DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Content	**Page**

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2021) No. 21441

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 2020;
- 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 2020 and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

- Evaluate the overall presentation (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
5 February 2021　　　Signing CPA　Jessy Tong

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2020
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2020	31 December 2019
Cash and deposits with the central bank	9	10,628,594,877	11,213,853,558
Deposits with other banks	10	3,521,899,109	4,279,045,017
Placements with financial institutions	11	26,585,606,504	29,962,479,261
Derivative assets	12	15,570,871,048	8,826,063,195
Financial assets purchased under resale agreements	13	5,595,565,817	807,761,935
Loans and advances	14	41,445,002,757	46,689,733,719
Financial investments:			
- trading assets	15	9,685,955,361	6,943,305,682
- debt instruments	16	5,700,539,827	2,738,922,846
- other debt instruments	17	11,963,016,295	8,981,002,616
Fixed assets	18	59,384,499	64,045,435
Deferred income tax assets	19	610,629,162	401,725,074
Other assets	20	3,101,328,229	2,027,941,059
TOTAL ASSETS		134,468,393,485	122,935,879,397
LIABILITIES			
Deposits from other banks and financial institutions	21	14,979,074,194	7,355,752,680
Borrowing from other banks	22	18,015,547,733	16,982,829,100
Derivative liabilities	12	16,000,963,644	8,927,182,171
Financial assets sold under repurchase agreements	23	4,321,830,549	2,980,501,665
Due to customers	24	64,400,544,762	62,294,173,950
Payroll and welfare payable	25	166,492,364	178,375,974
Taxes payable	26	201,715,130	159,608,478
Provision	27	120,177,537	15,018,981
Bonds issued	28	3,449,383,898	7,017,815,151
Other liabilities	29	836,262,839	5,176,280,134
TOTAL LIABILITIES		122,491,992,650	111,087,538,284
OWNER'S EQUITY			
Paid-in capital	30	8,000,000,000	8,000,000,000
Capital surplus	31	33,462,006	30,052,787
Other comprehensive income	32	1,244,218	51,661,320
Surplus reserve	33	423,211,368	405,704,608
General risk reserve	34	1,450,400,000	1,297,600,000
Undistributed profits	35	2,068,083,243	2,063,322,398
TOTAL OWNER'S EQUITY		11,976,400,835	11,848,341,113
TOTAL LIABILITIES AND OWNER'S EQUITY		134,468,393,485	122,935,879,397

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Sandra Ye

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2020	2019
Interest income	36	3,576,462,715	3,737,759,484
Interest expense	36	(1,828,944,668)	(2,288,320,318)
Net interest income		1,747,518,047	1,449,439,166
Fee and commission income	37	351,162,715	360,615,270
Fee and commission expense	37	(66,350,691)	(71,755,239)
Net fee and commission income		284,812,024	288,860,031
Investment income	38	443,839,676	523,185,973
Fair value gains/(losses)	39	2,914,210	(122,568,093)
Exchange gains	40	200,018,144	568,423,170
Other business income		20,482,033	19,356,877
Losses on disposal of assets		(2,994,586)	(7,574)
Other income	41	8,702,109	8,321,861
Operating income		2,705,291,657	2,735,011,411
Tax and levies		(21,384,839)	(23,710,359)
General and administrative expenses	42	(1,687,470,647)	(1,734,809,745)
Credit impairment losses	43	(826,316,387)	(78,370,546)
Other business expense		(8,357,363)	(9,786,111)
Operating expense		(2,543,529,236)	(1,846,676,761)
Operating profit		161,762,421	888,334,650
Non-operating income		5,986,354	2,711,011
Non-operating expenses		(11,841,755)	(5,696,028)
Total profit		155,907,020	885,349,633
Corporate Income tax	44	19,160,585	(182,046,679)
Net profit		175,067,605	703,302,954
Other comprehensive income	32	(50,417,102)	27,741,914
Other comprehensive income which will be reclassified to income statement subsequently			
-Gains or losses arising from changes in fair value of other debt instruments		(50,606,560)	21,116,030
-Credit impairment losses movement of other debt instruments		872,706	1,177,692
-Cash flow hedge reserve		(683,248)	5,448,192
Total comprehensive income		124,650,503	731,044,868

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Sandra Ye

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2020	2019
1 Cash flows from operating activities			
Net decrease in deposits with the central bank and other banks		-	1,237,274,263
Net decrease in trading assets		-	8,176,206,482
Net increase in borrowing from other banks		1,075,462,325	-
Net increase in customer deposits and deposits from other banks and financial institutions		5,852,027,829	6,316,087,901
Net decrease in loans and advances		4,504,401,149	-
Net increase in financial assets sold under repurchase agreements		1,341,000,001	-
Interest, fee and commission received		3,660,664,697	3,779,982,347
Cash received relating to other operating activities		1,092,115,048	1,672,213,846
Sub-total of cash inflow		17,525,671,049	21,181,764,839
Net increase in deposits with the central bank and other banks		(1,808,784,747)	-
Net increase in loans and advances		-	(2,701,833,852)
Net decrease in borrowing from other banks		-	(3,458,196,693)
Net increase in placements with financial institutions		(4,992,100,658)	(3,056,833,470)
Net increase in trading assets		(2,354,782,217)	-
Net decrease in financial assets sold under repurchase agreements		-	(643,668,282)
Net increase in financial assets purchased under resale agreements		(4,787,991,627)	(807,150,000)
Interest, fee and commission paid		(1,657,547,443)	(2,221,759,342)
Cash paid to employees		(1,157,818,658)	(1,128,534,858)
Payment of taxes		(315,446,363)	(280,251,984)
Cash paid relating to other operating activities		(1,895,482,422)	(4,160,823,225)
Sub-total of cash outflow		(18,969,954,135)	(18,459,051,706)
Net cash (used in)/provided from operating activities	45	(1,444,283,086)	2,722,713,133

DBS BANK (CHINA) LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2020	2019
2	**Cash flows from investing activities**			
	Cash received from investments		2,411,747,400	2,563,864,602
	Interest received from debt instruments and other debt instruments		437,144,232	336,341,306
	Cash received from disposal of fixed assets		-	74,031
	Sub-total of cash inflow		2,848,891,632	2,900,279,939
	Purchase of financial investments		(8,368,027,010)	(7,143,768,927)
	Cash paid for purchase of fixed assets and other long-term assets		(27,307,579)	(22,099,252)
	Sub-total of cash outflow		(8,395,334,589)	(7,165,868,179)
	Net cash used in investing activities		(5,546,442,957)	(4,265,588,240)
3	**Cash flows from financing activities**			
	Cash received from bonds issuance		2,940,000,000	1,470,000,000
	Sub-total of cash inflow		2,940,000,000	1,470,000,000
	Cash payments for bonds		(6,501,651,539)	(2,098,931,589)
	Cash payments for bonds interest expenses		(284,782,671)	(225,946,148)
	Cash payments for lease liabilities and interest		(158,977,704)	(168,508,278)
	Sub-total of cash outflow		(6,945,411,914)	(2,493,386,015)
	Net cash flows used in financing activities		(4,005,411,914)	(1,023,386,015)
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		(349,105,593)	138,761,278
5	**Net decrease in cash and cash quivalents**		(11,345,243,550)	(2,427,499,844)
	Add: Cash and cash equivalents at the beginning of year		17,855,422,353	20,282,922,197
6	**Cash and cash equivalents at the end of year**	45	6,510,178,803	17,855,422,353

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

Chairman:	CEO:	CFO:
Dominic Ho	Neil Ge	Sandra Ye

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(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 30	Note 31	Note 32	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	-	-	-	-	-	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	-	-	-	-	-	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

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020 (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 30	Note 31	Note 32	Note 33	Note 34	Note 35	
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
Comprehensive income							
Net profit	-	-	-	-	-	175,067,605	175,067,605
Other comprehensive income	-	-	(50,417,102)	-	-	-	(50,417,102)
Total comprehensive income	-	-	(50,417,102)	-	-	175,067,605	124,650,503
Tax credits from employee share-based compensation plans	-	3,409,219	-	-	-	-	3,409,219
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	152,800,000	(152,800,000)	-
Transfer to surplus reserve	-	-	-	17,506,760	-	(17,506,760)	-
Balance at 31 December 2020	8,000,000,000	33,462,006	1,244,218	423,211,368	1,450,400,000	2,068,083,243	11,976,400,835

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

Chairman:
Dominic Ho

CEO:
Neil Ge

CFO:
Sandra Ye

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-two 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.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2020 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 2020 and of the financial performance, cash flows and other information for the year then ended.

4 CRITICAL CHANGES IN ACCOUNTING POLICIES

The Ministry of Finance promulgated the *Notice on Issuing the Provisions on the Accounting Treatment Regarding COVID-19-Related Rent Concessions (Caikuai [2020] No.10)* in 2020. In preparing 2020 annual financial statements, the Bank has applied the practical expedient included in this Notice for the rent concessions agreed with lessees or lessors, which occur as a direct consequence of the COVID-19 pandemic, and the reduction in lease payment affects only payments originally due on or before 30 June 2021.

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

(a) 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 fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(b) Measurement methods

(i) The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Bank uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Bank uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

(ii) 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)

(b) Measurement methods (continued)

(iii) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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).

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets

(i) Classification and subsequent measurement

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

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.

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.

(ii) Classification method of debt instruments

Classification and subsequent measurement of debt instruments depend on:

(1) The Bank's business model for managing the asset

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.

