,297,600,000	1,234,900,000
Undistributed profits	35	2,063,322,398	1,491,355,439
TOTAL OWNER'S EQUITY		11,848,341,113	11,112,812,084
TOTAL LIABILITIES AND OWNER'S EQUITY		122,935,879,397	127,101,430,868

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

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

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2019	2018
Interest income	36	3,737,759,484	3,887,032,429
Interest expense	36	(2,288,320,318)	(2,474,255,440)
Net interest income		1,449,439,166	1,412,776,989
Fee and commission income	37	360,615,270	288,080,963
Fee and commission expenses	37	(71,755,239)	(76,314,022)
Net fee and commission income		288,860,031	211,766,941
Investment income	38	523,185,973	1,036,269,885
Fair value losses	39	(122,568,093)	(91,911,510)
Exchange gains	40	568,423,170	237,387,940
Other business income		9,570,766	7,467,963
Other income	41	8,321,861	7,990,063
Operating income		2,725,232,874	2,821,748,271
Tax and levies		(23,710,359)	(22,975,398)
General and administrative expenses	42	(1,734,809,745)	(1,624,968,263)
Credit impairment losses	43	(78,370,546)	(124,746,445)
Operating expense		(1,836,890,650)	(1,772,690,106)
Operating profit		888,342,224	1,049,058,165
Non-operating income		2,711,011	5,324,664
Non-operating expenses		(5,703,602)	(1,085,061)
Total profit		885,349,633	1,053,297,768
Less: Corporate Income tax	44	(182,046,679)	(254,478,362)
Net profit		703,302,954	798,819,406
Other comprehensive income	45	27,741,914	71,340,560
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		21,116,030	81,106,365
-Credit impairment losses of other debt instruments		1,177,692	(12,780)
-Cash flow hedge reserve		5,448,192	(9,753,025)
Total comprehensive income		731,044,868	870,159,966

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 STATEMENTT
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2019	2018
1 **Cash flows from operating activities**			
Net decrease in deposits with the central bank and other banks		1,237,274,263	3,574,499,955
Net decrease in trading assets		8,176,206,482	6,125,004,695
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		6,316,087,901	6,966,518,145
Net increase in financial assets sold under repurchase agreements		-	1,765,300,000
Interest received		3,412,639,746	3,474,271,498
Fee and commission received		360,615,270	496,722,446
Cash received relating to other operating activities		1,672,213,846	2,487,315,225
Sub-total of cash inflow		21,175,037,508	24,941,637,975
Net increase in loans and advances		(2,701,833,852)	(333,291,040)
Net decrease in borrowing from other banks		(3,458,196,693)	(15,188,866,398)
Net increase in placements with financial institutions		(3,056,833,470)	(2,392,721,247)
Net decrease in financial assets sold under repurchase agreements		(643,668,282)	-
Net increase in financial assets purchased under resale agreements		(807,150,000)	-
Interest paid		(2,160,160,259)	(2,261,521,655)
Fee and commission paid		(71,755,239)	(76,314,022)
Cash paid to employees		(1,104,986,154)	(1,032,530,820)
Payment of taxes		(280,251,984)	(562,319,205)
Cash paid relating to other operating activities		(4,342,724,051)	(538,101,393)
Sub-total of cash outflow		(18,627,559,984)	(22,385,665,780)
Net cash provided from operating activities	46	2,547,477,524	2,555,972,195

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENTT
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2019	2018
2	**Cash flows from investing activities**			
	Cash received from disposal of fixed assets		74,031	-
	Cash received from disposal of debt instruments		-	315,989,999
	Cash received from disposal of other debt instruments		2,563,864,602	4,107,324,210
	Interest received from debt instruments and other debt instruments		343,068,637	181,810,948
	Sub-total of cash inflow		2,907,007,270	4,605,125,157
	Cash paid for purchase of debt instruments		(2,559,736,064)	-
	Cash paid for purchase of other debt instruments		(4,584,032,863)	(8,031,266,924)
	Cash paid for purchase of fixed assets and other long-term assets		(22,099,252)	(26,210,654)
	Sub-total of cash outflow		(7,165,868,179)	(8,057,477,578)
	Net cash used in investing activities		(4,258,860,909)	(3,452,352,421)
3	**Cash flows from financing activities**			
	Cash received from bonds issuance		-	3,589,545,379
	Sub-total of cash inflow		-	3,589,545,379
	Cash payments for bonds		(628,931,589)	-
	Cash payments for bonds interest expenses		(225,946,148)	(88,429,358)
	Sub-total of cash outflow		(854,877,737)	(88,429,358)
	Net cash flows (used in)/provided from financing activities		(854,877,737)	3,501,116,021
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		138,761,278	380,116,621
5	**Net (decrease)/ increase in cash and cash equivalents**		(2,427,499,844)	2,984,852,416
	Add: Cash and cash equivalents at beginning of year		20,282,922,197	17,298,069,781
6	**Cash and cash equivalents at end of year**	46	17,855,422,353	20,282,922,197

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

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

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profits	Total owners' equity
	Note 31	Note 32	Note 45	Note 33	Note 34	Note 35	
Balance at 1 January 2018 (Restated)	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

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profits	Total owners' equity
	Note 31	Note 32	Note 45	Note 33	Note 34	Note 35	
Balance at 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
Impact of adopting new CAS of Lease (see Note 4)	-	-	-	-	-	1,694,301	1,694,301
Restated Balance at 1 January 2019 (Restated)	8,000,000,000	27,262,927	23,919,406	335,374,312	1,234,900,000	1,493,049,740	11,114,506,385
Comprehensive income							
Net profit for the year of 2019	-	-	-	-	-	703,302,954	703,302,954
Other comprehensive income	-	-	27,741,914	-	-	-	27,741,914
Total comprehensive income	-	-	27,741,914	-	-	703,302,954	731,044,868
Tax credits from employee share-based compensation plans	-	2,789,860	-	-	-	-	2,789,860
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	62,700,000	(62,700,000)	-
Transfer to surplus reserve	-	-	-	70,330,296	-	(70,330,296)	-
Balance at 31 December 2019	8,000,000,000	30,052,787	51,661,320	405,704,608	1,297,600,000	2,063,322,398	11,848,341,113

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Janice Chua

1 GENERAL INFORMATION

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

Prior to the establishment of the Bank and the transfer of business (the "conversion"), DBS Bank had three branches (Shanghai, Beijing and Guangzhou) and DBS Bank (Hong Kong) Ltd. ("DBS HK") had two branches (Shenzhen and Suzhou) in the People's Republic of China ("PRC") (collectively known as the "Former Branches"). On 22 December 2006, the Bank obtained an approval from the former China Banking Regulatory Commission ("the former 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 former 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 the former 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 the former 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 the former 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 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.

(All amounts expressed in RMB unless otherwise stated)

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2019 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 2019 and of the financial performance, cash flows and other information for the year then ended.

4 CHANGES IN ACCOUNTING POLICIES

Except for the revised *accounting policies* mentioned below, the accounting policies adopted by the Bank in preparing these financial statements are consistent with those adopted in prior year.

The MOF issued revised *CAS 21 (Lease)* on 14 December 2018, and issued revised *CAS 7 (Exchange of Non-Monetary Assets)* and revised *CAS 12 (Debt Restructuring)* in 2019. As at 31 December 2019, the above accounting policies are applied to the bank's financial statement. The revised *CAS 7* and *CAS 12* will not have a significant impact on the bank's financial statement. The impacts of the revised *CAS 21* on the bank's financial statement are listed as follows:

This revision improves the identification, breakdown and merger of leases and require lessees to recognise leases in balance sheet. For lessees, the revision will recognise substantially all the leases in balance sheet as the classification of operating leases and financial leases have been removed. According to the revision, the entity is required to recognise the right-of-use assets and leasing liabilities and exemptions are applicable to short-term and low-value leases only. Meanwhile, the new standards also improve the accounting treatment of the lessees on subsequent measurement and leasing changes. The revision has not undergone substantial changes in the accounting of lessors.

The bank has adopted the standards for annual period beginning on 1 January 2019 and used the modified retrospective approach. The cumulative effect of adopting revised *CAS 21* was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. Lease liabilities were measured at the present value of the remaining lease payments. Right-of-use assets on significant property leases were measured on a retrospective basis as if revised *CAS 21* had been applied since their lease commencement dates. The carrying values of other right-of-use assets were equal to the corresponding lease liabilities. The recognition exceptions for short-term leases and leases of low-value assets are applied.

(1) The major impacts of adopting the *revised CAS21* on the financial statements are as follows:

Balance sheet

1 January 2019	Before Transitional adjustment	Transitional adjustment	After transitional adjustment
Other assets	1,651,679,578	469,458,537	2,121,138,115
Other liabilities	8,614,120,198	469,458,537	9,083,578,735
Deferred income tax assets	534,141,741	(564,769)	533,576,972
Retained earnings	1,491,355,439	1,694,301	1,493,049,740

(All amounts expressed in RMB unless otherwise stated)

4 CHANGES IN ACCOUNTING POLICIES (Continued)

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

	The Bank
Operating lease commitments disclosed as at 31 December 2018	229,103,461
Effect from discounting using incremental borrowing rates as at 1 January 2019	(26,842,797)
	202,260,664
Less:	
Short-term and low-value leases recognised directly as expense	(10,090,306)
Add:	
Adjustments as a result of different treatment of renewal options	277,288,179
Lease liabilities recognised as at 1 January 2019	469,458,537

(2) For the year ended 31 December 2019, the accounting policy for the Bank's leases are as follows:

Lease refers to a contact in which the lessor transfers the right of use of the assets to the lessee for a certain period to obtain the consideration.

