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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 2018 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 2018.

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December

HK\$'000	Note	2018	2017	Variance %
Interest income		<b>6,712,063</b>	5,655,612	
Interest expense		<b>(2,547,972)</b>	(1,762,790)	
<b>Net interest income</b>	4	<b>4,164,091</b>	3,892,822	7.0
Fee and commission income		<b>1,477,833</b>	1,328,752	
Fee and commission expense		<b>(316,604)</b>	(276,345)	
<b>Net fee and commission income</b>	5	<b>1,161,229</b>	1,052,407	10.3
Net trading income	6	<b>332,461</b>	111,974	
Other operating income	7	<b>72,145</b>	75,245	
<b>Operating income</b>		<b>5,729,926</b>	5,132,448	11.6
Operating expenses	8	<b>(2,700,295)</b>	(2,512,928)	7.5
<b>Operating profit before impairment losses</b>		<b>3,029,631</b>	2,619,520	15.7
Credit impairment losses	9	<b>(233,441)</b>	(270,882)	(13.8)
<b>Operating profit before gains and losses on certain investments and fixed assets</b>		<b>2,796,190</b>	2,348,638	19.1
Net loss on disposal of other fixed assets		<b>(1,932)</b>	(1,006)	
Net gain on fair value adjustment of investment properties		<b>57,488</b>	136,643	
Net gain on disposal of financial assets at fair value through other comprehensive income		<b>1,682</b>	-	
Net gain on disposal of available-for-sale securities		-	280,312	
Impairment loss on the investment in an associate	10	<b>(633,000)</b>	(815,000)	
Share of results of an associate		<b>659,708</b>	628,449	
Share of results of jointly controlled entities		<b>27,234</b>	22,485	
<b>Profit before taxation</b>		<b>2,907,370</b>	2,600,521	11.8
Taxation	11	<b>(427,668)</b>	(414,318)	
<b>Profit for the year</b>		<b>2,479,702</b>	2,186,203	13.4
Loss attributable to non-controlling interests		<b>33</b>	33	
<b>Profit attributable to Shareholders of the Company</b>		<b>2,479,735</b>	2,186,236	13.4
<b>Dividends</b>				
Interim dividend paid		<b>182,618</b>	154,423	
Proposed final dividend/ final dividend paid		<b>491,991</b>	435,287	
		<b>674,609</b>	589,710	
<b>Earnings per share</b>				
Basic	12	<b>HK\$1.77</b>	HK\$1.56	
Diluted	12	<b>HK\$1.77</b>	HK\$1.56	

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December

HK\$'000	2018	2017
<b>Profit for the year</b>	<b><u>2,479,702</u></b>	<b><u>2,186,203</u></b>
<b>Other comprehensive income for the year</b>		
Items that may be reclassified to the consolidated income statement:		
Investments in securities		
Net loss on debt instruments at fair value through other comprehensive income	(415,578)	-
Net gain on available-for-sale securities recognised in equity	-	164,350
Net gain realised and transferred to income statement upon:		
- Disposal of debt instruments at fair value through other comprehensive income	(1,682)	-
- Disposal of available-for-sale securities	-	(280,312)
Deferred income tax related to the above	73,537	1,874
	<u>(343,723)</u>	<u>(114,088)</u>
Exchange differences arising on translation of the financial statements of foreign entities	<u>(306,372)</u>	<u>385,151</u>
Items that will not be reclassified to the consolidated income statement:		
Net gain on equity instruments at fair value through other comprehensive income	1,608	-
Deferred income tax related to the above	(265)	-
	<u>1,343</u>	<u>-</u>
Other comprehensive (loss)/ income for the year, net of tax	<u>(648,752)</u>	<u>271,063</u>
<b>Total comprehensive income for the year, net of tax</b>	<b><u>1,830,950</u></b>	<b><u>2,457,266</u></b>
Attributable to:		
Non-controlling interests	(33)	(33)
Shareholders of the Company	<u>1,830,983</u>	<u>2,457,299</u>
<b>Total comprehensive income for the year, net of tax</b>	<b><u>1,830,950</u></b>	<b><u>2,457,266</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December

