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大新銀行集團有限公司

DAH SING BANKING GROUP LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

The holding company of Dah Sing Bank, Limited

(Stock Code: 2356)

ANNOUNCEMENT OF 2020 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 2020.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

HK\$'000	Note	2020	2019	Variance %
Interest income	4	6,210,429	7,472,587	
Interest expense	4	(2,514,627)	(3,398,803)	
Net interest income		3,695,802	4,073,784	(9.3)
Fee and commission income	5	1,381,782	1,433,414	
Fee and commission expense	5	(199,981)	(286,450)	
Net fee and commission income		1,181,801	1,146,964	3.0
Net trading income	6	310,435	98,891	
Other operating income	7	60,772	68,474	
Operating income		5,248,810	5,388,113	(2.6)
Operating expenses	8	(2,832,936)	(2,850,566)	(0.6)
Operating profit before impairment losses		2,415,874	2,537,547	(4.8)
Credit impairment losses	9	(646,968)	(356,386)	81.5
Operating profit before gains and losses on certain investments and fixed assets		1,768,906	2,181,161	(18.9)
Net loss on disposal of other fixed assets		(3,027)	(6,568)	
Net loss on fair value adjustment of investment properties		(84,240)	(28,289)	
Net gain/ (loss) on disposal of financial assets at fair value through other comprehensive income		13,448	(24)	
Impairment loss on goodwill	10	(98,239)	-	
Share of results of an associate		710,370	701,857	
Impairment loss on the investment in an associate	11	(531,000)	(287,000)	
Share of results of jointly controlled entities		33,190	32,072	
Profit before taxation		1,809,408	2,593,209	(30.2)
Taxation	12	(316,398)	(353,075)	
Profit for the year		1,493,010	2,240,134	(33.4)
Loss/ (profit) attributable to non-controlling interests		116	(101)	
Profit attributable to Shareholders of the Company		1,493,126	2,240,033	(33.3)
Dividends				
Interim dividend paid		112,460	182,748	
Proposed final dividend/ final dividend paid		309,265	492,013	
		421,725	674,761	
Earnings per share				
Basic and diluted	13	HK\$1.06	HK\$1.59	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

HK\$'000	2020	2019
Profit for the year	<u>1,493,010</u>	<u>2,240,134</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	(78,340)	395,412
Net change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	6,423	4,487
Net (gain)/ loss realised and transferred to income statement upon:		
- Disposal of debt instruments at fair value through other comprehensive income	(13,448)	24
Deferred income tax related to the above	<u>18,910</u>	<u>(52,137)</u>
	<u>(66,455)</u>	<u>347,786</u>
Exchange differences arising on translation of the financial statements of foreign entities	<u>387,964</u>	<u>(159,945)</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	(1,387)	951
Deferred income tax related to the above	<u>2,516</u>	<u>(157)</u>
	<u>1,129</u>	<u>794</u>
Other comprehensive income for the year, net of tax	<u>322,638</u>	<u>188,635</u>
Total comprehensive income for the year, net of tax	<u>1,815,648</u>	<u>2,428,769</u>
Attributable to:		
Non-controlling interests	(90)	101
Shareholders of the Company	<u>1,815,738</u>	<u>2,428,668</u>
Total comprehensive income for the year, net of tax	<u>1,815,648</u>	<u>2,428,769</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

HK\$'000	Note	2020	2019
ASSETS			
Cash and balances with banks		15,262,452	17,642,248
Placements with banks maturing between one and twelve months		5,355,765	5,494,972
Trading securities	14	5,080,047	8,387,953
Financial assets at fair value through profit or loss	14	-	328,768
Derivative financial instruments	15	1,135,814	567,816
Advances and other accounts	16	146,844,457	144,632,781
Financial assets at fair value through other comprehensive income	17	41,815,998	42,163,280
Financial assets at amortised cost	18	22,842,879	15,653,025
Investment in an associate	11	4,277,927	3,888,775
Investments in jointly controlled entities		105,553	96,363
Goodwill	10	713,451	811,690
Intangible assets		58,252	58,252
Premises and other fixed assets		3,006,039	2,356,707
Investment properties		682,909	1,208,639
Current income tax assets		-	2
Deferred income tax assets		124,680	115,216
Total assets		247,306,223	243,406,487
LIABILITIES			
Deposits from banks		3,500,442	2,465,069
Derivative financial instruments	15	3,191,188	1,093,028
Trading liabilities		1,570,675	5,516,558
Deposits from customers		190,339,807	182,628,806
Certificates of deposit issued		8,125,802	6,750,825
Subordinated notes		3,828,458	5,510,181
Other accounts and accruals		6,996,407	10,765,814
Current income tax liabilities		383,696	470,834
Deferred income tax liabilities		14,561	20,559
Total liabilities		217,951,036	215,221,674
EQUITY			
Non-controlling interests		15,296	15,386
Equity attributable to the Company's shareholders			
Share capital		6,894,438	6,894,438
Other reserves (including retained earnings)		21,546,866	20,376,402
Shareholders' funds	19	28,441,304	27,270,840
Additional equity instruments		898,587	898,587
Total equity		29,355,187	28,184,813
Total equity and liabilities		247,306,223	243,406,487

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 2020 (the "2020 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 24 March 2021.

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 2020 consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2019.

