DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2023

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

DBS BANK (CHINA) LIMITED

2023 FINANCIAL STATEMENTS AND AUDIT REPORT

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[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2024) No. 21632

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 2023;
- 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 2023 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 intends to liquidate DBS Bank or to cease operations or has 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.

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

- 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.

- 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	Vivian Ma
Shanghai, the People's Republic of China 6 Feburary 2024	Signing CPA	Lillian Zhang

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2023
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2023	31 December 2022
Cash and deposits with central bank	8	16,455,976,566	14,499,448,254
Deposits with other banks	9	2,788,557,577	2,137,934,473
Placements with financial institutions	10	35,387,813,418	37,379,917,251
Derivative assets	11	10,295,815,725	8,928,667,143
Loans and advances to customers	12	53,194,546,442	51,091,216,239
Financial investments:			
- Trading assets	13	12,475,988,245	13,263,837,084
- Debt instruments	14	10,050,897,776	10,111,596,701
- Other debt instruments	15	13,765,839,795	14,925,396,056
Fixed assets	16	129,238,473	69,550,102
Intangible assets	17	66,587,360	33,882,842
Deferred income tax assets	18	680,732,624	636,540,763
Other assets	19	5,192,767,084	1,579,821,409
TOTAL ASSETS		160,484,761,085	154,657,808,317
LIABILITIES			
Deposits from other banks and financial institutions	20	19,994,864,906	19,650,686,018
Borrowing from other banks	21	13,031,507,808	11,768,368,261
Derivative liabilities	11	10,359,206,531	8,930,509,780
Financial assets sold under repurchase agreements	22	6,679,242,061	6,437,810,723
Due to customers	23	83,086,340,996	79,623,398,113
Trading liabilities	24	-	43,444,495
Payroll and welfare payable	25	278,950,567	258,740,877
Taxes payable	26	127,683,703	95,388,351
Provision	27	8,656,667	11,014,719
Debt securities issued	28	10,935,350,571	13,129,171,535
Other liabilities	29	2,007,056,352	1,311,650,616
TOTAL LIABILITIES		146,508,860,162	141,260,183,488
OWNER’S EQUITY			
Paid-in capital	30	8,000,000,000	8,000,000,000
Capital surplus	31	33,454,727	33,454,727
Other comprehensive income	32	12,133,323	(9,451,787)
Surplus reserve	33	622,073,193	566,404,095
General risk reserve	34	1,773,300,000	1,627,100,000
Undistributed profits	35	3,534,939,680	3,180,117,794
TOTAL OWNER’S EQUITY		13,975,900,923	13,397,624,829
TOTAL LIABILITIES AND OWNER’S EQUITY		160,484,761,085	154,657,808,317

The financial statements were authorized for issue by Board of Directors.

CEO: Ginger Cheng   CFO: Sandra Ye   DBS BANK (CHINA) LIMITED

Date: 6 Feburary 2024

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

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Notes	2023	2022
Interest income	36	4,408,915,694	3,869,048,074
Interest expense	36	(2,580,228,416)	(2,047,608,664)
Net interest income		1,828,687,278	1,821,439,410
Fee and commission income	37	286,729,393	257,370,277
Fee and commission expense	37	(85,754,381)	(63,786,668)
Net fee and commission income		200,975,012	193,583,609
Investment income	38	540,230,673	393,765,861
Fair value (losses)/gains	39	(22,866,338)	120,648,078
Exchange gains	40	469,159,042	499,931,476
Other business income	41	35,377,334	25,492,509
Losses on disposal of assets		(74,941)	-
Other income	42	9,895,101	4,217,488
Operating income		3,061,383,161	3,059,078,431
Tax and levies		(24,129,068)	(22,886,136)
General and administrative expenses	43	(2,159,843,664)	(1,959,036,821)
Credit impairment losses	44	(189,155,941)	(193,271,845)
Other business expense	41	(25,401,825)	(14,573,772)
Operating expense		(2,398,530,498)	(2,189,768,574)
Operating profit		662,852,663	869,309,857
Non-operating income		295,847	4,039,841
Non-operating expense		(6,094,070)	(3,268,019)
Total profit		657,054,440	870,081,679
Corporate income tax	45	(100,363,456)	(173,275,486)
Net profit		556,690,984	696,806,193
Other comprehensive income, net of tax	32	21,585,110	(61,547,754)
Other comprehensive income which will be reclassified to income statement subsequently			
- Gains or losses arising from changes in fair value of other debt instruments		23,568,183	(61,670,121)
- Credit impairment losses movement of other debt instruments		(120,018)	(175,027)
- Cash flow hedge reserve		(1,863,055)	297,394
Total comprehensive income		578,276,094	635,258,439

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2023	2022
1	**Cash flows from operating activities**			
	Net decrease in deposits with central bank and other banks		451,065,793	-
	Net increase in due to customers and deposits from other banks and financial institutions		3,620,664,426	9,297,839,309
	Net increase in financial assets sold under repurchase agreements		241,628,853	665,900,000
	Net increase in borrowing from other banks		1,279,188,239	-
	Net decrease in trading assets		899,703,545	-
	Net increase in trading liabilities		-	43,363,433
	Net decrease in financial assets purchased under resale agreements		-	1,443,610,741
	Interest, fee and commission received		4,024,293,189	3,601,944,541
	Cash received relating to other operating activities		849,662,864	431,749,984
	Sub-total of cash inflow		11,366,206,909	15,484,408,008
	Net increase in deposits with central bank and other banks		-	(190,862,625)
	Net increase in loans and advances to customers		(2,314,667,685)	(2,704,107,644)
	Net decrease in borrowing from other banks		-	(116,886,483)
	Net increase in placements with financial institutions		(173,160,337)	(2,362,278,925)
	Net increase in trading assets		-	(1,782,394,889)
	Net decrease in trading liabilities		(43,363,433)	-
	Interest, fee and commission paid		(2,097,425,451)	(1,742,401,141)
	Cash paid to employees		(1,429,382,951)	(1,268,016,414)
	Payment of taxes		(332,161,022)	(388,081,862)
	Cash paid relating to other operating activities		(3,444,280,094)	(181,659,866)
	Sub-total of cash outflow		(9,834,440,973)	(10,736,689,849)
	Net cash generated from operating activities	46	1,531,765,936	4,747,718,159

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

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

		Notes	2023	2022
2	**Cash flows from investing activities**			
	Cash received from investments		9,813,162,245	4,610,854,411
	Cash received from investment income		699,650,979	566,168,661
	Sub-total of cash inflow		10,512,813,224	5,177,023,072
	Purchase of financial investments		(8,505,670,477)	(11,305,214,580)
	Cash paid for purchase of fixed assets and intangible assets		(135,006,553)	(57,946,804)
	Sub-total of cash outflow		(8,640,677,030)	(11,363,161,384)
	Net cash generated/(used) in investing activities		1,872,136,194	(6,186,138,312)
3	**Cash flows from financing activities**			
	Cash received from debt securities issued		20,430,000,000	28,040,000,000
	Sub-total of cash inflow		20,430,000,000	28,040,000,000
	Cash payments for debt securities issued		(22,700,218,224)	(24,757,317,478)
	Cash payments for bonds interest expenses		(294,521,465)	(333,626,002)
	Cash payments for lease liabilities		(122,030,492)	(136,317,084)
	Sub-total of cash outflow		(23,116,770,181)	(25,227,260,564)
	Net cash flows (used)/generated from financing activities		(2,686,770,181)	2,812,739,436
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		189,613,074	802,022,591
5	**Net increase in cash and cash equivalents**		906,745,023	2,176,341,874
	Add: Cash and cash equivalents at the beginning of year		20,582,049,351	18,405,707,477
6	**Cash and cash equivalents at the end of year**	46	21,488,794,374	20,582,049,351

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

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

(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 2022	8,000,000,000	33,454,727	(9,451,787)	566,404,095	1,627,100,000	3,180,117,794	13,397,624,829
Comprehensive income							
Net profit	-	-	-	-	-	556,690,984	556,690,984
Other comprehensive income	-	-	21,585,110	-	-	-	21,585,110
Total comprehensive income	-	-	21,585,110	-	-	556,690,984	578,276,094
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	146,200,000	(146,200,000)	-
Transfer to surplus reserve	-	-	-	55,669,098	-	(55,669,098)	-
Balance at 31 December 2023	8,000,000,000	33,454,727	12,133,323	622,073,193	1,773,300,000	3,534,939,680	13,975,900,923
Balance at 31 December 2021	8,000,000,000	33,454,727	52,095,967	496,723,476	1,482,900,000	2,697,192,220	12,762,366,390
Comprehensive income							
Net profit	-	-	-	-	-	696,806,193	696,806,193
Other comprehensive income	-	-	(61,547,754)	-	-	-	(61,547,754)
Total comprehensive income	-	-	(61,547,754)	-	-	696,806,193	635,258,439
Profit appropriation							
Transfer to general risk reserve	-	-	-	-	144,200,000	(144,200,000)	-
Transfer to surplus reserve	-	-	-	69,680,619	-	(69,680,619)	-
Balance at 31 December 2022	8,000,000,000	33,454,727	(9,451,787)	566,404,095	1,627,100,000	3,180,117,794	13,397,624,829

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

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”, now renamed as National Financial Regulatory Administration(“NFRA”)) 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 (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.

Currently, the Bank has twelve branches and twenty-three sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin, Nanning, Dongguan, Hangzhou, Chongqing, Qingdao and Xi’an of the PRC.

2 BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2023 are in compliance with the Accounting Standards for Business Enterprises and truly and completely present the financial position as at 31 December 2023 and of the financial performance, cash flows and other information for the year then ended.

4 CRITICAL CHANGES IN ACCOUNTING POLICIES

There is no critical change in accounting policies for the year ended 31 December 2023.

5 PRINCIPAL ACCOUNTING POLICIES

A Accounting period

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

B Functional currency and presentation currency

The Bank's functional currency is Renminbi ("RMB") and these financial statements are presented in RMB. The Bank determines functional currency on the basis of the currency in which major income and costs are denominated and settled.

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. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

D Cash and cash equivalents

Cash and cash equivalents including cash, deposits with central banks that can be used on demond, deposits with other banks and placements with financial institutions, as well as short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. "Short term" generally means maturity within 3 months from the date of purchase.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities

(a) Initial recognition and measurement of financial assets and financial liabilities

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 of financial assets and financial liabilities

(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 substance, the discounted cash flow method and the option pricing model, etc.

(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 but 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 of financial assets and financial liabilities (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. 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).

(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.

The Bank subsequently measures all equity investments at fair value through profit or loss (“FVTPL”). Gains or losses on equity investments at FVTPL are recognised as ‘Fair value gains/losses’ or ‘Investment income’.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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.

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 FVTPL. 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.

(ii) Measurement categories of debt instruments

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

<u>Amortised cost:</u>

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

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(ii) Measurement categories of debt instruments (continued)

Fair value through other comprehensive income (FVOCI):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVTPL, 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 'Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss(FVTPL):

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 'Investment income' 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.

(iii) Impairment

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

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

Regarding these judgements and estimates, please refer to note 51.2(h).

The Bank presents the ECL of loan commitments and financial guarantee contracts in Provision.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(c) Financial assets (continued)

(iv) Derecognition other than on a modification

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

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.

(v) Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(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 trading bonds) 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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities (continued)

(d) Financial liabilities (continued)

(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.

(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 separated embedded derivatives are 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 (cash flow hedges).

5 PRINCIPAL ACCOUNTING POLICIES (continued)

F Derivative instruments and hedge accounting (continued)

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 of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

(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.

(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 Financial assets purchased under resale agreements and sold under repurchase agreements

Financial assets purchased under resale agreements and sold under repurchase agreements are recorded according to the actual payments or receipts when the business occurs and reflected in the balance sheet. The purchased underlying assets under repurchase agreements are not recognized, but are registered off-balance sheet for future reference, and the underlying assets sold under repurchase agreements are still reflected in the balance sheet.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

H Fixed assets

(a) Initial recognition and measurement

Fixed assets comprise office equipment and furniture as well as computers and other electronic equipments. Fixed assets shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. 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	Annual depreciation rate
Office equipments and furnitures	5-10 years	0%	10%-20%
Computers and other electronic equipments	3-5 years	0%	20%-33%

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

(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.

I Intangible assets

Intangible assets include software contracts, which are recognized at cost and amortized equally over their useful life of 3-5 years.

Intangible assets are initially measured at cost. Intangible assets with limited useful lives are amortized on a straight-line basis according to their original values over their expected useful lives since they are available for use.