(2) The cash flow characteristics of the asset

Solely payments of principal and interest ('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 SPPI. 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(iii) Measurement categories of debt instruments

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 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.

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 SPPI and that are not designated at FVPL, are measured at fair value through other comprehensive income. 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 income statement within 'Net gains arising from trading activities' or ‘Fair value gains/losses’ in the period in which it arises.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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.

(iv) 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:

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(iv) Impairment (continued)

- 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.

Regarding these judgement and estimates, please refer to note 50.2(h).

(v) 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.

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.

(d) 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.

(ii) Derecognition

Financial liabilities are derecognised when they are fully or patially extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The gains and losses attributable to derecognition are presented in profit or loss.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(e) Offsetting

Financial assets and liabilities are presented net when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

F Derivative instruments and hedge accounting

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.

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:

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

(2) 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.

(a) 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

F Derivative instruments and hedge accounting(continued)

(b) 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 income statement.

Amounts accumulated in equity are recycled to the income statement 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 income statement.

G Fixed assets

(a) Initial recognition and measurement

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.

(b) Depreciation

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	3-5 years	0%	33.33%-50%

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

G Fixed assets (continued)

(c) Derecognition

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.

H 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).

Once an impairment loss is recognised, it shall not be reversed to the extent of recovery in value in subsequent periods.

I Lease

Lease refers to a contract 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 other term. It is included in the current profit and loss or related asset cost.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

I Lease (continued)

A change in a lease is accounted for as a separate lease by the Bank when it meets the following conditions: (1) The change in the lease extends the scope of the lease by increasing one or more right-of-use assets; (2) The increased consideration shall be equivalent to the amount of the separate price of the extended portion of the lease as adjusted for the circumstances of the contract.

When the lease change is not accounted as a separate lease, the Bank redetermines the lease term on the effective date of the lease change, discounting the lease payment after the change with the revised discount rate, and re-measures the lease liabilities, except for the simplified method for the contract change directly caused by the Covid-19 epidemic. Where a change in the lease results in a reduction in the lease scope or shortening of the lease term, the Bank shall accordingly reduce the book value of the right to use assets and record the relevant gains or losses arising from the partial or complete termination of the lease into the current profit and loss. If other lease changes result in the remeasurement of lease liabilities, the Bank shall adjust the book value of the right to use assets accordingly.

For rent concessions occurring as a direct consequence of the COVID-19 pandemic, and the reduction in lease payment affects only payments originally due on or before 30 June 2021, the Bank chooses to apply the simplified method. When an agreement is reached to terminate the original payment obligation, the undiscounted amount of relief will be included in the current profit and loss, and the corresponding adjustment of lease liabilities.

J Provisions

Provisions are recognised when the Bank has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

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, except for:

(i)POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(ii) 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).

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 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.

M Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

On the balance sheet date, the current income tax liabilities (or assets) formed in the current and previous periods should be measured by the expected amount of income tax payable (or returned) calculated in accordance with the provisions of the tax law.

(b) Deferred income tax

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

M Income tax (continued)

(b) Deferred income tax (continued)

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 Employee benefits

Employee benefits mainly include short-term employee benefits, 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.

(a) 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.

(b) 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.

(c) 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)

O 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.

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.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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.

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

A Critical accounting estimates and judgements

(1) 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.

For more information on the fair value of financial instruments, see Note 50.5.

B Critical accounting estimates and key assumptions

The following critical accounting estimates and key assumptions are subject to material risks that would result in a material adjustment of the carrying value of assets and liabilities in the following fiscal year:

(1) 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.

Note 50.2(f) specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss.

(2) 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 29 January, 2021.

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%	VAT amount
Education surcharges	3%	VAT amount
Local education surcharges	2%	VAT amount

Under the Corporate Income Tax Law of the People's Republic of China, the corporate income tax rate applicable to the Bank is 25% (2019: 25%).

9 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2020	**31 December 2019**
Cash	34,651,892	33,931,319
Statutory deposit reserve with the central bank (a)	5,749,033,663	5,419,753,110
Excess deposit reserve with the central bank	3,950,627,678	4,994,794,448
Foreign exchange risk reserve with the central bank (b)	893,493,292	763,989,096
Interest receivable	2,878,798	2,973,449
Less: ECL allowance	(2,090,446)	(1,587,864)
Total	10,628,594,877	11,213,853,558

(a) According to the relevant provisions of the People's Bank of China ("PBOC"), the statutory reserve rate for customer deposits denominated in foreign currencies was 5% at 31 December 2020 (31 December 2019: 5%). Such reserve is non-interest-bearing.

According to the relevant provisions of the PBOC, the statutory reserve rate for customer deposits denominated in RMB was 10.5% at 31 December 2020 (31 December 2019: 11%). RMB deposit reserve bears interest at an annual rate of 1.62% (2019: 1.62%).

These statutory deposit reserves 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 exchange risk reserve with the PBOC.

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

10 DEPOSITS WITH OTHER BANKS

	31 December 2020	**31 December 2019**
Deposits with banks		
- Domestic	2,452,362,308	2,833,063,551
- Overseas	1,060,973,675	1,436,362,054
Subtotal	3,513,335,983	4,269,425,605
Add: Interest receivable	8,787,245	9,687,484
Less: ECL allowance	(224,119)	(68,072)
Total	3,521,899,109	4,279,045,017

11 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2020	**31 December 2019**
Placements with banks		
- Domestic	1,002,381,331	5,269,686,411
- Overseas	3,294,514,750	5,291,061,870
Subtotal	4,296,896,081	10,560,748,281
Placements with financial institutions		
- Domestic	22,119,762,564	19,059,517,439
Add: Interest receivable	208,147,063	359,351,262
Less: ECL allowance	(39,199,204)	(17,137,721)
Total	26,585,606,504	29,962,479,261

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

12.1 DERIVATIVE INSTRUMENTS

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

31 December 2020		Fair value	
	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	19,243,541,605	152,733,772	(128,914,452)
Foreign exchange swap	458,929,743,609	9,711,702,173	(10,504,068,995)
Foreign exchange option	92,225,939,230	581,909,993	(495,295,901)
Cross-currency swap	28,863,862,635	1,035,100,008	(608,138,561)
Subtotal	599,263,087,079	11,481,445,946	(11,736,417,909)
Interest rate derivatives			
Interest rate swap	496,724,365,327	3,279,397,239	(3,450,263,354)
Interest rate cap and floor	6,816,195,786	1,487,896	(1,562,904)
Subtotal	503,540,561,113	3,280,885,135	(3,451,826,258)
Other derivatives			
Equity derivatives	8,562,375,065	596,873,242	(596,539,773)
Commodity derivatives	3,643,896,574	137,386,594	(137,397,364)
Credit derivatives	8,361,404,282	74,280,131	(78,782,340)
Subtotal	20,567,675,921	808,539,967	(812,719,477)
Total	1,123,371,324,113	15,570,871,048	(16,000,963,644)

31 December 2019		Fair value	
	Notional amount	Assets	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)
Subtotal	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)
Subtotal	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)
Subtotal	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)

12.2 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.

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.

(a) Fair value hedge

As at 31 December 2020, 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	167,633,609	-	(1,792,223)

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)

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

(All amounts expressed in RMB unless otherwise stated)

12 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

12.2 HEDGE ACCOUNTING (continued)

(a) Fair value hedge (continued)

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

	2020	**2019**
—hedging instruments	(1,559,650)	2,771,123
—hedged items	1,286,063	(3,294,423)
Net (loss) / gain on fair value hedges	(273,587)	(523,300)

(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 2020, the Bank's net gain from the cash flow hedge of RMB 1.40 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 2020. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2020, as a result of the highly probable cash flows no longer being expected to occur.

13 FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2020	**31 December 2019**
Bond	5,595,857,245	807,150,000
Add: Interest receivable	118,940	1,046,068
Less: ECL allowance	(410,368)	(434,133)
Total	5,595,565,817	807,761,935

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES

	31 December 2020	31 December 2019
Retail loans		
-Mortgage loans	4,118,831,720	5,120,704,532
-Others	366,656,757	478,015,991
Subtotal	4,485,488,477	5,598,720,523
Corporate loans and advances		
-Loans	28,601,209,856	30,549,799,071
-Trade finance	8,676,304,418	10,893,774,748
-Discounted bills and others	331,169,620	516,670,077
Subtotal	37,608,683,894	41,960,243,896
Add: Interest receivable	236,477,374	278,731,567
Total loans and advances carried at amortised cost	42,330,649,745	47,837,695,986
Less: ECL allowance	(885,646,988)	(1,147,962,267)
Net Loans and advances	41,445,002,757	46,689,733,719

(1) Industry sector:

	31 December 2020		31 December 2019	
	Balance	%	Balance	%
Retail loans	4,485,488,477	11%	5,598,720,523	12%
Real estate	9,227,381,078	22%	8,570,443,122	18%
Finance	7,928,971,595	19%	9,206,752,401	18%
Whole sale and retail business	7,650,039,811	18%	9,561,393,921	20%
Manufacturing	5,643,763,594	13%	6,951,616,021	15%
Transportation, storage and postal	3,159,575,471	7%	1,993,798,221	4%
Information and technology	2,545,761,450	6%	2,733,750,794	6%
Electricity, gas and water	603,206,426	1%	559,149,403	1%
Agriculture,hunting,forestry and fishing	216,603,229	1%	287,826,879	1%
Leasing and commercial services	134,240,604	0%	1,863,225,832	4%
Others	499,140,636	1%	232,287,302	0%
Add: Interest receivable	236,477,374	1%	278,731,567	1%
Total gross	42,330,649,745	100%	47,837,695,986	100%

