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Dah Sing Banking Group Limited
The holding company of Dah Sing Bank, Limited
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 2356)



ANNOUNCEMENT OF 2019 FINAL RESULTS

The Directors of Dah Sing Banking Group Limited (“DSBG” or the “Company”) are pleased to present the consolidated audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

HK\$'000	Note	2019	2018	Variance %
Interest income		7,472,587	6,712,063	
Interest expense		<u>(3,398,803)</u>	<u>(2,547,972)</u>	
Net interest income	4	4,073,784	4,164,091	(2.2)
Fee and commission income		1,433,414	1,477,833	
Fee and commission expense		<u>(286,450)</u>	<u>(316,604)</u>	
Net fee and commission income	5	1,146,964	1,161,229	(1.2)
Net trading income	6	98,891	332,461	
Other operating income	7	<u>68,474</u>	<u>72,145</u>	
Operating income		5,388,113	5,729,926	(6.0)
Operating expenses	8	<u>(2,850,566)</u>	<u>(2,700,295)</u>	5.6
Operating profit before impairment losses		2,537,547	3,029,631	(16.2)
Credit impairment losses	9	<u>(356,386)</u>	<u>(233,441)</u>	52.7
Operating profit before gains and losses on certain investments and fixed assets		2,181,161	2,796,190	(22.0)
Net loss on disposal of other fixed assets		(6,568)	(1,932)	
Net (loss)/ gain on fair value adjustment of investment properties		(28,289)	57,488	
Net (loss)/ gain on disposal of financial assets at fair value through other comprehensive income		(24)	1,682	
Impairment loss on the investment in an associate	10	(287,000)	(633,000)	
Share of results of an associate		701,857	659,708	
Share of results of jointly controlled entities		<u>32,072</u>	<u>27,234</u>	
Profit before taxation		2,593,209	2,907,370	(10.8)
Taxation	11	<u>(353,075)</u>	<u>(427,668)</u>	
Profit for the year		2,240,134	2,479,702	(9.7)
(Profit)/ loss attributable to non-controlling interests		<u>(101)</u>	<u>33</u>	
Profit attributable to Shareholders of the Company		2,240,033	2,479,735	(9.7)
Dividends				
Interim dividend paid		182,748	182,618	
Proposed final dividend/ final dividend paid		<u>492,013</u>	<u>492,013</u>	
		674,761	674,631	
Earnings per share				
Basic	12	HK\$1.59	HK\$1.77	
Diluted	12	HK\$1.59	HK\$1.77	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

HK\$'000	2019	2018
Profit for the year	<u>2,240,134</u>	<u>2,479,702</u>
Other comprehensive income for the year		
Items that may be reclassified to the consolidated income statement:		
Investments in securities		
Net change in fair value of debt instruments at fair value through other comprehensive income	395,412	(413,774)
Net change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	4,487	(1,804)
Net loss/ (gain) realised and transferred to income statement upon:		
- Disposal of debt instruments at fair value through other comprehensive income	24	(1,682)
Deferred income tax related to the above	<u>(52,137)</u>	<u>73,537</u>
	<u>347,786</u>	<u>(343,723)</u>
Exchange differences arising on translation of the financial statements of foreign entities	<u>(159,945)</u>	<u>(306,372)</u>
Items that will not be reclassified to the consolidated income statement:		
Net change in fair value of equity instruments at fair value through other comprehensive income	951	1,608
Deferred income tax related to the above	<u>(157)</u>	<u>(265)</u>
	<u>794</u>	<u>1,343</u>
Other comprehensive income/ (loss) for the year, net of tax	<u>188,635</u>	<u>(648,752)</u>
Total comprehensive income for the year, net of tax	<u>2,428,769</u>	<u>1,830,950</u>
Attributable to:		
Non-controlling interests	101	(33)
Shareholders of the Company	<u>2,428,668</u>	<u>1,830,983</u>
Total comprehensive income for the year, net of tax	<u>2,428,769</u>	<u>1,830,950</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

HK\$'000	Note	2019	2018
ASSETS			
Cash and balances with banks		17,642,248	16,353,354
Placements with banks maturing between one and twelve months		5,494,972	10,241,980
Trading securities	13	8,387,953	7,621,184
Financial assets at fair value through profit or loss	13	328,768	327,483
Derivative financial instruments	14	567,816	727,043
Advances and other accounts	15	145,046,748	136,197,907
Financial assets at fair value through other comprehensive income	16	42,163,280	41,654,511
Financial assets at amortised cost	17	15,653,025	9,141,356
Investment in an associate	10	3,888,775	3,620,597
Investments in jointly controlled entities		96,363	87,691
Goodwill		811,690	811,690
Intangible assets		58,252	58,252
Premises and other fixed assets		1,942,740	2,040,018
Investment properties		1,208,639	1,236,928
Current income tax assets		2	1,570
Deferred income tax assets		115,216	154,354
Total assets		243,406,487	230,275,918
LIABILITIES			
Deposits from banks		2,465,069	3,797,556
Derivative financial instruments	14	1,093,028	473,273
Trading liabilities		5,516,558	5,758,954
Deposits from customers		182,628,806	172,966,849
Certificates of deposit issued		6,750,825	6,535,076
Subordinated notes		5,510,181	5,449,082
Other accounts and accruals		10,765,814	8,200,112
Current income tax liabilities		470,834	594,098
Deferred income tax liabilities		20,559	20,774
Total liabilities		215,221,674	203,795,774
EQUITY			
Non-controlling interests		15,386	15,285
Equity attributable to the Company's shareholders			
Share capital		6,894,438	6,893,494
Other reserves (including retained earnings)		20,376,402	18,672,778
Shareholders' funds	18	27,270,840	25,566,272
Additional equity instruments		898,587	898,587
Total equity		28,184,813	26,480,144
Total equity and liabilities		243,406,487	230,275,918

Note:

1. Statutory Financial Statements

The information set out in this results announcement does not constitute statutory financial statements.

Certain financial information in this results announcement is extracted from the Group's statutory consolidated financial statements for the year ended 31 December 2019 (the "2019 financial statements") which will be delivered to the Registrar of Companies and will be available from the website of the Hong Kong Exchanges and Clearing Limited in due course. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2020.

2. Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs" is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance Cap.622.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through other comprehensive income, financial assets and financial liabilities held for trading, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies.

Except as described below, the accounting policies and methods of computation used in the preparation of the 2019 consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2018.

The financial information in this results announcement is presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16, "Leases"
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle.

(1) HKFRS 16, "Leases"

The Group has adopted HKFRS 16, "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17, "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The incremental borrowing rates applied to the lease liabilities of the Group, as lessees, ranged from 2.4% to 5.8% on 1 January 2019.

2. Basis of Preparation and Accounting Policies (Continued)

(a) New and amended standards adopted by the Group (Continued)

(1) HKFRS 16, “Leases” (Continued)

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made and applied HKAS 17 and Interpretation 4, “Determining whether an Arrangement contains a Lease”.

(ii) Measurement of lease liabilities

	2019 HK\$’000
Operating lease commitments disclosed as at 31 December 2018	1,293,536
Discount using the lessee’s incremental borrowing rate at the date of initial application	(131,062)
Less: short-term leases or low-value leases recognised on a straight-line basis as expense	(935)
Less: lease agreements that have been contracted for but not yet commenced	(444,139)
Less: adjustments as a result of a different treatment of extension and termination options	(180,122)
Lease liabilities recognised as at 1 January 2019	<u>537,278</u>

(iii) Measurement of right-of-use assets

The associated right-of-use assets are related to property leases which were measured on a retrospective basis as if the new rules had always been applied.