HK\$'000	Note	2018	2017
<b>ASSETS</b>			
Cash and balances with banks		16,353,354	17,344,554
Placements with banks maturing between one and twelve months		10,241,980	11,856,241
Trading securities	13	7,621,184	8,837,554
Financial assets at fair value through profit or loss	13	327,483	700,105
Derivative financial instruments	14	727,043	897,967
Advances and other accounts	15	136,197,907	126,747,484
Financial assets at fair value through other comprehensive income	16	41,654,511	-
Available-for-sale securities	16	-	38,223,264
Financial assets at amortised cost	17	9,141,356	-
Held-to-maturity securities	17	-	6,233,704
Investment in an associate	10	3,620,597	4,134,651
Investments in jointly controlled entities		87,691	81,157
Goodwill		811,690	811,690
Intangible assets		58,252	58,252
Premises and other fixed assets		2,040,018	2,053,557
Investment properties		1,236,928	1,179,440
Current income tax assets		1,570	137
Deferred income tax assets		154,354	81,492
<b>Total assets</b>		<b>230,275,918</b>	<b>219,241,249</b>
<b>LIABILITIES</b>			
Deposits from banks		3,797,556	2,277,391
Derivative financial instruments	14	473,273	682,784
Trading liabilities		5,758,954	8,668,508
Deposits from customers		172,966,849	162,459,535
Certificates of deposit issued		6,535,076	7,183,706
Subordinated notes		5,449,082	5,487,366
Other accounts and accruals		8,200,112	6,059,987
Current income tax liabilities		594,098	453,597
Deferred income tax liabilities		20,774	89,751
<b>Total liabilities</b>		<b>203,795,774</b>	<b>193,362,625</b>
<b>EQUITY</b>			
Non-controlling interests		15,285	15,318
<b>Equity attributable to the Company's shareholders</b>			
Share capital		6,893,494	6,873,813
Other reserves (including retained earnings)		18,672,778	18,090,906
<b>Shareholders' funds</b>	18	<b>25,566,272</b>	<b>24,964,719</b>
<b>Additional equity instruments</b>		<b>898,587</b>	<b>898,587</b>
<b>Total equity</b>		<b>26,480,144</b>	<b>25,878,624</b>
<b>Total equity and liabilities</b>		<b>230,275,918</b>	<b>219,241,249</b>

**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 2018 (the "2018 financial statements") which will be delivered to the Registrar of Companies and 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 27 March 2019.

**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 2018 consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2017.

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 following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

(1) HKFRS 9, "Financial instruments"

The Group has adopted HKFRS 9 issued by the HKICPA with effect from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to HKFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

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

(1) HKFRS 9, “Financial instruments” (Continued)

The adoption of HKFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 “Financial Instruments: Disclosures”.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group.

The measurement category and the carrying amount of financial assets and liabilities in accordance with HKAS 39 on 31 December 2017 and HKFRS 9 at the opening of 1 January 2018 are compared and shown as follows:

HK\$'000	HKAS 39		HKFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
Balances and placements with banks	Amortised cost (Loans and receivables)	29,200,795	Amortised cost	29,196,780
Advances and other accounts	Amortised cost (Loans and receivables)	126,747,484	Amortised cost	126,453,405
Trading securities	Fair value through profit or loss (Held for trading)	8,837,554	Fair value through profit or loss	8,837,554
Investment securities	Fair value through other comprehensive income (Available-for-sale)	38,223,264	Fair value through other comprehensive income	33,581,089
	Amortised cost (Held-to-maturity)	6,233,704	Amortised cost	10,910,299
	Fair value through profit or loss (Designated)	375,187	Fair value through profit or loss (Categorised based on requirements of HKFRS 9)	375,187
	Fair value through profit or loss (With embedded derivative)	324,918	Fair value through profit or loss (Categorised based on requirements of HKFRS 9)	324,918

There were no changes to the classification and measurement of financial liabilities.