(All amounts expressed in RMB unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(2) By type of collateral and guarantee:

	31 December 2020	31 December 2019
Clean loans	12,159,736,637	8,447,274,311
With guarantee only	9,244,439,832	11,523,421,636
With collateral only	9,925,297,237	14,933,718,053
With both collateral and guarantee	10,764,698,665	12,654,550,419
Add: Interest receivable	236,477,374	278,731,567
Total gross	42,330,649,745	47,837,695,986

(3) Loans and advances past due:

	31 December 2020				
	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	110,874,262	114,399,925	-	-	225,274,187
With guarantee only	-	-	-	4,151,161	4,151,161
With collateral only	205,771,953	41,132,687	58,914,045	8,386,308	314,204,993
With both collateral and guarantee	4,644,464	-	9,733,892	28,592,260	42,970,616
Total gross	321,290,679	155,532,612	68,647,937	41,129,729	586,600,957

	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)

15 TRADING ASSETS

	31 December 2020	31 December 2019
Banks and other financial institutions debt securities	3,392,531,159	3,684,340,938
Corporate debt securities	1,422,489,420	508,048,053
Government securities and treasury bills	3,410,647,870	418,904,901
Local government debt securities	90,196,254	594,919,195
Negotiable certificates of deposit	1,147,748,283	1,629,883,053
Asset backed securities	126,970,045	15,014,619
Add: Interest receivable	95,372,330	92,194,923
Total	9,685,955,361	6,943,305,682

As at 31 December 2020, trading assets amounting to RMB 3,820,000,000 were pledged as collateral under repurchase agreements with other banks. As at 31 December 2019, trading assets amounting to RMB 2,260,000,000 were pledged as collateral under repurchase agreements with other banks.

16 DEBT INSTRUMENTS

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

	31 December 2020	31 December 2019
Government securities and treasury bills	5,651,282,774	2,596,656,064
Assets backed securities	-	121,930,000
Add: Interest receivable	50,480,205	21,085,178
Less: ECL allowance	(1,223,152)	(748,396)
Total	5,700,539,827	2,738,922,846

17 OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments classified as FVOCI.

	31 December 2020	31 December 2019
Banks and other financial institutions debt securities	7,643,833,059	5,664,753,742
Government securities and treasury bills	2,487,810,901	2,948,977,489
Negotiable certificates of deposit	978,185,738	-
Local government debt securities	635,647,485	10,039,930
Corporate debt securities	-	165,894,000
Add: Interest receivable	217,539,112	191,337,455
Total	11,963,016,295	8,981,002,616

As at 31 December 2020, the amount of other debt instruments pledged was RMB 500,000,000. The amount of other debt instruments pledged was RMB 828,000,000 as at 31 December 2019.

(All amounts expressed in RMB unless otherwise stated)

18 FIXED ASSETS

	Office equipment and furniture	Computers and other electronic equipment	Total
Cost			
At 1 January 2020	98,277,377	273,279,933	371,557,310
Add: Addition	3,862,013	23,445,566	27,307,579
Less: Disposal	(2,982,357)	(49,831,987)	(52,814,344)
At 31 December 2020	99,157,033	246,893,512	346,050,545
Accumulated depreciation			
At 1 January 2020	88,215,689	219,296,186	307,511,875
Add: Charge for the year	5,140,038	23,833,891	28,973,929
Less: Disposal	(2,978,994)	(46,840,764)	(49,819,758)
At 31 December 2020	90,376,733	196,289,313	286,666,046
Net book value			
At 31 December 2020	8,780,300	50,604,199	59,384,499

	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	(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	(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)

19 DEFERRED INCOME TAX ASSETS

(1) Deferred tax assets

	31 December 2020	**31 December 2019**
Provision for impairment	448,103,385	258,372,910
Fair value measurement of financial instruments	52,740,562	36,420,590
Share based incentive plan not exercised	10,869,354	11,774,562
Accrued expenses	96,383,773	93,918,260
Others	2,532,088	1,238,752
Total	610,629,162	401,725,074

Deferred income tax assets/liabilities are calculated at 25% of the deductible temporary differences.

(2) Movement of Deferred tax

	2020			
	At 1 January	Recognised into profit and loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	258,372,910	189,730,475	-	448,103,385
Fair value measurement of financial instruments	36,420,590	(756,629)	17,076,601	52,740,562
Share based incentive plan not exercised	11,774,562	(905,208)	-	10,869,354
Accrued expenses	93,918,260	2,465,513	-	96,383,773
Others	1,238,752	1,293,336	-	2,532,088
Total	401,725,074	191,827,487	17,076,601	610,629,162

	2019			
	At 1 January	Recognised into profit and loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	430,273,430	(171,900,520)	-	258,372,910
Fair value measurement of financial instruments	15,014,614	30,641,696	(9,235,720)	36,420,590
Share based incentive plan not exercised	12,194,867	(420,305)	-	11,774,562
Accrued expenses	76,402,725	17,515,535	-	93,918,260
Others	(308,664)	1,547,416	-	1,238,752
Total	533,576,972	(122,616,178)	(9,235,720)	401,725,074

(All amounts expressed in RMB unless otherwise stated)

20 OTHER ASSETS

	31 December 2020	**31 December 2019**
Security deposits and guarantee deposits	2,338,654,010	1,231,828,491
Right-of-Use assets (a)	303,077,965	370,271,423
Settlement receivables from customers	261,100,316	292,552,162
Receivables from related parties (Note 49 (e) (3))	24,886,327	39,773,957
Prepaid expenses	12,340,756	10,655,013
Leasehold improvement	4,250,289	3,564,814
Others	177,497,474	110,771,979
Less: ECL allowance	(20,478,908)	(31,476,780)
Total	3,101,328,229	2,027,941,059

(a) Right-of-Use Assets

	Office	Data center	Total
Cost			
At 1 January 2020	485,090,200	21,094,616	506,184,816
Add	72,549,724	-	72,549,724
At 31 December 2020	557,639,924	21,094,616	578,734,540
Accumulated depreciation			
At 1 January 2020	131,446,514	4,466,879	135,913,393
Add	135,276,304	4,466,878	139,743,182
At 31 December 2020	266,722,818	8,933,757	275,656,575
Net book value			
At 1 January 2020	353,643,686	16,627,737	370,271,423
At 31 December 2020	290,917,106	12,160,859	303,077,965
Leasing Liabilities			
At 31 December 2020	296,773,236	12,545,756	309,318,992

(All amounts expressed in RMB unless otherwise stated)

20 OTHER ASSETS (Continued)

(a) Right-of-Use Assets (Continued)

	Office	Data center	Total
Cost			
At 1 January 2019	448,363,921	21,094,616	469,458,537
Add	36,726,279	-	36,726,279
At 31 December 2019	485,090,200	21,094,616	506,184,816
Accumulated depreciation			
At 1 January 2019	-	-	-
Add	131,446,514	4,466,879	135,913,393
At 31 December 2019	131,446,514	4,466,879	135,913,393
Net book value			
At 1 January 2019	448,363,921	21,094,616	469,458,537
At 31 December 2019	353,643,686	16,627,737	370,271,423
Leasing Liabilities			
At 31 December 2019	357,400,676	16,940,045	374,340,721

21 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2020	**31 December 2019**
Deposits from banks		
- Domestic	1,500,458,080	785,317,833
- Overseas	2,382,522,992	1,455,923,501
Subtotal	3,882,981,072	2,241,241,334
Deposits from financial institutions		
- Domestic	11,088,935,931	5,078,284,000
Subtotal	11,088,935,931	5,078,284,000
Add: Interest payable	7,157,191	36,227,346
Total	14,979,074,194	7,355,752,680

22 BORROWING FROM OTHER BANKS

	31 December 2020	**31 December 2019**
Placements from banks		
- Domestic	4,777,313,750	5,933,448,200
- Overseas	13,231,344,614	10,999,747,839
Subtotal	18,008,658,364	16,933,196,039
Add: Interest payable	6,889,369	49,633,061
Total	18,015,547,733	16,982,829,100

(All amounts expressed in RMB unless otherwise stated)

23 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2020	31 December 2019
At amortized cost		
Bond	500,000,000	828,000,000
At fair value through profit or loss		
Bond	3,820,308,074	2,150,993,063
Add: Interest payable	1,522,475	1,508,602
Total	4,321,830,549	2,980,501,665

24 DUE TO CUSTOMERS

	31 December 2020	31 December 2019
At amortized cost		
Current deposits		
- Corporate	15,029,434,765	13,037,009,310
- Retail	4,650,938,611	3,405,875,685
Time deposits		
- Corporate	32,449,921,893	28,387,086,358
- Retail	3,720,671,708	5,604,892,418
Structured investment products		
- Corporate	3,832,984,143	11,145,476,482
- Retail	4,419,536,288	436,159,835
Subtotal	64,103,487,408	62,016,500,088
Add: Interest payable	297,057,354	277,673,862
Total	64,400,544,762	62,294,173,950