2. Basis of Preparation and Accounting Policies (Continued)

(a) New and amended standards adopted by the Group (Continued)

(1) HKFRS 16, “Leases” (Continued)

(iv) Adjustments recognised in the statement of financial position on 1 January 2019

The changes in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increased by HK\$522,831,000
- Prepayments – decreased by HK\$647,000
- Accounts payable – decreased by HK\$5,304,000
- Lease liabilities – increased by HK\$537,278,000

The net impact on retained earnings on 1 January 2019 was a decrease of HK\$9,790,000.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Operating segment reporting

Segment reporting by the Group is prepared in accordance with HKFRS 8 “Operating Segments”. Information reported to the chief operating decision maker, including the Chief Executive and other Executive Committee members, for the purposes of resource allocation and performance assessment, is determined on the basis of personal banking, commercial banking, treasury and overseas banking business. Operating performances are analysed by business activities for local banking business, and on business entity basis for overseas banking business.

Considering the customer groups, products and services of local businesses, the economic environment and regulations, the Group splits the operating segments of the Group into the following reportable segments:

- Personal banking business includes the acceptance of deposits from individual customers and the extension of residential mortgage lending, personal loans, overdraft, vehicle financing and credit card services and the provision of insurance sales and investment services.
- Commercial banking business includes the acceptance of deposits from and the advance of loans and working capital finance to commercial, industrial and institutional customers, and the provision of trade financing.
- Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding of the Group.
- Overseas banking businesses include personal banking, commercial banking business activities provided by overseas subsidiaries in Macau and China, and the Group’s interest in a commercial bank in China.
- Others include results of operations not directly identified under other reportable segments, corporate investments and debt funding (including subordinated notes).

For the purpose of segment reporting, revenue derived from customers, products and services directly identifiable with individual segments are reported directly under respective segments, while revenue and funding cost arising from inter-segment funding operation and funding resources are allocated to segments by way of transfer pricing mechanism with reference to market interest rates. Transactions within segments are priced based on similar terms offered to or transacted with external parties. Inter-segment income or expenses are eliminated on consolidation.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions’ costs are allocated to various segments and products based on effort and time spent as well as segments’ operating income depending on the nature of costs incurred. Costs related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped under Others as unallocated corporate expenses.

3. Operating segment reporting (Continued)

For the year ended 31 December 2019

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	1,690,585	1,262,484	748,168	497,382	(124,835)	-	4,073,784
Non-interest income/ (expenses)	949,299	194,505	1,539	138,119	31,863	(996)	1,314,329
Total operating income/ (expenses)	2,639,884	1,456,989	749,707	635,501	(92,972)	(996)	5,388,113
Operating expenses	(1,655,353)	(528,318)	(179,202)	(507,483)	18,794	996	(2,850,566)
Operating profit/ (loss) before credit impairment losses	984,531	928,671	570,505	128,018	(74,178)	-	2,537,547
Credit impairment losses	(260,484)	(72,934)	(9,240)	(12,250)	(1,478)	-	(356,386)
Operating profit/ (loss) after credit impairment losses	724,047	855,737	561,265	115,768	(75,656)	-	2,181,161
Net (loss)/ gain on disposal and fair value adjustment of investment properties and other fixed assets	(3,524)	-	-	58	(31,391)	-	(34,857)
Net loss on disposal of financial assets at fair value through other comprehensive income	-	-	(24)	-	-	-	(24)
Impairment loss on the investment in an associate	-	-	-	(287,000)	-	-	(287,000)
Share of results of an associate	-	-	-	701,857	-	-	701,857
Share of results of jointly controlled entities	-	-	-	-	32,072	-	32,072
Profit/ (loss) before taxation	720,523	855,737	561,241	530,683	(74,975)	-	2,593,209
Taxation (expenses)/ credit	(118,812)	(141,019)	(92,584)	(18,262)	17,602	-	(353,075)
Profit/ (loss) after taxation	601,711	714,718	468,657	512,421	(57,373)	-	2,240,134
For the year ended 31 December 2019							
Depreciation and amortisation	78,802	16,658	6,548	60,525	205,855	-	368,388
At 31 December 2019							
Segment assets	53,809,806	66,154,676	84,671,487	38,406,836	5,478,972	(5,115,290)	243,406,487
Segment liabilities	108,290,918	44,136,433	19,835,415	30,335,062	17,739,136	(5,115,290)	215,221,674

3. Operating segment reporting (Continued)

For the year ended 31 December 2018

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income	1,742,431	1,238,085	625,952	543,458	14,165	-	4,164,091
Non-interest income/ (expenses)	938,523	204,650	(70,558)	142,890	351,326	(996)	1,565,835
Total operating income	2,680,954	1,442,735	555,394	686,348	365,491	(996)	5,729,926
Operating expenses	(1,580,816)	(484,847)	(159,777)	(491,678)	15,827	996	(2,700,295)
Operating profit before credit impairment (losses)/ written back	1,100,138	957,888	395,617	194,670	381,318	-	3,029,631
Credit impairment (losses)/ written back	(240,734)	17,242	(5,188)	(5,703)	942	-	(233,441)
Operating profit after credit impairment (losses)/ written back	859,404	975,130	390,429	188,967	382,260	-	2,796,190
Net (loss)/ gain on disposal and fair value adjustment of investment properties and other fixed assets	(1,425)	(5)	-	(796)	57,782	-	55,556
Net gain on disposal of financial assets at fair value through other comprehensive income	-	-	1,682	-	-	-	1,682
Impairment loss on the investment in an associate	-	-	-	(633,000)	-	-	(633,000)
Share of results of an associate	-	-	-	659,708	-	-	659,708
Share of results of jointly controlled entities	-	-	-	-	27,234	-	27,234
Profit before taxation	857,979	975,125	392,111	214,879	467,276	-	2,907,370
Taxation expenses	(141,475)	(161,094)	(64,753)	(27,192)	(33,154)	-	(427,668)
Profit after taxation	716,504	814,031	327,358	187,687	434,122	-	2,479,702
For the year ended 31 December 2018							
Depreciation and amortisation	72,574	15,909	5,665	40,691	40,831	-	175,670
At 31 December 2018							
Segment assets	51,024,761	62,888,081	79,191,071	36,286,080	5,439,883	(4,553,958)	230,275,918
Segment liabilities	102,006,201	41,070,943	17,714,209	28,405,278	19,153,101	(4,553,958)	203,795,774

3. Operating segment reporting (Continued)

Revenues from external customers were contributed from banking subsidiaries in Hong Kong, Macau and People's Republic of China, with major products and services including deposit taking, extension of credit, asset-based finance, securities investment services offered to customers.

The following tables provide information by geographical area, which was determined with reference to the domicile of the legal entities within the Group with business dealing and relationship with, and services to external customers.