The useful life and amortization method of the intangible assets with limited useful life shall be reviewed annually and adjusted accordingly.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

J Impairment of non-financial assets

On the balance sheet date, the Bank determines whether the following assets have signs of impairment based on internal and external information, including:

- Fixed assets
- Intangible assets
- Right-of-use assets

The Bank conducts impairment tests on assets with signs of impairment and estimates the recoverable amount of the assets.

The recoverable amount is the higher of the asset's fair value less cost to sell and the asset's present value of future cash flows. When predicting the present value of the future cash flow of an asset, the Bank comprehensively considers the expected future cash flow, useful life and discount rate of the asset. The estimated future cash flow of an asset refers to the estimated future cash flow generated by the asset between its continued operating to final disposal.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss. Provision for impairment is determined on individual basis. If it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of the asset group shall be determined by the asset group to which the asset belongs. The asset group is the smallest portfolio of assets that can independently generate cash inflows.

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

K 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.

<u>As Lessee</u>

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.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

K Lease (continued)

As Lessee (continued)

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.

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 is equivalent to the separate price of the expanded portion of the lease according to the adjusted contract.

For a lease modification that is not accounted for as a separate lease, the Bank redetermines the lease term at the effective date of the lease modification, and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification which decreases the scope of the lease or shortens the lease term, the Bank decreases the carrying amount of the Right-of-use asset, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other lease modifications which lead to the remeasurement of lease liabilities, the Bank correspondingly adjusts the carrying amounts of the Right-of-use assets.

L Provision

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.

M Interest income and expenses

Interest income and expense are calculated 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)

N Fee and commission income/expense

For fees and commission income which performance obligations are at a certain point in time, the Bank recognizes income when the client obtains and consumes the economic benefits generated by the performance of the Bank. For the fee and commission income which the performance of the obligations are provided over a certain period of time, the Bank shall recognize the income according to the performance progress within that period of 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 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.

O 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. For the temporary differences formed by the initial recognition of assets or liabilities generated in non-business merger transactions that neither affect accounting profit nor taxable income (or deductible loss) and do not result in the equivalent amount of taxable temporary difference and deductible temporary difference, the corresponding deferred income tax assets and deferred income tax liabilities are not recognized.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

O Income tax (continued)

(b) Deferred income tax (continued)

The carrying value of the deferred income tax assets on the balance sheet date should be assessed, and derecognised if the estimation of future taxable profits are not sufficient to recover. When future taxable profits are likely to be obtained sufficiently, the amount written down shall be reversed.

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

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

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

The Ministry of Finance released the Circular on Issuing Interpretation No. 16 ("Interpretation No.16") in 2022. Since 1 January 2023, the deferred tax assets and deferred tax liabilities should be respectively recognized and disclosed for the equivalent amount of deductible temporary differences and taxable temporary differences arising from lease liabilities and right of use assets which is not applicable to the initial recognition exemption. During the Bank's accounting periods, the relevant note disclosures have been segmented accordingly.

P 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, employee education costs, and short-term paid absences. The short-term employee benefits actually incurred are recognised as a liability in the accounting period in which the service is rendered by the employees with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are 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. 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 the premiums or contributions on basic pensions and unemployment insurance, both of which are under the defined contribution plans.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

P Employee benefits (continued)

(b) Post-employment benefits (continued)

The Bank's employees participate in the basic pension 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 DBS Group's account.

Q Government grants

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

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

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

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

Government grants related to daily activities are included in operating profit, and government grants not related to daily activities are included in non-operating income and expenditure.

5 PRINCIPAL ACCOUNTING POLICIES (continued)

R Related Parties

The Bank controls, jointly controls, or has the significant influence over another party; or the other party controls, jointly controls, or has the significant influence over the Bank; or the Bank and the other party are both controlled and jointly controlled by one party are deemed to be related parties. Related parties can be individuals or corporations. The related parties of the Bank include but are not limited to:

(a) The parent company of the Bank;
(b) Other enterprises controlled by the same parent company as the Bank;
(c) Key management personnel of the Bank and their close family members;
(d) Key management personnel of the Bank's parent company and their close family members;
(e) Enterprises or individuals that are under the same control or common control of the Bank; and
(f) Other enterprises controlled, jointly controlled or exerted significant influence by key management personnel of the Bank or their close family members.

S 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; (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.

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.

(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 practical extent, valuation 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 51.5.

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

(2) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI as well as loan commitments and financial guarantees 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 51.2(h) specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss.

(3) 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 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”) [(a)]	6%, 9%, 13%	Taxable value added amount

(a) VAT payable is calculated using the taxable sales amount multiplied by the applicable VAT rate less deductible input VAT of the current period.

8 CASH AND DEPOSITS WITH CENTRAL BANK

	31 December 2023	31 December 2022
Cash	34,903,751	33,121,665
Statutory deposit reserve with central bank (a)	4,955,941,027	5,543,113,204
Excess deposit reserve with central bank	11,300,809,049	8,894,754,906
Foreign exchange risk reserve with central bank (b)	163,793,366	27,686,982
Add: Interest receivable	2,910,681	2,622,435
Less: ECL allowance	(2,381,308)	(1,850,938)
Total	16,455,976,566	14,499,448,254

(a) According to the relevant provisions of the People's Bank of China ("PBOC"), the statutory deposit reserve is the deposit reserve paid by the Bank to the PBOC. Such mandatory reserves are not available for use by the Bank in its day-to-day operations. The deposit ratio on the balance sheet date is:

	31 December 2023	31 December 2022
Reserve rate for deposits denominated in RMB	7.0%	7.5%
Reserve rate for deposits denominated in foreign currencies	4%	6%

(b) According to relevant regulations, the Bank shall pay foreign exchange risk reserve to the PBOC for forward foreign exchange business. The reserve ratio on the balance sheet date is:

	31 December 2023	31 December 2022
Foreign exchange risk reserve	20%	20%

9 DEPOSITS WITH OTHER BANKS

	31 December 2023	31 December 2022
Deposits with other banks		
- Domestic	1,067,637,352	403,156,176
- Overseas	1,722,124,112	1,734,877,904
Subtotal	2,789,761,464	2,138,034,080
Less: ECL allowance	(1,203,887)	(99,607)
Total	2,788,557,577	2,137,934,473

(All amounts expressed in RMB unless otherwise stated)

10 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
Placements with banks		
- Domestic	1,468,613,000	607,353,000
- Overseas	6,719,492,110	7,246,659,700
Subtotal	8,188,105,110	7,854,012,700
Placements with non-bank financial institutions		
- Domestic	26,933,925,311	29,247,675,974
Add: Interest receivable	278,956,893	294,556,694
Less: ECL allowance	(13,173,896)	(16,328,117)
Total	35,387,813,418	37,379,917,251

Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2023	16,190,792	137,325	-	16,328,117
Addition/(Reversal), net	(3,016,896)	(137,325)	-	(3,154,221)
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2023	13,173,896	-	-	13,173,896

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	14,643,350	1,389,625	-	16,032,975
Addition/(Reversal), net	1,547,442	(1,252,300)	-	295,142
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2022	16,190,792	137,325	-	16,328,117

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

11.1 DERIVATIVE INSTRUMENTS

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

31 December 2023

		Fair value	
	Contract /notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	34,210,181,763	142,909,581	(128,460,661)
Foreign exchange swap	389,476,203,959	2,289,428,896	(2,658,784,815)
Foreign exchange option	81,762,469,912	422,210,101	(451,390,551)
Cross-currency swap	28,456,215,172	801,905,001	(438,003,197)
Subtotal	533,905,070,806	3,656,453,579	(3,676,639,224)
Interest rate derivatives			
Interest rate swap	1,229,156,334,768	2,555,562,664	(2,605,183,803)
Interest rate cap and floor	1,697,079,054	962,742	(679)
Subtotal	1,230,853,413,822	2,556,525,406	(2,605,184,482)
Other derivatives			
Equity derivatives	16,557,246,058	3,876,449,945	(3,877,006,873)
Commodity derivatives	5,316,988,625	113,022,925	(110,732,454)
Credit derivatives	10,526,457,989	93,363,870	(89,643,498)
Subtotal	32,400,692,672	4,082,836,740	(4,077,382,825)
Total	1,797,159,177,300	10,295,815,725	(10,359,206,531)

31 December 2022

		Fair value	
	Contract /notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forward	14,969,282,638	152,592,573	(154,590,737)
Foreign exchange swap	151,899,970,075	1,992,372,857	(2,119,509,875)
Foreign exchange option	59,040,577,716	331,741,042	(313,393,859)
Cross-currency swap	23,497,461,213	530,854,511	(530,191,882)
Subtotal	249,407,291,642	3,007,560,983	(3,117,686,353)
Interest rate derivatives			
Interest rate swap	959,899,576,466	1,792,686,107	(1,755,616,823)
Interest rate cap and floor	1,022,273,095	495,180	(13,043)
Subtotal	960,921,849,561	1,793,181,287	(1,755,629,866)
Other derivatives			
Equity derivatives	16,331,733,965	3,895,090,612	(3,895,042,843)
Commodity derivatives	9,798,791,176	88,081,545	(88,081,545)
Credit derivatives	9,320,477,924	144,752,716	(74,069,173)
Subtotal	35,451,003,065	4,127,924,873	(4,057,193,561)
Total	1,245,780,144,268	8,928,667,143	(8,930,509,780)

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.2 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 borrowing 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.

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

The Bank uses interest rate swaps to hedge against changes in the fair value of loans and advances to customers.

As at 31 December 2023, the Bank holds no existing fair value hedge(31 December 2022: nil).

Net gains / (losses) from fair value hedges are as follows:

	2023	2022
- Hedging instruments	-	2,970,313
- Hedged items	-	(2,762,972)
Net gains from fair value hedges	-	207,341

(All amounts expressed in RMB unless otherwise stated)

11 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING (continued)

11.2 HEDGE ACCOUNTING (continued)

(b) Cash flow hedge

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

As of 31 December 2023, effective portion of gains or losses on hedging instruments in cash flow hedges, which was included in other comprehensive income, was RMB 3.04 million (31 December 2022: RMB 1.17 million). Net profit or losses of ineffectiveness in cash flow hedge is immaterial, and there were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2023, as a result of the highly probable cash flows no longer being expected to occur.

12 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2023	31 December 2022
At amortized cost		
Retail loans		
- Mortgage	2,185,496,772	3,011,371,770
- Consumer finance	3,612,412,506	1,632,152,819
- Others	159,060,428	224,213,907
Subtotal	5,956,969,706	4,867,738,496
Corporate Loans		
- Loans	34,329,054,671	34,065,515,295
- Trade finance	13,516,529,300	12,545,054,452
- Discounted bills and others	54,967,239	265,127,413
Subtotal	47,900,551,210	46,875,697,160
Add: Interest receivable	287,815,621	306,209,543
Total loans and advances measured at amortized cost	54,145,336,537	52,049,645,199
Less: ECL allowance	(999,098,020)	(958,428,960)
Net loans and advances measured at amortized cost	53,146,238,517	51,091,216,239
At FVTPL		
Corporate Loans		
- Gold leasing	48,307,925	-
Total loans and advances measured at FVTPL	48,307,925	-
Total	53,194,546,442	51,091,216,239

(All amounts expressed in RMB unless otherwise stated)

12 LOANS AND ADVANCES TO CUSTOMERS (continued)

(1) By industry

	31 December 2023		31 December 2022	
	Balance	**%**	**Balance**	**%**
Finance	15,471,078,635	28%	13,042,054,577	25%
Wholesale and retail business	8,744,414,177	16%	8,043,122,583	16%
Real estate	6,383,265,633	12%	7,709,119,455	15%
Manufacturing	5,955,495,674	11%	7,797,925,859	15%
Rental warehouse	3,238,003,807	6%	2,676,310,976	5%
Information transmission, software and IT services	2,614,908,019	5%	3,079,155,869	6%
Leasing and commercial services	1,958,302,781	4%	2,256,450,807	4%
Transportation, storage and postal	1,128,861,787	2%	1,097,106,570	2%
Agriculture,hunting,forestry and fishing	738,401,559	1%	605,625,896	1%
Retail loans	5,956,969,706	11%	4,867,738,496	9%
Others	1,716,127,063	3%	568,824,568	1%
Add: Interest receivable	287,815,621	1%	306,209,543	1%
Total	54,193,644,462	100%	52,049,645,199	100%

(2) By security type

	31 December 2023	31 December 2022
Clean	20,289,985,532	17,582,030,656
Collateralized	15,996,472,430	16,267,292,466
Guaranteed	9,062,854,406	8,447,703,515
Pledged	8,556,516,473	9,446,409,019
Add: Interest receivable	287,815,621	306,209,543
Total	54,193,644,462	52,049,645,199

(3) Past due loans

	31 December 2023				
	Up to 90 days	**90 to 365 days**	**1 to 3 years**	**Over 3 years**	**Total**
Collateralized	149,140,908	12,710,315	75,728,310	15,133,051	252,712,584
Clean	62,076,873	30,635,933	83,776,682	25,533,778	202,023,266
Total	211,217,781	43,346,248	159,504,992	40,666,829	454,735,850

	31 December 2022				
	Up to 90 days	**90 to 365 days**	**1 to 3 years**	**Over 3 years**	**Total**
Collateralized	288,715,011	35,349,435	23,612,270	37,043,040	384,719,756
Clean	43,725,639	34,759,686	159,310,460	-	237,795,785
Pledged	-	-	965,059	-	965,059
Total	332,440,650	70,109,121	183,887,789	37,043,040	623,480,600

Overdue loans refer to loans where all or part of the principal or interest has been overdue for one day or more.