As Lessee

The Bank recognises the right-of-use asset on the commencement date of the lease term and recognises the lease liability at the present value of the lease payments that have not been paid. The lease payments include fixed payments and payments to be made in the event that it is reasonably determined that the purchase option will be exercised or the lease option is terminated. The variable rent determined based on a certain percentage of sales is not included in the lease payments and is recognized in profit or loss when incurred.

The Bank's right-of-use assets include leased office premises and data centres.

The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments paid on or before the lease beginning date, the initial direct costs, etc. and deducts the lease incentives received. Right-of-use assets are initially measured at cost and subsequently depreciated using the straight-line method from the lease commencement date to the end of the lease term. Extension options are included in the lease term if the lease is reasonably certain to be extended. The right-of-use assets are periodically reduced by impairment losses, if any and adjusted for the remeasurements of the lease liabilities described above.

For short-term leases with a lease term of no more than 12 months and low-value-asset leases with a lower value of individual assets, the Bank chooses not to recognise the right-of-use assets and lease liabilities and the relevant rental expenses are based on the straight-line method for each period of the lease term. It is included in the current profit and loss or related asset cost.

4 CHANGES IN ACCOUNTING POLICIES (continued)

(3) For 2018, the accounting policies applicable to the Bank's leases are as follows:

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

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

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities

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.

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

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 the 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*")* 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.

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 the interest income from these financial assets is included in "Interest income" using the effective interest rate method.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(1) Financial assets (continued)

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' or 'Fair value gains/losses' in the period in which it arises.

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.

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(1) Financial assets (continued)

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.

(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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(1) Financial assets (continued)

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.

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (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.

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 47.

G Derivative instruments and hedge accounting

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

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.

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.

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	5-10 years	0%	10%-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.

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 the asset's present value of future cash flows.

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 rate method.

The effective interest rate 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

L Fee and commission income/expense

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.

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.

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 at 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 investments at fair value through other comprehensive income 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 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

O 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 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"), including DBSH Share Plan and DBSH Employee Share Purchase Plan, 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

P 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.

Q 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

R 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.

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 5 March, 2020.

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%; 9%,10%; 13%,16%	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

Under the Corporate Income Tax Law of the People's Republic of China, the corporate income tax rate applicable to the Bank was 25% (2018: 25%).

9 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2019	**31 December 2018**
Cash	33,931,319	33,724,307
Statutory deposit reserve with the central bank (a)	5,419,753,110	6,189,654,807
Excess deposit reserve with the central bank	4,994,794,448	6,372,486,845
Foreign exchange risk reserve with central bank (b)	763,989,096	856,444,362
Interest receivable	2,973,449	3,816,861
Less: ECL allowance	(1,587,864)	(2,312,954)
	11,213,853,558	13,453,814,228

(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 2019 (31 December 2018: 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 11% at 31 December 2019 (31 December 2018: 12.5%). RMB deposit reserve bears interest at annual rate of 1.62% (2018: 1.62%).

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

(All amounts expressed in RMB unless otherwise stated)

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 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 was zero according to Yin Fa [2017] 207.

10 DEPOSITS WITH OTHER BANKS

	31 December 2019	31 December 2018
Deposits with domestic banks	2,833,063,551	5,677,685,775
Deposits with overseas banks	1,237,770,222	917,004,949
Deposits with overseas related parties (Note 51(e)(3)(i))	198,591,832	166,374,374
Interest receivable	9,687,484	19,424,058
Less: ECL allowance	(68,072)	(126,110)
	4,279,045,017	6,780,363,046

11 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Placements with domestic banks	5,269,686,411	3,277,251,750
Placements with domestic financial institutions	19,059,517,439	18,098,942,767
Placements with overseas banks	418,578,000	-
Placements with overseas related parties (Note 51(e)(3)(i))	4,872,483,870	4,120,530,000
Interest receivable	359,351,262	342,357,660
Less: ECL allowance	(17,137,721)	(11,825,282)
	29,962,479,261	25,827,256,895

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

12.1 DERIVATIVE INSTRUMENTS

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

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

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

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

Interest rate options give the buyer, on payment of a premium, the right but not the obligation, to fix the rate of interest on a future deposit or loan, for a specified period and commencing on a specified future date.

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.

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.1 DERIVATIVE INSTRUMENTS (continued)

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

31 December 2019	Notional amount	Fair value Assets	Fair value Liabilities
Foreign exchange derivatives			
Foreign exchange forward	16,625,219,821	61,053,578	(105,776,974)
Foreign exchange swap	465,162,378,607	3,582,064,761	(3,409,513,852)
Foreign exchange option	115,363,387,700	473,958,395	(549,468,684)
Cross-currency swap	22,382,726,518	214,365,848	(189,346,540)
	619,533,712,646	4,331,442,582	(4,254,106,050)
Interest rate derivatives			
Interest rate swap	836,967,905,828	3,902,812,156	(4,074,663,976)
Interest rate cap and floor	22,155,569,244	11,427,928	(11,389,070)
	859,123,475,072	3,914,240,084	(4,086,053,046)
Other derivatives			
Equity derivatives	8,018,296,053	508,526,354	(508,392,876)
Commodity derivatives	3,694,592,788	53,514,615	(53,438,319)
Credit derivatives	4,832,882,016	18,339,560	(25,191,880)
	16,545,770,857	580,380,529	(587,023,075)
Total	1,495,202,958,575	8,826,063,195	(8,927,182,171)

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.1 DERIVATIVE INSTRUMENTS (continued)

31 December 2018	Notional amount	Fair Value Assets	Fair Value 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)
	541,977,135,107	5,074,430,375	(4,142,728,476)
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)
	910,509,958,539	6,271,346,457	(6,367,524,433)
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)
	14,539,759,151	1,438,534,946	(1,438,401,791)
Total	1,467,026,852,797	12,784,311,778	(11,948,654,700)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.2 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 assets and 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 opposite 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 impact 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.

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.2 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 impact on hedged items.

(a) Fair value hedge

As at 31 December 2019, derivative contracts designated as hedging instruments by the Bank are as follows:

		Fair Value	
	Notional amount	Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Interest rate swaps	1,174,833,609	2,310,128	(1,420,145)

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

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

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

Net loss on fair value hedges are as follows:

	2019	**2018**
—hedging instruments	2,771,123	42,738,046
—hedged items	(3,294,423)	(42,921,664)
Net loss on fair value hedges	(523,300)	(183,618)

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.2 HEDGE ACCOUNTING (continued)

(b) Cash flow hedge

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

For the year ended 31 December 2019, the Bank's net gain from the cash flow hedge of RMB 2.08 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 2019. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2019, as a result of the highly probable cash flows no longer being expected to occur.

13 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2019	31 December 2018
Financial assets purchased under resale agreements	807,150,000	-
Interest receivable	1,046,068	-
Less: ECL allowance	(434,133)	-
Total	807,761,935	-

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES

	31 December 2019	31 December 2018
Loans and advances carried at amortised cost		
Retail loans		
-Mortgage loans	5,120,704,532	5,849,950,777
-Others	478,015,991	614,062,032
	5,598,720,523	6,464,012,809
Corporate loans and advances		
-Loans	30,549,799,071	25,942,142,432
-Trade finance	10,893,774,748	11,890,927,067
-Discounted bills and others	516,670,077	632,018,511
	41,960,243,896	38,465,088,010
Interest receivable	278,731,567	245,099,632
Total loans and advances carried at amortised cost	47,837,695,986	45,174,200,451
Less: ECL allowance	(1,147,962,267)	(1,123,948,399)
Net Loans and advances	46,689,733,719	44,050,252,052

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2019		31 December 2018	
	Balance	**%**	**Balance**	**%**
Retail loans	5,598,720,523	11%	6,464,012,809	14%
Wholesale and retail business	9,561,393,921	19%	9,288,037,598	21%
Finance	9,206,752,401	19%	6,171,414,280	13%
Real estate	8,570,443,122	18%	7,668,480,656	17%
Manufacturing	6,951,616,021	15%	8,283,667,382	18%
Information and technology	2,733,750,794	6%	2,336,888,156	5%
Transportation, storage and postal	1,993,798,221	4%	1,637,523,898	4%
Leasing and commercial services	1,863,225,832	4%	1,654,325,029	4%
Electricity, Gas and Water	559,149,403	1%	583,604,676	1%
Agriculture, Hunting, Forestry and Fishing	287,826,879	1%	361,648,710	1%
Others	232,287,302	1%	479,497,625	1%
Interest receivable	278,731,567	1%	245,099,632	1%
Total gross	47,837,695,986	100%	45,174,200,451	100%

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(2) Geographic sector:

	31 December 2019	31 December 2018
Shanghai	30,551,347,298	28,110,742,309
Beijing	5,298,713,815	4,346,012,457
Shenzhen	3,073,461,622	2,931,143,022
Suzhou	2,096,133,108	1,635,542,046
Guangzhou	1,886,760,565	2,863,425,377
Xi'an	1,201,178,197	1,378,750,000
Hangzhou	914,331,365	898,169,620
Chongqing	908,325,234	1,049,605,876
Nanning	742,644,050	784,929,925
Qingdao	490,178,760	294,583,693
Tianjin	291,911,154	439,618,654
Others	103,979,251	196,577,840
Interest receivable	278,731,567	245,099,632
Total gross	47,837,695,986	45,174,200,451

(3) By type of collateral and guarantee:

	31 December 2019	31 December 2018
Clean loans	8,447,274,311	9,272,978,522
With guarantee only	11,523,421,636	10,249,816,097
With collateral only	14,933,718,053	13,482,562,301
With both collateral and guarantee	12,654,550,419	11,923,743,899
Interest receivable	278,731,567	245,099,632
Total gross	47,837,695,986	45,174,200,451

(4) Loans and advances past due:

	31 December 2019				
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	Total
Clean loans	-	-	-	-	-
With guarantee only	-	-	130,091,656	4,562,923	134,654,579
With collateral only	320,099,579	67,777,232	36,917,909	16,258,480	441,053,200
With both collateral and guarantee	327,877,377	5,660,023	20,124,499	27,569,084	381,230,983
Total gross	647,976,956	73,437,255	187,134,064	48,390,487	956,938,762

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(4) Loans and advances past due (continued)

	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	533,807,518	227,300,152	149,423,873	35,326,494	945,858,037

15 FINANCIAL INVESTMENTS - TRADING ASSETS

	31 December 2019	31 December 2018
Banks and other financial institutions debt securities	3,684,340,938	8,228,194,287
Corporate debt securities	508,048,053	322,290,174
Government securities and treasury bills	418,904,901	771,723,285
Local government debt securities	594,919,195	161,899,915
Negotiable certificates of deposit	1,629,883,053	5,197,322,385
Asset Backed Securities	15,014,619	3,601,445
Interest receivable	92,194,923	202,447,119
	6,943,305,682	14,887,478,610

As at 31 December 2019, trading assets amounting to RMB 2,260,000,000 were pledged as collateral under repurchase agreements with other banks. As at 31 December 2018, trading assets amounting to RMB 3,450,000,000 were pledged as collateral under repurchase agreements with other banks.

16 FINANCIAL INVESTMENTS - DEBT INSTRUMENTS

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

	31 December 2019	31 December 2018
Government securities and treasury bills	2,596,656,064	-
Assets backed securities	121,930,000	158,850,000
Interest receivable	21,085,178	135,262
Less: ECL allowance	(748,396)	(1,907,763)
	2,738,922,846	157,077,499

(All amounts expressed in RMB unless otherwise stated)

17 FINANCIAL INVESTMENTS - OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments classified as FVOCI.

	31 December 2019	31 December 2018
Government securities and treasury bills	2,948,977,489	3,502,344,525
Local government debt securities	10,039,930	39,899,849
Banks and other financial institutions debt securities	5,664,753,742	3,199,097,820
Corporate debt securities	165,894,000	-
Interest receivable	191,337,455	147,341,978
	8,981,002,616	6,888,684,172

As at 31 December 2019, the amount of other debt instruments pledged was RMB 1,725,000,000. The amount of other debt instruments pledged was RMB 300,000,000 as at 31 December 2018.

18 FIXED ASSETS

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2019	97,694,286	270,128,430	367,822,716
Add: Addition	3,488,075	16,981,605	20,469,680
Less: Disposal/write-off	(2,904,984)	(13,830,102)	(16,735,086)
At 31 December 2019	98,277,377	273,279,933	371,557,310
Accumulated depreciation			
At 1 January 2019	84,442,633	202,694,470	287,137,103
Add: Charge for the year	6,670,466	30,357,788	37,028,254
Less: Disposal/write-off	(2,897,410)	(13,756,072)	(16,653,482)
At 31 December 2019	88,215,689	219,296,186	307,511,875
Net book value			
At 31 December 2019	10,061,688	53,983,747	64,045,435

(All amounts expressed in RMB unless otherwise stated)

18 FIXED ASSETS (continued)

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 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	97,694,286	270,128,430	367,822,716
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	84,442,633	202,694,470	287,137,103
Net book value			
At 31 December 2018	13,251,653	67,433,960	80,685,613

19 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2019	5,431,390	254,266	5,685,656
Additions	1,741,099	-	1,741,099
Transfer-out	(111,527)	-	(111,527)
Amortization	(3,496,149)	(28,785)	(3,524,934)
As at 31 December 2019	3,564,813	225,481	3,790,294
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	5,431,390	254,266	5,685,656

20 DEFERRED INCOME TAX ASSETS

Deferred income tax assets are 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 2018: 25%).

The movements of deferred taxation are shown as below:

(All amounts expressed in RMB unless otherwise stated)

20 DEFERRED INCOME TAX ASSETS (continued)

	2019	**2018**
At end of last year	534,141,741	481,168,410
Impact from adopting New CASs of leasing	(564,769)	N/A
Impact from adopting New CASs of financial instruments	N/A	85,452,909
At beginning of year	533,576,972	566,621,319
Income statement credit (Note 44)	(122,616,178)	(8,348,878)
Other debt instruments - Fair value measurement (Note 45)	(7,038,676)	(27,227,652)
Other debt instruments - ECL (Note 45)	(392,564)	4,260
Cash flow hedge reserve (Note 45)	(1,804,480)	3,092,692
At end of year	401,725,074	534,141,741

(1) Deferred tax assets

	31 December 2019		**31 December 2018**	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for loan impairment	207,627,447	830,509,787	373,865,372	1,495,461,489
Provision for other impairment	50,745,463	202,981,850	56,408,058	225,632,231
Fair value measurement of trading assets	52,946,102	211,784,409	24,108,886	96,435,545
Share based incentive plan not exercised	11,774,562	47,098,246	12,194,867	48,779,474
Accrued expenses	93,918,260	375,673,038	76,402,725	305,610,900
Losses on disposal of fixed assets	162,930	651,721	256,105	1,024,420
Lease	1,075,822	4,303,302	N/A	N/A
	418,250,586	1,673,002,353	543,236,013	2,172,944,059

The estimated amount to be recovered comprised:

	31 December 2019		**31 December 2018**	
Within 1 year (including 1 year)	146,864,362	587,457,447	100,511,611	402,046,445
After 1 year	271,386,224	1,085,544,906	442,724,402	1,770,897,614
	418,250,586	1,673,002,353	543,236,013	2,172,944,059

(All amounts expressed in RMB unless otherwise stated)

20 DEFERRED INCOME TAX ASSETS (continued)

(2) Deferred tax liabilities

	31 December 2019		31 December 2018	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Fair value measurement of other debt instruments	(15,993,059)	(63,972,243)	(8,954,383)	(35,817,537)
ECL on other debt instruments	(532,453)	(2,129,810)	(139,889)	(559,554)
	(16,525,512)	(66,102,053)	(9,094,272)	(36,377,091)

The estimated amount to be recovered comprised:

After 1 year	(16,525,512)	(66,102,053)	(9,094,272)	(36,377,091)
	(16,525,512)	(66,102,053)	(9,094,272)	(36,377,091)

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

	31 December 2019	31 December 2018
Deferred tax assets, net	401,725,074	534,141,741

(All amounts expressed in RMB unless otherwise stated)

21 OTHER ASSETS

	31 December 2019	31 December 2018
Security Deposits and guarantee deposits	1,231,828,491	1,414,656,790
Receivables from related parties (Note 51(e)(3)(ii))	39,773,957	38,561,643
Settlement receivables from customers	44,995,686	77,503,525
Less: ECL allowance	(31,476,780)	(36,620,147)
Net settlement receivables from customers	13,518,906	40,883,378
Prepaid expenses	10,655,013	14,842,301
Right-of-Use Assets	370,271,423	N/A
Others	358,102,975	142,735,466
	2,024,150,765	1,651,679,578

ECL allowance	**2019**	**2018**
At 1 January	36,620,147	84,119,467
Impairment losses	(1,030,510)	(34,340,501)
Write-off	(4,112,857)	(13,340,631)
Foreign Exchange difference	-	181,812
At 31 December	31,476,780	36,620,147

Right-of-Use Assets	**2019**
Cost	
At 1 January	469,458,537
Add	36,726,279
Less	-
At 31 December	506,184,816
Accumulated depreciation	
At 1 January	-
Add	(135,913,393)
Less	-
At 31 December	(135,913,393)
Net book value	
At 1 January 2019	469,458,537
At 31 December 2019	370,271,423
Leasing Liabilities as at 31 December 2019	(374,340,721)

(All amounts expressed in RMB unless otherwise stated)

22 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Deposits from domestic financial institutions	5,863,601,835	1,494,362,911
Deposits from overseas financial institutions	129,972,647	137,734,490
Deposits from overseas related parties (Note 51(e)(3)(iii)	1,325,950,852	699,365,707
Interest payable	36,227,346	14,372,932
	7,355,752,680	2,345,836,040

23 BORROWING FROM OTHER BANKS

	31 December 2019	31 December 2018
Placements from domestic banks	5,933,448,200	7,486,205,550
Placements from overseas related parties (Note 51(e)(3)(iii))	10,999,747,839	12,905,187,182
Interest payable	49,633,061	140,369,502
	16,982,829,100	20,531,762,234

24 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2019	31 December 2018
At amortized cost		
Financial assets sold under repurchase agreements	828,000,000	-
At fair value through profit or loss		
Financial assets sold under repurchase agreements	2,150,993,063	3,624,394,018
Interest payable	1,508,602	2,854,997
	2,980,501,665	3,627,249,015

25 DUE TO CUSTOMERS

	31 December 2019	31 December 2018
At amortized cost		
Corporate current deposits	13,037,009,310	15,056,767,822
Corporate time deposits	28,387,086,358	26,043,300,238
Retail current deposits	3,405,875,685	2,528,684,790
Retail time deposits	5,604,892,418	5,574,705,415
Structured Investment Products sold to corporate customers	11,145,476,482	10,654,972,600
Structured Investment Products sold to retail customers	436,159,835	830,043,548
Interest payable	277,673,862	305,051,234
	62,294,173,950	60,993,525,647