25 PAYROLL AND WELFARE PAYABLE

	31 December 2020	31 December 2019
Short-term employee benefits	164,004,824	171,914,388
Defined contribution plans	2,487,540	6,461,586
Total	166,492,364	178,375,974

The movement of payroll and welfare payable

	31 December 2019	Additions	Deductions	31 December 2020
Short-term employee benefits	171,914,388	1,120,255,696	(1,128,165,260)	164,004,824
Defined contribution plans	6,461,586	7,920,289	(11,894,335)	2,487,540
Total	178,375,974	1,128,175,985	(1,140,059,595)	166,492,364

(All amounts expressed in RMB unless otherwise stated)

26 TAXES PAYABLE

	31 December 2020	31 December 2019
Corporate income tax	130,970,099	74,926,481
Value added tax and surcharges	39,435,892	46,400,310
Withholding individual income tax and others	23,651,943	28,806,595
Withholding corporate tax	7,657,196	9,475,092
Total	201,715,130	159,608,478

27 PROVISION

	31 December 2020	31 December 2019
At 1 January	15,018,981	36,912,834
Current year provision/ (reversal)	105,158,556	(21,893,853)
At 31 December	120,177,537	15,018,981

28 BONDS ISSUED

	31 December 2020	31 December 2019
At amortized cost		
Negotiable certificate of deposit	388,127,556	1,953,287,500
RMB bonds	2,998,802,917	4,002,146,036
Subtotal	3,386,930,473	5,955,433,536
At fair value		
RMB bonds	-	996,574,238
Add: Interest payable	62,453,425	65,807,377
Total	3,449,383,898	7,017,815,151

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 an annual rate of 4.30% and was redeemed on 17 December 2020.

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 an annual rate of 4.55% and its maturity date is 18 July 2021.

In 2020, the Bank has issued the negotiable certificate of deposit with total notional amount of RMB 2,940 million in the PRC inter-bank market. As of 31 December 2020, the outstanding notional amount is RMB 390 million. The terms are from 3 months to 1 year.

(All amounts expressed in RMB unless otherwise stated)

29 OTHER LIABILITIES

	31 December 2020	31 December 2019
Lease liabilities	309,318,992	374,340,721
Accrued expenses	180,649,346	141,984,980
Settlement payables	155,541,399	456,440,832
Payable to overseas related parties (Note 49 (e) (3))	70,780,477	67,843,285
Unearned commission income	48,341,834	55,229,761
Non-principal protected structured investment products	-	3,887,351,160
Mark-to-market margin deposit of Shanghai clearing house	-	176,172,638
Others	71,630,791	16,916,757
Total	836,262,839	5,176,280,134

30 PAID-IN CAPITAL

	31 December 2020	31 December 2019
Registered and fully paid by DBS Bank	8,000,000,000	8,000,000,000

The paid-in capital has been verified by the accounting firm and the capital verification reports were issued.

31 CAPITAL SURPLUS

	31 December 2019	Additions	31 December 2020
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	3,409,219	10,890,663
Total	30,052,787	3,409,219	33,462,006

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME

	31 December 2020						
	Balance sheet			Income statement			
	As at 31 December 2019	Change net of tax	As at 31 December 2020	Amount before tax	Less: Reclassification of other comprehensive income to income statement	Less: Tax	Net of tax amount
Other comprehensive income items which will be reclassified to income statement							
-- Fair value changes of other debt instruments	47,979,182	(50,606,560)	(2,627,378)	(66,694,276)	(1,076,604)	17,164,320	(50,606,560)
-- ECL on other debt instruments	1,597,360	872,706	2,470,066	1,146,067	17,544	(290,905)	872,706
-- Effective portion of gains or losses on hedging instruments in cash flow hedges	2,084,778	(683,248)	1,401,530	(886,434)	-	203,186	(683,248)
Total	51,661,320	(50,417,102)	1,244,218	(66,434,643)	(1,059,060)	17,076,601	(50,417,102)

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME (continued)

	31 December 2019						
	Balance sheet			Income statement			
	As at 31 December 2018	Change net of tax	As at 31 December 2019	Amount before tax	Less: Reclassification of other comprehensive income to income statement	Less: Tax	Net of tax amount
Other comprehensive income items which will be reclassified to income statement							
-- Fair value changes of other debt instruments	26,863,152	21,116,030	47,979,182	32,611,510	(4,456,804)	(7,038,676)	21,116,030
-- ECL on other debt instruments	419,668	1,177,692	1,597,360	(481,744)	2,052,000	(392,564)	1,177,692
-- Effective portion of gains or losses on hedging instruments in cash flow hedges	(3,363,414)	5,448,192	2,084,778	7,252,672	-	(1,804,480)	5,448,192
Total	23,919,406	27,741,914	51,661,320	39,382,438	(2,404,804)	(9,235,720)	27,741,914

(All amounts expressed in RMB unless otherwise stated)

33 SURPLUS RESERVE

Reserve Fund	**31 December 2020**	**31 December 2019**
At 1 January	405,704,608	335,374,312
Current year addition	17,506,760	70,330,296
At 31 December	423,211,368	405,704,608

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. Upon the approval from the Board of Directors, RMB 17.51 million is appropriated to the reserve fund by 10% of the net profit in 2020 (2019: RMB 70.33 million).

34 GENERAL RISK RESERVE

	31 December 2020	**31 December 2019**
At 1 January	1,297,600,000	1,234,900,000
Current year addition	152,800,000	62,700,000
At 31 December	1,450,400,000	1,297,600,000

On 14 February 2020, the directors approved an appropriation to the Bank's general risk reserve amounting to RMB 152.8 million in accordance with Circular Caijin No.20 issued on 17 April 2012. The general risk reserve after this appropriation amounts to RMB 1,450.4 million, which is 1.5% of the Bank's total risk assets.

35 UNDISTRIBUTED PROFITS

(1) Profit distribution in the current year

	2020	**2019**
At 1 January	2,063,322,398	1,491,355,439
Impact from adoption of new accounting standard	N/A	1,694,301
Opening balance under new accounting standard (restated)	2,063,322,398	1,493,049,740
Profit for the year	175,067,605	703,302,954
Less：Reserve fund	(17,506,760)	(70,330,296)
General risk reserve	(152,800,000)	(62,700,000)
At 31 December	2,068,083,243	2,063,322,398

(2) Profit distribution after the balance sheet date

On 29 January 2021, the directors approved the appropriation to the Bank's general risk reserve amounting of RMB 32.5 million, in accordance with Circular Caijin No.20 issued on 17 April 2012.

(All amounts expressed in RMB unless otherwise stated)

36 NET INTEREST INCOME

	2020	2019
Interest income:		
Loans and advances	2,133,135,812	2,242,359,018
Due from other banks and financial institutions	935,354,114	1,069,509,875
Other debt instruments	278,649,016	265,284,356
Debt instruments	124,918,036	57,323,235
Deposits with the central bank	94,798,827	96,555,669
Financial assets purchased under resale agreements	9,606,910	6,727,331
Total	3,576,462,715	3,737,759,484
Interest expense:		
Due to customers	(1,174,830,517)	(1,268,236,597)
Due to other banks and financial institutions	(318,104,509)	(714,690,593)
Bonds issued	(281,428,719)	(225,946,148)
Financial assets sold under repurchase agreements	(45,845,244)	(69,290,824)
Lease liabilities	(8,735,679)	(10,156,156)
Total	(1,828,944,668)	(2,288,320,318)
Net interest income	1,747,518,047	1,449,439,166

37 NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income		
Wealth management fee	172,740,595	131,687,175
Loan and trade related fee	78,699,941	90,681,730
Treasury advisory fee	32,505,877	32,457,528
Cash Management fee	30,858,517	29,227,505
Syndication fee	12,084,723	40,207,789
Others	24,273,062	36,353,543
Total	351,162,715	360,615,270
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	(66,350,691)	(71,755,239)
Net fee and commission income	284,812,024	288,860,031

(All amounts expressed in RMB unless otherwise stated)

38 INVESTMENT INCOME

	2020	**2019**
Trading assets	396,151,017	405,471,103
Other debt instruments	33,577,180	13,733,715
Non-foreign exchange derivative instruments	13,395,861	102,649,437
Financial assets purchased under resale agreements	715,618	1,331,718
Total	443,839,676	523,185,973

39 FAIR VALUE GAINS/(LOSSES)

	2020	**2019**
Non-foreign exchange derivative instruments	11,264,420	(76,529,055)
Trading assets	(11,460,962)	(41,993,395)
Bonds issued	3,425,762	(4,446,597)
Financial assets purchased under resale and sold under repurchase agreements	(315,010)	400,954
Total	2,914,210	(122,568,093)

40 EXCHANGE GAINS

	2020	**2019**
Foreign exchange transactions and foreign exchange derivatives instruments	200,018,144	568,423,170

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

	2020	**2019**
Government Grants	8,702,109	8,321,861

42 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	**2019**
Employee benefits	1,145,935,048	1,176,509,226
Short-term employee benefits	1,114,659,189	1,085,339,265
Post-employment benefits	7,920,289	67,621,257
Share Based Payment	23,355,570	23,548,704
Telecommunications and computers	185,139,199	172,527,246
Rental and utilities	8,347,122	14,821,998
Depreciation and amortization	170,387,478	176,466,580
Others	177,661,800	194,484,695
Total	1,687,470,647	1,734,809,745