(All amounts expressed in RMB unless otherwise stated)

12 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2023	584,745,519	283,339,723	90,343,718	958,428,960
Transfer to (from)	(3,702,771)	(48,534,183)	52,236,954	-
- From stage 1 to stage 2	(1,405,319)	1,405,319	-	-
- From stage 1 to stage 3	(3,195,084)	-	3,195,084	-
- From stage 2 to stage 1	897,632	(897,632)	-	-
- From stage 2 to stage 3	-	(49,041,870)	49,041,870	-
Addition/(Reversal), net	(5,119,551)	123,424,177	121,972,082	240,276,708
Net write-offs	-	-	(167,421,151)	(167,421,151)
Exchange and other movements	-	-	(32,186,497)	(32,186,497)
Balance at 31 December 2023	575,923,197	358,229,717	64,945,106	999,098,020

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	429,378,449	448,482,684	59,481,138	937,342,271
Transfer to (from)	(4,416,500)	570,419	3,846,081	-
- From stage 1 to stage 2	(885,970)	885,970	-	-
- From stage 1 to stage 3	(3,662,114)	-	3,662,114	-
- From stage 2 to stage 1	131,584	(131,584)	-	-
- From stage 2 to stage 3	-	(183,967)	183,967	-
Addition/(Reversal), net	159,783,570	(165,713,380)	207,155,541	201,225,731
Net write-offs	-	-	(182,247,266)	(182,247,266)
Exchange and other movements	-	-	2,108,224	2,108,224
Balance at 31 December 2022	584,745,519	283,339,723	90,343,718	958,428,960

(All amounts expressed in RMB unless otherwise stated)

13 TRADING ASSETS

Trading assets refer to debt instruments, shares and trust plan which are measured at fair value whose changes are recognized into profit or loss.

	31 December 2023	31 December 2022
Banks and other financial institutions debt securities	5,499,058,701	8,116,436,849
Government securities	4,651,648,083	347,027,340
Corporate debt securities	1,883,721,580	4,029,298,582
Negotiable certificates of deposit	227,543,655	468,782,753
Asset backed securities	195,612,584	218,441,969
Shares and trust plan	17,359,972	20,635,480
Local government debt securities	1,043,670	63,214,111
Total	12,475,988,245	13,263,837,084

As at 31 December 2023, trading assets amounting to RMB 7,111,000,000 were pledged as collateral (31 December 2022: RMB 6,820,000,000).

14 DEBT INSTRUMENTS

Debt instruments refer to debt instruments measured at amortised cost.

	31 December 2023	31 December 2022
Government securities	8,702,604,158	9,452,401,767
Corporate debt securities	1,025,742,000	566,874,000
Asset backed securities	239,750,000	16,854,400
Add: Interest receivable	85,940,840	77,945,186
Less: ECL allowance	(3,139,222)	(2,478,652)
Total	10,050,897,776	10,111,596,701

15 OTHER DEBT INSTRUMENTS

Other debt instruments refer to debt instruments measured at FVOCI.

	31 December 2023	31 December 2022
Banks and other financial institutions debt securities	11,348,492,855	7,592,807,269
Government securities	1,800,741,112	4,063,161,470
Local government debt securities	390,684,487	339,375,085
Negotiable certificates of deposit	-	2,752,579,229
Add: Interest receivable	225,921,341	177,473,003
Total	13,765,839,795	14,925,396,056

(All amounts expressed in RMB unless otherwise stated)

16 FIXED ASSETS

	Office equipments and furnitures	Computers and other electronic equipments	Total
Cost			
At 1 January 2023	72,491,042	150,241,175	222,732,217
Additions	8,417,698	80,488,382	88,906,080
Disposals	(23,966,708)	(11,889,837)	(35,856,545)
At 31 December 2023	56,942,032	218,839,720	275,781,752
Accumulated depreciation			
At 1 January 2023	65,896,708	87,285,407	153,182,115
Charges for the year	4,004,882	25,161,812	29,166,694
Disposals	(23,915,693)	(11,889,837)	(35,805,530)
At 31 December 2023	45,985,897	100,557,382	146,543,279
Net book value			
At 31 December 2023	10,956,135	118,282,338	129,238,473

	Office equipments and furnitures	Computers and other electronic equipments	Total
Cost			
At 1 January 2022	92,935,922	130,740,052	223,675,974
Additions	3,139,929	45,099,523	48,239,452
Disposals	(23,584,809)	(25,598,400)	(49,183,209)
At 31 December 2022	72,491,042	150,241,175	222,732,217
Accumulated depreciation			
At 1 January 2022	86,337,173	96,153,237	182,490,410
Charges for the year	3,144,344	16,730,570	19,874,914
Disposals	(23,584,809)	(25,598,400)	(49,183,209)
At 31 December 2022	65,896,708	87,285,407	153,182,115
Net book value			
At 31 December 2022	6,594,334	62,955,768	69,550,102

As at 31 December 2023, the bank considers it unnecessary to make provisions for impairment of fixed assets (2022: nil).

(All amounts expressed in RMB unless otherwise stated)

17 INTANGIBLE ASSETS

	Software contracts
Cost	
At 1 January 2023	96,125,421
Additions	46,100,473
Disposals	(19,120,877)
At 31 December 2023	123,105,017
Accumulated amortization	
At 1 January 2023	62,242,579
Charges for the year	13,388,968
Disposals	(19,113,890)
At 31 December 2023	56,517,657
Net book value	
At 31 December 2023	66,587,360

	Software contracts
Cost	
At 1 January 2022	136,563,834
Additions	12,299,086
Disposals	(52,737,499)
At 31 December 2022	96,125,421
Accumulated amortization	
At 1 January 2022	105,833,355
Charges for the year	9,146,723
Disposals	(52,737,499)
At 31 December 2022	62,242,579
Net book value	
At 31 December 2022	33,882,842

As at 31 December 2023, the bank considers it unnecessary to make provisions for impairment of intangible assets (2022: nil).

(All amounts expressed in RMB unless otherwise stated)

18 DEFERRED INCOME TAX ASSETS

(1) Deferred income tax assets

	31 December 2023	31 December 2022
Provision for impairment	493,079,145	463,076,263
Accrued expenses and payroll	155,081,537	148,192,135
Share based incentive plan not exercised	13,175,742	10,909,863
Fair value measurement of financial instruments	2,058,068	3,533,306
Others[(a)]	17,338,132	10,829,196
Total	680,732,624	636,540,763

(a) The Bank's other deferred income taxes include temporary differences arising from right of use assets and lease liabilities(Note 5(o)(b)), which are disclosed as follows:

	31 December 2023	31 December 2022
Deferred tax assets arising from lease liabilities	157,623,921	129,976,359
Deferred income tax liabilities arising from right of use assets	(146,526,787)	(123,753,747)
Net deferred income tax assets arising from the excess of right of use assets over lease liabilities	11,097,134	6,222,612

Deferred income taxes for transactions in PRC are calculated on all taxable temporary differences using an effective tax rate of 25% for the year ended 31 December 2023 (31 December 2022: 25%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

(All amounts expressed in RMB unless otherwise stated)

18 DEFERRED INCOME TAX ASSETS (continued)

(2) Movement of deferred income tax assets

	2023			
	At 1 January	Recognised into profit or loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	463,076,263	30,002,882	-	493,079,145
Fair value measurement of financial instruments	3,533,306	5,872,866	(7,348,104)	2,058,068
Share based incentive plan not exercised	10,909,863	2,265,879	-	13,175,742
Accrued expenses and payroll	148,192,135	6,889,402	-	155,081,537
Others	10,829,196	6,508,936	-	17,338,132
Total	636,540,763	51,539,965	(7,348,104)	680,732,624

	2022			
	At 1 January	Recognised into profit or loss	Recognised into other comprehensive income	At 31 December
Provision for impairment	473,508,308	(10,432,045)	-	463,076,263
Fair value measurement of financial instruments	13,209,203	(30,228,618)	20,552,721	3,533,306
Share based incentive plan not exercised	9,524,151	1,385,712	-	10,909,863
Accrued expenses and payroll	121,140,514	27,051,621	-	148,192,135
Others	7,967,593	2,861,603	-	10,829,196
Total	625,349,769	(9,361,727)	20,552,721	636,540,763

19 OTHER ASSETS

	31 December 2023	**31 December 2022**
Security deposits and guarantee deposits	3,847,066,043	815,807,635
Settlement receivables from customers	673,301,880	200,539,271
Right-of-use assets (1)	586,243,942	495,201,524
Receivables from related parties (Note 50 (e)(3))	45,765,175	38,406,481
Leasehold improvement	18,827,771	11,886,496
Prepaid expenses	14,396,911	13,793,791
Others	18,403,546	15,424,395
Less: ECL allowance	(11,238,184)	(11,238,184)
Total	5,192,767,084	1,579,821,409

(All amounts expressed in RMB unless otherwise stated)

19 OTHER ASSETS (continued)

(1) Right-of-use assets

	Office	Data center	Total
Cost			
At 1 January 2023	896,969,093	27,335,637	924,304,730
Additions	221,473,382	-	221,473,382
Decreases	(30,886,662)	(3,409,385)	(34,296,047)
At 31 December 2023	1,087,555,813	23,926,252	1,111,482,065
Accumulated depreciation			
At 1 January 2023	409,954,425	19,148,781	429,103,206
Additions	125,350,346	5,080,618	130,430,964
Decreases	(30,886,662)	(3,409,385)	(34,296,047)
At 31 December 2023	504,418,109	20,820,014	525,238,123
Net book value			
At 1 January 2023	487,014,668	8,186,856	495,201,524
At 31 December 2023	583,137,704	3,106,238	586,243,942
Lease Liabilities			
At 31 December 2023	626,881,624	3,107,574	629,989,198

	Office	Data center	Total
Cost			
At 1 January 2022	836,486,659	21,094,616	857,581,275
Additions	70,110,554	6,241,021	76,351,575
Decreases	(9,628,120)	-	(9,628,120)
At 31 December 2022	896,969,093	27,335,637	924,304,730
Accumulated depreciation			
At 1 January 2022	291,775,635	13,400,635	305,176,270
Additions	127,806,910	5,748,146	133,555,056
Decreases	(9,628,120)	-	(9,628,120)
At 31 December 2022	409,954,425	19,148,781	429,103,206
Net book value			
At 1 January 2022	544,711,024	7,693,981	552,405,005
At 31 December 2022	487,014,668	8,186,856	495,201,524
Lease Liabilities			
At 31 December 2022	510,884,277	8,514,671	519,398,948

As at 31 December 2023, the bank considers it unnecessary to make provisions for impairment of right-of-use assets (2022: nil)

As at 31 December 2023, there is no lease that is committed but not yet commenced. (31 December 2022: nil).