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

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

The following amendments to accounting standards are applicable for annual reporting periods commencing on 1 January 2020:

- Definition of Material - amendments to HKAS 1 and HKAS 8
- Definition of a Business - amendments to HKFRS 3
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform - Phase 1, amendments to HKFRS 9 "Financial Instruments", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosures"

2. **Basis of Preparation and Accounting Policies (Continued)**

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

Interest rate benchmark reform is the market-wide initiative to replace or reform interbank offered rates (“IBORs”) that are commonly used to determine interest cash flows on financial instruments such as loans and advances to customers, deposits from banks and customers, debt securities and derivatives. The objective of the reform is to replace IBORs with alternative risk-free interest rates (“RFRs”) that are based on actual market transactions. Consequently, financial contracts which currently make reference to IBORs may need to be amended such that they will make reference to the alternative RFRs in the applicable currency going forward. Amendments to HKFRS 9, HKAS 39 and HKFRS 7 modify some specific hedge accounting requirements to provide relief (the “temporary relief”) from the potential effects of the uncertainties caused by the interest rate benchmark reform.

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the temporary relief will cease to apply. As at 31 December 2020, there is still uncertainty on the reform of IBORs, and the Group has applied the temporary relief on all its hedge accounting relationships based on reference benchmarks that are subject to the IBORs reform or replacement. The Group continues to closely monitor the market progress on the transition of IBORs to RFRs.

The Group has certain outstanding interest rate swaps which are exposed to different types of IBORs, (predominantly US Dollar London Interbank Offered Rate (“LIBOR”) and Hong Kong Interbank Offered Rate (“HIBOR”). These interest rate swaps are designated as fair value hedge of certain of the Group's fixed rate financial instruments including debt securities held at fair value through other comprehensive income and amortised cost, bank borrowing, certificates of deposit issued and subordinated notes issued. The notional amount of interest rate swaps designated as subject to hedge accounting relationships and the temporary relief as at 31 December 2020 is approximately HK\$42 billion.

(b) New and amended standards and interpretations not yet adopted

Interest Rate Benchmark Reform – Phase 2, amendments to HKAS 39, HKFRS 4 “Insurance Contracts”, HKFRS 7, HKFRS 9 and HKFRS 16 “Leases”

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform and relate to:

- (i) changes to contractual cash flows – financial instruments will not be derecognised, but the effective interest rate will be updated to reflect the change to the alternative benchmark rate;
- (ii) hedge accounting – hedge accounting will not be discontinued solely because changes are required to be made by the reform, if the hedge meets other hedge accounting criteria; and
- (iii) disclosures – information relating to new risks arising from the reform and how the transition to alternative benchmark rates is managed is to be disclosed.

There are no other HKFRSs or interpretations that are effective from 1 January 2020 or not yet effective that would be expected to have a material impact on the Group.

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 2020

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	1,584,254	1,124,905	669,395	486,130	(168,882)	-	3,695,802
Non-interest income/ (expenses)	1,008,393	194,070	197,802	117,623	36,116	(996)	1,553,008
Total operating income/ (expenses)	2,592,647	1,318,975	867,197	603,753	(132,766)	(996)	5,248,810
Operating expenses	(1,630,344)	(504,889)	(185,689)	(507,522)	(5,488)	996	(2,832,936)
Operating profit/ (loss) before credit impairment losses	962,303	814,086	681,508	96,231	(138,254)	-	2,415,874
Credit impairment losses	(342,197)	(151,822)	(20,102)	(131,768)	(1,079)	-	(646,968)
Operating profit/ (loss) after credit impairment losses	620,106	662,264	661,406	(35,537)	(139,333)	-	1,768,906
Net loss on disposal and fair value adjustment of investment properties and other fixed assets	(2,902)	-	-	(68)	(84,297)	-	(87,267)
Net gain on disposal of financial assets at fair value through other comprehensive income	-	-	13,448	-	-	-	13,448
Impairment loss on goodwill	-	(98,239)	-	-	-	-	(98,239)
Share of results of an associate	-	-	-	710,370	-	-	710,370
Impairment loss on the investment in an associate	-	-	-	(531,000)	-	-	(531,000)
Share of results of jointly controlled entities	-	-	-	-	33,190	-	33,190
Profit/ (loss) before taxation	617,204	564,025	674,854	143,765	(190,440)	-	1,809,408
Taxation (expenses)/ credit	(101,353)	(110,166)	(111,368)	(19,217)	25,706	-	(316,398)
Profit/ (loss) for the year	515,851	453,859	563,486	124,548	(164,734)	-	1,493,010
For the year ended 31 December 2020							
Depreciation and amortisation	74,976	14,965	7,135	56,312	227,363	-	380,751
At 31 December 2020							
Segment assets	53,965,730	66,782,037	84,562,197	38,200,663	8,820,927	(5,025,331)	247,306,223
Segment liabilities	112,788,974	46,684,129	16,220,032	29,899,300	17,383,932	(5,025,331)	217,951,036

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)
Share of results of an associate	-	-	-	701,857	-	-	701,857
Impairment loss on the investment in an associate	-	-	-	(287,000)	-	-	(287,000)
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) for the year	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

Geographical information

Geographical segment information is based on the domicile of the legal entities within the Group with business dealing and relationship with, and services to external customers. For the year ended 31 December 2020 and 2019, no single country or geographical segment other than Hong Kong contributed 10% or more of the Group's assets, liabilities, operating income, or profit before taxation.