(All amounts expressed in RMB unless otherwise stated)

26 PAYROLL AND WELFARE PAYABLE

	31 December 2019	31 December 2018
Short-term employee benefits	171,914,388	126,685,496
Defined contribution plans	6,461,586	6,684,944
	178,375,974	133,370,440

	31 December 2018	Additions	Deductions	31 December 2019
Short-term employee benefits	126,685,496	1,024,523,626	(979,294,734)	171,914,388
Defined contribution plans	6,684,944	149,016,766	(149,240,124)	6,461,586
	133,370,440	1,173,540,392	(1,128,534,858)	178,375,974

27 TAXES PAYABLE

	31 December 2019	31 December 2018
Corporate income tax payable	74,926,481	26,883,397
Value added tax and surcharges payable	46,400,310	42,592,566
Withholding corporate tax	9,475,092	8,138,478
Withholding individual income tax and others	28,806,595	37,092,797
	159,608,478	114,707,238

28 BONDS ISSUED

	31 December 2019	31 December 2018
At amortized cost		
Negotiable Certificate of Deposit	1,953,287,500	2,585,845,532
RMB bonds	4,002,146,036	3,989,626,399
At fair value		
RMB bonds	996,574,238	1,001,020,835
Interest payable	65,807,377	65,987,672
	7,017,815,151	7,642,480,438

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 2019, the Bank has issued the Negotiable Certificate of Deposit with total notional amount of RMB 1,970 million in the PRC inter-bank market. The terms are from 1 month to 6 months.

(All amounts expressed in RMB unless otherwise stated)

29 PROVISION

	1 January 2019	Current Year Provision and Reversal	Others	31 December 2019
ECL for off -balance sheet items	36,912,834	(21,893,853)	-	15,018,981

30 OTHER LIABILITIES

	31 December 2019	**31 December 2018**
Accrued expenses	141,984,980	136,792,811
Payable to overseas related parties (Note 51(e)(3)(vi))	67,843,285	893,646,267
Settlement payables	456,440,832	265,157,809
Unearned commission income	55,229,761	79,000,828
Non-principal protected Structured Investment Products	3,887,351,160	5,765,336,688
Mark-to-market margin of Shanghai clearing house	176,172,638	1,448,475,271
Lease liabilities	374,340,721	N/A
Others	16,916,757	25,710,524
	5,176,280,134	8,614,120,198

31 PAID-IN CAPITAL

	31 December 2019	**31 December 2018**
Registered and fully paid by DBS Bank	8,000,000,000	8,000,000,000

Pursuant to the approval from the former CBRC on 9 September 2016 (Hu Yin Jian Fu (2016) No.382), DBS Bank Limited injected additional capital to the Bank amounting 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.

(All amounts expressed in RMB unless otherwise stated)

32 CAPITAL SURPLUS

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

	31 December 2019	31 December 2018
Transfer of capital surplus recognised under the previous accounting standard	22,571,343	22,571,343
Tax credits from employee share-based plans	7,481,444	4,691,584
	30,052,787	27,262,927

33 SURPLUS RESERVE

Reserve Fund	31 December 2019	31 December 2018
At beginning of year	335,374,312	255,492,371
Current year addition	70,330,296	79,881,941
At end of year	405,704,608	335,374,312

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

34 GENERAL RISK RESERVE

	31 December 2019	31 December 2018
At beginning of year	1,234,900,000	996,800,000
Current year addition	62,700,000	238,100,000
At end of year	1,297,600,000	1,234,900,000

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

On 30 January 2019, the directors approved an appropriation to the Bank's general risk reserve amounting to RMB 62,700,000 in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 1,297,600,000.

(All amounts expressed in RMB unless otherwise stated)

35 UNDISTRIBUTED PROFITS

On 5 March 2020, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 152.8 million, in accordance with Circular Caijin No.20 issued on 17 April 2012.

36 NET INTEREST INCOME

	2019	2018
Interest income:		
Loans and advances	2,242,359,018	2,296,338,241
Due from other banks and financial institutions	1,069,509,875	1,305,407,662
Deposits with the central bank	96,555,669	118,636,888
Other debt instruments	265,284,356	149,523,129
Financial assets purchased under resale agreements	6,727,331	-
Debt instruments	57,323,235	17,126,509
	3,737,759,484	3,887,032,429
Interest expense:		
Due to other banks and financial institutions	(714,690,593)	(873,790,919)
Due to customers	(1,268,236,597)	(1,342,120,583)
Bonds issued	(225,946,148)	(150,882,783)
Financial assets sold under repurchase agreements	(69,290,824)	(107,461,155)
Lease liabilities	(10,156,156)	N/A
	(2,288,320,318)	(2,474,255,440)
Net interest income	1,449,439,166	1,412,776,989

(All amounts expressed in RMB unless otherwise stated)

37 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Loan and trade related fee	90,681,730	90,805,366
Wealth management fee	131,687,175	93,505,707
Treasury advisory fee	32,457,528	14,576,005
Syndication fee	40,207,789	32,969,725
Cash Management fee	29,227,505	30,067,208
Others	36,353,543	26,156,952
	360,615,270	288,080,963
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	(71,755,239)	(76,314,022)
Net fee and commission income	288,860,031	211,766,941

38 INVESTMENT INCOME

	2019	2018
Trading assets	405,471,103	838,242,792
Other debt instruments	13,733,715	15,161,310
Financial assets purchased under resale agreements	1,331,718	1,456,247
Derivative instruments	102,649,437	181,409,536
	523,185,973	1,036,269,885

39 FAIR VALUE LOSSES

	2019	2018
Net unrealized gains on financial assets purchased under resale and sold under repurchase agreements	400,954	(507,062)
Net unrealized losses on trading assets	(46,439,992)	(9,605,144)
Net unrealized losses on non-foreign exchange derivative instruments	(76,529,055)	(81,799,304)
	(122,568,093)	(91,911,510)

(All amounts expressed in RMB unless otherwise stated)

40 EXCHANGE GAINS

	2019	2018
Net gains from foreign exchange transactions and foreign exchange derivatives instruments	568,423,170	237,387,940

The amount includes 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.

41 OTHER INCOME

	2019	2018
Financial talents award	6,002,000	6,990,000
Key tax enterprise award	600,000	800,063
Staff cost steady post subsidies	1,719,861	-
Modern service industry development funds subsidies	-	200,000
	8,321,861	7,990,063

42 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and bonus	932,591,514	836,080,398
Social insurance and other welfare benefits	217,400,174	200,728,892
Share-based compensation plan	23,548,704	21,615,267
Telecommunications and computers	172,527,246	155,230,653
Rental and utilities	14,821,998	152,158,698
Depreciation and amortization	176,466,580	52,522,798
Travelling expenses	26,459,971	24,253,193
Business entertainment expenses	11,842,809	9,790,752
Staff training expenses	3,126,667	3,161,297
Others	156,024,082	169,426,315
	1,734,809,745	1,624,968,263

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES

	2019	2018
ECL on deposits with the central Bank	(725,090)	(541,358)
ECL on deposits with other banks	(58,039)	(208,127)
ECL on placements with financial institutions	5,312,439	(12,649,880)
ECL on loans and advances	114,951,790	464,206,831
ECL on debt instruments	(1,159,367)	133,659
ECL on Financial assets purchased under resale agreements	434,133	-
ECL on off -balance sheet items	(21,893,853)	(284,264,894)
ECL on other debt instruments	1,570,256	(17,040)
ECL on other assets	(1,030,510)	(34,340,501)
Total ECL charge	97,401,759	132,318,690
Recovery of loans previously written-off	(19,031,213)	(7,572,245)
Total	78,370,546	124,746,445

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

The additional information of ECL movement including 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	
2019				
Balance at 1 January	547,589,551	413,402,673	253,220,819	1,214,213,043
Transfer to (from)	639,045	(8,452,042)	7,812,997	-
- Stage 1	(3,537,111)	3,389,195	147,916	-
- Stage 2	4,176,156	(11,841,237)	7,665,081	-
- Stage 3	-	-	-	-
Net portfolio change	237,160	(6,644,611)	-	(6,407,451)
- Newly originated or purchased financial assets	21,728,379	13,617,017	-	35,345,396
- De-recognition of financial assets	(21,491,219)	(20,261,628)	-	(41,752,847)
Re-measurements due to changes in parameters	(52,011,963)	99,554,526	-	47,542,563
Model refinements	-	-	-	-
Total net charge to income statement	(234,244,632)	267,566,746	64,079,644	97,401,758
Net write-offs	-	-	(95,114,322)	(95,114,322)
Exchange and other movements	-	-	63,545	63,545
Balance at 31 December	313,344,919	680,969,419	222,249,686	1,216,564,024

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

	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.

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

The following tables provides additional information on the financial instruments that are subject to ECL as at 31 December 2019 and 2018.