(All amounts expressed in RMB unless otherwise stated)

20 DEPOSITS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
Deposits from banks		
- Domestic	4,886,569,054	3,544,460,207
- Overseas	2,755,750,284	1,344,402,024
Subtotal	7,642,319,338	4,888,862,231
Deposits from non-bank financial institutions		
- Domestic	11,437,873,267	14,399,767,408
- Overseas	889,919,596	341,012,481
Subtotal	12,327,792,863	14,740,779,889
Add: Interest payable	24,752,705	21,043,898
Total	19,994,864,906	19,650,686,018

21 BORROWING FROM OTHER BANKS

	31 December 2023	31 December 2022
At amortized cost		
Borrowing from other banks		
- Domestic	5,668,295,200	5,472,834,100
- Overseas	7,039,469,327	6,243,454,188
Subtotal	12,707,764,527	11,716,288,288
Add: Interest payable	35,578,993	52,079,973
Total borrowing from other banks measured at amortized cost	12,743,343,520	11,768,368,261
At FVTPL		
Borrowing from other banks		
- Domestic	288,164,288	-
Total borrowing from other banks measured at FVTPL	288,164,288	-
Total	13,031,507,808	11,768,368,261

22 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analyzed by collateral and pledge type:	31 December 2023	31 December 2022
At FVTPL		
Government Securities	3,291,628,479	94,419,712
Banks and other financial institutions debt securities	3,387,613,582	6,343,391,011
Total	6,679,242,061	6,437,810,723

(All amounts expressed in RMB unless otherwise stated)

23 DUE TO CUSTOMERS

	31 December 2023	31 December 2022
At amortized cost		
Current deposits		
- Corporate	23,344,569,017	23,429,519,690
- Retail	3,748,418,461	3,748,716,866
Time deposits		
- Corporate	34,641,806,982	38,931,901,658
- Retail	9,230,772,314	4,646,114,268
Structured investment products		
- Corporate	2,550,606,811	1,004,598,564
- Retail	7,717,714,354	7,574,406,221
Margin deposits		
- Corporate	58,740,484	40,774,011
Add: Interest payable	446,700,010	247,366,835
Total due to customers measured at amortized cost	81,739,328,433	79,623,398,113
Designated At FVTPL		
Structured investment products(1)		
- Corporate	1,347,012,563	-
Total due to customers designated at FVTPL	1,347,012,563	-
Total	83,086,340,996	79,623,398,113

(1) The Bank designates certain structured deposits as financial liabilities at fair value through profit or loss, to eliminate or significantly reduce accounting mismatch. As at 31 December 2023, the carrying amount of these financial liabilities was RMB1,347.01 million (31 December 2022: nil). For the year ended 31 December 2023, there was no significant change in the Bank's own credit risk, thus the impact to the fair value of these financial liabilities was immaterial.

24 TRADING LIABILITIES

Trading liabilities are short positions in trading bonds.

	31 December 2023	31 December 2022
Banks and other financial institutions debt securities	-	40,296,268
Government securities	-	3,148,227
Total	-	43,444,495

(All amounts expressed in RMB unless otherwise stated)

25 PAYROLL AND WELFARE PAYABLE

	31 December 2023	31 December 2022
Short-term employee benefits	269,186,523	248,088,928
Post-employment benefits – defined contribution plans	9,764,044	10,651,949
Total	278,950,567	258,740,877

The movement of payroll and welfare payable is shown as below:

	31 December 2022	Additions	Deductions	31 December 2023
Short-term employee benefits	248,088,928	1,362,671,038	(1,341,573,443)	269,186,523
Post-employment benefits – defined contribution plans	10,651,949	93,345,849	(94,233,754)	9,764,044
Total	258,740,877	1,456,016,887	(1,435,807,197)	278,950,567

	31 December 2021	Additions	Deductions	31 December 2022
Short-term employee benefits	199,954,454	1,224,729,628	(1,176,595,154)	248,088,928
Post-employment benefits – defined contribution plans	7,930,024	83,732,022	(81,010,097)	10,651,949
Total	207,884,478	1,308,461,650	(1,257,605,251)	258,740,877

26 TAXES PAYABLE

	31 December 2023	31 December 2022
Value added tax and surcharges	50,495,742	45,976,407
Corporate income tax	37,335,055	18,423,464
Withholding individual income tax and others	28,444,681	22,020,435
Withholding corporate tax	11,408,225	8,968,045
Total	127,683,703	95,388,351

(All amounts expressed in RMB unless otherwise stated)

27 PROVISION

Provisions refer to ECL allowance for loan commitments and financial guarantee contracts.

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2023	9,892,630	1,122,089	-	11,014,719
Transfer to (from)	(94,692)	94,692	-	-
- From stage 1 to stage 2	(94,692)	94,692	-	-
Addition/(Reversal), net	(1,216,370)	(1,141,682)	-	(2,358,052)
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2023	8,581,568	75,099	-	8,656,667

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	10,097,743	79,617	-	10,177,360
Transfer to (from)	(2,901)	2,901	-	-
- From stage 1 to stage 2	(2,901)	2,901	-	-
Addition/(Reversal), net	(202,212)	1,039,571	-	837,359
Net write-offs	-	-	-	-
Exchange and other movements	-	-	-	-
Balance at 31 December 2022	9,892,630	1,122,089	-	11,014,719

(All amounts expressed in RMB unless otherwise stated)

28 DEBT SECURITIES ISSUED

	31 December 2023	31 December 2022
Negotiable certificates of deposit	5,786,071,119	11,056,289,343
Financial bonds	3,000,000,000	-
Tier 2 capital bond	2,000,000,000	2,000,000,000
Add: Interest payable	149,279,452	72,882,192
Total	10,935,350,571	13,129,171,535

On 22 March 2023, the Bank issued a financial bond of RMB 3 billion in the China Interbank Bond Market, with the coupon rate of 3.25% per annum, and its maturity date is 21 March 2026.

In 2023, the Bank issued the Negotiable Certificate of Deposit (“NCDs”) with total principal of RMB 17.43 billion, and the terms are from 1 month to 1 year, with coupon rates ranging from 1.85% to 2.85% per annum. As at 31 December 2023, the total face value of outstanding interbank NCDs is RMB 5.85 billion. (In 2022, the bank issued NCDs with a nominal principal amount of RMB 28.04 billion, with terms ranging from 1 month to 1 year, and an annual interest rate range of 1.40% to 2.75%. As of 31 December 2022, the total face value of outstanding NCDs was RMB 11.12 billion.)

29 OTHER LIABILITIES

	31 December 2023	31 December 2022
Settlement payables	798,280,042	366,983,061
Lease liabilities	629,989,198	519,398,948
Accrued expenses	261,562,398	276,469,277
Payable to overseas related parties (Note 50(e) (3))	167,146,783	72,001,058
Shanghai Clearing House mark-to-market margin deposits	96,830,902	33,555,663
Unearned commission income	27,173,151	35,283,474
Others	26,073,878	7,959,135
Total	2,007,056,352	1,311,650,616

30 PAID-IN CAPITAL

	31 December 2023	31 December 2022
DBS Bank Limited	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 2022	Additions	Deductions	31 December 2023
Capital surplus recognised due to China Accounting Standard change	22,571,343	-	-	22,571,343
Others	10,883,384	-	-	10,883,384
Total	33,454,727	-	-	33,454,727

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME

	31 December 2023						
	Balance sheet			Income statement			
	As at 31 December 2022	Change net of tax	As at 31 December 2023	Amount before tax	Less: reclassification of other comprehensive income to income statement	Less: Tax	Net amount after tax
Other comprehensive income items which will be reclassified to income statement							
- Fair value changes of other debt instruments	(10,418,224)	23,568,183	13,149,959	62,175,486	(30,722,325)	(7,884,978)	23,568,183
- ECL on other debt instruments	2,139,082	(120,018)	2,019,064	(1,908,271)	1,748,248	40,005	(120,018)
- Effective portion of gains or losses on hedging instruments in cash flow hedges	(1,172,645)	(1,863,055)	(3,035,700)	169,143,407	(171,503,331)	496,869	(1,863,055)
Total	(9,451,787)	21,585,110	12,133,323	229,410,622	(200,477,408)	(7,348,104)	21,585,110

(All amounts expressed in RMB unless otherwise stated)

32 OTHER COMPREHENSIVE INCOME (continued)

	31 December 2022						
	Balance sheet			Income statement			
	As at 31 December 2021	Change net of tax	As at 31 December 2022	Amount before tax	Less: reclassification of other comprehensive income to income statement	Less: Tax	Net amount after tax
Other comprehensive income items which will be reclassified to income statement							
- Fair value changes of other debt instruments	51,251,897	(61,670,121)	(10,418,224)	(46,282,112)	(35,970,786)	20,582,777	(61,670,121)
- ECL on other debt instruments	2,314,109	(175,027)	2,139,082	(1,546,086)	1,312,717	58,342	(175,027)
- Effective portion of gains or losses on hedging instruments in cash flow hedges	(1,470,039)	297,394	(1,172,645)	(79,791,179)	80,176,971	(88,398)	297,394
Total	52,095,967	(61,547,754)	(9,451,787)	(127,619,377)	45,518,902	20,552,721	(61,547,754)

(All amounts expressed in RMB unless otherwise stated)

33 SURPLUS RESERVE

	31 December 2023	31 December 2022
At 1 January	566,404,095	496,723,476
Current year appropriation	55,669,098	69,680,619
At 31 December	622,073,193	566,404,095

In accordance with the 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 55,669,098 is appropriated to the surplus reserves which is calculated as 10% of the net profit in 2023 (2022: RMB 69,680,619).

34 GENERAL RISK RESERVE

	31 December 2023	31 December 2022
At 1 January	1,627,100,000	1,482,900,000
Current year appropriation	146,200,000	144,200,000
At 31 December	1,773,300,000	1,627,100,000

On 7 February 2023, the Board of directors approved an appropriation from undistributed profits to the Bank's general risk reserve amounting to RMB 146,200,000 in accordance with Circular Caijin No.20 issued on 17 April 2012. The general risk reserve after the appropriation amounts to RMB 1,773,300,000, which is 1.5% of the Bank's total risk assets as at 31 December 2022.

35 UNDISTRIBUTED PROFITS

(1) Profit distribution in the current year

	2023	2022
At 1 January	3,180,117,794	2,697,192,220
Add: Profit for the year	556,690,984	696,806,193
Less: Surplus reserve	(55,669,098)	(69,680,619)
General risk reserve	(146,200,000)	(144,200,000)
At 31 December	3,534,939,680	3,180,117,794

(2) Profit distribution after the balance sheet date

On 30 January 2024, the Board of directors approved an appropriation of RMB 47,900,000 from undistributed profits as at 31 December 2023 to the Bank's general risk reserve in accordance with Circular Caijin No.20 issued on 17 April 2012.

(All amounts expressed in RMB unless otherwise stated)

36 NET INTEREST INCOME

	2023	2022
Interest income:		
Deposits with central bank	85,148,362	82,528,052
Deposits with other banks and placements with financial institutions	1,532,093,505	889,527,968
Loans and advances to customers	2,143,060,443	2,366,786,264
Debt instruments	304,928,125	251,284,573
Other debt instruments	343,685,259	278,913,302
Financial assets purchased under resale agreements	-	7,915
Total	4,408,915,694	3,869,048,074
Interest expense:		
Deposits and borrowing from other banks and financial institutions	(742,330,888)	(616,697,216)
Due to customers	(1,455,881,184)	(1,086,644,875)
Debt securities issued	(370,918,725)	(333,626,002)
Lease liabilities	(11,097,619)	(10,640,571)
Total	(2,580,228,416)	(2,047,608,664)
Net interest income	1,828,687,278	1,821,439,410

37 NET FEE AND COMMISSION INCOME

	2023	2022
Fee and commission income		
Wealth management	134,900,188	105,982,347
Loan and trade related	58,769,078	68,937,403
Cash Management	30,427,486	27,843,667
Syndication	24,817,017	21,802,916
Treasury advisory	16,332,433	12,000,048
Others	21,483,191	20,803,896
Total	286,729,393	257,370,277
Fee and commission expense	(85,754,381)	(63,786,668)
Net fee and commission income	200,975,012	193,583,609

(All amounts expressed in RMB unless otherwise stated)

38 INVESTMENT INCOME

	2023	2022
Trading assets	412,781,803	364,273,358
Non-foreign exchange derivative instruments	198,399,243	84,316,453
Other debt instruments	30,722,325	35,970,786
Debt instruments	20,315,270	-
Financial assets purchased under resale and sold under repurchase agreements	(95,422,890)	(90,794,736)
Due to customers designated at FVTPL	(26,565,078)	-
Total	540,230,673	393,765,861

39 FAIR VALUE (LOSSES)/GAINS

	2023	2022
Non-foreign exchange derivative instruments	(151,487,894)	149,595,756
Trading assets	111,854,706	(30,436,127)
Trading liabilities	81,062	(81,062)
Financial assets purchased under resale and sold [1]under repurchase agreements	197,515	1,569,511
Loans and advances measured at FVTPL	355,925	-
Due to customers designated at FVTPL	16,584,636	-
Borrowing from other banks measured at FVTPL	(452,288)	-
Total	(22,866,338)	120,648,078