4. Net interest income

HK\$'000	2020	2019
Interest income		
Cash and balances with banks	267,438	475,193
Investments in securities	1,360,604	1,762,703
Advances and other accounts	4,582,387	5,234,691
	<u>6,210,429</u>	<u>7,472,587</u>
Interest expense		
Deposits from banks/ Deposits from customers	2,189,791	2,817,260
Certificates of deposit issued	126,852	157,184
Subordinated notes	137,815	284,480
Lease liabilities	10,574	13,486
Others	49,595	126,393
	<u>2,514,627</u>	<u>3,398,803</u>
Included within interest income		
- Trading securities and financial assets at fair value through profit or loss	53,199	140,573
- Financial assets at fair value through other comprehensive income	850,703	1,427,901
- Financial assets at amortised cost	5,306,527	5,904,113
	<u>6,210,429</u>	<u>7,472,587</u>
Included within interest expense		
- Financial liabilities not at fair value through profit or loss	<u>2,471,800</u>	<u>3,288,669</u>

For the year ended 31 December 2020 and 2019, there was no interest income recognised on impaired assets.

5. Net fee and commission income

HK\$'000	2020	2019
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	170,451	186,003
- Trade finance	78,218	87,301
- Credit card	255,002	338,315
Other fee and commission income		
- Securities brokerage	192,396	106,243
- Insurance distribution and others	284,293	336,708
- Retail investment and wealth management services	269,056	255,512
- Bank services and handling fees	65,587	68,677
- Other fees	66,779	54,655
	<u>1,381,782</u>	<u>1,433,414</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	189,919	267,580
- Other fees paid	10,062	18,870
	<u>199,981</u>	<u>286,450</u>

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

6. Net trading income

HK\$'000	2020	2019
Net gain arising from dealing in foreign currencies	285,844	74,901
Net gain on trading securities	14,133	13,709
Net gain from derivatives entered into for trading purpose	2,443	1,334
Net gain arising from financial instruments subject to fair value hedge	895	7,181
Net gain on financial instruments at fair value through profit or loss	7,120	1,766
	<u>310,435</u>	<u>98,891</u>

7. Other operating income

HK\$'000	2020	2019
Dividend income from investments in equity instruments at fair value through other comprehensive income, held at the end of the year		
- Listed investments	1,612	2,284
- Unlisted investments	4,330	7,800
Gross rental income from investment properties	22,965	27,231
Other rental income	15,445	13,988
Others	16,420	17,171
	<u>60,772</u>	<u>68,474</u>

8. Operating expenses

HK\$'000	2020	2019
Employee compensation and benefit expenses		
- Salaries and other staff costs	1,880,090	1,793,074
- Government grant - Employment Support Scheme	(65,686)	-
- Provision for share-based compensation charged	821	1,406
- Pension costs - defined contribution plans	103,690	104,840
Premises and other fixed assets expenses, excluding depreciation		
- Rental of premises	3,307	7,918
- Others	211,227	197,136
Depreciation		
- Premises and other fixed assets	186,078	188,106
- Right-of-use properties	194,673	180,282
Advertising and promotion costs	77,138	89,987
Printing, stationery and postage	52,426	50,879
Auditors' remuneration	9,661	9,430
Others	179,511	227,508
	<u>2,832,936</u>	<u>2,850,566</u>

9. Credit impairment losses

HK\$'000	2020	2019
New allowances net of allowance releases	745,612	467,407
Recoveries of amounts previously written off	(98,644)	(111,021)
	<u>646,968</u>	<u>356,386</u>
Attributable to:		
- Advances to customers	603,479	342,581
- Other financial assets	36,162	11,430
- Loan commitments and financial guarantees	7,327	2,375
	<u>646,968</u>	<u>356,386</u>

10. Impairment loss on goodwill

Goodwill represents the excess of the cost of the Group's acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the acquiree as at the completion of an acquisition. Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segments in line with the internal management reporting structure.

Goodwill is tested annually for impairment losses by comparing the recoverable amount of CGU determined based on value in use ("VIU") calculation. The calculations use discounted cash flow projections prepared by Management based on the latest 5-year business plan, taking into account projected annual growth rate of net profit, and in perpetuity with 2% constant growth rate after the fifth year. The 5-year business plan was developed by Management based on their evaluation of the businesses and associated projected discounted cash flow of net profit of the relevant CGU and the conditions in which such businesses will operate over the projection period.

During 2020, Management had decided to recognise a goodwill impairment charge of HK\$98,239,000 for the CGU of the equipment finance business of Commercial Banking given that the recoverable amount of the equipment finance businesses under this CGU is lower than the carrying value. No impairment losses on goodwill in other segments were identified in the year (2019: Nil).

11. Impairment loss on the investment in an associate

At 31 December 2020, the fair value of the Group's investment in Bank of Chongqing ("BOCQ") had been below the carrying amount for approximately 7 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 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 2020, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors (including the cumulative impairment charge having been recognised as of 31 December 2019) and valuation assumptions, remained below the carrying amount. The latest impairment test performed by the Group for the position as at 31 December 2020 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 2019 of HK\$1,735 million, by HK\$531 million. As a result, an additional impairment charge of HK\$531 million was recognised in the year of 2020 to reduce the value of the investment to HK\$4,278 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.

12. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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	2020	2019
Current income tax:		
- Hong Kong profits tax	283,017	337,227
- Overseas taxation	22,793	30,873
- Over-provision in prior years	(218)	(85)
Deferred income tax:		
- Origination and reversal of timing differences	10,806	(14,940)
Taxation	<u>316,398</u>	<u>353,075</u>

13. Basic and diluted earnings per share

The calculation of basic earnings per share and fully dilutive earnings is based on earnings of HK\$1,493,126,000 (2019: HK\$2,240,033,000) and the weighted average number of 1,405,752,132 (2019: 1,405,736,426) ordinary shares in issue during the year the share options outstanding during the year ended have no dilutive effect on the weighted average number of ordinary shares.

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

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Trading securities:		
Debt securities:		
- Listed in Hong Kong	30,089	20,681
- Unlisted	<u>5,049,958</u>	<u>8,367,272</u>
	<u>5,080,047</u>	<u>8,387,953</u>
Financial assets at fair value through profit or loss:		
Debt securities:		
- Unlisted	-	328,768
	<u>-</u>	<u>328,768</u>
Total	<u>5,080,047</u>	<u>8,716,721</u>
Included within debt securities are:		
- Treasury bills which are cash equivalents	482,991	1,606,484
- Other treasury bills	4,566,967	6,781,469
- Government bonds	30,089	-
- Other debt securities issued by:		
- Corporate entities	-	328,768
	<u>5,080,047</u>	<u>8,716,721</u>

As at 31 December 2020 and 2019, there were no certificates of deposit held included in the above balances.

15. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2020 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	63,546,714	857,935	(815,861)
Currency options purchased and written	9,794,008	16,681	(16,661)
b) <i>Interest rate derivatives</i>			
Interest rate swaps	5,149,560	48,888	(44,691)
Interest rate options purchased and written	-	-	-
c) <i>Equity derivatives</i>			
Equity options purchased and written	742,444	22,479	(22,457)
Total derivative assets/ (liabilities) held for trading	79,232,726	945,983	(899,670)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	41,984,638	189,831	(2,291,518)
Total derivative assets/ (liabilities) held for hedging	41,984,638	189,831	(2,291,518)
Total recognised derivative financial assets/ (liabilities)	121,217,364	1,135,814	(3,191,188)

15. Derivative financial instruments (Continued)

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 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)

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 2020	As at 31 Dec 2019
Exchange rate contracts	793,701	721,770
Interest rate contracts	83,423	64,608
Other contracts	38,744	8,854
	915,868	795,232

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.

16. Advances and other accounts

HK\$'000	As at 31 Dec 2020	Restated As at 31 Dec 2019
Gross advances to customers	137,577,384	136,946,773
Less: impairment allowances		
- Stage 1	(486,431)	(474,635)
- Stage 2	(208,225)	(152,754)
- Stage 3	(556,508)	(381,197)
	<u>(1,251,164)</u>	<u>(1,008,586)</u>
	<u>136,326,220</u>	<u>135,938,187</u>
Trade bills	3,791,124	3,393,863
Less: impairment allowances		
- Stage 1	(8,848)	(1,982)
- Stage 2	(11)	(7)
	<u>(8,859)</u>	<u>(1,989)</u>
	<u>3,782,265</u>	<u>3,391,874</u>
Other assets	6,758,655	5,321,281
Less: impairment allowances		
- Stage 1	(10,287)	(8,496)
- Stage 2	(547)	(598)
- Stage 3	(11,849)	(9,467)
	<u>(22,683)</u>	<u>(18,561)</u>
	<u>6,735,972</u>	<u>5,302,720</u>
Advances and other accounts	<u>146,844,457</u>	<u>144,632,781</u>

In 2020, right-of-use assets have been categorised under “Premises and other fixed assets” and are not reported as part of “Advances and other accounts”. The comparative figure has been restated to conform with such presentation.

16. 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 2020		As at 31 Dec 2019	
	Outstanding balance	% of gross advances	Outstanding balance	% of gross advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	5,611,830	4.1	4,700,618	3.4
- Property investment	17,221,674	12.5	15,972,169	11.7
- Financial concerns	5,756,814	4.2	6,057,400	4.4
- Stockbrokers	1,733,867	1.3	1,585,717	1.2
- Wholesale and retail trade	6,004,660	4.4	6,455,795	4.7
- Manufacturing	1,790,941	1.3	1,978,378	1.4
- Transport and transport equipment	2,512,559	1.8	3,496,770	2.6
- Recreational activities	96,223	0.1	103,724	0.1
- Information technology	51,827	0.0	52,976	0.0
- Others	6,003,396	4.3	4,464,895	3.3
	46,783,791	34.0	44,868,442	32.8
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	558,428	0.4	584,349	0.4
- Loans for the purchase of other residential properties	31,260,619	22.8	29,864,112	21.8
- Credit card advances	3,610,141	2.6	3,761,021	2.8
- Others	13,079,682	9.5	13,196,910	9.6
	48,508,870	35.3	47,406,392	34.6
Loans for use in Hong Kong	95,292,661	69.3	92,274,834	67.4
Trade finance (Note (1))	8,115,481	5.9	8,815,573	6.4
Loans for use outside Hong Kong (Note (2))	34,169,242	24.8	35,856,366	26.2
	137,577,384	100.0	136,946,773	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\$260,328,000 (31 December 2019: HK\$294,310,000) 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.