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES

	2020	**2019**
Deposits with the central bank	502,582	(725,090)
Deposits with other banks	156,047	(58,039)
Placements with financial institutions	22,061,483	5,312,439
Loans and advances	699,716,347	114,951,790
Financial assets purchased under resale agreements	(23,765)	434,133
Debt instruments	474,756	(1,159,367)
Other debt instruments	1,163,611	1,570,256
Other assets	2,800,378	(1,030,510)
Loan commitments and financial guarantees	105,158,556	(21,893,853)
Total ECL charge	832,009,995	97,401,759
Recovery of loans previously written-off	(5,693,608)	(19,031,213)
Total	826,316,387	78,370,546

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

(a) ECL movement

	General allowances (Non-impaired)		Specific allowances (Impaired)	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2020	313,344,919	680,969,419	222,249,686	1,216,564,024
Transfer to (from)	1,624,835	(2,769,046)	1,144,211	-
- Stage 1	(3,143,606)	2,150,539	993,067	-
- Stage 2	4,768,441	(4,919,585)	151,144	-
- Stage 3	-	-	-	-
Net portfolio change	1,537,717	(35,368,306)	-	(33,830,589)
- Newly originated or purchased financial assets	13,818,921	10	-	13,818,931
- De-recognition of financial assets	(12,281,204)	(35,368,316)	-	(47,649,520)
Re-measurements due to changes in parameters	212,864,885	(272,316,704)	925,292,403	865,840,584
Total net charge to income statement	216,027,437	(310,454,056)	926,436,614	832,009,995
Net write-offs	-	-	(979,882,757)	(979,882,757)
Exchange and other movements	-	-	4,052,881	4,052,881
Balance at 31 December 2020	529,372,356	370,515,363	172,856,424	1,072,744,143

(All amounts expressed in RMB unless otherwise stated)

43 CREDIT IMPAIRMENT LOSSES (continued)

(a) ECL movement (continued)

	General allowances (Non-impaired)		Specific allowances (Impaired)	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2019	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	(235,120,837)	282,663,399	56,266,648	103,809,210
Total net charge to income statement	(234,244,632)	267,566,746	64,079,645	97,401,759
Net write-offs	-	-	(95,114,322)	(95,114,322)
Exchange and other movements	-	-	63,544	63,544
Balance at 31 December 2019	313,344,919	680,969,419	222,249,686	1,216,564,024

(All amounts expressed in RMB unless otherwise stated)

44 CORPORATE INCOME TAX

	2020	**2019**
Current income tax	172,666,902	59,430,501
Deferred income tax (Note 19)	(191,827,487)	122,616,178
Total	(19,160,585)	182,046,679

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

	2020	**2019**
Profit before income tax	155,907,020	885,349,633
Income tax calculated at 25% (2019: 25%)	38,976,755	221,337,408
Non-taxable income (1)	(62,980,310)	(45,646,335)
Non-deductible expenses	5,264,847	6,831,163
Others	(421,877)	(475,557)
Corporate income tax	(19,160,585)	182,046,679

(1) The income not subject to tax mainly comprises of interest income generated from PRC treasury bonds, municipal government bonds and railway bonds.

45 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2020	**31 December 2019**
Cash (Note 9)	34,651,892	33,931,319
Balances with the central bank other than restricted reserve deposits (Note 9)	3,950,627,678	4,994,794,448
Deposits with other banks with original terms less than three months from acquisition date	1,513,335,983	3,619,425,603
Placements with financial institutions with original terms less than three months from acquisition date	1,011,563,250	9,207,270,983
Total	6,510,178,803	17,855,422,353

(All amounts expressed in RMB unless otherwise stated)

45 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(2) Reconciliation of net profit to cash flows from operating activities

	Notes	2020	2019
Net profit		175,067,605	703,302,954
Adjusted by:			
Credit impairment losses	43	832,009,995	97,401,759
Depreciation and amortization	42	170,387,478	176,466,580
Interest income from debt instruments	36	(124,918,036)	(57,323,235)
Interest income from other debt instruments	36	(278,649,016)	(265,284,356)
Investment gains from other debt instruments	38	(33,577,180)	(13,733,715)
Losses on disposal of fixed assets and other long-term assets		2,994,586	7,574
Interest expenses of bonds issued	36	281,428,719	225,946,148
Interest expenses of lease liabilities	36	8,735,679	10,156,156
(Losses) / Gains from fair value change	39	(2,914,210)	122,568,093
Exchange gains		681,414,088	719,581,583
Deferred income tax	44	(191,827,487)	122,616,178
(Increase) / Decrease in operating receivables		(10,915,351,021)	2,389,544,304
Increase / (Decrease) in operating payables		7,950,915,714	(1,508,536,890)
Net cash (used in) / provided from operating activities		(1,444,283,086)	2,722,713,133

(3) Net decrease in cash and cash equivalents:

	2020	2019
Cash and cash equivalents at the end of year	6,510,178,803	17,855,422,353
Less: cash and cash equivalents at the beginning of year	(17,855,422,353)	(20,282,922,197)
Net decrease in cash and cash equivalents	(11,345,243,550)	(2,427,499,844)

(4) Cash flow related to lease

In 2020, the total lease-related cash outflow paid by the Bank is RMB 148,478,861 (2019: RMB 146,069,549), and the remaining cash outflow is included in operating activities except the amount paid to repay the lease debt as mentioned above in financing activities.

(All amounts expressed in RMB unless otherwise stated)

46 COMMITMENTS AND CONTINGENT ITEMS

(1) Loan commitments and financial guarantees

	31 December 2020	31 December 2019
Letters of credit issued	3,020,451,617	3,277,739,447
Standby letter of credit	3,531,092,897	3,858,514,477
Letters of guarantee issued	2,483,439,772	2,244,457,679
Irrevocable loan commitment	2,449,685,556	2,838,532,011
Bank acceptances	1,749,454,046	2,751,198,621
Letters of credit confirmation	5,634,643	157,001,178
Total	13,239,758,531	15,127,443,413

(2) Legal proceedings

At at 31 December 2020, there was no significant legal proceeding against the Bank (31 December 2019: nil).

(3) Capital commitments

As at 31 December 2020, the Bank has no significant capital commitments which require separate disclosure (31 December 2019: nil).

(All amounts expressed in RMB unless otherwise stated)

47 SEGMENT INFORMATION

RMB ('thousand)

31 December 2020	**Head office**	**Shanghai**	**Beijing**	**Shenzhen**	**Guangzhou**	**Suzhou**	**Chongqing**	**Tianjin**	**Nanning**	**Others**	**Elimination**	**Total**
Interest income	2,225,247	1,721,438	321,693	268,614	109,323	97,473	61,649	23,272	44,879	135,881	(1,433,006)	3,576,463
Interest expense	(1,660,265)	(1,094,833)	(130,351)	(133,499)	(53,202)	(36,350)	(31,204)	(15,525)	(27,186)	(79,536)	1,433,006	(1,828,945)
Net interest income	564,982	626,605	191,342	135,115	56,121	61,123	30,445	7,747	17,693	56,345	-	1,747,518
Fee and commission income	24,946	162,230	99,184	19,805	15,102	5,216	8,851	2,464	5	13,360	-	351,163
Fee and commission expenses	(55,233)	(10,511)	(304)	(217)	(56)	(8)	(1)	(7)	-	(14)	-	(66,351)
Net fee and commission income	(30,287)	151,719	98,880	19,588	15,046	5,208	8,850	2,457	5	13,346	-	284,812
Other operating income	(318,749)	733,827	141,258	29,560	18,283	21,074	26,636	7,363	37	13,672	-	672,961
Operating expenses	(625,967)	(1,364,801)	(247,203)	(142,792)	(61,903)	(13,875)	(23,610)	(16,335)	2,873	(49,916)	-	(2,543,529)
Non-operating income/(losses)	(8,372)	1,704	181	336	78	15	100	40	3	60	-	(5,855)
Total profit/(loss) before tax	(418,393)	149,054	184,458	41,807	27,625	73,545	42,421	1,272	20,611	33,507	-	155,907
Loans and advances, net	-	25,641,843	5,607,215	3,161,304	2,063,676	853,004	898,730	447,699	644,738	2,126,794	-	41,445,003
Total assets	76,345,907	54,760,850	12,294,299	9,829,423	2,703,099	2,421,409	1,923,209	703,215	1,706,295	3,109,393	(31,328,706)	134,468,393
Due to customers	(4,234,984)	(31,908,669)	(10,092,844)	(8,677,245)	(2,153,396)	(1,871,721)	(1,299,619)	(621,437)	(1,557,093)	(1,983,537)	-	(64,400,545)
Total liabilities	(72,336,147)	(51,349,574)	(10,856,269)	(8,803,949)	(2,234,249)	(1,910,284)	(1,451,555)	(883,376)	(1,559,000)	(2,436,296)	31,328,706	(122,491,993)
Credit impairment losses	34,389	821,857	(3,792)	(13,400)	(3,776)	(333)	3,133	1,343	(8,320)	(4,785)	-	826,316
Depreciation and amortization	14,725	88,026	39,338	11,957	5,189	745	1,443	1,309	983	6,673	-	170,388
Capital expenditure	24,556	-	792	3,480	401	31	79	18	13	293	-	29,663

(All amounts expressed in RMB unless otherwise stated)

47 SEGMENT INFORMATION (continued)

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	425,138	390,860	72,798	28,932	5,958	19,638	27,940	6,317	(12)	19,143	-	996,712
Operating expenses	(561,295)	(681,063)	(297,050)	(168,319)	(47,209)	(15,286)	(7,081)	(17,554)	1,490	(53,309)	-	(1,846,676)
Non-operating income/(losses)	(1,183)	(2,829)	91	855	(9)	-	41	-	-	48	-	(2,986)
Total profit/(loss) before tax	386,931	228,381	55,274	3,498	25,061	68,857	58,099	(4,776)	11,640	52,384	-	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	97,869	40,153	12,217	4,323	115	3	1,410	1,051	7,431	-	176,466
Capital expenditure	10,245	11,435	156	36	89	53	36	53	-	108	-	22,211

47 SEGMENT INFORMATION (continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2020 and 2019. As at 31 December 2020 and 2019, all non-current assets of the Bank are located in mainland China.