HK\$'000	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the year ended 31 December 2019				
Operating income	4,982,287	406,822	(996)	5,388,113
Profit before taxation	2,411,711	181,498	-	2,593,209
At 31 December 2019				
Total assets	223,688,847	23,214,385	(3,496,745)	243,406,487
Total liabilities	198,450,960	20,267,459	(3,496,745)	215,221,674
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	<u>83,341,293</u>	<u>3,188,115</u>	<u>(101,360)</u>	<u>86,428,048</u>
	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the year ended 31 December 2018				
Operating income	5,273,234	457,688	(996)	5,729,926
Profit before taxation	2,650,762	256,608	-	2,907,370
At 31 December 2018				
Total assets	211,259,685	22,295,149	(3,278,916)	230,275,918
Total liabilities	187,758,809	19,315,881	(3,278,916)	203,795,774
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	<u>82,738,028</u>	<u>3,372,813</u>	<u>(102,489)</u>	<u>86,008,352</u>

4. Net interest income

HK\$'000	2019	2018
Interest income		
Cash and balances with banks	475,193	544,288
Investments in securities	1,762,703	1,447,457
Advances and other accounts	5,234,691	4,720,318
	<u>7,472,587</u>	<u>6,712,063</u>
Interest expense		
Deposits from banks/ Deposits from customers	2,817,260	2,019,983
Certificates of deposit issued	157,184	146,507
Subordinated notes	284,480	284,421
Lease liabilities	13,486	-
Others	126,393	97,061
	<u>3,398,803</u>	<u>2,547,972</u>
Included within interest income		
- Trading securities and financial assets at fair value through profit or loss	140,573	109,819
- Financial assets at fair value through other comprehensive income	1,427,901	1,126,472
- Financial assets at amortised cost	5,904,113	5,475,772
	<u>7,472,587</u>	<u>6,712,063</u>
Included within interest expense		
- Financial liabilities not at fair value through profit or loss	3,288,669	2,460,658

For the year ended 31 December 2019 and 2018, there was no interest income recognised on impaired assets.

5. Net fee and commission income

HK\$'000	2019	2018
Fee and commission income		
Fee and commission income from financial assets and liabilities not at fair value through profit or loss		
- Credit related fees and commissions	186,003	185,191
- Trade finance	87,301	91,867
- Credit card	338,315	377,738
Other fee and commission income		
- Securities brokerage	106,243	128,780
- Insurance distribution and others	336,708	324,957
- Retail investment and wealth management services	255,512	240,614
- Bank services and handling fees	68,677	73,681
- Other fees	54,655	55,005
	<u>1,433,414</u>	<u>1,477,833</u>
Fee and commission expense		
Fee and commission expense from financial assets and liabilities not at fair value through profit or loss		
- Handling fees and commission	267,580	296,033
- Other fees paid	18,870	20,571
	<u>286,450</u>	<u>316,604</u>

The Group provides custody, trustee, corporate administration, and investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

6. Net trading income

HK\$'000	2019	2018
Net gain/ (loss) arising from dealing in foreign currencies	74,901	(9,008)
Net gain on trading securities	13,709	15,212
Net gain from derivatives entered into for trading purpose	1,334	211
Net gain/ (loss) arising from financial instruments subject to fair value hedge	7,181	(833)
Net gain on financial instruments at fair value through profit or loss	1,766	326,879
	<u>98,891</u>	<u>332,461</u>

7. Other operating income

HK\$'000	2019	2018
Dividend income from investments in equity instruments at fair value through other comprehensive income, held at the end of the year		
- Listed investments	2,284	2,646
- Unlisted investments	7,800	8,684
Gross rental income from investment properties	27,231	30,651
Other rental income	13,988	13,347
Others	17,171	16,817
	<u>68,474</u>	<u>72,145</u>

8. Operating expenses

HK\$'000	2019	2018
Employee compensation and benefit expenses		
- Salaries and other staff costs	1,793,074	1,708,336
- Provision for share-based compensation charged	1,406	1,418
- Pension costs - defined contribution plans	104,840	91,497
Premises and other fixed assets expenses, excluding depreciation		
- Rental of premises	7,918	189,233
- Others	197,136	171,804
Depreciation		
- Premises and other fixed assets	188,106	175,670
- Right-of-use properties	180,282	-
Advertising and promotion costs	89,987	86,779
Printing, stationery and postage	50,879	50,277
Auditors' remuneration	9,430	9,374
Others	227,508	215,907
	<u>2,850,566</u>	<u>2,700,295</u>

9. Credit impairment losses

HK\$'000	2019	2018
New allowances net of allowance releases	467,407	318,875
Recoveries of amounts previously written off	(111,021)	(85,434)
	<u>356,386</u>	<u>233,441</u>
Attributable to:		
- Advances to customers	342,581	224,831
- Other financial assets	11,430	2,798
- Loan commitments and financial guarantees	2,375	5,812
	<u>356,386</u>	<u>233,441</u>

10. Impairment loss on the investment in an associate

At 31 December 2019, the fair value of the Group's investment in Bank of Chongqing ("BOCQ") had been below the carrying amount for approximately 6 years. On this basis, the Group continues to perform an impairment test on the carrying amount of the investment in BOCQ to assess the recoverable amount. Based on the assessment conducted in 2016 and before, the recoverable amount was assessed as higher than the carrying amount, and no impairment needed to be recognised.

The impairment test is performed by comparing the recoverable amount of BOCQ, determined by a value in use ("VIU") calculation, with the carrying amount of the investment. The VIU calculation uses discounted cash flow projections based on management's estimates of BOCQ's earnings and dividends to be paid in future, and the estimated probable exit value in future after considering the growth of BOCQ and its net asset value for the medium and longer term. The discount rate applied to the VIU calculation was estimated with reference to BOCQ's cost of equity, which is publicly available in the market.

In performing the VIU calculation to arrive at the recoverable amount of the investment, the Group considers all relevant factors including market views and qualitative factors to ensure that the inputs to the VIU calculation are appropriate. Adjustments need to be made to reflect the latest situation affecting BOCQ and also market outlook for the medium and longer term that are relevant in projecting BOCQ's future performance. Significant management judgement is required in estimating the future cash flows of BOCQ.

Based on the assessment conducted for the position up to 31 December 2018, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors and valuation assumptions, remained below the carrying amount, and a cumulative impairment charge at HK\$1,448 million had been recognised. The latest impairment test performed by the Group for the position as at 31 December 2019 concludes that the recoverable amount, based on the VIU calculation, is assessed as lower than the carrying amount, after deducting the cumulative impairment allowance made up to 31 December 2018 of HK\$1,448 million, by HK\$287 million. As a result, an additional impairment charge of HK\$287 million was recognised in the year of 2019 to reduce the value of the investment to HK\$3,889 million.

The calculation of Dah Sing Bank, Limited ("DSB")'s capital adequacy does not include the retained earnings from the Investment, except for BOCQ cash dividend received by DSB. Provided that the Investment continues to be held at or above the original cost of the investment of HK\$1,213 million, impairment made on the Investment does not affect DSB's capital adequacy.

11. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Deferred taxation is calculated in full on temporary differences under the liability method at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

HK\$'000	2019	2018
Current income tax:		
- Hong Kong profits tax	337,227	387,739
- Overseas taxation	30,873	38,414
- Over-provision in prior years	(85)	(183)
Deferred income tax:		
- Origination and reversal of temporary differences	(14,940)	1,698
Taxation	<u>353,075</u>	<u>427,668</u>

12. Basic and diluted earnings per share

The calculation of basic earnings per share is based on earnings of HK\$2,240,033,000 (2018: HK\$2,479,735,000) and the weighted average number of 1,405,736,426 (2018: 1,404,634,772) ordinary shares in issue during the year.