16. Advances and other accounts (Continued)

(b) Impaired, overdue and rescheduled assets

(i) Impaired loans

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Gross loans and advances	137,577,384	136,946,773
Less: total impairment allowances	(1,251,164)	(1,008,586)
Net	136,326,220	135,938,187
Credit-impaired loans and advances	1,573,803	1,049,226
Less: Stage 3 impairment allowances	(556,508)	(381,197)
Net	1,017,295	668,029
Fair value of collateral held*	787,030	590,496
Credit-impaired loans and advances as a % of total loans and advances to customers	1.14%	0.77%

* 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 2020		As at 31 Dec 2019	
	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	240,472	0.17	180,317	0.13
- one year or less but over six months	136,656	0.10	250,661	0.18
- over one year	525,674	0.38	318,703	0.23
	902,802	0.65	749,681	0.54
Market value of securities held against the secured overdue advances	930,016		885,515	
Secured overdue advances	593,229		578,446	
Unsecured overdue advances	309,573		171,235	
Stage 3 impairment allowances	302,651		226,415	

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

16. 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 2020	% of total	As at 31 Dec 2019	% of total
Advances to customers	<u>374,963</u>	<u>0.27</u>	<u>270,909</u>	<u>0.20</u>
Stage 3 impairment allowances	<u>141,869</u>		<u>112,734</u>	

(c) Trade bills

	As at 31 Dec 2020	As at 31 Dec 2019
Trade bills which have been overdue for:		
- one year or less but over six months	-	11,907
- over one year	<u>607</u>	<u>-</u>
	<u>607</u>	<u>11,907</u>
Stage 3 impairment allowances	<u>-</u>	<u>-</u>

The overdue trade bills are fully secured.

(d) Repossessed collateral

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

Nature of assets	As at 31 Dec 2020	As at 31 Dec 2019
Repossessed properties	<u>304,514</u>	287,397
Others	<u>24,923</u>	<u>7,782</u>
	<u>329,437</u>	<u>295,179</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\$63,158,000 (2019: HK\$59,274,000), 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.

17. Financial assets at fair value through other comprehensive income

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Debt securities:		
- Listed in Hong Kong	14,072,696	16,470,818
- Listed outside Hong Kong	16,750,257	16,609,379
- Unlisted	10,892,365	8,970,096
	<u>41,715,318</u>	<u>42,050,293</u>
Equity securities:		
- Listed in Hong Kong	18,196	30,277
- Unlisted	82,484	82,710
	<u>100,680</u>	<u>112,987</u>
Total	<u>41,815,998</u>	<u>42,163,280</u>
Included within debt securities are:		
- Certificates of deposit held	344,348	114,099
- Treasury bills which are cash equivalents	3,551,262	4,496,472
- Other treasury bills	6,026,161	5,599,844
- Government bonds	123,458	118,594
- Other debt securities	31,670,089	31,721,284
	<u>41,715,318</u>	<u>42,050,293</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	9,700,881	10,214,910
- Public sector entities	134,779	143,655
- Banks and other financial institutions	7,582,172	6,224,854
- Corporate entities	24,297,411	25,466,799
- Others	75	75
	<u>41,715,318</u>	<u>42,050,293</u>
Equity securities:		
- Corporate entities	<u>100,680</u>	<u>112,987</u>
	<u>41,815,998</u>	<u>42,163,280</u>

18. Financial assets at amortised cost

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Debt securities		
- Listed in Hong Kong	8,751,193	4,531,678
- Listed outside Hong Kong	9,297,525	6,534,167
- Unlisted	4,818,383	4,598,713
	<u>22,867,101</u>	<u>15,664,558</u>
Less: impairment allowance		
- Stage 1	(24,222)	(11,533)
Total	<u>22,842,879</u>	<u>15,653,025</u>
Included within debt securities are:		
- Certificates of deposit held	1,745,601	1,451,302
- Treasury bills	1,308,909	2,225,843
- Government bonds	248,395	301,957
- Other debt securities	19,564,196	11,685,456
	<u>22,867,101</u>	<u>15,664,558</u>
Financial assets at amortised cost are analysed by categories of issuers as follows:		
- Central governments and central banks	1,557,304	2,527,800
- Public sector entities	293,469	75,294
- Banks and other financial institutions	7,681,769	5,954,650
- Corporate entities	13,323,470	7,095,725
- Others	11,089	11,089
	<u>22,867,101</u>	<u>15,664,558</u>

19. Shareholders' funds

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Share capital	6,894,438	6,894,438
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	270,120	270,120
Investment revaluation reserve	335,848	415,027
Exchange reserve	18,199	(369,739)
General reserve	700,254	700,254
Reserve for share-based compensation	4,210	3,393
Retained earnings	<u>20,439,221</u>	<u>19,578,333</u>
	<u>28,441,304</u>	<u>27,270,840</u>
 Proposed final dividend/ final dividend paid included in retained earnings	 <u>309,265</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 2020, DSB has earmarked a regulatory reserve of HK\$502,278,000 (2019: HK\$1,127,403,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

20. 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 2020	As at 31 Dec 2019
Expenditure contracted but not provided for	<u>198,240</u>	<u>147,096</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 2020	As at 31 Dec 2019
Direct credit substitutes	645,720	563,882
Transaction-related contingencies	537,138	527,442
Trade-related contingencies	846,898	967,813
Commitments that are unconditionally cancellable without prior notice	72,035,740	74,428,118
Other commitments with an original maturity of:		
- under 1 year	4,060,949	3,999,906
- 1 year and over	362,675	758,023
	<u>78,489,120</u>	<u>81,245,184</u>
	Credit risk weighted amount	
	As at 31 Dec 2020	As at 31 Dec 2019
Contingent liabilities and commitments	<u>1,574,554</u>	<u>1,794,624</u>