40 EXCHANGE GAINS

	2023	2022
Foreign exchange transactions and foreign exchange derivative instruments	469,159,042	499,931,476

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

41 OTHER BUSINESS INCOME/EXPENSE

	2023	2022
OTHER BUSINESS INCOME		
Service charge income from related parties (Note 50(e) (2))	22,513,785	14,659,565
Others	12,863,549	10,832,944
Total	35,377,334	25,492,509

(All amounts expressed in RMB unless otherwise stated)

41 OTHER BUSINESS INCOME/EXPENSE (continued)

OTHER BUSINESS EXPENSE

	2023	2022
Cost of service charge income	(25,401,825)	(14,573,772)

42 OTHER INCOME

	2023	2022
Government grants	9,895,101	4,217,488

43 GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Employee benefits	1,493,936,702	1,336,645,612
Short-term employee benefits	1,362,671,038	1,224,729,628
Post-employment benefits	93,345,849	83,732,022
Share Based Payment	37,919,815	28,183,962
Depreciation and amortization	175,887,015	164,678,714
Telecommunications and computers	129,443,831	127,298,234
Utilities	9,305,370	10,120,068
Service charge expense to related parties (Note 50(e) (2))	127,563,706	101,023,270
Others	223,707,040	219,270,923
Total	2,159,843,664	1,959,036,821

44 CREDIT IMPAIRMENT LOSSES

	2023	2022
Deposits with central bank	530,370	(181,506)
Deposits with other banks	1,104,280	25,495
Placements with financial institutions	(3,154,221)	295,142
Loans and advances to customers	240,276,708	201,225,731
Debt instruments	660,569	739,781
Other debt instruments	(160,023)	(233,369)
Other assets	-	(1,800,046)
Loan commitments and financial guarantees	(2,358,052)	837,359
Total ECL charge	236,899,631	200,908,587
Recovery of loans previously written-off	(47,743,690)	(7,636,742)
Total	189,155,941	193,271,845

(All amounts expressed in RMB unless otherwise stated)

44 CREDIT IMPAIRMENT LOSSES (continued)

Movement of ECL allowance

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2023	618,110,248	284,599,137	101,581,902	1,004,291,287
Transfer to (from)	(5,142,175)	(47,094,779)	52,236,954	-
- From stage 1 to stage 2	(2,844,723)	2,844,723	-	-
- From stage 1 to stage 3	(3,195,084)	-	3,195,084	-
- From stage 2 to stage 1	897,632	(897,632)	-	-
- From stage 2 to stage 3	-	(49,041,870)	49,041,870	-
Addition/(Reversal), net	(5,872,909)	120,800,458	121,972,082	236,899,631
Net write-offs	-	-	(167,421,151)	(167,421,151)
Exchange and other movements	-	-	(32,186,497)	(32,186,497)
Balance at 31 December 2023	607,095,164	358,304,816	76,183,290	1,041,583,270

	Performing		Impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2022	461,050,448	449,951,926	77,519,116	988,521,490
Transfer to (from)	(4,419,401)	573,320	3,846,081	-
- From stage 1 to stage 2	(888,871)	888,871	-	-
- From stage 1 to stage 3	(3,662,114)	-	3,662,114	-
- From stage 2 to stage 1	131,584	(131,584)	-	-
- From stage 2 to stage 3	-	(183,967)	183,967	-
Addition/(Reversal), net	161,479,201	(165,926,109)	205,355,495	200,908,587
Net write-offs	-	-	(187,247,014)	(187,247,014)
Exchange and other movements	-	-	2,108,224	2,108,224
Balance at 31 December 2022	618,110,248	284,599,137	101,581,902	1,004,291,287

(All amounts expressed in RMB unless otherwise stated)

45 CORPORATE INCOME TAX

	2023	**2022**
Current income tax	151,903,421	163,913,759
Deferred income tax (Note 18)	(51,539,965)	9,361,727
Total	100,363,456	173,275,486

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

	2023	**2022**
Profit before income tax	657,054,440	870,081,679
Income tax calculated at applicable tax rate	164,263,610	217,520,420
Non-taxable income (1)	(79,298,958)	(84,974,242)
Non-deductible expenses	15,815,673	41,127,063
Others	(416,869)	(397,755)
Corporate income tax	100,363,456	173,275,486

(1) Non-taxable income mainly comes from interest income of government securities and local government debt securities.

46 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2023	**31 December 2022**
Cash (Note 8)	34,903,751	33,121,665
Balances with central bank other than restricted reserve deposits (Note 8)	11,300,809,049	8,894,754,906
Deposits with other banks with original terms less than three months from acquisition date	2,789,761,464	2,138,034,080
Placements with financial institutions with original terms less than three months from acquisition date	7,363,320,110	9,516,138,700
Total	21,488,794,374	20,582,049,351

(All amounts expressed in RMB unless otherwise stated)

46 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

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

	Notes	**2023**	**2022**
Net profit		556,690,984	696,806,193
Adjusted by:			
Credit impairment losses	44	236,899,631	200,908,587
Depreciation and amortization	43	175,887,015	164,678,714
Interest income from debt instruments	36	(304,928,125)	(251,284,573)
Interest income from other debt instruments	36	(343,685,259)	(278,913,302)
Investment gains from other debt instruments and debt instruments	38	(51,037,595)	(35,970,786)
Losses on disposal of fixed assets and other long-term assets		74,941	-
Interest expenses of debt securities issued	36	370,918,725	333,626,002
Interest expenses of lease liabilities	36	11,097,619	10,640,571
Fair value losses/(gains)	39	22,866,338	(120,648,078)
Exchange gains		(276,245,506)	(620,901,740)
Increase in deferred tax assets	45	(51,539,965)	9,361,727
Increase in operating receivables		(4,953,068,386)	(4,645,530,149)
Increase in operating payables		6,137,835,519	9,284,944,993
Net cash generated from operating activities		1,531,765,936	4,747,718,159

(3) Net increase in cash and cash equivalents:

	2023	**2022**
Cash and cash equivalents at the end of year	21,488,794,374	20,582,049,351
Less: cash and cash equivalents at the beginning of year	(20,582,049,351)	(18,405,707,477)
Net increase in cash and cash equivalents	906,745,023	2,176,341,874

(4) Cash flow related to lease

In 2023, the total lease-related cash outflow paid by the Bank is RMB122,030,492 (2022: RMB 136,317,084), and there is no remaining cash outflow included in operating activities except for the amount paid to settle the lease liability as mentioned above in financing activities.

(All amounts expressed in RMB unless otherwise stated)

47 OFF-BALANCE SHEET ITEMS

(1) Loan commitments and financial guarantees

	31 December 2023	31 December 2022
Letters of credit issued	2,270,712,970	2,587,116,571
Standby letter of credit	2,477,502,007	1,688,332,519
Letters of guarantee issued	3,802,499,683	4,236,964,696
Irrevocable loan commitment	1,134,432,559	1,880,963,898
Bank acceptances	1,561,233,284	1,866,725,903
Letters of credit confirmation	-	4,908,492
Total	11,246,380,503	12,265,012,079

(2) Credit risk-weighted assets of loan commitments and financial guarantees

	31 December 2023	31 December 2022
Credit risk-weighted assets of loan commitments and financial guarantees	5,649,807,600	5,670,204,300

The credit risk-weighted amount is determined in accordance with the provisions of the former CBRC's "Commercial Bank Capital Management Measures (Trial)" (Order No. 1 [2012] of the China Banking Regulatory Commission), and is determined based on factors such as the counterparty's credit status and maturity. The risk weight of credit commitments varies from 0% to 150%.

(3) Entrusted business

(a) Entrusted loans

The Bank's entrusted deposits and loans are listed as follows:

	31 December 2023	31 December 2022
Entrusted deposits and loans	438,649,387	595,636,484

(b) Assets under management

The balances of the Bank's qualified domestic institutional investors ("QDII") are listed as follows:

	31 December 2023	31 December 2022
Assets under management	7,695,500,800	5,693,978,470

47 OFF-BALANCE SHEET ITEMS (continued)

(c) Aessets under custody

The Bank provides custody services to third parties. Revenue from such activities is included in "net fee and commission income" set out in Note 37.

(4) Commitments on security underwriting

As at 31 December 2023, the Bank had no unfulfilled irrevocable commitment on announced but not issued security underwriting (31 December 2022: nil) .

(5) Legal proceedings

As at 31 December 2023, there was no significant legal proceeding against the Bank (31 December 2022: nil).

(6) Capital commitments

As at 31 December 2023, the Bank has no significant capital commitments which require separate disclosure (31 December 2022: nil).

(All amounts expressed in RMB unless otherwise stated)

48 SEGMENT INFORMATION

RMB ('thousand)

31 December 2023	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Chongqing	Xi'an	Others	Elimination	Total
Interest income	2,299,707	2,053,129	571,018	226,695	174,789	55,506	47,858	25,334	142,849	(1,187,969)	4,408,916
Interest expense	(1,974,408)	(1,209,300)	(281,032)	(85,743)	(86,044)	(18,298)	(21,187)	(16,651)	(75,534)	1,187,969	(2,580,228)
Net interest income	325,299	843,829	289,986	140,952	88,745	37,208	26,671	8,683	67,315	-	1,828,688
Fee and commission income	20,199	152,442	66,111	14,309	11,416	3,856	5,774	248	12,374	-	286,729
Fee and commission expense	(66,884)	(17,892)	(826)	(62)	(69)	(6)	(1)	-	(14)	-	(85,754)
Net fee and commission income	(46,685)	134,550	65,285	14,247	11,347	3,850	5,773	248	12,360	-	200,975
Other operating income	590,161	231,186	91,897	64,000	12,304	5,052	1,319	14,277	21,525	-	1,031,721
Operating expenses	(1,175,763)	(534,552)	(302,319)	(196,997)	(23,247)	(16,783)	(19,050)	(12,493)	(117,326)	-	(2,398,530)
Non-operating expenses	(5,221)	(502)	(39)	(18)	(7)	(1)	(3)	(1)	(6)	-	(5,798)
Total (losses)/profit before tax	(312,209)	674,511	144,810	22,184	89,142	29,326	14,710	10,714	(16,132)	-	657,056
Loans and advances, net	48,308	31,474,436	10,951,197	3,858,437	3,706,285	346,757	556,281	300,747	1,952,098	-	53,194,546
Total assets	83,437,155	67,655,544	17,714,939	8,887,583	5,108,693	1,789,838	1,506,642	1,261,342	3,952,243	(30,829,218)	160,484,761
Due to customers	(7,199,460)	(42,808,085)	(14,698,429)	(7,595,558)	(4,462,757)	(1,141,791)	(863,552)	(1,041,705)	(3,275,004)	-	(83,086,341)
Total liabilities	(79,893,506)	(62,851,548)	(15,792,454)	(7,767,988)	(4,494,742)	(1,155,692)	(930,102)	(1,054,563)	(3,397,483)	30,829,218	(146,508,860)
Credit impairment (reversal)/losses	(4,333)	218,351	(9,752)	(3,124)	(56,917)	258	953	180	43,540	-	189,156
Depreciation and amortization	85,461	25,287	38,248	12,008	4,908	757	1,276	641	7,301	-	175,887
Capital expenditure	138,655	-	1,245	1,736	461	91	-	49	2,552	-	144,789

(All amounts expressed in RMB unless otherwise stated)

48 SEGMENT INFORMATION (continued)

RMB ('thousand)