The calculation of fully diluted earnings per share is based on earnings of HK\$2,240,033,000 (2018: HK\$2,479,735,000) and the weighted average number of 1,405,736,426 (2018: 1,404,652,423) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential ordinary shares.

13. Trading securities and financial assets at fair value through profit or loss

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Trading securities:		
Debt securities:		
- Listed in Hong Kong	20,681	33,575
- Unlisted	<u>8,367,272</u>	<u>7,587,609</u>
	<u>8,387,953</u>	<u>7,621,184</u>
Financial assets at fair value through profit or loss:		
Debt securities:		
- Unlisted	<u>328,768</u>	327,483
	<u>328,768</u>	<u>327,483</u>
Total	<u>8,716,721</u>	<u>7,948,667</u>
Included within debt securities are:		
- Treasury bills which are cash equivalents	1,606,484	-
- Other treasury bills	6,781,469	7,620,661
- Government bonds	-	523
- Other debt securities issued by:		
- Corporate entities	<u>328,768</u>	327,483
	<u>8,716,721</u>	<u>7,948,667</u>

As at 31 December 2019 and 2018, there were no certificates of deposit held included in the above balances.

14. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2019 were as follows:

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	85,980,290	427,242	(346,656)
Currency options purchased and written	8,583,805	11,034	(10,733)
b) <i>Interest rate derivatives</i>			
Interest rate futures	-	-	-
Interest rate swaps	4,476,095	17,185	(10,537)
Interest rate options purchased and written	674,220	-	(240)
c) <i>Equity derivatives</i>			
Equity options purchased and written	265,264	2,191	(2,190)
Total derivative assets/ (liabilities) held for trading	99,979,674	457,652	(370,356)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	38,285,505	110,164	(722,672)
Total derivative assets/ (liabilities) held for hedging	38,285,505	110,164	(722,672)
Total recognised derivative financial assets/ (liabilities)	138,265,179	567,816	(1,093,028)

14. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2018 were as follows:

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and futures contracts	67,192,282	262,900	(328,733)
Currency options purchased and written	9,883,176	8,677	(8,505)
b) <i>Interest rate derivatives</i>			
Interest rate futures	39,154	-	(589)
Interest rate swaps	2,392,768	11,611	(7,915)
Interest rate options purchased and written	678,038	16	(105)
c) <i>Equity derivatives</i>			
Equity options purchased and written	422,016	6,195	(6,201)
Total derivative assets/ (liabilities) held for trading	80,607,434	289,399	(352,048)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	28,818,549	437,644	(121,225)
Total derivative assets/ (liabilities) held for hedging	28,818,549	437,644	(121,225)
Total recognised derivative financial assets/ (liabilities)	109,425,983	727,043	(473,273)

The credit risk weighted amounts of the above off-balance sheet exposures as at 31 December, before taking into account the effect of bilateral netting arrangements that the Group entered into, are as follows:

	As at 31 Dec 2019	As at 31 Dec 2018
Exchange rate contracts	721,770	593,139
Interest rate contracts	64,608	156,974
Other contracts	8,854	16,778
	795,232	766,891

The contract amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period, they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts that have been calculated with reference to the Banking (Capital) Rules issued by the Hong Kong Monetary Authority ("HKMA"). The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

15. Advances and other accounts

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Gross advances to customers	136,946,773	128,628,087
Less: impairment allowances		
- Stage 1	(474,635)	(423,650)
- Stage 2	(152,754)	(127,284)
- Stage 3	(381,197)	(362,989)
	<u>(1,008,586)</u>	<u>(913,923)</u>
	<u>135,938,187</u>	<u>127,714,164</u>
Trade bills	3,393,863	4,677,262
Less: impairment allowances		
- Stage 1	(1,982)	(2,100)
- Stage 2	(7)	(23)
	<u>(1,989)</u>	<u>(2,123)</u>
	<u>3,391,874</u>	<u>4,675,139</u>
Right-of-use assets	<u>413,967</u>	<u>-</u>
Other assets	5,321,281	3,825,389
Less: impairment allowances		
- Stage 1	(8,496)	(6,651)
- Stage 2	(598)	(491)
- Stage 3	(9,467)	(9,643)
	<u>(18,561)</u>	<u>(16,785)</u>
	<u>5,302,720</u>	<u>3,808,604</u>
Advances and other accounts	<u>145,046,748</u>	<u>136,197,907</u>

15. Advances and other accounts (Continued)

(a) Gross advances to customers by industry sector classified according to the usage of loans

HK\$'000	As at 31 Dec 2019		As at 31 Dec 2018	
	Outstanding balance	% of gross advances	Outstanding balance	% of gross advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	4,700,618	3.4	5,411,554	4.2
- Property investment	15,972,169	11.7	15,930,681	12.4
- Financial concerns	6,057,400	4.4	5,229,101	4.1
- Stockbrokers	1,585,717	1.2	1,711,512	1.3
- Wholesale and retail trade	6,455,795	4.7	6,584,127	5.1
- Manufacturing	1,978,378	1.4	1,702,636	1.3
- Transport and transport equipment	3,496,770	2.6	3,691,151	2.9
- Recreational activities	103,724	0.1	103,057	0.1
- Information technology	52,976	0.0	70,890	0.1
- Others	4,464,895	3.3	3,537,199	2.7
	44,868,442	32.8	43,971,908	34.2
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	584,349	0.4	632,804	0.5
- Loans for the purchase of other residential properties	29,864,112	21.8	26,609,223	20.7
- Credit card advances	3,761,021	2.8	3,721,632	2.9
- Others	13,196,910	9.6	12,927,451	10.0
	47,406,392	34.6	43,891,110	34.1
Loans for use in Hong Kong	92,274,834	67.4	87,863,018	68.3
Trade finance (Note (1))	8,815,573	6.4	9,265,660	7.2
Loans for use outside Hong Kong (Note (2))	35,856,366	26.2	31,499,409	24.5
	136,946,773	100.0	128,628,087	100.0

Note:

(1) Trade finance shown above represents loans covering finance of imports to Hong Kong, exports and re-exports from Hong Kong and merchandising trade classified with reference to the relevant guidelines issued by the HKMA.

Trade finance loans not involving Hong Kong (including trade finance extended by the overseas subsidiary banks of DSB) totalling HK\$294,310,000 (31 December 2018: HK\$306,245,000) are classified under Loans for use outside Hong Kong.

(2) Loans for use outside Hong Kong include loans extended to customers located in Hong Kong with the finance used outside Hong Kong.

15. Advances and other accounts (Continued)

(b) Impaired, overdue and rescheduled assets

(i) Impaired loans

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Gross loans and advances	136,946,773	128,628,087
Less: total impairment allowances	(1,008,586)	(913,923)
Net	<u>135,938,187</u>	<u>127,714,164</u>
Credit-impaired loans and advances	1,049,226	970,166
Less: Stage 3 impairment allowances	(381,197)	(362,989)
Net	<u>668,029</u>	<u>607,177</u>
Fair value of collaterals held*	<u>590,496</u>	<u>503,728</u>
Credit-impaired loans and advances as a % of total loans and advances to customers	<u>0.77%</u>	<u>0.75%</u>

* Fair value of collateral is determined at the lower of the market value of collateral and outstanding loan balance.