48 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 Group executives as determined by the 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 DBS Group's Compensation & Management Development Committee's discretion, 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 incentive 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. The fair value of the shares granted include an adjustment to exclude the present value of future expected dividends to be paid during the vesting period.
- Vested and unvested shares are subject to clawback/ malus. Conditions that trigger such clawback/ malus are in the Remuneration Report section of the Group Annual Report.

DBSH Employee Share Plan (ESP)

- The DBS Group's Compensation & Management Development Committee has ceased granting shares under the ESP effective from financial year 2019 remuneration. Shares granted from prior years continue to be outstanding until the shares are fully vested.

(All amounts expressed in RMB unless otherwise stated)

48 SHARE-BASED COMPENSATION PLANS (continued)

DBSH Employee Share Purchase Plan (ESPP)

- The ESPP was implemented in 2019 in 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 share ownership plan for eligible employees to 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 Bank 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 Bank'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.

	2020			2019		
Number of shares	Share Plan	ESP	ESPP	Share Plan	ESP	ESPP
Balance at 1 January	500,479	88,876	12,422	551,786	158,404	-
Granted	238,799	-	22,155	251,066	-	12,762
Transfer	(15,479)	(20)	(284)	(85,127)	1,418	(26)
Vested	(169,359)	(47,395)	(169)	(199,561)	(56,862)	-
Forfeited	(12,505)	(1,604)	(1,285)	(17,685)	(14,084)	(314)
Balance at 31 December	541,935	39,857	32,839	500,479	88,876	12,422
Weighted average fair value of the shares granted during the year	SGD 21.34	SGD -	SGD 21.34	SGD 21.42	SGD -	SGD 21.42

The Bank's share-based payments are equity-settled.

(All amounts expressed in RMB unless otherwise stated)

49 SIGNIFICANT 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 2019	Change	31 December 2020
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 2019		Change		31 December 2020	
	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 not 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

(2) Related Person

The term key management refers to people who have the power and responsibility to directly or indirectly plan, direct or control the business of the Bank, 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.

(All amounts expressed in RMB unless otherwise stated)

49 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(2) Significant related party transactions

	2020	2019
Interest income	36,829,237	119,836,248
Interest expense	(147,279,435)	(457,644,117)
Net gains from foreign exchange and derivative transactions	709,336,970	30,591,859
Fair value gains	410,738,263	903,160,490
Fee and commission income	8,776,211	10,847,561
Service charge income	9,598,135	10,551,491
Service charge expense	(94,752,399)	(101,781,660)

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

(3) Balances with related parties

	31 December 2020	31 December 2019
Due from other financial institution	166,700,046	198,591,832
Placements with financial institutions	511,768,287	4,872,751,894
Financial assets purchased under resale agreements	4,905,430,088	-
Other assets (Note 20)	24,886,327	39,773,957
Deposits from other financial institution	2,159,112,524	1,325,950,853
Borrowing from other financial institution	13,238,076,376	11,048,106,828
Due to customers	40,130,111	5,231,445
Bonds issued	-	960,000,000
Other liabilities (Note 29)	70,780,477	67,843,285

(All amounts expressed in RMB unless otherwise stated)

49 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(4) Derivative instruments

	31 December 2020	
	Notional amount	**Fair value**
Derivative instruments	108,968,792,931	(398,387,636)

	31 December 2019	
	Notional amount	**Fair value**
Derivative instruments	109,433,059,348	(742,679,488)

(5) Loan commitments and financial guarantees

	31 December 2020	**31 December 2019**
Standby letter of credit	3,531,092,897	3,858,723,936
Letters of guarantee issued	26,634,513	15,445,834
Letters of credit issued	114,798,017	108,479,384

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits comprised of:

	2020	**2019**
Salary and welfare	79,239,534	93,017,442
Share incentive plan	11,204,065	12,431,046
Total	90,443,599	105,448,488

50 RISK MANAGEMENT

50.1 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.

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.

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

50 RISK MANAGEMENT (continued)

50.1 Risk governance (continued)

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.

50.2 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 dimensions of credit risk and the scope of its application are defined in the Group Credit Risk Management Policy (China Customized). Senior management sets the overall direction and policy for managing credit risk at the enterprise level.

The Bank localized Group Core Credit Risk Policy (CCRP) for Consumer Banking/Wealth Management and Institutional Banking set forth the principles by which the Bank conducts its credit risk management and control activities. These policies, supplemented by a number of operational standards and guidelines, ensure 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.

B Risk Methodologies

Credit risk is managed by thoroughly understanding the Bank's corporate customers – the businesses they are in, as well as the economies in which they operate. It is also managed through statistical models and data analytics for retail customers.

The assignment of credit risk ratings and setting of lending limits are integral parts of the Bank's credit risk management process, and it uses an array of rating models for its corporate and retail portfolios.

Wholesale borrowers are assessed individually using both judgmental credit risk models and statistical credit risk models. They are further reviewed and evaluated by experienced credit risk managers who consider relevant credit risk factors in the final determination of the borrower's risk. Retail exposures are assessed using credit score models, credit bureau records, as well as internally and externally available customer behaviour records supplemented by the Bank's Risk Acceptance Criteria (RAC). Credit applications are proposed by the business unit, and applications outside the RAC are independently assessed by the credit risk managers.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

B Risk Methodologies (continued)

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 following CBIRC 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.

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, and is included within the Bank's overall credit limits to counterparties for internal risk management.

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.

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

(i) Concentration Risk Management

The Bank's risk management processes, which are aligned with its Risk Appetite, ensure that an acceptable level of risk diversification is maintained across the Bank.

Thresholds are set on major industries and regions. Governance processes are in place to ensure that the Bank's exposures are regularly monitored with these thresholds in mind, and appropriate actions are taken when the thresholds are breached.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

B Risk Methodologies (continued)

(ii) 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 localised 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, 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.

C Country Risk

Country risk refers to the risk of loss due to events in a specific country (or a group of countries). This includes political, exchange rate, economic, sovereign and transfer risks.

The Bank manages country risk through the requirements of relevant internal policies and CBIRC <Country Risk Management Guideline>. The way the Bank manages transfer risk is set out in Group Country Risk Management Standard and its China Addendum. This includes an internal transfer risk and sovereign risk rating system, where assessments are made independently of business decisions.

Transfer risk limits for priority countries are set based on country-specific strategic business considerations as well as the acceptable potential loss according to the Bank’s Risk Appetite. Management actively evaluates and determines the appropriate level of transfer risk exposures for these countries taking into account the risks and rewards and whether they are in line with the Bank’s strategic intent. Limits for all other non-priority countries are set using a model-based approach. All transfer risk limits are approved by the China BRMC.

D Credit stress testing

The Bank engages in various types of credit stress testing, and these are driven either by regulators or internal requirements and management.

The Bank’s credit stress tests are performed at total portfolio or sub-portfolio level, and are generally performed to assess the impact of changing economic conditions on asset quality, earnings performance, capital adequacy and liquidity. The Bank’s stress testing programme is comprehensive, and covers all major functions and areas of business.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

D Credit stress testing (continued)

The Bank typically performs the following types of credit stress testing at a minimum and others as necessary:

Pillar 1 credit stress testing	The Bank conducts Pillar I credit risk stress testing during annual internal capital adequacy assessment process (ICAAP) exercise as required by CBIRC, whereby regulatory RWAs under three Stress scenarios are projected using Standardized Approach based on EADs derived from static balance sheet as of 30 Jun 2020. The purpose of the Pillar I credit risk stress testing is to assess the credit risk regulatory capital demand which is part of overall regulatory capital position adequacy assessment.
Pillar 2 credit stress testing	The Bank conducts Pillar 2 credit stress testing once a year as part of ICAAP. Under Pillar 2 credit stress testing, the Bank assesses the impact of stress scenarios, with different levels of severity, on asset quality, earnings performance, as well as internal and regulatory capital. The results of the credit stress tests form inputs to the capital planning process under ICAAP. The purpose of the Pillar 2 credit stress testing is to examine, in a rigorous and forward-looking manner, the possible events or changes in market conditions that could adversely impact the Group and to develop the appropriate action plan.
Sensitivity and scenario analyses	The Bank also conducts multiple independent sensitivity analyses and credit portfolio reviews based on various scenarios. The intent of these analyses and reviews is to identify vulnerabilities for the purpose of developing and executing mitigating actions.

E Process, System and Reports

The Bank constantly invests 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.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

E Process, System and Reports (continued)

Independent risk management functions that report to the CRO are jointly responsible for developing and maintaining a robust credit stress testing programme. These units oversee the implementation of credit stress tests as well as the analysis of the results, of which management, various risk committees and regulators are informed.