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

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

(1) HKFRS 9, “Financial instruments” (Continued)

On 1 January 2018 (the date of initial application of HKFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The adoption of expected credit loss (“ECL”) approach resulted in an increase in impairment allowances required to be provided on the Group’s financial assets.

Set out below are disclosures relating to the impact, net of tax, of transition to HKFRS 9 on the statement of financial position of the Group.

HK\$'000	Closing balance under HKAS 39 at 31 December 2017	Recognition of expected credit loss	Reclassification from available- for-sale securities to financial assets at fair value through other comprehensive income	Reclassification from available- for-sale and held-to- maturity securities to financial assets at amortised cost	Recognition of expected credit loss by an associate	Reclassification of investments by an associate	Opening balance under HKFRS 9 at 1 January 2018
Cash and balances with banks	17,344,554	(731)	-	-	-	-	17,343,823
Placement with banks maturing between one and twelve months	11,856,241	(3,284)	-	-	-	-	11,852,957
Advances and other accounts	126,747,484	(294,079)	-	-	-	-	126,453,405
Financial assets at fair value through other comprehensive income	-	-	33,581,089	-	-	-	33,581,089
Available-for-sale securities	38,223,264	-	(33,581,089)	(4,642,175)	-	-	-
Financial assets at amortised cost	-	(5,632)	-	10,915,931	-	-	10,910,299
Held-to-maturity securities	6,233,704	-	-	(6,233,704)	-	-	-
Investment in an associate	4,134,651	-	-	-	(259,211)	167	3,875,607
Deferred income tax assets	81,492	81,530	-	-	-	-	163,022
Other accounts and accruals	6,059,987	140,456	-	-	-	-	6,200,443
Deferred income tax liabilities	89,751	-	-	7,028	-	-	96,779
Retained earnings	16,921,198	(380,254)	-	-	(284,490)	-	16,256,454
Investment revaluation reserve	318,224	17,602	-	33,024	25,279	167	394,296

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

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

(1) HKFRS 9, “Financial instruments” (Continued)

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

HK\$'000

Measurement category	Impairment allowance under HKAS 39	Remeasurement	Impairment allowance under HKFRS 9
Cash and balances with banks	-	731	731
Placements with banks maturing between one and twelve months	-	3,284	3,284
Financial assets at fair value through other comprehensive income	-	17,602	17,602
Financial assets at amortised cost	-	5,632	5,632
Trade bills	14,229	(11,945)	2,284
Advances to customers	659,046	299,354	958,400
Accrued interest and other accounts	11,431	6,670	18,101
Loan commitments and financial guarantees	-	140,456	140,456
<b>Total</b>	<b>684,706</b>	<b>461,784</b>	<b>1,146,490</b>

HKFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

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

(2) HKFRS 15, “Revenue from contracts with customers”

The HKICPA has issued HKFRS 15 as the new standard for the recognition of revenue, which has become effective for financial years commencing on or after 1 January 2018. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The adoption of HKFRS 15 does not have any material impact on the Group’s consolidated financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these consolidated financial statements. Key changes of the new standards are summarised as follows:

(1) HKFRS 16, “Leases”

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. The implementation is expected to increase assets and liabilities by approximately HK\$500 million.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group also intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other HKFRSs or interpretations that are effective from 1 January 2018 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 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)**