(ii) Gross amount of overdue loans

	As at 31 Dec 2019		As at 31 Dec 2018	
	Gross amount of overdue loans	% of total	Gross amount of overdue loans	% of total
Gross advances to customers which have been overdue for:				
- six months or less but over three months	180,317	0.13	99,729	0.08
- one year or less but over six months	250,661	0.18	51,812	0.04
- over one year	<u>318,703</u>	<u>0.23</u>	<u>429,568</u>	<u>0.33</u>
	<u>749,681</u>	<u>0.54</u>	<u>581,109</u>	<u>0.45</u>
Market value of securities held against the secured overdue advances	<u>885,515</u>		<u>565,273</u>	
Secured overdue advances	578,446		392,626	
Unsecured overdue advances	<u>171,235</u>		<u>188,483</u>	
Stage 3 impairment allowances	<u>226,415</u>		<u>227,437</u>	

Collateral held mainly represented pledged deposits, mortgages over properties and charges over other fixed assets such as equipment.

15. Advances and other accounts (Continued)

(b) Impaired, overdue and rescheduled assets (Continued)

(iii) Rescheduled advances net of amounts included in overdue advances shown above

HK\$'000	As at 31 Dec 2019	% of total	As at 31 Dec 2018	% of total
Advances to customers	<u>270,909</u>	<u>0.20</u>	<u>311,262</u>	<u>0.24</u>
Stage 3 impairment allowances	<u>112,734</u>		<u>115,877</u>	

(c) Trade bills

	As at 31 Dec 2019	As at 31 Dec 2018
Trade bills which have been overdue for:		
- one year or less but over six months	<u>11,907</u>	<u>-</u>
Stage 3 impairment allowances	<u>-</u>	<u>-</u>

(d) Repossessed collateral

Repossessed collateral held at the year-end is as follows:

Nature of assets	As at 31 Dec 2019	As at 31 Dec 2018
Repossessed properties	<u>287,397</u>	153,639
Others	<u>7,782</u>	<u>8,336</u>
	<u>295,179</u>	<u>161,975</u>

Repossessed collaterals are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness of the borrowers concerned.

Certain other properties in the Mainland China with a total estimated realisable value of HK\$59,274,000 (2018: HK\$60,349,000), which had been foreclosed and repossessed by the Group pursuant to orders issued by courts in the Mainland China, represent assets held by the Group for resale and have been reported under "Other assets". The relevant loans had been derecognised.

16. Financial assets at fair value through other comprehensive income

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Debt securities:		
- Listed in Hong Kong	16,470,818	17,295,716
- Listed outside Hong Kong	16,609,379	16,638,018
- Unlisted	8,970,096	7,607,538
	<u>42,050,293</u>	<u>41,541,272</u>
Equity securities:		
- Listed in Hong Kong	30,277	30,201
- Unlisted	82,710	83,038
	<u>112,987</u>	<u>113,239</u>
Total	<u>42,163,280</u>	<u>41,654,511</u>
Included within debt securities are:		
- Certificates of deposit held	114,099	429,758
- Treasury bills which are cash equivalents	4,496,472	2,098,522
- Other treasury bills	5,599,844	6,698,961
- Government bonds	118,594	191,387
- Other debt securities	31,721,284	32,122,644
	<u>42,050,293</u>	<u>41,541,272</u>
Financial assets at fair value through other comprehensive income are analysed by categories of issuers as follows:		
Debt securities:		
- Central governments and central banks	10,214,910	8,988,870
- Public sector entities	143,655	481,574
- Banks and other financial institutions	6,224,854	7,495,726
- Corporate entities	25,466,799	24,575,027
- Others	75	75
	<u>42,050,293</u>	<u>41,541,272</u>
Equity securities:		
- Corporate entities	<u>112,987</u>	<u>113,239</u>
	<u>42,163,280</u>	<u>41,654,511</u>

17. Financial assets at amortised cost

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Debt securities		
- Listed in Hong Kong	4,531,678	2,019,488
- Listed outside Hong Kong	6,534,167	3,605,219
- Unlisted	4,598,713	3,521,596
	<u>15,664,558</u>	<u>9,146,303</u>
Less: impairment allowance		
- Stage 1	(11,533)	(4,947)
Total	<u>15,653,025</u>	<u>9,141,356</u>
Included within debt securities are:		
- Certificates of deposit held	1,451,302	1,126,132
- Treasury bills	2,225,843	1,941,080
- Government bonds	301,957	523,450
- Other debt securities	11,685,456	5,555,641
	<u>15,664,558</u>	<u>9,146,303</u>
Financial assets at amortised cost are analysed by categories of issuers as follows:		
- Central governments and central banks	2,527,800	2,464,530
- Public sector entities	75,294	-
- Banks and other financial institutions	5,954,650	3,998,975
- Corporate entities	7,095,725	2,671,709
- Others	11,089	11,089
	<u>15,664,558</u>	<u>9,146,303</u>

18. Shareholders' funds

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Share capital	6,894,438	6,893,494
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	270,120	270,120
Investment revaluation reserve	415,027	66,447
Exchange reserve	(369,739)	(209,794)
General reserve	700,254	700,254
Reserve for share-based compensation	3,393	2,204
Retained earnings	19,578,333	18,064,533
	<u>27,270,840</u>	<u>25,566,272</u>
Proposed final dividend/ final dividend paid included in retained earnings	<u>492,013</u>	<u>492,013</u>

Note:

DSB as a locally incorporated bank in Hong Kong is required to maintain minimum impairment provisions in excess of those required under HKFRS in the form of regulatory reserve. The regulatory reserve, which also covers Banco Comercial de Macau S.A. ("BCM") and Dah Sing Bank (China) Limited ("DSB China"), is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes. The regulatory reserve restricts the amount of reserves which can be distributed to shareholders. Movements in the regulatory reserve are made directly through equity reserve and in consultation with the HKMA.

As at 31 December 2019, DSB has earmarked a regulatory reserve of HK\$1,127,403,000 (2018: HK\$1,195,194,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

19. Contingent liabilities and commitments

(a) Capital commitments

Capital expenditure in respect of projects and acquisition of fixed assets as at 31 December but not yet incurred is as follows:

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Expenditure contracted but not provided for	<u>147,096</u>	<u>89,469</u>

(b) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Contract amount	
	As at 31 Dec 2019	As at 31 Dec 2018
Direct credit substitutes	563,882	604,991
Transaction-related contingencies	527,442	507,169
Trade-related contingencies	967,813	966,996
Commitments that are unconditionally cancellable without prior notice	74,428,118	71,049,928
Other commitments with an original maturity of:		
- under 1 year	3,999,906	3,093,217
- 1 year and over	758,023	621,803
	<u>81,245,184</u>	<u>76,844,104</u>
	Credit risk weighted amount	
	As at 31 Dec 2019	As at 31 Dec 2018
Contingent liabilities and commitments	<u>1,794,624</u>	<u>1,548,583</u>

19. Contingent liabilities and commitments (Continued)

(c) Assets pledged

Exchange Fund debts pledged with the HKMA to facilitate the Group's trading and market-making activities in Exchange Fund debts are as follows:

HK\$'000	As at 31 Dec 2019	As at 31 Dec 2018
Assets pledged with HKMA:		
Trading securities	2,635,000	3,718,420
Financial assets at fair value through other comprehensive income	<u>1,279,155</u>	<u>1,416,143</u>
	<u>3,914,155</u>	<u>5,134,563</u>
Associated liabilities:		
Trading liabilities	<u>5,516,558</u>	<u>5,758,954</u>

The carrying amounts of the non-government bonds pledged with unrelated financial institutions under repurchase agreements and the associated liabilities are as follows:

	As at 31 Dec 2019	As at 31 Dec 2018
Assets pledged under repurchase agreements:		
Trading securities	65,451	500,000
Financial assets at fair value through other comprehensive income	620,552	1,676,716
Financial assets at amortised cost	<u>-</u>	<u>469,964</u>
	<u>686,003</u>	<u>2,646,680</u>
Associated liabilities:		
Deposits from banks	371,153	1,995,696
Other accounts and accruals	<u>300,000</u>	<u>500,000</u>
	<u>671,153</u>	<u>2,495,696</u>

The carrying amounts of the securities under repurchase agreements and the associated liabilities are approximately their fair values.

The Group cannot use, sell or pledge the above securities for the duration of the repurchase agreements and is exposed to the credit risk of the issuers of the transferred securities.

(d) Operating lease commitments

Where a Group company is the lessor, the future minimum lease payments receivable under non-cancellable building operating leases are as follows:

	As at 31 Dec 2019	As at 31 Dec 2018
Within 1 year	24,891	26,228
Between 1 and 2 years	5,186	18,309
Between 2 and 3 years	<u>2,253</u>	<u>2,582</u>
	<u>32,330</u>	<u>47,119</u>

In addition, the Group has, as a lessee, entered into a number of leases as at 31 December 2019 that have not yet commenced. The aggregate lease payments payable under these leases amount to HK\$435,610,000.

As at 31 December 2018, the Group was the lessee in respect of a number of properties which were classified as operating leases under HKAS 17. The future minimum lease payments payable under those operating leases which were non-cancellable were HK\$1,293,536,000.

20. Non-adjusting event after the reporting period

The outbreak and spread of the coronavirus disease across Mainland China and beyond since January 2020 has caused disruption to business and economic activities, and uncertainty to the global economy.

The Group has been closely monitoring the impact of the development of the coronavirus on the Group's businesses and services to customers. As of this stage, the Group's business and operations remain broadly normal.

The Group regularly performs stress tests on its key risks covering credit risk, market risk, liquidity risk, etc. to assess the potential impact of stressed business conditions on the Group's financial position, capital adequacy and liquidity. The stressed business scenarios applied in the assessment include the assumption of a meaningful slowdown in the economic growth of Mainland China and an economic contraction in Hong Kong.

The results of the latest stress tests incorporating considerations relating to the coronavirus disease showed that the Group has sufficient capital and liquidity to absorb the impact of the stress. The Group will continue to take appropriate actions to mitigate any potential impacts, and will keep its contingency and risk management measures under review, as the situation evolves.

With the situation and the spread of the coronavirus still evolving, the impact to our core markets and also to the Group's financial results cannot be reasonably estimated at the current stage.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Additional analysis on claims and exposures

- (a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral

HK\$'000	As at 31 Dec 2019		As at 31 Dec 2018	
	Outstanding balance	% of gross advances covered by collateral	Outstanding balance	% of gross advances covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	4,700,618	64.6	5,411,554	69.4
- Property investment	15,972,169	97.0	15,930,681	98.7
- Financial concerns	6,057,400	3.0	5,229,101	3.2
- Stockbrokers	1,585,717	28.6	1,711,512	28.2
- Wholesale and retail trade	6,455,795	90.1	6,584,127	89.2
- Manufacturing	1,978,378	59.5	1,702,636	75.0
- Transport and transport equipment	3,496,770	71.9	3,691,151	73.1
- Recreational activities	103,724	99.8	103,057	99.8
- Information technology	52,976	70.5	70,890	82.3
- Others	4,464,895	79.6	3,537,199	82.9
	44,868,442	72.1	43,971,908	75.2
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	584,349	100.0	632,804	100.0
- Loans for the purchase of other residential properties	29,864,112	100.0	26,609,223	100.0
- Credit card advances	3,761,021	-	3,721,632	-
- Others	13,196,910	52.8	12,927,451	51.3
	47,406,392	78.9	43,891,110	77.2
Loans for use in Hong Kong	92,274,834	75.6	87,863,018	76.2
Trade finance (Note (1))	8,815,573	62.9	9,265,660	62.8
Loans for use outside Hong Kong (Note (2))	35,856,366	66.0	31,499,409	67.8
	136,946,773	72.3	128,628,087	73.2

Note:

- (1) Trade finance shown above represents loans covering finance of imports to Hong Kong, exports and re-exports from Hong Kong and merchandising trade classified with reference to the relevant guidelines issued by the HKMA.

Trade finance loans not involving Hong Kong (including trade finance extended by the overseas subsidiary banks of DSB) totalling HK\$294,310,000 (31 December 2018: HK\$306,245,000) are classified under Loans for use outside Hong Kong.

- (2) Loans for use outside Hong Kong include loans extended to customers located in Hong Kong with the finance used outside Hong Kong.

1. Additional analysis on claims and exposures (Continued)

- (a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral (Continued)

For each industry sector reported above with loan balance constituting 10% or more of the total balance of advances to customers, the attributable amount of impaired loans, overdue loans, Stage 3, and Stage 1 and Stage 2 impairment allowances are as follows:

HK\$'000	As at 31 Dec 2019				
	Outstanding balance	Impaired loans (Stage 3)	Gross advances overdue for over 3 months	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial - Property investment	15,972,169	45,985	44,910	4,721	79,461
Individuals - Loans for the purchase of other residential properties	29,864,112	44,204	33,772	7,537	21,934
Loans for use outside Hong Kong	<u>35,856,366</u>	<u>256,544</u>	<u>373,852</u>	<u>129,588</u>	<u>131,693</u>
	As at 31 Dec 2018				
	Outstanding balance	Impaired loans (Stage 3)	Gross advances overdue for over 3 months	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial - Property investment	15,930,681	46,826	39,278	3,417	89,814
Individuals - Loans for the purchase of other residential properties	26,609,223	27,406	14,575	1,807	18,520
Loans for use outside Hong Kong	<u>31,499,409</u>	<u>220,458</u>	<u>182,600</u>	<u>90,693</u>	<u>122,411</u>

1. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures

The analysis of Mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland Activities, which includes the Mainland activities exposures extended by DSB and its Mainland subsidiary bank only.

HK\$'000

2019	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and joint ventures ("JV"s)	10,376,553	501,429	10,877,982
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,075,406	323,331	1,398,737
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,873,770	1,310,785	15,184,555
4. Other entities of central government not reported in item 1 above	2,397,774	49,341	2,447,115
5. Other entities of local governments not reported in item 2 above	1,039,800	290,552	1,330,352
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	11,912,699	405,440	12,318,139
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,329,873	-	1,329,873
	<u>42,005,875</u>	<u>2,880,878</u>	<u>44,886,753</u>
Total assets of DSB and its Mainland subsidiary bank after provision	<u>224,615,205</u>		
On-balance sheet exposures as percentage of total assets	<u>18.70%</u>		

Note: The balances of exposures reported above include gross advances and other balances of claims on the customers.