F 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 constitute the bulk of its collateral, while marketable securities and cash are immaterial.

For derivatives, repurchase agreements (repo) and other repo-style transactions with financial market counterparties, collateral arrangements are typically covered under market-standard documentation, such as International Swaps & Derivatives Association (ISDA) Agreements / National Association 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.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

F 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.

G 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.

H Credit risk losses

<u>Expected Credit Loss (ECL)</u>

ECL are recognised for all financial assets held at amortised cost, debt instruments measured at FVOCI, guarantees and undrawn credit commitments. It represents the present value of expected cash shortfalls over the residual term of a financial asset, guarantee or undrawn commitment.

At initial recognition, allowance is required for ECL resulting from possible default events that may occur within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from possible default events over the expected life of the instrument ('lifetime ECL').

The ECL recognised follows the three-stage model: financial instruments where 12-month ECL is recognised are considered Stage 1; financial instruments which experience a significant increase in credit risk are in Stage 2; and financial instruments with objective evidence of default or credit-impaired are in Stage 3.

Stage 1: Financial instruments are classified as Stage 1 at initial recognition and will remain under Stage 1 unless they experience a significant increase in credit risk or become credit-impaired. 12-month ECL is recognised for these instruments.

Stage 2: Financial instruments which experience a significant increase in credit risk (SICR) subsequent to initial recognition, but are not yet credit-impaired, will migrate from Stage 1 to Stage 2. Lifetime ECL is recognised for these instruments.

Significant increase in credit risk (SICR): 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 profitability of default (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.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

H 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.

Instruments in Stage 2 that no longer exhibit a significant increase in credit risk will be transferred back to Stage 1.

Stage 3 – Financial instruments that become credit-impaired with evidence of default, i.e. non-performing assets, are transferred to Stage 3.

Lifetime ECL is recognised for these assets. ECL for Stage 3 assets are also known as specific allowances.

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.

<u>Measurement of ECL</u>

ECL are unbiased and probability-weighted estimates of credit losses determined by evaluating a range of possible outcomes, considering past events, current conditions and assessments of future economic conditions at the reporting date. 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	Point-in-time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) estimate of the likelihood of default.
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 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

H Credit risk losses (continued)

In most instances, expected remaining maturity 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. However, for some revolving products, the expected remaining maturity may exceed the contractual maturity. In such instances, behavioural expected remaining life will be used.

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

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.

For the wholesale portfolios, credit cycle indices (CCIs) have been developed for the key industries and geographies. CCIs are summary measures that depict broad-based, section-wide changes in credit risk, which are constructed by comparing the median expected default frequency of firms within each segment against a long-run average. Expected default frequency is in turn a market-based point-in-time default risk measure driven by the market value of firms' assets, asset volatility and leverage. CCIs are then used as inputs to convert the generally more through-the-cycle PDs derived from Basel models / parameters into the point-in-time equivalents by adding the unaccounted portion of cyclical variations, as well as to incorporate forward-looking information. LGDs are determined using historical loss data, which are adjusted for both the latest and forecasted recovery experience.

The Bank relies on a Monte Carlo approach to consider over 100 probability-weighted forward-looking scenarios in estimating ECL. This involves simulations of many alternative CCI scenarios to arrive at an unbiased ECL estimate that are meant to cover all possible good and bad scenarios based on known estimates.

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.

Expert credit judgement and post model adjustments

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;
- selecting and calibrating the ECL models such as CCIs;
- determining the expected remaining maturity of revolving products;
- determination of the forecast loss rates;
- application of thematic overlays based on emerging risk themes. As at 31 December 2020, thematic ECL overlays were applied to account for uncertainties arising from the ongoing Covid-19 pandemic, the continuing 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).

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

H 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 2.1% of the gross amount of loans and advances and 183% of non-performing loans as at 31 December 2020.

Sensitivity of ECL calculation to macroeconomic variables

The Bank assessed ECL sensitivity for the wholesale and retail portfolios to changes in the allocation of exposures between Stages 1 and 2. The impact reflects the higher PDs ascribed to Stage 2 exposures in addition to the recognition of lifetime instead of 12-month ECL.

As ECL estimation relies on multiple variables, no single analysis can fully demonstrate the sensitivity of the ECL to changes in macroeconomic variables.

Impact of Covid-19

In response to the impact of Covid-19, various forms of relief measures, such as payment deferments, had been offered to eligible retail and corporate customers. Payment deferments were considered to be non-substantial modifications and accounted for as a continuation of the existing loan agreements. No material modification gains or losses were recognised.

In line with regulatory guidelines, customers' utilisation of relief measures does not automatically result in significant increase in credit risk and a transfer to Stage 2. The assessment of customer's risk of default continues to be performed comprehensively, taking into account the customer's ability to make payments based on the rescheduled payments and their creditworthiness in the long term.

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account

(i) Financial instruments included in impairment assessment

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. As at 31 December 2020, the risks of all financial instruments included in the impairment assessment of the Bank are classified as follows:

	31 December 2020							
	Book Value (Excluded interest receivable)				ECL			
	stage 1	stage 2	stage 3	Total	stage 1	stage 2	stage 3	Total
On-balance sheet item								
Deposits with the central bank	10,593,154,633	-	-	10,593,154,633	(2,090,446)	-	-	(2,090,446)
Deposits with other banks	3,513,335,983	-	-	3,513,335,983	(224,119)	-	-	(224,119)
Placements with financial institutions	26,281,658,645	135,000,000	-	26,416,658,645	(12,883,372)	(26,315,832)	-	(39,199,204)
Loans and advances	39,960,504,981	1,650,353,537	483,313,853	42,094,172,371	(491,470,074)	(341,799,398)	(52,377,516)	(885,646,988)
Other debt instruments	11,745,477,183	-	-	11,745,477,183	(3,293,421)	-	-	(3,293,421)
Debt instruments	5,651,282,774	-	-	5,651,282,774	(1,223,152)	-	-	(1,223,152)
Financial assets purchased under resale agreements	5,595,857,245	-	-	5,595,857,245	(410,368)	-	-	(410,368)
Other assets	-	-	20,481,616	20,481,616	-	-	(20,478,908)	(20,478,908)
Total	103,341,271,444	1,785,353,537	503,795,469	105,630,420,450	(511,594,952)	(368,115,230)	(72,856,424)	(952,566,606)
Loan commitments and financial guarantees	12,614,906,428	424,852,103	200,000,000	13,239,758,531	(17,777,404)	(2,400,133)	(100,000,000)	(120,177,537)

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account (continued)

(i) Financial instruments included in impairment assessment (continued)

	31 December 2019							
	Book Value (Excluded interest receivable)				ECL			
	stage 1	stage 2	stage 3	Total	stage 1	stage 2	stage 3	Total
On-balance sheet item								
Deposits with the central bank	11,178,536,654	-	-	11,178,536,654	(1,587,864)	-	-	(1,587,864)
Deposits with other banks	4,269,425,605	-	-	4,269,425,605	(68,072)	-	-	(68,072)
Placements with financial institutions	29,620,265,720	-	-	29,620,265,720	(17,137,721)	-	-	(17,137,721)
Loans and advances	43,622,945,614	3,617,262,699	318,756,106	47,558,964,419	(278,137,830)	(679,051,531)	(190,772,906)	(1,147,962,267)
Other debt instruments	8,789,665,161	-	-	8,789,665,161	(2,129,810)	-	-	(2,129,810)
Debt instruments	2,718,586,064	-	-	2,718,586,064	(748,396)	-	-	(748,396)
Financial assets purchased under resale agreements	807,150,000	-	-	807,150,000	(434,133)	-	-	(434,133)
Others	-	-	44,995,686	44,995,686	-	-	(31,476,780)	(31,476,780)
Total	101,006,574,818	3,617,262,699	363,751,792	104,987,589,309	(300,243,826)	(679,051,531)	(222,249,686)	(1,201,545,043)
Loan commitments and financial guarantees	15,106,988,082	20,455,331	-	15,127,443,413	(13,101,093)	(1,917,888)	-	(15,018,981)

As shown above, 39% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2019: 42%).

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

I The maximum credit risk exposure of collateral and other credit mitigation measures is not taken into account (continued)

(ii) Financial instruments not included in the impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	31 December 2020	31 December 2019
Trading assets	9,685,955,361	6,943,305,682
Derivative assets	15,570,871,048	8,826,063,195
Total	25,256,826,409	15,769,368,877

J Loans and advances

(i) 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 2020

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Corporate loans	331,041,512	24,763,486	306,278,026	54,856,000
Retail loans	152,272,340	27,614,031	124,658,309	597,220,000
Total	483,313,852	52,377,517	430,936,335	652,076,000

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	27,128,458	103,972,731	391,310,000
Total	318,756,106	190,772,906	127,983,200	414,023,000

(ii) 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 2020, the renegotiated loans held by the Bank is zero. As at 31 December 2019, the renegotiated loans held by the Bank is zero.