31 December 2022	**Head office**	**Shanghai**	**Beijing**	**Shenzhen**	**Guangzhou**	**Suzhou**	**Tianjin**	**Chongqing**	**Others**	**Elimination**	**Total**
Interest income	2,211,951	1,737,696	440,593	200,860	147,208	57,369	33,983	57,463	137,239	(1,155,314)	3,869,048
Interest expense	(1,724,066)	(987,593)	(210,785)	(63,014)	(70,582)	(21,255)	(23,335)	(29,238)	(73,055)	1,155,314	(2,047,609)
Net interest income	487,885	750,103	229,808	137,846	76,626	36,114	10,648	28,225	64,184	-	1,821,439
Fee and commission income	14,453	139,551	57,432	15,300	11,342	3,318	5,065	3,040	7,869	-	257,370
Fee and commission expense	(52,624)	(10,679)	(330)	(45)	(17)	(79)	(1)	(1)	(11)	-	(63,787)
Net fee and commission income	(38,171)	128,872	57,102	15,255	11,325	3,239	5,064	3,039	7,858	-	193,583
Other operating income	618,057	219,007	85,771	48,393	17,449	6,118	3,763	13,912	31,585	-	1,044,055
Operating expenses	(826,428)	(868,769)	(242,940)	(169,793)	(40,403)	5,665	(17,887)	(4,576)	(24,638)	-	(2,189,769)
Non-operating income/(expenses)	(651)	1,866	(215)	(475)	97	18	30	34	70	-	774
Total profit before tax	240,692	231,079	129,526	31,226	65,094	51,154	1,618	40,634	79,059	-	870,082
Loans and advances, net	-	27,608,427	10,467,448	4,964,058	3,392,226	513,823	664,786	954,625	2,525,823	-	51,091,216
Total assets	85,938,309	63,122,654	18,921,533	7,533,470	4,097,482	2,300,727	1,953,799	1,647,450	4,088,904	(34,946,520)	154,657,808
Due to customers	(7,711,192)	(38,113,718)	(16,401,738)	(6,288,503)	(3,518,200)	(1,657,670)	(2,118,789)	(1,011,267)	(2,802,321)	-	(79,623,398)
Total liabilities	(82,003,788)	(58,993,052)	(17,143,859)	(6,436,059)	(3,572,674)	(1,695,906)	(2,134,031)	(1,085,620)	(3,141,714)	34,946,520	(141,260,183)
Credit impairment losses	800	352,431	(38,711)	(14,104)	(36,424)	(21,835)	686	(13,032)	(36,539)	-	193,272
Depreciation and amortization	66,317	32,194	39,580	11,908	4,783	728	1,266	1,764	6,139	-	164,679
Capital expenditure	64,710	-	2,559	23	86	-	-	1,345	346	-	69,069

The Bank's revenue from external customers is mainly from mainland China for 2023 and 2022. As at 31 December 2023 and 2022, all non-current assets of the Bank are located in mainland China.

(All amounts expressed in RMB unless otherwise stated)

49 SHARE-BASED COMPENSATION PLANS

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

- DBSH Share Plan (Share Plan)
- DBSH Employee Share Plan (ESP)
- DBSH Employee Share Purchase Plan (ESPP)

	2023			2022		
Number of shares	**Share Plan**	**ESP**	**ESPP**	**Share Plan**	**ESP**	**ESPP**
Balance at 1 January	623,696	-	45,013	607,126	10,996	45,672
Granted	225,622	-	19,977	209,555	-	16,426
Transfer In/(Out)	53,346	-	(521)	3,241	-	(154)
Vested	(230,616)	-	(18,191)	(173,366)	(10,996)	(13,710)
Forfeited	(16,471)	-	(2,572)	(22,860)	-	(3,221)
Balance at 31 December	655,577	-	43,706	623,696	-	45,013
Weighted average fair value of the shares granted during the year	SGD 29.77	SGD -	SGD 28.04	SGD 32.45	SGD -	SGD 29.38

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

50 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 2022	Change	31 December 2023
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 2022		Change		31 December 2023	
	Amount RMB	%	Amount RMB	%	Amount RMB	%
DBS Bank Ltd.	8.0 billion	100	-	-	8.0 billion	100

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(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	Registered location	Economic nature or type	Main business	Registered capital	Chairman of the Board
DBS Bank (Hong Kong) Limited	Company controlled by the parent company	Hong Kong	Company with limited liability	Banking and financial service	HKD 8,995 million	SEAH Lim Huat Peter
DBS Bank (Taiwan) Limited	Company controlled by the parent company	Taiwan	Company with limited liability	Banking and financial service	NTD32,250 million	Andrew Ng Wai Hung
DBS Vickers (Hong Kong) Limited	Company controlled by the parent company	Hong Kong	Company with limited liability	Provision of securities services to clients	HKD150 million	Anuruk Karoonyavanich
DBS Investment and Financial Advisory Company Limited	Company controlled by the parent company	China	Company with limited liability	Financial advisory	USD 1 million	Anuruk Karoonyavanich
DBS Bank (India) Limited	Company controlled by the parent company	India	Company with limited liability	Banking and financial service	INR 10,000 crore	Ravindra Bahl
DBS Securities (China) Limited	Company controlled by the parent company	China	Company with limited liability	Securities Brokerage; Securities Advisory Service; Securities Proprietary Trading; Securities Underwriting and Sponsorship.	RMB 15,000 million	Hua Ying
DBS Technology (China) Ltd	Company controlled by the parent company	China	Company with limited liability	Software development and sales	RMB 50 million	QUEK SZU LIANG
Changsheng Fund Management Company	Associate of the ultimate parent company	China	Company with limited liability	Fund management	RMB 206 million	Gao Minhe
PSBC Consumer Finance Company Limited	Associate of the ultimate parent company	China	Company with limited liability	Consumer financing	RMB 3,000 million	Wang Xiaomin
Shenzhen Rural Commercial Bank Corporation Limited	Associate of the ultimate parent company	China	Company with limited liability	Banking and financial service	RMB 10,398 million	Li Guangan

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(1) Related Entity (continued)

Names of related parties	Relationship with the Bank	Registered location	Economic nature or type	Main business	Registered capital	Chairman of the Board
Fullerton Credit (Hubei) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 159.76 million	MARK LIM CHEN KUO
Fullerton Credit (Sichuan) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 69.14 million	MARK LIM CHEN KUO
Fullerton Credit (Chongqing) Ltd.	Subsidiary of the entity that has significant influence over the ultimate parent company	China	Company with limited liability	Micro credit business	SGD 110.5 million	MARK LIM CHEN KUO

(All amounts expressed in RMB unless otherwise stated)

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(2) Key management personnel

Key management personnel 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 borrowing, lending and derivative transactions. These transactions follow commercial terms in the ordinary course of the Bank's business, where service charges are agreed on an arm's length basis.

(2) Significant related party transactions

	2023	**2022**
Interest income	330,566,796	115,288,737
Interest expense	(388,615,087)	(205,569,540)
Exchange gains/(losses)	223,863,861	(251,304,319)
Investment losses	(113,560,805)	(477,263,419)
Fair value gains/(losses)	248,723,022	(2,166,711,398)
Fee and commission income	4,932,663	8,972,805
Other business income	22,513,785	14,659,565
General and administrative expenses	(127,563,706)	(101,023,270)

(3) Balances with related parties

	31 December 2023	**31 December 2022**
Deposits with other banks	240,503,895	225,686,456
Placements with financial institutions	7,485,290,718	5,863,426,302
Loans and advances to customers	881,077	121,646,950
Other assets (Note 19)	45,765,175	38,406,481
Deposits from other banks and financial institutions	2,313,268,561	1,197,105,582
Borrowing from other banks	7,039,469,327	6,289,174,087
Due to customers	765,778,509	172,543,033
Debt securities issued	1,223,000,493	1,223,000,494
Other liabilities (Note 29)	167,146,783	72,001,058

(All amounts expressed in RMB unless otherwise stated)

50 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions (continued)

(4) Derivatives instruments

	31 December 2023	
	Notional amount	**Fair value**
Foreign exchange derivatives	86,737,151,418	256,347,488
Interest rate derivatives	175,039,172,666	232,574,351
Other derivatives	15,426,545,182	(3,460,329,817)
	277,202,869,266	(2,971,407,978)

	31 December 2022	
	Notional amount	**Fair value**
Foreign exchange derivatives	24,405,690,450	225,451,913
Interest rate derivatives	161,799,433,051	326,877,424
Other derivatives	15,553,043,285	(3,801,741,300)
	201,758,166,786	(3,249,411,963)

(5) Loan commitments and financial guarantees

	31 December 2023	**31 December 2022**
Standby letter of credit	2,341,954,081	1,669,210,542
Letters of guarantee issued	46,572,435	4,293,618
Total	2,388,526,516	1,673,504,160

(f) Emoluments for directors, supervisors and senior management

The key management employee benefits comprised of:

	2023	**2022**
Salary and welfare	95,207,838	88,296,150
Share incentive plan	12,206,857	10,484,116
Total	107,414,695	98,780,266

51 RISK MANAGEMENT

51.1 Risk governance

The China 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 China Board, through the China 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.

51 RISK MANAGEMENT (continued)

51.1 Risk governance (continued)

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. China 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)
5. China Product Oversight Committee (CPOC); and
6. China Risk Models Committee (CRMC).

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 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.

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 China Board is adhered to.

51 RISK MANAGEMENT (continued)

51.2 Credit risk

The most significant measurable risk DBS China faces - Credit risk - 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.

The Bank's approach to credit risk management comprises the following building blocks:

A Credit Risk Policies

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

The Bank localized Group Core Credit Risk Policies (CCRPs) established for Consumer Banking/Wealth Management and Institutional Banking that 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 guides, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Bank, and provide guidance in the formulation of business-specific credit risk policies and standards.

The operational standards and guides 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.

Corporate borrowers are assessed individually, and further reviewed and evaluated by experienced credit risk managers who consider relevant credit risk factors in the final determination of the borrower's risk. For some supply chain finance portfolios within the small and medium-sized enterprises (SME) segment, the Bank also uses a programme-based approach to achieve a balanced management of risks and rewards. 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 units, and applications outside the RAC are independently assessed by the credit risk managers.

51 RISK MANAGEMENT (continued)

51.2 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 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 " Measures on Risk Classification of Financial Asset of Commercial Banks" (the Measures) issued by NFRA. Under the Bank's own system and the NFRA Measures, the Bank classifies its on 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 NFRA is as follows:

Pass: The debtor has the capacity to fulfill the contract and there is no objective evidence to suggest that the principal, interest or proceeds cannot be paid in full and on time.

Special Mention: The debtor currently in a position to pay principal, interest or proceeds, although there are factors that may adversely affect the performance of the contract.

Substandard: The debtor is unable to repay the principal, interest or proceeds in full, or the financial asset has been credit-impaired.

Doubtful: The debtor has been unable to repay the principal, interest or proceeds in full, and the financial asset has suffered significant credit impairment.

Loss: After taking all possible measures, only a very small part of the financial assets can be recovered, or all financial assets may be lost.

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

For credit risk concentration, thresholds are set on major industries and regions. Governance processes are in place to ensure that these thresholds are monitored regularly, and appropriate actions are taken when the thresholds are breached.

51 RISK MANAGEMENT (continued)

51.2 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 that affects investing and financing decisions across the Bank. The Bank recognises that its financing practices have 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 considers ESG as one of critical risks in our pursuit of business strategies. In 2023, the China Board approved the incorporation of environmental risk considerations into our Risk Appetite Statement. 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 Global Industry Specialist and IBG Sustainability for further guidance prior to approval by 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 that a debtor from a certain country or region is unable to or refuses to repay the debts to a bank or causes any losses to the bank’s commercial existence in such country or region or causes the bank to incur other losses due to a certain political, economic or social change or event of such country or region. This includes transfer risks, sovereign risks, contagionrisks, currency risks, macro-economy risks, political risks and indirect country risks.

The Bank manages country risk through the requirements of relevant internal policies and NFRA <Country Risk Management Measures>. The way the Bank manages country risk is set out in Group Country Risk Management Standard and its China Addendum. This includes a country risk rating system, where assessments are made independently of business decisions, and two levels of thresholds on transfer risk exposure.

Country risk appetite thresholds on transfer risk exposure are first determined in accordance with the Group Risk Appetite Policy and its China Addendum and take into consideration the risk ratings of the countries. This is the maximum amount of transfer risk exposure permissible for each country as approved by the China BRMC. For the setting of country risk limits, the Bank adopts a model-based approach, using the country's T&C rating and export revenue as well as the DBS China's CET1 consumed by credit risk as key setting parameters to set country transfer risk limits.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

D Credit risk stress testing

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

The Bank's credit risk stress tests are performed at total portfolio or sub-portfolio level, and are generally conducted 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 business areas.

Pillar 2 credit risk stress testing	The Bank conducts Pillar 2 credit risk stress testing once a year as part of the internal capital adequacy assessment process (ICAAP). Under Pillar 2 credit risk stress testing, the Bank assesses the impact of stress scenarios, with different levels of severity, on asset quality, earnings performance. The results of the credit risk stress testing form inputs to the capital planning process under ICAAP. The purpose of the Pillar 2 credit risk 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 Bank 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 the credit risk policy documents. 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 are monitored.

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

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

F Collateral received

Where possible, the Bank takes collateral as an alternative source of repayment.. 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 constitutes the bulk of the Bank's 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 traded with large institutions with reasonably good credit standing. The Bank takes haircuts against the underlying collateral of these transactions that commensurate with collateral quality to ensure credit risks are adequately mitigated.