1. Additional analysis on claims and exposures (Continued)

(b) Mainland activities exposures (Continued)

HK\$'000

2018	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1. Central government, central government-owned entities and their subsidiaries and JVs	9,982,126	305,735	10,287,861
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,504,724	371,992	1,876,716
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,135,384	1,046,751	14,182,135
4. Other entities of central government not reported in item 1 above	1,154,781	9,949	1,164,730
5. Other entities of local governments not reported in item 2 above	643,794	6,616	650,410
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	9,618,828	359,654	9,978,482
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,000,366	-	1,000,366
	<u>37,040,003</u>	<u>2,100,697</u>	<u>39,140,700</u>
Total assets of DSB and its Mainland subsidiary bank after provision	<u>213,334,791</u>		
On-balance sheet exposures as percentage of total assets	<u>17.36%</u>		

1. Additional analysis on claims and exposures (Continued)

(c) Analysis of gross advances to customers and overdue loans by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party located in an area which is different from that of the counterparty.

The following table analyses gross advances to customers, impaired advances to customers (Stage 3), overdue advances to customers, Stage 3, and Stage 1 and Stage 2 impairment allowances by geographical area.

As at 31 Dec 2019

HK\$'000	Gross advances to customers	Impaired advances to customers (Stage 3)	Overdue advances to customers	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Hong Kong	113,233,394	933,795	500,123	355,400	548,920
China	7,940,270	64,274	64,274	11,496	50,993
Macau	14,800,379	46,036	177,735	13,308	22,908
Others	972,730	5,121	7,549	993	4,568
	136,946,773	1,049,226	749,681	381,197	627,389

As at 31 Dec 2018

	Gross advances to customers	Impaired advances to customers (Stage 3)	Overdue advances to customers	Stage 3 impairment allowances	Stage 1 and Stage 2 impairment allowances
Hong Kong	105,025,978	832,748	441,976	332,656	479,963
China	7,442,961	75,691	66,817	12,147	46,637
Macau	14,456,832	59,521	59,521	17,867	16,860
Others	1,702,316	2,206	12,795	319	7,474
	128,628,087	970,166	581,109	362,989	550,934

1. Additional analysis on claims and exposures (Continued)

(d) International claims

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

At 31 Dec 2019 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	5,309	19,518	10,501	135,768	171,096
- of which: Hong Kong	4,560	17,167	10,500	119,445	151,672
Developing Asia and Pacific	28,110	1,377	877	16,492	46,856
- of which: Mainland China	20,533	1,297	524	13,277	35,631
Non-bank private sector					
At 31 Dec 2018 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	6,179	17,390	8,324	125,961	157,854
- of which: Hong Kong	4,874	15,327	8,034	109,858	138,093
Developing Asia and Pacific	30,328	1,651	976	14,380	47,335
- of which: Mainland China	24,160	1,575	606	12,165	38,506

2. Currency concentrations

The following sets out the net foreign exchange position in USD and other individual currency that constitutes more than 10% of the total net position in all foreign currencies as at 31 December 2019 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 31 December 2019 and 2018.

At 31 December 2019					
Equivalent in HK\$ millions	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Spot assets	68,058	17,066	11,730	9,331	106,185
Spot liabilities	(48,362)	(15,453)	(11,963)	(8,965)	(84,743)
Forward purchases	38,334	20,312	-	3,906	62,552
Forward sales	(57,101)	(21,638)	-	(4,347)	(83,086)
Net options position	(40)	-	-	40	-
Net long/ (short) position	<u>889</u>	<u>287</u>	<u>(233)</u>	<u>(35)</u>	<u>908</u>

At 31 December 2018					
Equivalent in HK\$ millions	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Spot assets	60,969	14,883	10,894	5,691	92,437
Spot liabilities	(43,893)	(14,226)	(11,539)	(8,423)	(78,081)
Forward purchases	29,060	13,612	1	7,359	50,032
Forward sales	(45,568)	(13,760)	(160)	(4,639)	(64,127)
Net options position	(34)	-	-	34	-
Net long/ (short) position	<u>534</u>	<u>509</u>	<u>(804)</u>	<u>22</u>	<u>261</u>

3. Capital adequacy ratio

	As at 31 Dec 2019	As at 31 Dec 2018
Capital adequacy ratio		
- Common Equity Tier 1	13.4%	13.1%
- Tier 1	13.9%	13.7%
- Total	<u>17.9%</u>	<u>18.1%</u>

The capital adequacy ratio as at 31 December 2019 and 31 December 2018 represents the consolidated position of DSB (covering BCM and DSB China) computed on Basel III basis in accordance with the Banking (Capital) Rules. This capital adequacy ratio takes into account market risk and operational risk.

DSB as a locally incorporated bank in Hong Kong is subject to the minimum capital adequacy ratio requirement under the Hong Kong Banking Ordinance. BCM is subject to Macau banking regulations and DSB China is subject to China banking regulations.

4. Leverage ratio

	As at 31 Dec 2019	As at 31 Dec 2018
Leverage ratio	<u>8.9%</u>	<u>8.8%</u>

The disclosure on leverage ratio is required under section 24A(6) of the Banking (Disclosure) Rules. The above ratios represent the consolidated position of DSB and are computed on the same consolidated basis as the capital adequacy ratio.

5. Liquidity maintenance ratio

	2019	2018
Liquidity maintenance ratio	<u>46.4%</u>	<u>45.6%</u>

The liquidity maintenance ratio is calculated as the simple average of each calendar month's average consolidated liquidity maintenance ratio of DSB (covering BCM and DSB China) for the financial year. The liquidity maintenance ratio is computed in accordance with the Banking (Liquidity) Rules.

DSB as a locally incorporated bank in Hong Kong is subject to the liquidity requirement under the Hong Kong Banking Ordinance. BCM is subject to Macau banking regulations and DSB China is subject to China banking regulations.

FINANCIAL RATIOS

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Net interest income/ operating income	75.6%	72.7%
Cost to income ratio	52.9%	47.1%
Return on average total assets	0.9%	1.1%
Return on average shareholders' funds	8.5%	9.8%
Net interest margin	1.87%	2.01%
	As at 31 Dec 2019	As at 31 Dec 2018
Loan to deposit ratio	72.3%	71.7%

FINAL DIVIDEND

At the forthcoming annual general meeting ("AGM") of the Company to be held on Friday, 29 May 2020, the Directors will propose a final dividend of HK\$0.35 per share for 2019 to shareholders whose names are on the Register of Shareholders as at the close of business on Tuesday, 9 June 2020. Subject to shareholders' approval at the AGM, the final dividend will be payable on Wednesday, 17 June 2020.

CLOSURE OF REGISTER OF SHAREHOLDERS

For determining shareholders' right to attend and vote at the AGM:

Closure dates of Register of Shareholders (both days inclusive)	26 May 2020 (Tuesday) to 29 May 2020 (Friday)
Latest time to lodge transfers	4:30 p.m. on 25 May 2020 (Monday)
Record date	29 May 2020 (Friday)
AGM	29 May 2020 (Friday)

For determining shareholders' entitlement to receive the proposed final dividend:

Closure dates of Register of Shareholders (both days inclusive)	5 June 2020 (Friday) to 9 June 2020 (Tuesday)
Latest time to lodge transfers	4:30 p.m. on 4 June 2020 (Thursday)
Record date	9 June 2020 (Tuesday)

During the periods of the closure of Register of Shareholders, no share transfers will be registered. For registration, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before the relevant latest time to lodge transfers.