	31 December 2019	
	Gross carrying value	**ECL allowance**
Financial instruments		
Balances with central banks		
Stage 1	11,178,536,654	(1,587,864)
Interest receivable	2,973,449	-
Due from banks and other financial institutions		
Stage 1	4,269,425,605	(68,072)
Interest receivable	9,687,484	-
Placements with and loans to banks		
Stage 1	29,620,265,720	(17,137,721)
Interest receivable	359,351,262	-
Loans and advances		
Stage 1	43,622,945,614	(278,137,830)
Stage 2	3,617,262,699	(679,051,530)
Stage 3	318,756,106	(190,772,907)
Interest receivable	278,731,567	-
Financial investments - debt instruments		
Stage 1	2,718,586,064	(748,396)
Interest receivable	21,085,178	-
Financial investments – Other debt instruments		
Stage 1	8,789,665,161	(2,129,810)
Interest receivable	191,337,455	-
Financial assets purchased under resale agreements		
Stage 1	807,150,000	(434,133)
Interest receivable	1,046,068	-
Other assets		
Stage 3	33,427,424	(31,476,780)
Total	105,840,233,510	(1,201,545,043)
Guarantees and other off-balance sheet exposures		
Stage 1	15,106,988,082	(13,101,095)
Stage 2	20,455,331	(1,917,886)
Total	15,127,443,413	(15,018,981)

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

	31 December 2018	
	Gross carrying value	**ECL allowance**
Financial instruments		
Balances with central banks		
Stage 1	13,418,586,015	(2,312,954)
Interest receivable	3,816,861	-
Due from banks and other financial institutions		
Stage 1	6,761,065,098	(126,110)
Interest receivable	19,424,058	-
Placements with and loans to banks		
Stage 1	25,496,724,517	(11,825,282)
Interest receivable	342,357,660	-
Loans and advances		
Stage 1	41,697,609,727	(508,035,000)
Stage 2	2,776,054,035	(399,312,727)
Stage 3	455,437,057	(216,600,672)
Interest receivable	245,099,632	-
Financial investments - debt instruments		
Stage 1	158,850,000	(1,907,763)
Interest receivable	135,262	-
Financial investments – Other debt instruments		
Stage 1	6,741,342,194	(559,554)
Interest receivable	147,341,978	-
Other assets		
Stage 3	43,855,609	(36,620,147)
Total	98,307,699,703	(1,177,300,209)
Guarantees and other off-balance sheet exposures		
Stage 1	15,283,720,816	(22,822,888)
Stage 2	104,503,959	(14,089,946)
Total	15,388,224,775	(36,912,834)

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

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

At amortised cost	**31 December 2019**	**31 December 2018**
Balances with central banks	1,587,864	2,312,954
Due from banks and other financial institutions	68,072	126,110
Placements with and loans to banks	17,137,721	11,825,282
Financial assets purchased under resale agreements	434,133	-
Loans and advances	1,147,962,267	1,123,948,399
Financial investments - debt instruments	748,396	1,907,763
Other assets	31,476,780	36,620,147
Provision	15,018,981	36,912,834
Subtotal	1,214,434,214	1,213,653,489
At fair value through other comprehensive income		
Financial investments - other debt instruments	2,129,810	559,554
Total	1,216,564,024	1,214,213,043

44 CORPORATE INCOME TAX

	2019	**2018**
Current income tax	59,430,501	246,129,484
Deferred income tax (Note 20)	122,616,178	8,348,878
	182,046,679	254,478,362

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

	2019	**2018**
Profit before income tax	885,349,633	1,053,297,768
Income tax calculated at 25% (2018: 25%)	221,337,408	263,324,442
Non-taxable income	(45,646,335)	(18,391,885)
Non-deductible expenses	6,831,163	9,552,406
Others	(475,557)	(6,601)
	182,046,679	254,478,362

(All amounts expressed in RMB unless otherwise stated)

45 OTHER COMPREHENSIVE INCOME

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

	2019		
	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	28,154,706	(7,038,676)	21,116,030
Credit impairment loss on other debt instruments	1,570,256	(392,564)	1,177,692
Cash flow hedge reserve	7,252,672	(1,804,480)	5,448,192
Total other comprehensive income	36,977,634	(9,235,720)	27,741,914

	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
Credit impairment loss on other debt instruments	(17,040)	4,260	(12,780)
Cash flow hedge reserve	(12,845,717)	3,092,692	(9,753,025)
Total other comprehensive income	95,471,260	(24,130,700)	71,340,560

(2) Reconciliation of other comprehensive income

	Gains or losses arising from changes in fair value of other debt instruments	Credit impairment loss on other debt instruments	Cash flow hedge	Total other comprehensive income
1 January 2018	(54,387,359)	576,594	6,389,611	(47,421,154)
Movements for the year ended 31 December 2018	81,106,365	(12,780)	(9,753,025)	71,340,560
31 December 2018	26,719,006	563,814	(3,363,414)	23,919,406
Movements for the year ended 31 December 2019	21,116,030	1,177,692	5,448,192	27,741,914
31 December 2019	47,835,036	1,741,506	2,084,778	51,661,320

(All amounts expressed in RMB unless otherwise stated)

46 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash (Note 9)	33,931,319	33,724,307
Balances with the PBOC other than restricted reserve deposits (Note 9)	4,994,794,448	6,372,486,845
Deposits with other banks with original terms less than three months from acquisition date	3,619,425,603	5,736,147,795
Placements with financial institutions with original terms less than three months from acquisition date	9,207,270,983	8,140,563,250
	17,855,422,353	20,282,922,197

(2) Cash flows from operating activities

	Notes	2019	2018
Net profit		703,302,954	798,819,406
Adjusted by:			
Credit impairment losses	43	97,401,759	132,318,690
Depreciation and amortization	42	176,466,580	52,522,798
Interest income for other debt investment & debt investment	36	(329,334,922)	(166,649,638)
Gains for other debt instruments	38	(13,733,715)	(15,161,310)
Losses on disposal of fixed assets and other long-term assets		7,574	326,938
Interest expenses of bonds issued	36	225,946,148	150,882,783
Loss from fair value change	39	122,568,093	91,911,510
Decrease in deferred income tax assets		122,616,178	8,348,878
Decrease in operating receivables		3,109,125,885	4,816,296,502
(Decrease) in operating payables		(1,666,889,010)	(3,313,644,362)
Net cash provided from operating activities		2,547,477,524	2,555,972,195

(3) Net (decrease) / increase in cash and cash equivalents:

	2019	2018
Cash and cash equivalents at end of year	17,855,422,353	20,282,922,197
Less: cash and cash equivalents at beginning of year	(20,282,922,197)	(17,298,069,781)
Net (decrease) / increase in cash and cash equivalents	(2,427,499,844)	2,984,852,416

(All amounts expressed in RMB unless otherwise stated)

47 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2019	31 December 2018
Letters of credit issued	3,277,739,447	2,534,986,131
Standby letter of credit	3,858,514,477	5,504,221,048
Letters of guarantee issued	2,244,457,679	1,385,666,535
Irrevocable loan commitment	2,838,532,011	2,419,522,753
Bank acceptances	2,751,198,621	3,503,421,149
Letters of credit confirmation	157,001,178	40,407,159
	15,127,443,413	15,388,224,775

(2) Operating lease commitments

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

	31 December 2019	31 December 2018
Within 1 year	N/A	124,853,760
Over 1 year less than 2 years	N/A	82,316,580
Over 2 year less than 3 years	N/A	17,289,479
Over 3 years	N/A	4,643,642
	N/A	229,103,461

(3) Legal proceedings

At 31 December 2019, there was no significant legal proceeding against the Bank (31 December 2018: nil).

(4) Capital commitments

As at 31 December 2019, the Bank has no significant capital commitments which require separate disclosure (31 December 2018: nil).

48 SUBSEQUENT EVENTS

On 5 March 2020, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 152.8 million, in accordance with Circular Caijin No.20 issued in 2012. The general risk reserve after this appropriation amounts to RMB 1,450.40 million.

(All amounts expressed in RMB unless otherwise stated)

49 SEGMENT INFORMATION

RMB ('thousand)

31 December 2019	**Head office**	**Shanghai**	**Beijing**	**Shenzhen**	**Guangzhou**	**Suzhou**	**Chongqing**	**Tianjin**	**Nanning**	**Others**	**Elimination**	**Total**
Interest income	2,485,605	1,869,685	384,244	236,354	151,199	111,701	60,682	22,368	39,267	168,896	(1,792,242)	3,737,759
Interest expense	(1,925,934)	(1,515,170)	(191,605)	(113,354)	(96,419)	(53,155)	(34,953)	(17,860)	(29,324)	(102,788)	1,792,242	(2,288,320)
Net interest income	559,671	354,515	192,639	123,000	54,780	58,546	25,729	4,508	9,943	66,108	-	1,449,439
Fee and commission income	19,060	183,095	87,106	19,692	11,611	5,964	11,471	1,981	219	20,416	-	360,615
Fee and commission expenses	(54,460)	(16,197)	(310)	(662)	(70)	(5)	(1)	(28)	-	(22)	-	(71,755)
Net fee and commission income	(35,400)	166,898	86,796	19,030	11,541	5,959	11,470	1,953	219	20,394	-	288,860
Other operating income	424,678	381,542	72,798	28,932	5,958	19,638	27,940	6,317	(12)	19,143	-	986,934
Operating expenses	(560,830)	(671,744)	(297,050)	(168,319)	(47,209)	(15,286)	(7,081)	(17,554)	1,490	(53,308)	-	(1,836,891)
Non-operating income/(losses)	(1,191)	(2,829)	91	855	(9)	-	41	-	-	49	-	(2,993)
Total profit/(loss) before tax	386,928	228,382	55,274	3,498	25,061	68,857	58,099	(4,776)	11,640	52,386	-	885,349
Loans and advances, net	-	29,911,586	5,219,879	3,036,462	1,852,013	2,081,948	888,385	291,671	729,019	2,678,771	-	46,689,734
Total assets	58,712,153	62,797,837	11,233,462	10,936,187	3,237,716	3,720,434	1,852,231	1,293,198	1,331,285	3,442,143	(35,620,767)	122,935,879
Due to customers	(1,261,278)	(29,785,798)	(9,415,152)	(9,879,379)	(2,758,165)	(3,274,066)	(1,298,033)	(1,449,859)	(1,155,544)	(2,016,900)	-	(62,294,174)
Total liabilities	(54,258,755)	(59,533,012)	(9,979,890)	(9,952,518)	(2,796,491)	(3,282,856)	(1,422,999)	(1,474,630)	(1,204,602)	(2,802,552)	35,620,767	(111,087,538)
Credit impairment losses	10,951	60,781	39,801	23,740	(22,282)	(3,032)	(17,071)	125	(7,610)	(7,032)	-	78,371
Depreciation and amortization	11,894,089	97,868,893	40,153,291	12,217,052	4,323,358	114,613	3,015	1,410,446	1,050,669	7,431,154	-	176,466,580
Capital expenditure	10,245	11,435	156	36	89	53	36	53	-	108	-	22,211

(All amounts expressed in RMB unless otherwise stated)

49 SEGMENT INFORMATION (continued)

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

49 SEGMENT INFORMATION (continued)

Geographical Information

The Bank’s revenue from external customers is mainly from mainland China for 2019 and 2018. As at 31 December 2019 and 2018, all non-current assets of the Bank are located in mainland China.