20. Contingent liabilities and commitments (Continued)

(c) Assets pledged

HK\$'000	As at 31 Dec 2020	As at 31 Dec 2019
Trading assets and financial investments pledged to secure liabilities	3,077,937	4,600,158
- of which: under repurchase agreements	<u>1,506,126</u>	<u>686,003</u>
Amount of liabilities secured	3,123,207	4,597,103
- of which: under repurchase agreements	<u>1,551,207</u>	<u>671,153</u>

The table above shows assets where a charge has been granted to secure liabilities on a legal and contractual basis. These transactions are conducted under terms that are usual and customary to collateralized transactions including repurchase agreements, and include assets pledged to cover short positions and to facilitate settlement processes with clearing houses.

(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 2020	As at 31 Dec 2019
Within 1 year	16,180	24,891
Between 1 and 2 years	11,521	5,186
Between 2 and 3 years	839	2,253
	<u>28,540</u>	<u>32,330</u>

In addition, the Group has, as a lessee, entered into a number of leases as at 31 December 2020 and 2019 that have not yet commenced. The aggregate lease payments payable under these leases amount to HK\$28,953,000 (2019: HK\$435,610,000).

21. Non-adjusting event after the reporting period

BOCQ announced in December 2020 that it had received approval of the China Securities Regulatory Commission in respect of its proposed initial public offering of A Shares for listing on the Shanghai Stock Exchange (the "BOCQ A Share Issue"). BOCQ further announced on 30 December 2020 that following the completion of preliminary price consultations with the market, it was going to issue 347,450,534 A Shares at the issue price of RMB10.83 per share. The issue of new A Shares was completed as of early February 2021, with the listing of BOCQ A Shares on 5 February 2021. With the completion of the BOCQ A Share Issue, this has the effect of reducing the Group's interest in BOCQ from 14.66% as at 31 December 2020 to 13.20% commencing 5 February 2021.

The Group's interest in BOCQ has been accounted for as an associate using the equity method as the Group has representation in the Board of BOCQ, and the ability to participate in the decision making process. This remains the case after the completion of the BOCQ A Share Issue.

The completion of the BOCQ A Share Issue and the corresponding reduction in the Group's shareholding in BOCQ on 5 February 2021 will be accounted for as a deemed partial disposal of the Group's investment in BOCQ in the Group's 2021 financial statements, and is expected to bring about a disposal loss of approximately HK\$31 million mainly because of the lowering in the net asset value per share of BOCQ immediately after the completion of the BOCQ A Share Issue.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Additional analysis on claims and exposures of the Group

- (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 2020		As at 31 Dec 2019	
	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	5,611,830	66.5	4,700,618	64.6
- Property investment	17,221,674	92.4	15,972,169	97.0
- Financial concerns	5,756,814	5.8	6,057,400	3.0
- Stockbrokers	1,733,867	46.7	1,585,717	28.6
- Wholesale and retail trade	6,004,660	90.4	6,455,795	90.1
- Manufacturing	1,790,941	56.4	1,978,378	59.5
- Transport and transport equipment	2,512,559	80.1	3,496,770	71.9
- Recreational activities	96,223	99.6	103,724	99.8
- Information technology	51,827	86.5	52,976	70.5
- Others	6,003,396	68.4	4,464,895	79.6
	46,783,791	71.6	44,868,442	72.1
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	558,428	100.0	584,349	100.0
- Loans for the purchase of other residential properties	31,260,619	100.0	29,864,112	100.0
- Credit card advances	3,610,141	-	3,761,021	-
- Others	13,079,682	51.6	13,196,910	52.8
	48,508,870	79.5	47,406,392	78.9
Loans for use in Hong Kong	95,292,661	75.6	92,274,834	75.6
Trade finance (Note (1))	8,115,481	61.5	8,815,573	62.9
Loans for use outside Hong Kong (Note (2))	34,169,242	63.7	35,856,366	66.0
	137,577,384	71.8	136,946,773	72.3

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\$260,328,000 (31 December 2019: HK\$294,310,000) 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 of the Group (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 2020				
	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	17,221,674	59,373	41,590	4,705	95,584
Individuals					
- Loans for the purchase of other residential properties	31,260,619	62,747	92,630	7,826	40,076
Loans for use outside Hong Kong	<u>34,169,242</u>	<u>520,305</u>	<u>400,017</u>	<u>187,244</u>	<u>154,835</u>
	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>

1. Additional analysis on claims and exposures of the Group (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	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
2020			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (“JV”s)	9,723,405	124,954	9,848,359
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,405,599	274,501	1,680,100
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	12,076,834	1,745,392	13,822,226
4. Other entities of central government not reported in item 1 above	2,221,324	36,918	2,258,242
5. Other entities of local governments not reported in item 2 above	1,609,556	283,753	1,893,309
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	11,647,569	592,157	12,239,726
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,100,005	-	1,100,005
	<u>39,784,292</u>	<u>3,057,675</u>	<u>42,841,967</u>
Total assets of DSB and its Mainland subsidiary bank after provision	<u>230,973,725</u>		
On-balance sheet exposures as percentage of total assets	<u>17.22%</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 of the Group (Continued)

(b) Mainland activities exposures (Continued)