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

The Hong Kong economy contracted by 1.2% in 2019, its first annual decline since 2009. Economic momentum was sluggish in the first half of the year, due in part to Sino-US trade tensions, whilst social unrest in the second half of the year caused an even greater decline in economic activity. Most sectors of the economy were impacted, and there were particularly notable slowdowns in the retail, tourism, hospitality and restaurant sectors. After a relatively stable unemployment rate in the first half of 2019, unemployment rate started to pick up in the second half, ending up 0.5% higher at 3.3% by the end of the year. The headline inflation rate picked up somewhat, ending the year at 2.9%.

According to the IMF, global growth for 2019 was estimated to be 2.9%, its lowest level since 2008-09, and a meaningful reduction from the 3.6% growth in 2018. Mainland China reported GDP growth of 6.1% for the year, its lowest growth in the past 30 years. Quarter on quarter, economic growth continued to trend downwards towards the end of the year. The US economy grew by 2.3% for the year, the slowest rate of growth since 2016, and lower than earlier forecasts. The European Union's economic growth weakened further, with growth in GDP of around 1% for the year.

Interest rates remained volatile during the year, with one month HIBOR trading in a wide range between a little below 1% to around 3% during the course of the year. In general, Hong Kong interest rates remained below those of the US for most of the year. Contrary to expectations set when interest rates were rising in 2018, the US Federal Reserve cut interest rates three times during the year, for a total of 0.75%, reversing most of the interest rate increases in 2018. US market rates were generally more stable than those in Hong Kong, with LIBOR tracking downwards broadly in line with the cut in the US Fed Funds rate.

BUSINESS AND FINANCIAL REVIEW

Against these extremely difficult and volatile market conditions, and in particular the adverse local market conditions experienced in the second half of last year, our profit attributable to shareholders dropped by 9.7% to HK\$2,240 million. Revenues were generally weak across the board, with decreases reported in net interest income, fee and commission income and trading income. Net interest income fell by 2.2% despite overall volume growth, due to pressure on net interest margin. Net fee and commission income reduced modestly by a little over 1%, due mainly to weaker market conditions, and reduced broking and securities related income, whilst net trading income dropped significantly, mainly as a result of the non-recurrence of certain trading disposal gains booked in 2018.

Operating expenses increased by mid single digits, mainly due to inflationary increases in staff costs, as well as increases in our spending on IT related projects. Credit impairment charges were significantly higher, rising by 53% year on year. Notably, the major part of this increase came in the second half of the year, reflecting the more difficult market environment during the second half, and also our more cautious outlook at the end of 2019.

The Value in Use of our investment in Bank of Chongqing ("BOCQ") was again below the carrying value of the investment as at 31 December 2019, resulting in the need for a further impairment charge of HK\$217 million at the year end, which together with the impairment charge of HK\$70 million made at the mid-year, resulted in a total impairment charge for the year of HK\$287 million, lower than 2018 by HK\$346 million. Despite the need for an impairment charge to reduce the carrying value of the investment, the operating performance of BOCQ remained satisfactory, and our share of its net profit was HK\$702 million for the year, 6.4% higher than the prior year. Our businesses in Macau and China delivered weaker results due primarily to pressure on net interest margin.

With much weaker business conditions and reduced profitability, our key operating metrics generally declined, with a reduction in return on shareholders' funds from 9.8% to 8.5%. Our cost to income ratio increased from 47.1% to 52.9% year on year.

As at 31 December 2019, the consolidated Common Equity Tier 1 ratio of Dah Sing Bank, Limited ("DSB") was 13.4%, a little higher than the level of 13.1% at the end of 2018. Taking into account DSB's outstanding Tier 2 subordinated debts, DSB's consolidated capital adequacy level at the year end was 17.9%, similar to the prior year. We continued to operate well above the minimum Liquidity Maintenance Ratio of 25%, reporting an average level of 46% during the year. We believe that our capital and liquidity ratios are maintained at levels within the market range for both peer banks in Hong Kong, and indeed for banks internationally.

PROSPECTS

After a difficult second half of 2019, we were originally hoping that there could be some stabilisation or even improvement in the first half of 2020. However, before the end of January, the implications of the coronavirus outbreak, initially in Wuhan and Hubei, began to become apparent. With the outbreak now spreading globally, it is likely that there will be a material negative impact, not only on Hong Kong and Mainland China, but also on the global economy.

We have experienced slow business conditions so far this year, and we are not expecting that things will turn round any time soon. It is, however, difficult to judge at this stage how long the current situation will continue. Whilst new coronavirus cases in Hong Kong have until the past week been broadly stable, and those in the Mainland in the recent past are reported to be coming down, infections in other parts of the world continue to increase, which could quickly lead to a rise in the number of cases locally for example through returnees from affected countries.

Economic and business activities in our key markets of Hong Kong, Mainland China and Macau have gradually resumed, after having slowed materially from late January to mid-February as many businesses were closed, or only operating on much reduced capacity. However, overall activity in our key markets remains well below usual levels. Whilst at present we have not noted any major changes in credit quality, the trends appear to continue to be negative. Against this, we maintain adequate levels of capital and liquidity to guard against further downturns, even if they remain prolonged.

All of this means that we have an extremely cautious outlook for 2020. We are focused on maintaining our business operations in a smooth and effective manner, whilst also being mindful of managing potential risks to our staff and customers in an appropriate way. It is too early to say when we might see a change for the positive, and therefore we continue to run our business along more cautious lines than usual.

If history is a guide, other outbreaks of infections such as SARS have been brought under control eventually, although of course this could take some time. As and when the situation normalises, we have the ability to return to more normal business operations quickly.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (“CG Code”) under Appendix 14 of the Listing Rules throughout the year ended 31 December 2019, with the exception of code provision A.4.1.

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the Company’s Articles of Association.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct for directors’ securities dealing (“Directors’ Dealing Code”) on terms no less exacting than the prevailing required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) under Appendix 10 of the Listing Rules. Following specific enquiry, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code and the Directors’ Dealing Code throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements of the Group for the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the year ended 31 December 2019.

ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkexnews.hk and Dah Sing Bank at www.dahsing.com.

The 2019 Annual Report of the Group containing all the information required by the Listing Rules will be published on the websites of HKEX and Dah Sing Bank in due course. Printed copies of the 2019 Annual Report will be sent to shareholders who have elected to receive printed versions of the Company’s corporate communications before the end of April 2020.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. David Shou-Yeh Wong (Chairman), Hon-Hing Wong (Derek Wong) (Vice Chairman, Managing Director and Chief Executive), Gary Pak-Ling Wang (Group Chief Financial and Operating Officer) and Nicholas John Mayhew (Deputy Chief Executive) as Executive Directors and Messrs. Robert Tsai-To Sze, Seng-Lee Chan, Yuen-Tin Ng and Blair Chilton Pickerell as Independent Non-Executive Directors.

By Order of the Board

Doris W. N. Wong
Company Secretary

Hong Kong, Wednesday, 25 March 2020