50 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%/15% of main award) for employees on bonus/sales incentives plans respectively. Dividends on unvested shares do not accrue to employees.
- For employees on bonus plan, 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.
- For employees on sales incentive plans, the main award vests from 1 to 3 years after grant; i.e. 33% will vest 1 year after grant, another 33% will vest on the second year and the remaining 34% plus the retention award will vest 3 years after grant.
- There are no additional retention awards for shares granted to top performers and key employees as part of talent retention.
- 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.

(All amounts expressed in RMB unless otherwise stated)

50 Share-based Compensation Plans (continued)

DBSH Employee Share Purchase Plan (ESPP)

- The ESPP was implemented in 2019 in selective markets across the Group, including China. All confirmed permanent employees who hold the rank of Vice President and below with at least 3 months of service are eligible to participate in the scheme.
- The ESPP is a savings-based share ownership plan to help eligible employees own DBSH shares through monthly contributions via deductions from payroll or designated bank accounts.
- Participants contribute up to 10% of month salary (minimum S$50, capped at S$1,000) and the Group will match 25% of the participant's contributions to buy DBSH ordinary shares for a period of 12 months during each plan year.
- The matching shares bought from the Group's contribution will vest 24 months after the last contribution month for each plan year.
- The matching shares will lapse immediately upon termination of employment, except in the event of ill health, injury, disability, redundancy, retirement or death.

	2019			2018		
Number of shares	Share Plan	ESP	ESPP	Share Plan	ESP	ESPP
Balance at 1 January	551,786	158,404	-	768,353	189,862	N/A
Granted	251,066	-	12,762	129,113	48,375	N/A
Transfer	(85,127)	1,418	(26)	(131,031)	(1,403)	N/A
Vested	(199,561)	(56,862)	-	(200,735)	(57,841)	N/A
Forfeited	(17,685)	(14,084)	(314)	(13,914)	(20,589)	N/A
Balance at 31 December	500,479	88,876	12,422	551,786	158,404	N/A
Weighted average fair value of the shares granted during the year	SGD 21.42	SGD -	SGD 21.42	SGD 26.24	SGD 26.46	N/A

(All amounts expressed in RMB unless otherwise stated)

51 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 2018	Change	31 December 2019
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 2018		Change		31 December 2019	
	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 (India) Limited	Company controlled by the parent company

(All amounts expressed in RMB unless otherwise stated)

51 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, derivative transactions etc. 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

	2019	**2018**
DBS Bank Ltd.	119,836,248	141,977,462
DBS Bank (Hong Kong) Limited	-	37,943
	119,836,248	142,015,405

(ii) Interest expense

	2019	**2018**
DBS Bank Ltd.	416,368,752	497,371,374
DBS Bank (Hong Kong) Limited	41,275,365	41,298,896
	457,644,117	538,670,270

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

	2019	**2018**
DBS Bank Ltd.	30,499,485	573,250,787
DBS Bank (Hong Kong) Limited	92,374	484,680
	30,591,859	573,735,467

(iv) Fair value gains/ (losses)

	2019	**2018**
DBS Bank Ltd.	903,160,490	(1,392,709,652)
	903,160,490	(1,392,709,652)

(All amounts expressed in RMB unless otherwise stated)

51 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(2) Significant related party transactions (continued)

(v) Service charge income

	2019	**2018**
DBS Bank Ltd.	21,399,053	21,522,156
DBS Bank (Hong Kong) Limited	1,649,103	1,450,927
	23,048,156	22,973,083

(vi) Service charge expense

	2019	**2018**
DBS Bank Ltd.	97,095,047	89,492,655
DBS Bank (Hong Kong) Limited	4,686,613	(1,090,408)
	101,781,660	88,402,247

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 (Note 10, Note 11)

	31 December 2019	**31 December 2018**
DBS Bank Ltd.	4,931,838,686	4,187,767,016
DBS Bank (Hong Kong) Limited	139,237,016	99,137,358
Interest receivable	268,024	2,760,908
	5,071,343,726	4,289,665,282

(ii) Other receivables (Note 21)

	31 December 2019	**31 December 2018**
DBS Bank Ltd.	38,697,851	35,547,445
DBS Bank (Hong Kong) Limited	357,664	2,877,281
DBS Bank (Taiwan) Limited	193,232	136,917
DBS Bank (India) Limited	525,210	-
	39,773,957	38,561,643

(All amounts expressed in RMB unless otherwise stated)

51 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(iii) Deposits / borrowing from other financial institution (Note 22, Note23)

	31 December 2019	31 December 2018
DBS Bank Ltd.	12,301,519,460	13,528,631,755
DBS Bank (Hong Kong) Limited	21,990,807	71,348,142
DBS Bank (Taiwan) Limited	1,012,723	2,909,008
DBS Bank (India) Limited	1,175,609	-
Interest payable	52,996,556	137,656,423
	12,378,695,155	13,740,545,328

(iv) Due to customers

	31 December 2019	31 December 2018
DBS Investment and Financial Advisory Company Limited	5,231,445	8,303,999
	5,231,445	8,303,999

(v) Bonds issued

	31 December 2019	31 December 2018
DBS Bank (Hong Kong) Limited	960,000,000	960,000,000

(vi) Other payables (Note 30)

	31 December 2019	31 December 2018
DBS Bank Ltd.	65,017,214	892,208,243
DBS Bank (Hong Kong) Limited	2,826,071	1,438,024
	67,843,285	893,646,267

(All amounts expressed in RMB unless otherwise stated)

51 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(3) Balances with related parties (continued)

(vii) Derivative instruments

	31 December 2019	
	Notional amount	**Fair value**
DBS Bank Ltd.	109,433,059,348	(742,679,488)
	109,433,059,348	(742,679,488)

	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)
	68,850,948,096	(1,612,369,194)

(viii) Standby letter of credit

	31 December 2019	**31 December 2018**
DBS Bank Ltd.	3,593,624,536	5,227,181,612
DBS Bank (Hong Kong) Limited	265,099,400	182,283,019
	3,858,723,936	5,409,464,631

(ix) Letters of guarantee issued

	31 December 2019	**31 December 2018**
DBS Bank Ltd.	15,445,834	13,435,591
	15,445,834	13,435,591

(x) Letters of credit issued

	31 December 2019	**31 December 2018**
DBS Bank Ltd.	108,479,384	192,329,793
DBS Bank (Hong Kong) Limited	-	10,175,805
	108,479,384	202,505,598

(All amounts expressed in RMB unless otherwise stated)

51 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits comprised of:

	2019	2018
Salary and welfare	93,017,442	96,819,844
Share incentive plan	12,431,046	10,572,351
	105,448,488	107,392,195

52 FINANCIAL RISK MANAGEMENT

52.1 Risk governance

The Board oversees the Bank's affairs and provides 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 (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.

China BRMC oversees the identification, monitoring, management and reporting of credit, market, liquidity, operational and reputational risks. To facilitate China 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);
4. China Operational Risk Committee (CORC); and
5. China Product Oversight Committee (CPOC).

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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.1 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 CPOC was established in 2019 to enhance country oversight over the risks associated with new products in China. The Committee provide holistic guidance and decision to the Business Unit / Proposing Unit on whether a new product proposal should be subject to new product approval (NPA) taking into account any location specific risks and requirements at the request of the Business Unit /Proposing Unit and /or any of the sign-off parties.

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.

52.2 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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 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.

(v) Environment, Social and Governance Risk

Responsible financing, covering Environmental, Social and Governance (ESG) issues, is a topic of increasing importance to societal constituents, and one that affects investing and lending decisions across the Bank. The Bank recognises that its financing practices has a substantial impact on society and failure of its customers to appropriately manage ESG issues can directly impact their operations and long-term economic viability, and the communities and environment in which they operate. The Bank had established a Group Responsible Financing Standard that documents its overarching approach to responsible financing and additional assessment required when entering into transactions with elevated ESG risks. The requirements of this Standard represent the minimum standards for the Bank and it has also sought alignment, where possible, with international standards and best practices. Where significant ESG issues are identified, escalation is required to the relevant industry specialist and IBG Sustainability Office for further guidance before submitting the credit memorandum to the credit approving authority.

In addition, DBS China had established Green Lending Guide in 2019, which aimed to perform negative checking on the "High Pollution, High Energy-consumption and Overcapacity" industries and "blacklisted companies" according to regulators' definition and requirements to prevent relevant environmental and social risks. Meanwhile, we proactively engaged in credit lending to green industries with relevant credit lending target formulated to achieve the support to green industries.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

C Process, System and Reports

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

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 setting criteria for the appointment of valuers and 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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

D Collateral received (continued)

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 requirements for considering the eligibility of guarantors for credit risk mitigation are in place.