HK\$'000	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
2019			
1. Central government, central government-owned entities and their subsidiaries and JVs	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>		

1. Additional analysis on claims and exposures of the Group (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 2020

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	115,234,954	1,239,712	600,421	467,445	595,174
China	7,630,058	63,294	28,269	1,119	50,382
Macau	13,686,148	270,797	270,797	87,944	42,121
Others	1,026,224	-	3,315	-	6,979
	137,577,384	1,573,803	902,802	556,508	694,656

As at 31 Dec 2019

	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

1. Additional analysis on claims and exposures of the Group (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 2020 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	6,928	15,016	6,727	143,869	172,540
- of which: Hong Kong	6,441	13,595	6,727	128,137	154,900
Developing Asia and Pacific	27,306	1,060	880	17,681	46,927
- of which: Mainland China	19,036	894	526	14,159	34,615
Non-bank private sector					
At 31 Dec 2019 In millions of HK\$	Banks	Official sector	Non-bank financial institutions	Non- financial private sector	Total claims
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

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 2020 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 31 December 2020 and 2019.

	At 31 December 2020				
Equivalent in HK\$ millions	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Spot assets	75,606	17,846	9,931	7,825	111,208
Spot liabilities	(53,937)	(16,796)	(11,453)	(8,594)	(90,780)
Forward purchases	21,686	12,044	-	3,113	36,843
Forward sales	(42,823)	(12,993)	-	(2,352)	(58,168)
Net options position	-	-	-	-	-
Net long/ (short) position	532	101	(1,522)	(8)	(897)

	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	889	287	(233)	(35)	908

3. Capital adequacy ratio

	As at 31 Dec 2020	As at 31 Dec 2019
Capital adequacy ratio		
- Common Equity Tier 1	13.8%	13.4%
- Tier 1	14.3%	13.9%
- Total	<u>17.6%</u>	<u>17.9%</u>

The capital adequacy ratio as at 31 December 2020 and 31 December 2019 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 2020	As at 31 Dec 2019
Leverage ratio	<u>9.4%</u>	<u>8.9%</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

	2020	2019
Liquidity maintenance ratio	<u>47.8%</u>	<u>46.4%</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 2020	Year ended 31 Dec 2019
Net interest income/ operating income	70.4%	75.6%
Cost to income ratio	54.0%	52.9%
Return on average total assets	0.6%	0.9%
Return on average shareholders' funds	5.4%	8.5%
Net interest margin	1.63%	1.87%
	As at 31 Dec 2020	As at 31 Dec 2019
Loan to deposit ratio	69.3%	72.3%

FINAL DIVIDEND

At the forthcoming annual general meeting (“AGM”) of the Company to be held on Wednesday, 2 June 2021, the Directors will propose a final dividend of HK\$0.22 per share for 2020 to shareholders whose names are on the Register of Shareholders as at the close of business on Friday, 11 June 2021. Subject to shareholders’ approval at the AGM, the final dividend will be payable on Tuesday, 22 June 2021.

CLOSURE OF REGISTER OF SHAREHOLDERS

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

Latest time to lodge transfers	4:30 p.m. on 27 May 2021 (Thursday)
Closure of Register of Shareholders (both days inclusive)	28 May 2021 (Friday) to 2 June 2021 (Wednesday)
Record date	2 June 2021 (Wednesday)
AGM	2 June 2021 (Wednesday)

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

Latest time to lodge transfers	4:30 p.m. on 8 June 2021 (Tuesday)
Closure of Register of Shareholders (both days inclusive)	9 June 2021 (Wednesday) to 11 June 2021 (Friday)
Record date	11 June 2021 (Friday)

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

With the full impact of the COVID-19 pandemic being felt from the early part of 2020, the Hong Kong economy had its weakest performance for many years, with a negative GDP growth at 6.1% in 2020, after a contraction of 1.2% in 2019, the first sequential two year drop in GDP for many years. Most sectors of the economy were affected, with the travel and tourism, hospitality and leisure, retail and consumption, and food and beverage sectors notably and severely affected. A combination of difficult conditions in these sectors as well as generally weak economic conditions overall led to a significant increase in the unemployment rate to 7% by the year end. Amid the weaker economy, consumer price inflation in Hong Kong was modest. The underlying inflation rate, netting out the effect of the Government's one-off relief measures, was 1.3% for the year, down 1.7% point from the previous year.

Global GDP was also severely impacted, with global growth in 2020 estimated by the IMF at -3.5%, much lower than the +2.8% reported in 2019. The only major economy in the world to report growth in GDP was China, with a positive 2.3% reported for the year. US and EU GDP dropped by 3.5% and 6.3% respectively.

In response to the pandemic, governments and central banks globally took measures to support their economies through a variety of stimulus measures, including injections of liquidity and lower interest rates, and special relief and supportive fiscal measures. These resulted in sharp falls in rates in both the US and Hong Kong, although RMB interest rates remained somewhat more stable. During the course of the year, one month LIBOR and HIBOR dropped from 1.76% to 0.14% and from 2.67% to 0.18% respectively.

Whilst the financial services sector was not amongst the worst affected by the pandemic, clearly the extent of the economic slowdown has been materially negative for our business. Our profit attributable to shareholders dropped by 33% to HK\$1,493 million.