In times of difficulty, the Bank will review the customer's specific situation and circumstances to assist them in restructuring their repayment liabilities. However, should the need arise, disposal and recovery processes are in place to dispose the 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.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit impairment 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 are 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.

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.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit impairment losses (continued)

Expected Credit Loss (ECL) (continued)

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.

Measurement of ECL

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 by multiplying the lifetime PD, LGD and EAD. 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.

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.

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit impairment losses (continued)

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 CASs.

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 150 equally-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 price index, gross domestic product 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 where potential risks may not be fully captured in the underlying modelled ECL. Such top-down additional modelled ECL was quantified by means of applying conditional probabilities on more severe scenarios materialising from emerging risk themes;
- adjustments made as part of the post-model adjustment framework (elaborated below).

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

H Credit impairment losses (continued)

Post-model Adjustment based on regulatory guidance

The bank also assessed the adequacy of ECL amount in accordance with the relevant guidance issued by NFRA, and made necessary adjustments accordingly.

Governance framework

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

China Board holds the ultimate responsibility for the management of ECL related matters. ECL important models and key parameters are subject to the oversight and approval of China Board.

China Board is supported by China Board Audit Committee for ECL management guide and ECL internal/external audit reviews.

Delegated from Board, China Risk Executive Committee and China Risk Models Committee, which comprise cross functional representatives and subject matter experts, perform ECL management and review/approve ECL implementation policies, models and parameters, as well as significant changes and refinement, with support of DBS Group Portfolio Analytics Model team.

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

Sensitivity Analysis

The Bank assessed ECL sensitivity for the wholesale and retail portfolios to changes in the allocation of exposures between Stages 1 and 2. ECL is estimated to reduce by RMB 83,769,125 should all the exposures in Stage 2 return to Stage 1 and were assigned a lower 12-month ECL instead of lifetime ECL. 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.

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 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 2023, the risks of all financial instruments included in the impairment assessment of the Bank are classified as follows:

	31 December 2023							
	Book Value (Excluding interest receivable)				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-balance sheet item								
Deposits with central bank	16,420,543,442	-	-	16,420,543,442	(2,381,308)	-	-	(2,381,308)
Deposits with other banks	2,789,761,464	-	-	2,789,761,464	(1,203,887)	-	-	(1,203,887)
Placements with financial institutions	35,122,030,421	-	-	35,122,030,421	(13,173,896)	-	-	(13,173,896)
Loans and advances to customers	51,882,936,023	1,519,407,691	455,177,202	53,857,520,916	(575,923,197)	(358,229,717)	(64,945,106)	(999,098,020)
Other debt instruments	13,539,918,454	-	-	13,539,918,454	(2,692,086)	-	-	(2,692,086)
Debt instruments	9,968,096,158	-	-	9,968,096,158	(3,139,222)	-	-	(3,139,222)
Other assets	-	-	11,350,567	11,350,567	-	-	(11,238,184)	(11,238,184)
Total	129,723,285,962	1,519,407,691	466,527,769	131,709,221,422	(598,513,596)	(358,229,717)	(76,183,290)	(1,032,926,603)
Loan commitments and financial guarantees	10,828,284,165	418,096,338	-	11,246,380,503	(8,581,568)	(75,099)	-	(8,656,667)

As shown above, 41% of the total on-balance-sheet maximum exposure is derived from Loans and advances to customers (31 December 2022: 40%).

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 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 2022							
	Book Value (Excluding interest receivable)				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-balance sheet item								
Deposits with central bank	14,465,555,092	-	-	14,465,555,092	(1,850,938)	-	-	(1,850,938)
Deposits with other banks	2,138,034,080	-	-	2,138,034,080	(99,607)	-	-	(99,607)
Placements with financial institutions	36,801,688,674	300,000,000	-	37,101,688,674	(16,190,792)	(137,325)	-	(16,328,117)
Loans and advances to customers	50,444,443,458	945,096,165	353,896,033	51,743,435,656	(584,745,519)	(283,339,723)	(90,343,718)	(958,428,960)
Other debt instruments	14,747,923,053	-	-	14,747,923,053	(2,852,110)	-	-	(2,852,110)
Debt instruments	10,036,130,167	-	-	10,036,130,167	(2,478,652)	-	-	(2,478,652)
Other assets	-	-	11,350,567	11,350,567	-	-	(11,238,184)	(11,238,184)
Total	128,633,774,524	1,245,096,165	365,246,600	130,244,117,289	(608,217,618)	(283,477,048)	(101,581,902)	(993,276,568)
Loan commitments and financial guarantees	11,484,378,242	780,633,837	-	12,265,012,079	(9,892,630)	(1,122,089)	-	(11,014,719)

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 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 2023	31 December 2022
Loans and advances measured at FVTPL	48,307,925	-
Trading assets	12,475,988,245	13,263,837,084
Derivative assets	10,295,815,725	8,928,667,143
Total	22,820,111,895	22,192,504,227

J Loans and advances to customers

(i) Loans and advances to customers impaired

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes 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. Loans and advances to customers that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

31 December 2023

	Gross exposure	Less: ECL allowance	Carrying amount	Fair value of collateral held
Corporate loans	328,144,420	1,885,622	326,258,798	1,275,426,836
Retail loans	127,032,782	63,059,484	63,973,298	596,960,000
Total	455,177,202	64,945,106	390,232,096	1,872,386,836

31 December 2022

	Gross exposure	Less: ECL allowance	Carrying amount	Fair value of collateral held
Corporate loans	164,227,811	5,254,076	158,973,735	12,535,000
Retail loans	189,668,222	85,089,642	104,578,579	642,780,000
Total	353,896,033	90,343,718	263,552,314	655,315,000

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

J Loans and advances to customers (continued)

(ii) Renegotiated loans

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 2023, the renegotiated loans held by the Bank is RMB 18,249,000 (31 December 2022: nil).

K Financial investments

The tables below analyse the Bank's financial investments by issuers' credit rating:

	Trading assets	Other debt instruments	Debt instruments
31 December 2023			
RMB bonds:			
Rated as AAA	1,961,353,346	2,606,106,049	839,750,000
Rated as AA+	103,100,671	20,007,296	-
Rated as A-	-	200,840,704	-
Unrated:			
Government securities	4,651,648,083	1,700,220,094	7,144,115,647
Banks and other financial institutions debt securities	3,290,804,798	8,860,955,979	-
Asset backed securities	195,612,584	-	-
Overseas bonds:			
Rated as AA+	-	-	1,558,488,511
Rated as A+	55,668,068	-	-
Rated as A	174,597,711	-	-
Rated as BBB+ and below	375,979,339	49,466,092	70,957,000
Unrated:			
Banks and other financial institutions debt securities	735,143,733	102,322,240	-
Corporate debt securities	914,719,940	-	354,785,000
Shares and trust plan	17,359,972	-	-
Add: Interest Receivable	-	225,921,341	85,940,840
Less: ECL allowance	-	-	(3,139,222)
Total	12,475,988,245	13,765,839,795	10,050,897,776

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.2 Credit risk (continued)

K Financial investments (continued)

	Trading assets	Other debt instruments	Debt instruments
31 December 2022			
RMB bonds:			
Rated as AAA	2,812,847,194	2,643,876,917	166,854,400
Unrated:			
Government securities	347,027,340	3,962,325,192	7,934,003,892
Banks and other financial institutions debt securities	6,134,693,259	4,373,782,071	-
Asset backed securities	84,897,463	-	-
Overseas bonds:			
Rated as AAA	-	-	1,518,397,875
Rated as A+	54,139,927	-	-
Rated as A	131,990,150	-	-
Rated as A-	32,689,559	-	-
Rated as BBB+ and below	2,099,012,399	46,519,254	69,479,000
Unrated:			
Negotiable certificates of deposit	69,494,374	2,752,579,229	-
Banks and other financial institutions debt securities	314,448,039	968,840,390	-
Corporate debt securities	1,161,961,900	-	347,395,000
Shares and trust plan	20,635,480	-	-
Add: Interest Receivable	-	177,473,003	77,945,186
Less: ECL allowance	-	-	(2,478,652)
Total	13,263,837,084	14,925,396,056	10,111,596,701

51.3 Market risk

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.

Non-trading portfolios: Arising from (i) the Bank's Institutional Banking and Consumer Banking/Wealth Management 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.

The Bank uses a variety of financial derivatives such as swaps, forwards, and options for trading and hedging against market movements.

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

A Market Risk Management

The Bank's approach to market risk management comprises the following building blocks:

Policies

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

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

Risk Methodologies

The Bank utilizes 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). ES is estimated by averaging the portfolio's potential losses beyond the 97.5% confidence interval, under normal market conditions and over a one-day holding period.

ES is supplemented with other risk control metrics such as sensitivities to risk factors and loss triggers for management action.

The Bank conducts backtesting to verify the predictiveness of the VaR model. Backtesting 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 backtesting 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.

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 not be considered.

To monitor the Bank's vulnerability to unexpected but plausible extreme market risk-related events, it 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.

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

A Market Risk Management (continued)

Risk Methodologies (continued)

ES and Net Interest Income (NII) variability are the specific key risk metrics used to assess interest rate risk in the banking book (IRRBB). NII variability measures how the earnings of the Bank change under both regulatory and/or internal scenarios.Credit risk arising from loans and receivables is managed under the credit risk management framework.

IRRBB arises from mismatches in the interest rate profiles of assets, liabilities and capital instruments. Estimating IRRBB requires the use of behavioural assumptions on certain parameters such as duration of the non-maturity deposits. The Bank measures IRRBB on a weekly and monthly 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 and systems 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 the CRO – monitors, controls and analyses the Bank's market risk daily.

B Market Risk in 2023

The main risk factors driving the Bank's trading portfolios in 2023 were interest rates, foreign exchange and credit spreads. The following table shows the period-end, average, high and low diversified ES, and ES by risk class of the trading portfolios.

In RMB millions[(a)]	**As at 31 Dec 2023**	**1 Jan 2023 to 31 Dec 2023**		
		Average	**High**	**Low**
Diversified	14.81	11.27	21.74	6.64
Interest Rates	12.69	9.76	18.13	4.70
Foreign Exchange	6.25	4.61	16.09	0.91
Equity	0.77	0.94	1.15	0.75
Credit Spread	2.98	5.69	14.65	2.96
Commodity	7.22	1.09	7.24	-

In RMB millions[(a)]	**As at 31 Dec 2022**	**1 Jan 2022 to 31 Dec 2022**		
		Average	**High**	**Low**
Diversified	8.00	9.29	13.70	6.10
Interest Rates	9.46	8.96	15.55	4.16
Foreign Exchange	3.46	4.15	13.14	0.61
Equity	1.00	1.18	1.57	0.87
Credit Spread	5.19	6.28	10.21	4.01
Commodity	-	0.84	4.00	-

51 RISK MANAGEMENT (continued)

51.3 Market risk (continued)

B Market Risk in 2023 (continued)

(a) The table is computed in Singapore dollars and translated into RMB using the Bank's PSGL rates for presentation purpose.

The Bank's trading portfolios didn't experience backtesting exception in 2023.

In 2023, the key market risk drivers of the Bank's non-trading portfolios were interest rates (RMB and USD) and foreign exchange.

The Net Interest Income (NII) of the non-trading book was assessed under various rate scenarios to determine the impact of interest rate movements on future earnings. With simulations using a 100 basis points parallel upward or downward shift in yield rate curves on the Bank's banking book exposures, NII is estimated to increase by RMB 298 million and decrease by RMB 316 million, respectively.

Foreign exchange risk in the Bank's non-trading portfolios was primarily from structural foreign exchange position arising from unconverted USD capital.

51.4 Liquidity risk

The Bank's liquidity risk arises from its obligations to honour withdrawals of deposits, repayments of borrowed funds at maturity and the commitments to extend loans to the customers. The Bank seeks to manage its liquidity to ensure that its liquidity obligations will continue to be honoured under normal as well as adverse circumstances.

A Liquidity Risk Management

The Bank's approach to liquidity risk management comprises the following building blocks:

<u>Policies</u>

The Liquidity Risk Management Policy sets the Bank's overall approach towards liquidity risk management and describes the range of strategies the Bank 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 it 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, standards and supporting guides communicate these baseline requirements to ensure a consistent application throughout the Bank.

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

A Liquidity Risk Management (continued)

Risk Methodologies

The primary measure used to manage liquidity within the tolerance defined by the 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 Bank's 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 Bank's counterbalancing capacity will be escalated to the relevant committees for evaluation and action.