F Credit risk losses

Expected Credit Loss (ECL)

All financial assets, guarantees and undrawn credit commitments, except for financial assets classified or designated as FVPL and equity securities, are subject to impairment assessment and recognition of ECL.

Under new CASs of financial instruments, ECL will be assessed using an approach which classifies relevant financial instruments and undrawn credit commitments into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile.

- **Stage 1** – Financial instruments that are not credit-impaired are originated into Stage 1. ECL will be the credit loss that is expected to result from a default occurring within the next 12 months. Instruments will remain in Stage 1 until there is a significant increase in credit risk or they become credit-impaired.

- **Stage 2** – Financial instruments that are not credit-impaired but had experienced a significant increase in credit risk (SICR) subsequent to origination will migrate from Stage 1 to Stage 2. ECL is the life-time expected credit loss arising from a default event during the remaining life of the asset. Instruments in Stage 2 that are considered to no longer exhibit a significant increase in credit risk will be transferred to Stage 1.

  SICR is assessed by comparing the risk of default at reporting date to the risk of default at origination using a range of qualitative and quantitative factors.

  For wholesale exposures, a financial instrument is deemed to have experienced a significant increase in credit risk when:
    - the observed change in its PD, as observed by downgrades in the Bank's internal credit risk rating for this instrument between origination and reporting dates, is more than pre-specified thresholds; or
    - it is placed on internal credit "watchlists" for closer scrutiny of developing credit issues.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

F Credit risk losses (continued)

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 presumed to have experienced a significant increase in credit risk, unless assessed otherwise, and are classified as Stage 2.

Lifetime ECL is computed over the expected remaining life of the financial instrument. In most instances, 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 borrower.

For some revolving products the expected remaining life may exceed the contractual maturity. For these products, behavioural expected remaining life is estimated.

- **Stage 3** – Financial instruments that are credit-impaired with evidence of default, i.e. non-performing assets, are classified in Stage 3. Stage 3 ECL, also known as specific allowances, are measured as life-time expected credit loss.

  A Stage 3 exposure that is restructured 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 in accordance with the restructured terms. Stage 3 financial assets are written-off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of future recoveries.

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

Measurement of ECLs

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

Component	Description
PD	Estimate of the likelihood of default over a given time horizon. The PD applied for Stage 1 and Stage 2 ECLs will be the 12-month PD and lifetime PD respectively.
LGD	Estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including recoveries from collaterals.
EAD	Estimate of the expected credit exposure at time of default, taking into account repayments of principal and interest as well as expected drawdowns on undrawn credit commitments and potential pay-outs on guarantees issued.

The Bank leverages the models and parameters implemented under the Basel II Internal Ratings-Based (IRB) framework where possible, with appropriate modifications to meet the requirements of new CASs of financial instruments.

Other relevant historical information, loss experience or proxies will be utilised for portfolios without appropriate Basel models and parameters, with a view to maximise the use of available information that is reliable and supportable.

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

F Credit risk losses (continued)

<u>ECL Modelling - Point-in-Time and Forward-Looking Adjustments</u>

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.

For the wholesale portfolios, credit cycle indices (CCIs) have been developed for the key industries and geographies using expected default frequencies. Expected default frequency is a market-based default risk measure driven by market value of firms' assets, asset volatility and leverage. CCIs are then used as inputs to convert the through-the-cycle PDs derived from Basel models / parameters into the point-in-time equivalents and to incorporate forward-looking information. LGDs are determined using historical loss data, which are adjusted for both the latest and forecasted recovery experience.

For retail portfolios, historical loss experience is used in conjunction with the forecast loss rates which take into account relevant macroeconomic variables, such as property-prices and unemployment rates.

<u>Expert credit judgement and post model adjustments</u>

The measurement of ECL requires the application of expert credit judgement. These include:

- assignment of credit risk ratings and determination of whether exposures should be placed on credit watchlists;
- assessment of whether a significant increase in credit risk has occurred;
- determination of the forecast loss rates;
- application of thematic overlays based on emerging risk themes. As at 31 December 2019, thematic ECL overlays were applied to account for uncertainties arising from US-China trade tensions, and the socio-political situation in Hong Kong; and
- Adjustments made as part of the post-model adjustment framework (elaborated below).

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

F Credit risk losses (continued)

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 2.41% of the gross amount of loans and advances and 360% of non-performing loans as at 31 December 2019.

Governance framework

The measurement of ECL is subject to a robust governance framework as described below.

- The Group ECL Review Committee (Review Committee) is the overarching committee for ECL related matters and comprises senior management and representatives from functions across the Group. Significant changes to ECL models and methodologies and the application of thematic overlays are subject to the oversight and approval of the Review Committee.

- The Review Committee is supported by the Group ECL Operating Committee (Operating Committee) which comprises cross functional representatives and subject matter experts. The Operating Committee is responsible for the implementation of ECL across the Group. The Operating Committee also recommends changes to ECL models, methodologies and thematic overlays to the Review Committee; provides oversight over system design, infrastructure and development; and establishes principles and significant policies pertaining to ECL. Group Credit Risk Models Committee oversees ECL models and credit risk models used by the Group.

- Location ECL committees are established for key overseas subsidiaries to govern and manage location-specific ECL reporting.

- ECL models are subject to independent validation by the Risk Management Group (RMG) as well as independent reviews by internal and external auditors. The validation and assurance processes cover the review of the underlying ECL methodology including its logic and conceptual soundness.

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

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

	31 December 2019	31 December 2018
Deposits with other banks	4,279,045,017	6,780,363,046
Placements with financial institutions	29,962,479,261	25,827,256,895
Trading assets	6,943,305,682	14,887,478,610
Derivative assets	8,826,063,195	12,784,311,778
Other debt instruments	8,981,002,616	6,888,684,172
Financial assets purchased under resale agreements	807,761,935	-
Loans and advances	46,689,733,719	44,050,252,052
Debt instruments	2,738,922,846	157,077,499
Other financial assets	1,655,247,239	1,636,837,277
Sub-total	110,883,561,510	113,012,261,329
Letters of credit issued	3,277,739,447	2,534,986,131
Standby letter of credit	3,858,514,477	5,504,221,048
Letters of guarantee issued	2,244,457,679	1,385,666,535
Irrevocable loan commitment	2,838,532,011	2,419,522,753
Bank acceptances	2,751,198,621	3,503,421,149
Letters of credit confirmation	157,001,178	40,407,159
Sub-total	15,127,443,413	15,388,224,775
Total	126,011,004,923	128,400,486,104

The above table represents credit risk exposure to the Bank at 31 December 2019, 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, 42% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2018: 39%).

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

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

	31 December 2019	
	Loans and advances	**Due from banks and other financial institutions**
Neither past due nor impaired	46,596,307,044	29,620,265,720
Past due but not impaired	643,901,269	-
Impaired	318,756,106	-
Interest receivable	278,731,567	359,351,262
Total	47,837,695,986	29,979,616,982
Less: ECL allowance	(1,147,962,267)	(17,137,721)
Net	46,689,733,719	29,962,479,261

(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 2019			
Pass	41,308,292,692	5,133,326,675	46,441,619,367
Special mention	139,018,775	15,668,902	154,687,677
	41,447,311,467	5,148,995,577	46,596,307,044

(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 2019					
Corporate loans	325,277,513	-	-	-	325,277,513
Retail loans	293,581,033	17,051,494	7,991,229	-	318,623,756
Total	618,858,546	17,051,494	7,991,229	-	643,901,269
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	377,008,396	56,325,172	57,158,707	-	490,492,275

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 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 2019

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Corporate loans	187,654,917	163,644,448	24,010,469	22,713,000
Retail loans	131,101,189	27,128,459	103,972,730	391,310,000
Total	318,756,106	190,772,907	127,983,199	414,023,000

31 December 2018

	Gross exposure	Impairment allowance	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	328,400,000
Total	455,437,057	216,600,672	238,836,385	409,357,250

(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 2019, the renegotiated loans held by the Bank is zero. As at 31 December 2018, the renegotiated loans held by the Bank is zero.

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.2 Credit risk (continued)

I Investment securities

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

	Trading assets	Other debt instruments	Debt instruments
31 December 2019			
RMB bonds:			
Rated as AAA	1,756,398,158	799,429,549	121,930,000
Rated as AA+	20,012,782	-	-
Unrated:			
Banks and other financial institutions debt securities	2,598,244,494	5,041,258,123	-
Government securities and treasury bills	418,904,901	2,948,977,489	2,596,656,064
Negotiable certificates of deposit	1,629,883,053	-	-
Corporate debt securities	20,129,537	-	-
Overseas bonds:			
Corporate debt securities	407,537,834	-	-
Interest Receivable	92,194,923	191,337,455	21,085,178
Less: ECL allowance	-	-	(748,396)
	6,943,305,682	8,981,002,616	2,738,922,846

	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	-	-
Unrated:			
Banks and other financial institutions debt securities	7,928,610,275	2,966,677,998	-
Government securities and treasury bills	771,723,285	3,515,487,714	-
Local government debt securities	161,899,915	39,899,849	-
Interest Receivable	202,447,119	147,341,978	135,262
Less: ECL allowance	-	-	(1,907,763)
	14,887,478,610	6,888,684,172	157,077,499

52 FINANCIAL RISK MANAGEMENT (continued)

52.3 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 comprises the following building blocks:

Policies

The Market Risk Management Policy sets the overall approach towards market risk management. This policy is supplemented with standards and guidelines, which facilitate the identification, measurement, control, monitoring and reporting of market risk in a consistent manner. They also set out the overall approach, requirements and controls governing market risk stress testing of the Bank.