BUSINESS AND FINANCIAL REVIEW

Net interest income came under pressure as the rapid fall in interest rates led to a material drop in net interest margin, falling by 9% during the year. However, the performance of our non-interest income was more robust, rising by 18% for the year, and helping to moderate the fall in operating income to less than 3%.

Operating expenses were kept well under control, remaining broadly flat for the year, notwithstanding the continuing investment in certain areas such as IT. However, impairment charges relating to credit, Bank of Chongqing ("BOCQ") and goodwill were significantly higher than in 2019, and were the major reason for the fall in profit for the year. Credit impairment charges alone increased by HK\$291 million, mainly caused by higher credit losses on lending to SMEs and on retail unsecured lending, although there were some signs of stabilization in credit quality towards the year end.

The impairment charge on our investment in BOCQ for the year was HK\$531 million, higher than 2019 by HK\$244 million. Despite the need for an impairment charge to reduce the carrying value of the investment, the operating performance of BOCQ was stable, and our share of its net profit was HK\$710 million for the year, broadly similar to the prior year. Our businesses in Macau and China delivered weaker results due primarily to higher credit cost. We also made an impairment charge on goodwill of HK\$98 million relating to the write down of goodwill on a prior acquisition after running down a related area of business during the pandemic.

The significant reduction in the Group's profitability also led to a reduction in return on shareholders' funds from 8.5% to 5.4%. The Group's cost to income ratio increased from 52.9% to 54.0% year on year.

As at 31 December 2020, the consolidated Common Equity Tier 1 ratio of Dah Sing Bank, Limited ("DSB") was 13.8%, a little higher than the level of 13.4% at the end of 2019. DSB's consolidated total capital adequacy ratio at the year end was 17.6%, similar to the prior year. We continued to operate well above the minimum Liquidity Maintenance Ratio of 25%, reporting an average level of 48% 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

Following very difficult economic conditions in Hong Kong in 2020, and a significant decline in its GDP, we are hopeful that 2021 should see a recovery in economic conditions, and in particular a return to growth in GDP. However, challenges remain, both in terms of maintaining low levels of COVID infections and in continuing relatively high levels of domestic unemployment. The roll-out of mass vaccinations should play its part in trying to manage down subsequent waves of infection, and to allow a gradual return to more normal levels of economic activity. However, there are likely to be certain sectors, such as leisure, travel and tourism that could take a significant amount of time to recover.

Mainland China began its recovery earlier than other major economies, and we expect that 2021 will again demonstrate further recovery, which will be of benefit to our cross-boundary and Mainland businesses. Macau, after a particularly sharp contraction in the economy last year is also showing signs of recovery.

In terms of global economic trends, there is some sign that interest rates in the US will gradually move up, with the yields on long term US Treasury bonds having already increased materially from their lows last year. However, at present there has been no corresponding increase in short term interest rates which tend to have a more direct impact on our business than long term interest rates. In the medium term, rising interest rates, particularly at the shorter end of the yield curve would likely be of benefit to our businesses.

Although we see potential improvements in the Hong Kong economy in 2021, we are still cautious regarding credit risk. There were a number of government measures put in place last year which may not continue throughout 2021, and the impact of the roll-down of these measures on credit cost remains uncertain.

Local financial market conditions have remained buoyant in the year to date, and continued good performance would be good for our wealth management and securities services businesses. Finally, the investment that we have been making in paperless and digital channels has been producing encouraging results. As travel and business restrictions were put in place, the ability for our customers to reach us through non-physical channels has been crucial, and both the number of customers and the number of transactions through digital channels is expected to increase over time.

We will complete the relocation of our head office and main branch to the new Dah Sing Financial Centre located at 248 Queen's Road East, Wan Chai, Hong Kong by the end of March 2021. Moving to a prominent building that once again bears the Dah Sing name, after the naming of the original Dah Sing Financial Centre in 1991, represents a key milestone for Dah Sing Financial Group, underscoring our long-term commitment to Hong Kong and the Greater Bay Area. Moreover, the move marks the next phase of the Group's strategy that embraces technology to sharpen its customer focus and improve customer experience as well as to enhance its operational efficiency and working environment for colleagues. With this exciting relocation to our new headquarters, we look forward to expanding our businesses, providing our customers with better services, and strengthening the Dah Sing brand as the market for financial services continues to grow in this decade.

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 2020, with the exception of code provisions A.4.1 and E.1.2.

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.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In light of COVID-19 pandemic and travel restrictions around the world, Mr. David Shou-Yeh Wong, the Chairman of the Board, was unable to attend the 2020 Annual General Meeting (the “2020 AGM”) of the Company held in Hong Kong on 29 May 2020 as he was abroad at that time. Mr. Hon-Hing Wong (Derek Wong), Vice Chairman, Managing Director and Chief Executive of the Company, took the chair of the 2020 AGM. Due to the lockdown measures caused by the COVID-19, Mr. Seng-Lee Chan, Chairman of the Nomination and Remuneration Committee (“NRC”) of the Company, was unable to come to Hong Kong to attend the 2020 AGM. A member of the NRC of the Company was present and available to answer questions from shareholders at the 2020 AGM.

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 2020.

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 2020.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of listed securities of the Company during the year ended 31 December 2020.

ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2020 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 2020 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 2021.

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; Messrs. Robert Tsai-To Sze, Seng-Lee Chan and Blair Chilton Pickerell as Independent Non-Executive Directors.

By Order of the Board

Doris W. N. Wong

Company Secretary

Hong Kong, Wednesday, 24 March 2021