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 manages the day-to-day liquidity risk monitoring, control reporting and analysis.

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

B Liquidity Risk in 2023

The Bank actively monitors and manages the liquidity profile through cash flow maturity mismatch analysis.

In forecasting cash flow under the analysis, behavioral 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 the Bank's behavioral 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.

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
2023[(b)]					
Net liquidity mismatch	37,616	(1,842)	(5,763)	7,302	4,375
Cumulative mismatch	37,616	35,773	30,011	37,312	41,687
2022[(b)]					
Net liquidity mismatch	30,966	3,487	2,852	6,058	4,300
Cumulative mismatch	30,966	34,453	37,304	43,363	47,663

(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.

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

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 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	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2023									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	16,206,460,714	1,302,493,509	1,052,540,411	1,441,059,842	749,127,588	-	20,751,682,064
Borrowing from other banks	-	-	-	6,263,087,994	6,573,175,186	264,158,351	-	-	13,100,421,531
Derivative liabilities	-	10,359,206,531	-	-	-	-	-	-	10,359,206,531
Financial assets sold under repurchase agreements	-	-	-	6,818,737,849	-	-	-	-	6,818,737,849
Due to customers	-	-	27,092,987,478	29,468,417,028	7,259,995,935	15,287,899,133	4,270,497,287	-	83,379,796,861
Debt securities issued	-	-	-	50,000,000	2,711,500,000	3,280,000,000	5,383,000,000	-	11,424,500,000
Others	-	-	-	895,110,944	167,146,783	261,562,398	-	-	1,323,820,125
Total financial liabilities	-	10,359,206,531	43,299,448,192	44,797,847,324	17,764,358,315	20,534,679,724	10,402,624,875	-	147,158,164,961
Financial Assets									
Cash and deposits with central bank	-	5,121,084,549	11,337,273,325	-	-	-	-	-	16,458,357,874
Deposits with other banks	-	-	2,789,761,484	-	-	-	-	-	2,789,761,484
Placements with financial institutions	-	-	-	9,868,073,434	6,120,821,046	19,294,956,025	668,556,068	-	35,952,406,573
Derivative assets	-	10,295,815,725	-	-	-	-	-	-	10,295,815,725
Loans and advances to customers	454,735,850	-	-	4,839,153,792	14,424,981,007	18,226,432,481	16,997,064,673	2,720,105,530	57,662,473,333
Trading assets	-	17,359,972	-	36,700,800	66,469,083	2,704,265,843	10,146,894,351	373,441,447	13,345,131,496
Debt instruments	-	-	-	-	10,391,250	1,972,549,451	6,714,148,676	2,374,502,000	11,071,591,377
Other debt instruments	-	-	-	68,764,331	1,330,526,512	1,702,631,920	11,085,561,941	285,783,000	14,473,267,704
Others	11,350,567	-	-	4,509,017,356	45,765,175	-	-	-	4,566,133,098
Total financial assets	466,086,417	15,434,260,246	14,127,034,809	19,321,709,713	21,998,954,073	43,900,835,720	45,612,225,709	5,753,831,977	166,614,938,664
Net cash flows	466,086,417	5,075,053,715	(29,172,413,383)	(25,476,137,611)	4,234,595,758	23,366,155,996	35,209,600,834	5,753,831,977	19,456,773,703

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.4 Liquidity risk (continued)

C Cash flows of financial assets and liabilities (continued)

	Overdue	No specific maturity	On Demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2022									
Financial Liabilities									
Deposits from other banks and financial institutions	-	-	15,625,479,457	569,665,957	1,460,410,258	1,310,371,367	687,442,000	-	19,653,369,039
Borrowing from other banks	-	-	-	7,227,795,629	4,567,148,523	11,954,805	-	-	11,806,898,957
Derivative liabilities	-	8,930,509,780	-	-	-	-	-	-	8,930,509,780
Financial assets sold under repurchase agreements	-	-	-	6,566,868,610	-	-	-	-	6,566,868,610
Due to customers	-	-	27,178,236,556	34,191,293,968	4,740,550,239	11,645,264,090	2,016,996,771	-	79,772,341,624
Trading liabilities	-	-	-	43,444,495	-	-	-	-	43,444,495
Debt securities issued	-	-	-	3,000,000,000	3,744,000,000	4,470,000,000	2,282,000,000	-	13,496,000,000
Others	-	-	-	400,538,724	72,001,058	276,469,277	-	-	749,009,059
Total financial liabilities	-	8,930,509,780	42,803,716,013	51,999,607,383	14,584,110,078	17,714,059,539	4,986,438,771	-	141,018,441,564
Financial Assets									
Cash and deposits with central bank	-	5,573,422,621	8,927,876,571	-	-	-	-	-	14,501,299,192
Deposits with other banks	-	-	2,138,034,080	-	-	-	-	-	2,138,034,080
Placements with financial institutions	-	-	-	11,063,692,095	10,506,702,623	15,396,731,582	776,550,284	-	37,743,676,584
Derivative assets	-	8,928,667,143	-	-	-	-	-	-	8,928,667,143
Loans and advances to customers	623,480,600	-	-	4,989,952,355	14,514,570,997	16,017,123,499	16,586,694,296	3,903,171,561	56,634,993,308
Trading assets	-	20,635,433	-	301,715,578	1,330,667,301	3,299,681,176	8,872,987,463	184,328,148	14,010,015,099
Debt instruments	-	-	-	-	6,800,000	311,804,311	7,115,996,969	4,082,489,000	11,517,090,280
Other debt instruments	-	-	-	1,103,225,502	285,031,559	5,584,250,919	8,494,137,552	202,825,000	15,669,470,532
Others	11,350,567	-	-	815,807,635	-	227,595,185	-	-	1,054,753,387
Total financial assets	634,831,167	14,522,725,197	11,065,910,651	18,274,393,165	26,643,772,480	40,837,186,672	41,846,366,564	8,372,813,709	162,197,999,605
Net cash flows	634,831,167	5,592,215,417	(31,737,805,362)	(33,725,214,218)	12,059,662,402	23,123,127,133	36,859,927,793	8,372,813,709	21,179,558,041

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The fair value hierarchy accords the highest level to observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The fair value measurement of each financial instrument is categorised in accordance with the same level of the fair value hierarchy as the input with the lowest level that is significant to the entire measurement.The levels of inputs are defined as follows:

- Level 1 – Financial instruments that are valued using quoted prices in active markets are classified as Level 1 within the fair value hierarchy.
- Level 2 – Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank will determine the fair value based on valuation techniques that use market parameters as inputs including but not limited to yield curves, volatilities and foreign exchange rates.
- Level 3 – The Bank classifies financial instruments as Level 3 when there is reliance on unobservable market parameters whether used directly to value a financial asset or liability, or used as inputs to a valuation model, attributing to a significant contribution to the instrument value. These would include all input parameters which are derived from historical data, for example, asset correlations or certain volatilities.

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

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(a) Assets and liabilities continuously measured at fair value

31 December 2023

	Level 1	Level 2	Level 3	Total
FVTPL financial assets				
- Loans and advances	-	48,307,925	-	48,307,925
- Trading assets	1,415,505,984	11,060,482,261	-	12,475,988,245
- Derivative assets	-	10,295,815,725	-	10,295,815,725
Other debt instruments	49,645,973	13,716,193,822	-	13,765,839,795
Total Assets	1,465,151,957	35,120,799,733	-	36,585,951,690
FVTPL financial liabilities				
- Borrowing from other banks	-	(288,164,288)	-	(288,164,288)
- Due to customers	-	(1,347,012,563)	-	(1,347,012,563)
- Derivative liabilities	-	(10,359,206,531)	-	(10,359,206,531)
- Financial assets sold under repurchase agreements	-	(6,679,242,061)	-	(6,679,242,061)
Total Liabilities	-	(18,673,625,443)	-	(18,673,625,443)

31 December 2022

	Level 1	Level 2	Level 3	Total
FVTPL financial assets				
- Trading assets	20,635,433	13,243,201,651	-	13,263,837,084
- Derivative assets	-	8,928,667,143	-	8,928,667,143
Other debt instruments	-	14,874,674,465	50,721,591	14,925,396,056
Total Assets	20,635,433	37,046,543,259	50,721,591	37,117,900,283
FVTPL financial liabilities				
- Trading liabilities	-	(43,444,495)	-	(43,444,495)
- Derivative liabilities	-	(8,930,509,780)	-	(8,930,509,780)
- Financial assets sold under repurchase agreements	-	(6,437,810,723)	-	(6,437,810,723)
Total Liabilities	-	(15,411,764,998)	-	(15,411,764,998)

(All amounts expressed in RMB unless otherwise stated)

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments

	1 January 2023	Purchase	settlement/ repayment	transfer out from level 3	Net gains/(losses) recognized in income statement	Net gains/(losses) recognized in other comprehensive income	31 December 2023	Total gains/(losses) generated by financial assets and liabilities held by the Bank as at 31 December 2023—Unrealised losses or other comprehensive income
Other debt instruments	50,721,591	-	-	(50,721,591)	-	-	-	-

	1 January 2022	Purchase	settlement/ repayment	Net gains/(losses) recognized in income statement	Net gains/(losses) recognized in other comprehensive income	31 December 2022	Total gains/(losses) generated by financial assets and liabilities held by the Bank as at 31 December 2022—Unrealised losses or other comprehensive income
Trading assets	49,993,792	-	(49,993,792)	-	-	-	-
Other debt instruments	-	50,000,000	-	723,288	(1,697)	50,721,591	(1,697)

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.

51 RISK MANAGEMENT (continued)

51.5 Fair value hierarchy (continued)

(b) Movement of level 3 instruments (continued)

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

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

(c) Assets and liabilities not measured at fair value but disclosed with 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 deposits with central bank , Deposits with other banks , Placements with financial institutions, Deposits from other banks and financial institutions, Borrowing from other banks, Debt securities issued, Other assets and Other liabilities,etc

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 to customers

The RMB loan interest rates follows the movement of market interest rates, which are priced mainly at Loan Prime Rate (LPR). Interest rates for loans denominated in foreign currencies are generally floating rates. Therefore, fair value of loans is close to carrying value.

Due to customers

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 within 1 year.

The Bank takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. In 2023, there are no significant transfers in or out regarding 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)

51 RISK MANAGEMENT (continued)

51.6 Capital management

The Bank's capital management objective is to ensure that the Bank maintains a steady capital level adapt to business conditions, development strategy and risk appetite, while optimizing shareholder returns and meeting the expectations of all stakeholders (including but not limited to customers, investors and rating agencies), on the premise of complying with the capital adequacy requirements set out in the Capital Management Measures for Commercial Banks (Trial) issued by the CBIRC. The Board of Directors sets an internal minimum capital level to ensure adequate capital resources for business growth and adverse circumstances, consistent with the Bank’s strategic plans and risk appetite. The Finance Department regularly monitors capital adequacy and reports to the Board of Directors to ensure that they meet external regulatory and internal management requirements.

The Bank’s annual capital planning and capital management policies are approved by the Board of Directors. The internal capital adequacy assessment process is an important tool for capital planning. Through the internal capital adequacy assessment process, the Bank calculates the capital supply and capital requirements for the next three years under different stress scenarios (mild, moderate and severe) required by the base scenario and the capital management policy, and evaluates capital adequacy with reference to regulatory requirements and internal minimum capital levels. According to the capital planning results, the Bank adjusts and optimizes the capital structure, reasonably seeks internal and external capital supplement, and ensures that the Bank's capital level can meet the needs of continuing operations.

The Bank is subject to and has complied with the capital adequacy requirements set out in the CBIRC’s capital rules throughout the year.

	31 December 2023	31 December 2022
Core Tier 1 capital adequacy ratio	12.1%	12.4%
Tier 1 capital adequacy ratio	12.1%	12.4%
Total capital adequacy ratio	14.3%	14.8%
Core Tier 1 capital	13,975,900,885	13,397,624,829
Regulatory Deductions for Core Tier 1 capital	63,551,701	32,710,198
Net core Tier 1 capital	13,912,349,184	13,364,914,631
Net Tier 1 capital	13,912,349,184	13,364,914,631
Net Tier 2 capital	2,543,920,800	2,604,341,700
Total regulatory capital	16,456,269,984	15,969,256,331
Total risk-weighted assets	115,194,957,200	107,955,085,500

52 Comparative Figures

Certain comparative figures have been reclassified to conform with changes in presentation and disclosures in current year.