The criteria for determining the positions to be included in the trading book are stipulated in the Trading Book Policy Statement.

Risk Methodologies

The Bank utilises Value-at-Risk (VaR), a statistical risk measure, to estimate the potential loss from market movements. This measure uses historical simulation based on data for the previous 12 months. It assumes that historical changes in market values reflect the distribution of potential outcomes in the immediate future.

The Bank limits and monitors market risk exposures using Expected Shortfall (ES) that is VaR calculated with a one-day holding period and an expected tail-loss methodology which approximates a 97.5% confidence interval. ES is supplemented by risk control metrics such as sensitivities to risk factors and loss triggers for management action.

DBS 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 arises from 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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

A Market Risk Management (continued)

Risk Methodologies (continued)

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. Interest rate risk in the banking book arises from mismatches in the interest rate profiles of assets, liabilities and capital instruments. It includes basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks. Behavioural Assumptions are applied when managing the interest rate risk of non-maturity deposits. 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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

B Market Risk in 2019

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 2019	2019 Average	2019 Highest	2019 Lowest
Total	11.93	14.57	28.41	7.32

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

The key market risk factors driving Treasury's trading portfolios in 2019 were RMB interest rate, USD/RMB foreign exchange, credit spread and USD/RMB FX Option.

The estimated mark to market impact for RMB interest rate position as at 31 December 2019, assuming a 100 basis point increase in general interest rates was a decrease of RMB 148 million.

The estimated mark to market impact for foreign exchange position as of 31 December 2019, assuming USD appreciation by 3% (relative change) and USD FX volatility increase by 3% (absolute change) was an increase of RMB 72 million.

Banking Portfolio

In 2019, The key market risk drivers of banking portfolios were interest rates (RMB and USD) and foreign exchange.

The Net Interest Income (NII) of the Bank is assessed under different rate scenarios to determine the impact of interest rate movements on future earnings. Based on a 100bps parallel upward or downward shift in yield curves on the Bank's exposure, NII is estimated to increase by RMB 176 million and decrease by RMB 207 million respectively.

Foreign exchange risk in the banking portfolios was primarily from structural foreign exchange position arising from unconverted USD capital.

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 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 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:

<u>Policies</u>

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 counter-balancing capacity includes liquid assets, the capacity to borrow from the money markets (including the issuance of Negotiable Certificate of Deposit (NCD) and Financial Bond) 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.

<u>Risk Methodologies</u>

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.

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 Liquidity risk (continued)

A Liquidity Risk Management (continued)

Liquidity risk stress testing is performed regularly using cash flow 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.

Liquidity risk control measures, such as liquidity-related ratios and balance sheet analysis, are complementary tools for cash flow 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 2019

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 2019					
Net liquidity mismatch	28,150	3,558	(1,573)	637	(4,658)
Cumulative mismatch	28,150	31,708	30,135	30,772	26,114
As at 31 Dec 2018[b]					
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

[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.

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 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 2019						
Financial Liabilities						
Deposits from other banks and financial institutions	6,848,667,405	-	226,590,749	286,005,875	-	7,361,264,029
Borrowing from other banks	11,624,672,352	145,662,496	5,253,006,761	-	-	17,023,341,609
Due to customers	39,634,435,676	9,230,269,288	11,793,774,968	1,522,526,447	421,228,715	62,602,235,094
Bonds issued	500,000,000	600,000,000	3,092,500,000	3,136,500,000	-	7,329,000,000
Financial assets sold under repurchase agreements	2,981,113,878	-	-	-	-	2,981,113,878
Others	755,918,477	-	-	3,887,351,160	-	4,643,269,637
Total financial liabilities	62,344,807,788	9,975,931,784	20,365,872,478	8,832,383,482	421,228,715	101,940,224,247
Financial Assets						
Cash and deposits with the central bank	11,215,441,422	-	-	-	-	11,215,441,422
Deposits with other banks	2,840,211,349	792,286,806	658,378,611	-	-	4,290,876,766
Placements with financial institutions	10,649,171,648	2,762,062,718	16,927,088,241	32,276,859	-	30,370,599,466
Trading assets	127,194,493	54,873,906	1,764,265,303	5,117,379,638	784,224,300	7,847,937,640
Loans and advances	4,542,395,475	10,578,434,171	14,075,868,626	19,416,440,690	6,414,601,935	55,027,740,897
Other debt instruments	50,860,000	89,260,000	305,669,400	8,851,991,400	279,914,000	9,577,694,800
Debt instruments	16,881,108	48,130,688	134,878,708	426,804,000	2,653,969,000	3,280,663,504
Financial assets purchased under resale	299,413,563	511,782,304	-	-	-	811,195,867
Others	1,231,828,491	-	397,731,394	13,518,906	-	1,643,078,791
Total financial assets	30,973,397,549	14,836,830,593	34,263,880,283	33,858,411,493	10,132,709,235	124,065,229,153
Net cash flows	(31,371,410,239)	4,860,898,809	13,898,007,805	25,026,028,011	9,711,480,520	22,125,004,906

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 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 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

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 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 2019						
Interest rate derivatives	(23,709,643)	(48,249,192)	(23,540,011)	(21,867,363)	(2,381,116)	(119,747,325)
31 December 2018						
Interest rate derivatives	(22,407,893)	40,440,852	(30,750,525)	(36,281,868)	4,727,382	(44,272,052)

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 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 2019						
Foreign exchange derivatives						
− Outflow	110,768,815,848	193,938,473,990	229,749,012,402	25,952,222,035	2,990,955,569	563,399,479,844
− Inflow	110,968,420,424	193,907,573,608	229,670,409,003	25,879,026,907	2,990,955,569	563,416,385,511
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	125,974,516,863	123,182,272,096	253,823,053,965	15,170,878,675	-	518,150,721,599

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.4 Liquidity risk (continued)

E Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2019				
Letters of credit issued	3,223,656,187	54,083,260	-	3,277,739,447
Letters of guarantee issued	1,336,352,945	321,665,530	586,439,204	2,244,457,679
Irrevocable loan commitment	681,946,399	2,156,585,612	-	2,838,532,011
Bank acceptances	2,751,198,621	-	-	2,751,198,621
Standby letter of credit	1,387,558,928	2,470,955,549	-	3,858,514,477
Letters of credit confirmation	157,001,178	-	-	157,001,178
Total	9,537,714,258	5,003,289,951	586,439,204	15,127,443,413
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

52.5 Fair value hierarchy

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

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and RMB debt instruments traded in inter-bank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and China Bond.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes structured financial instruments.

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

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
-Trading assets	-	6,923,292,900	20,012,782	6,943,305,682
- Derivatives assets	-	8,826,063,195	-	8,826,063,195
Other debt instruments	-	8,981,002,616	-	8,981,002,616
Total Assets	-	24,730,358,711	20,012,782	24,750,371,493
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(8,927,182,171)	-	(8,927,182,171)
- Financial assets sold under repurchase agreements	-	(2,150,993,063)	-	(2,150,993,063)
Total Liabilities	-	(11,078,175,234)	-	(11,078,175,234)

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)

(b) Movement of level 3 instruments

	Derivatives assets	Trading assets	Derivative liabilities	Total
31 December 2018	7,371,142	172,318,444	(2,396,182)	177,293,404
Fair value gain/(loss)	-	(69,405,662)	-	(69,405,662)
Transfer in	-	-	-	-
Buy	-	-	-	-
Sell	(7,371,142)	(82,900,000)	2,396,182	(87,874,960)
31 December 2019	-	20,012,782	-	20,012,782

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments (continued)

	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

As at 31 December 2019, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) included corporate debt securities.

There are limited inter-relationships between unobservable inputs as the financial instruments are usually categorised as Level 3 because of a single unobservable input. The main valuation technique of corporate debt securities was discounted cash flows and the unobservable input of corporate debt securities was credit spreads.

In assessing whether the unobservable inputs are significant to the valuation, the Bank performed sensitivity analysis based on methodologies applied for fair value adjustments. These adjustments reflect the values which the Bank estimates to be appropriate to reflect uncertainties in the inputs used (e.g. based on stress testing methodologies on the unobservable input). The methodologies used can be statistical or based on other relevant approved techniques.

The movement in fair value arising from reasonably possible changes to the significant unobservable inputs was assessed as not significant.

(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 from 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

The RMB loan interest rates follows the movement of market interest rates, as well as from the adjustments in the interest rate policies made by PBOC. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched and the newly issued loans are priced mainly at LPR. And interest tares for loans denominated in foreign exchange are generally floating rates, fair value of loans is close to carrying value.

(All amounts expressed in RMB unless otherwise stated)

52 FINANCIAL RISK MANAGEMENT (continued)

52.5 Fair value hierarchy (continued)

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

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.

52.6 Capital management

The Bank's capital management objective is to maintain strong capital position consistent with regulatory requirements under the China Banking and Insurance Regulatory Commission 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 2019	31 December 2018
Core Tier 1 capital adequacy ratio	12.4%	12.5%
Tier 1 capital adequacy ratio	12.4%	12.5%
Total capital adequacy ratio	15.4%	15.5%
Core Tier 1 capital	11,848,341,113	11,088,892,678
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	11,848,341,113	11,088,892,678
Other Tier 1 capital	-	-
Net Tier 1 capital	11,848,341,113	11,088,892,678
Tier 2 capital	2,829,206,300	2,668,511,500
Total regulatory capital	14,677,547,413	13,757,404,178
Total risk-weighted assets	95,409,466,200	88,891,332,500