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.2 Credit risk (continued)

K Investment securities

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

	Trading assets	Other debt instruments	Debt instruments
31 December 2020			
RMB bonds:			
Rated as AAA	2,480,942,878	2,307,502,683	-
Rated as A+	5,741,321,420	8,459,788,762	5,651,282,774
Rated as A and below	21,997,329	-	-
Overseas bonds:			
Rated as A+	-	978,185,738	-
Rated as A	66,951,508	-	-
Rated as BBB+ and below	836,001,249	-	-
Unrated:			
Corporate debt securities	443,368,647	-	-
Add: Interest Receivable	95,372,330	217,539,112	50,480,205
Less: ECL allowance	-	-	(1,223,152)
Total	9,685,955,361	11,963,016,295	5,700,539,827

	Trading assets	Other debt instruments	Debt instruments
31 December 2019			
RMB bonds:			
Rated as AAA	3,406,410,748	799,429,549	121,930,000
Rated as AA+	20,012,782	-	-
Rated as A+	3,017,149,395	7,990,235,612	2,596,656,064
Overseas bonds:			
Unrated:			
Corporate debt securities	407,537,834	-	-
Add: Interest Receivable	92,194,923	191,337,455	21,085,178
Less: ECL allowance	-	-	(748,396)
Total	6,943,305,682	8,981,002,616	2,738,922,846

50 RISK MANAGEMENT (continued)

50.3 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:

<u>Policies</u>

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.

<u>Risk Methodologies</u>

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.

50 RISK MANAGEMENT (continued)

50.3 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. 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.

50 RISK MANAGEMENT (continued)

50.3 Market risk (continued)

B Market Risk in 2020

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 2020	2020 Average	2020 Highest	2020 Lowest
Total	10.21	10.69	20.22	6.52

RMB in million	As at 31 December 2019	2019 Average	2019 Highest	2019 Lowest
Total	11.93	14.57	28.41	7.32

The key market risk factors driving Treasury's trading portfolios in 2020 were RMB interest rate, USD/RMB foreign exchange, credit spread and USD/RMB FX Option.

The estimated MtM PL for RMB interest rate position as at 31 December 2020, assuming general interest rate and IR volatility increase by 100 basis points and 3% respectively, was a decrease of RMB 71 million.

The estimated MtM PL for foreign exchange position as of 31 December 2020, assuming USD appreciation by 3% (relative change) and USD FX volatility increase by 3% (absolute change) was an increase of RMB 83 million.

Banking Portfolio

In 2020, 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 earning. Based on a 100bps parallel upward or downward shift in yield curves on the Bank's exposure as of 31 Dec 2020, NII is estimated to increase by RMB 253 million and decrease by RMB 254 million respectively.

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

50 RISK MANAGEMENT (continued)

50.4 Liquidity risk

The Bank's liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity and 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:

Policies

The Liquidity Risk Management Policy sets out the Bank's overall approach towards liquidity risk management and describes the range of strategies employs to manage its liquidity. These strategies include maintaining an adequate counterbalancing capacity to address potential cashflow shortfalls and having diversified sources of liquidity.

The Bank's 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.

Risk Methodologies

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

50 RISK MANAGEMENT (continued)

50.4 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 2020

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 2020					
Net liquidity mismatch	30,280	30	3,075	4,587	(4,294)
Cumulative mismatch	30,280	30,310	33,386	37,972	33,678
As at 31 Dec 2019[(b)]					
Net liquidity mismatch	28,150	3,558	(1,573)	637	(4,658)
Cumulative mismatch	28,150	31,708	30,135	30,772	26,114

[(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.

In 2020, the Bank's statutory liquidity ratios, e.g. LCR, NSFR, etc, were maintained well above the minimum regulatory requirement.

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities

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

	Overdue	No specific maturity	On Demand	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2020									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	11,391,305,187	1,034,814,242	-	1,405,502,811	1,150,054,847	-	14,981,677,087
Borrowing from other banks	-	-	-	4,807,908,057	5,256,210,572	7,959,895,503	-	-	18,024,014,132
Due to customers	-	-	19,680,373,376	32,305,445,694	4,001,975,941	6,912,484,250	1,325,779,396	217,742,135	64,443,800,792
Bonds issued	-	-	-	-	390,000,000	3,136,500,000	-	-	3,526,500,000
Derivative liabilities	-	16,000,963,644	-	-	-	-	-	-	16,000,963,644
Financial assets sold under repurchase agreements	-	-	-	4,322,404,995	-	-	-	-	4,322,404,995
Others	-	-	-	274,663,710	-	-	-	-	274,663,710
Total financial liabilities	-	16,000,963,644	31,071,678,563	42,745,236,698	9,648,186,513	19,414,382,564	2,475,834,243	217,742,135	121,574,024,360
Financial Assets									
Cash and deposits with the central bank	-	6,645,405,753	3,985,279,570	-	-	-	-	-	10,630,685,323
Deposits with other banks	-	-	1,422,685,983	90,650,000	-	2,031,359,611	-	-	3,544,695,594
Placements with financial institutions	-	-	-	5,563,706,010	1,814,166,993	17,683,878,704	2,044,887,740	-	27,106,639,447
Trading assets	-	-	-	126,373,940	785,602,477	3,088,881,389	5,897,832,805	478,685,720	10,377,376,331
Loans and advances	586,600,957	-	-	2,825,838,138	8,215,521,295	13,122,001,714	17,540,819,238	4,562,437,858	46,853,219,200
Other debt instruments	-	-	-	1,317,120,000	66,557,500	3,719,910,400	7,370,273,000	104,012,000	12,577,872,900
Debt instruments	-	-	-	-	16,281,000	149,942,000	1,130,608,000	5,465,834,000	6,762,665,000
Derivative assets	-	15,570,871,048	-	-	-	-	-	-	15,570,871,048
Financial assets purchased under resale		-	-	4,943,188,983	653,042,824	-	-	-	5,596,231,807
Others	20,481,616	-	-	2,338,654,010	-	202,383,801	2,708	-	2,561,522,135
Total financial assets	607,082,573	22,216,276,801	5,407,965,553	17,205,531,081	11,551,172,089	39,998,357,619	33,984,423,491	10,610,969,578	141,822,397,485
Net cash flows	607,082,573	6,215,313,157	(25,663,713,010)	(25,539,705,617)	1,902,985,576	20,583,975,055	31,508,589,248	10,393,227,443	20,248,373,125

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	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	-	-	6,764,346,823	84,320,582	-	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	-	-	16,442,884,995	23,191,550,681	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
Derivative liabilities	-	8,927,182,171	-	-	-	-	-	-	8,927,182,171
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	-	8,927,182,171	23,207,231,818	39,137,575,970	9,975,931,784	20,365,872,478	8,832,383,482	421,228,715	110,867,406,418
Financial Assets									
Cash and deposits with the central bank	-	6,186,715,655	5,028,725,767	-	-	-	-	-	11,215,441,422
Deposits with other banks	-	-	2,916,995,240	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	956,938,762	-	-	3,585,456,713	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	2,632,883,822	3,280,663,504
Derivative assets	-	8,826,063,195	-	-	-	-	-	-	8,826,063,195
Financial assets purchased under resale	-	-	-	299,413,563	511,782,304	-	-	-	811,195,867
Others	292,552,162	-	-	1,231,828,491	-	397,731,394	13,518,906	-	1,643,078,791
Total financial assets	1,249,490,924	15,012,778,850	7,945,721,007	18,801,017,365	14,836,830,593	34,263,880,283	33,858,411,493	10,132,709,235	132,891,292,348
Net cash flows	1,249,490,924	6,085,596,679	(15,261,510,811)	(20,336,558,605)	4,860,898,809	13,898,007,805	25,026,028,011	9,711,480,520	22,023,885,930

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.5 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.

(a) Assets and liabilities continuously measured at fair value

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
-Trading assets	-	9,663,958,032	21,997,329	9,685,955,361
- Derivatives assets	-	15,570,871,048	-	15,570,871,048
Other debt instruments	-	11,963,016,295	-	11,963,016,295
Total Assets	-	37,197,845,375	21,997,329	37,219,842,704
Financial liabilities at fair value through profit or loss				
- Derivative liabilities	-	(16,000,963,644)	-	(16,000,963,644)
- Financial assets sold under repurchase agreements	-	(3,820,308,074)	-	(3,820,308,074)
Total Liabilities		(19,821,271,718)	-	(19,821,271,718)

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value (continued)

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)

(b) Movement of level 3 instruments

	Derivatives assets	Trading assets	Derivative liabilities	Total
31 December 2019	-	20,012,782	-	20,012,782
Fair value gain	-	1,984,547	-	1,984,547
31 December 2020	-	21,997,329	-	21,997,329

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

As at 31 December 2020, 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.

50 RISK MANAGEMENT (continued)

50.5 Fair value hierarchy (continued)

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

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

Cash and due from other banks and financial institutions, Deposits with the central bank, Deposits 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. As interest rates for loans denominated in foreign currencies are generally floating rates, fair value of loans is close to carrying value.

Customer deposits

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

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

(All amounts expressed in RMB unless otherwise stated)

50 RISK MANAGEMENT (continued)

50.6 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 2020	**31 December 2019**
Core Tier 1 capital adequacy ratio	12.9%	12.4%
Tier 1 capital adequacy ratio	12.9%	12.4%
Total capital adequacy ratio	13.3%	15.4%
Core Tier 1 capital	11,976,400,816	11,848,341,113
Regulatory Deductions for Core Tier 1 capital	-	-
Net core Tier 1 capital	11,976,400,816	11,848,341,113
Other Tier 1 capital	-	-
Net Tier 1 capital	11,976,400,816	11,848,341,113
Tier 2 capital	402,960,300	2,829,206,300
Total regulatory capital	12,379,361,116	14,677,547,413
Total risk-weighted assets	81,180,208,100	95,409,466,200