For the year ended 31 December 2017

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/ (expenses)	1,637,358	1,167,235	604,619	544,865	(61,255)	-	3,892,822
Non-interest income/ (expenses)	835,271	190,153	(76,222)	137,343	154,077	(996)	1,239,626
Total operating income	2,472,629	1,357,388	528,397	682,208	92,822	(996)	5,132,448
Operating expenses	(1,441,850)	(454,262)	(155,733)	(482,273)	20,194	996	(2,512,928)
Operating profit before credit impairment (losses)/ written back	1,030,779	903,126	372,664	199,935	113,016	-	2,619,520
Credit impairment (losses)/ written back	(219,092)	(54,228)	-	2,438	-	-	(270,882)
Operating profit after credit impairment (losses)/ written back	811,687	848,898	372,664	202,373	113,016	-	2,348,638
Net (loss)/ gain on disposal and fair value adjustment of investment properties and other fixed assets	(36)	(302)	-	(658)	136,633	-	135,637
Net gain on disposal of available-for-sale securities	-	-	100,677	33,337	146,298	-	280,312
Impairment loss on the investment in an associate	-	-	-	(815,000)	-	-	(815,000)
Share of results of an associate	-	-	-	628,449	-	-	628,449
Share of results of jointly controlled entities	-	-	-	-	22,485	-	22,485
Profit before taxation	811,651	848,596	473,341	48,501	418,432	-	2,600,521
Taxation expenses	(133,886)	(140,018)	(78,101)	(20,391)	(41,922)	-	(414,318)
Profit after taxation	677,765	708,578	395,240	28,110	376,510	-	2,186,203
For the year ended 31 December 2017							
Depreciation and amortisation	68,946	14,405	6,358	39,470	41,009	-	170,188
At 31 December 2017							
Segment assets	47,248,470	58,264,178	76,464,789	36,485,129	5,559,622	(4,780,939)	219,241,249
Segment liabilities	96,100,034	37,301,046	18,335,487	28,208,303	18,198,694	(4,780,939)	193,362,625

### 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
<b>For the year ended 31 December 2018</b>				
Operating income	5,273,234	457,688	(996)	5,729,926
Profit before taxation	2,650,762	256,608	-	2,907,370
<b>At 31 December 2018</b>				
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	82,738,028	3,372,813	(102,489)	86,008,352
	Hong Kong and Others	Macau	Inter- segment elimination	Total
<b>For the year ended 31 December 2017</b>				
Operating income	4,679,517	453,927	(996)	5,132,448
Profit before taxation	2,311,312	289,209	-	2,600,521
<b>At 31 December 2017</b>				
Total assets	201,648,869	20,890,338	(3,297,958)	219,241,249
Total liabilities	178,499,376	18,161,207	(3,297,958)	193,362,625
Intangible assets and goodwill	318,667	551,275	-	869,942
Contingent liabilities and commitments	82,665,576	2,304,555	(111,234)	84,858,897

#### 4. Net interest income

HK\$'000	2018	2017
<b>Interest income</b>		
Cash and balances with banks	544,288	408,383
Investments in securities	1,447,457	1,008,713
Advances and other accounts	4,720,318	4,238,516
	<b>6,712,063</b>	<b>5,655,612</b>
<b>Interest expense</b>		
Deposits from banks/ Deposits from customers	2,019,983	1,378,473
Certificates of deposit issued	146,507	103,666
Subordinated notes	284,421	238,612
Others	97,061	42,039
	<b>2,547,972</b>	<b>1,762,790</b>
<b>Included within interest income</b>		
- Trading securities and financial assets at fair value through profit or loss	109,819	43,398
- Financial assets at fair value through other comprehensive income	1,126,472	-
- Available-for-sale securities	-	890,824
- Financial assets at amortised cost	5,475,772	-
- Held-to-maturity securities	-	4,721,390
	<b>6,712,063</b>	<b>5,655,612</b>
<b>Included within interest expense</b>		
- Financial liabilities not at fair value through profit or loss	2,460,658	1,723,307

For the year ended 31 December 2018 and 2017, there was no interest income recognised on impaired assets.

## 5. Net fee and commission income

HK\$'000	2018	2017
<b>Fee and commission income</b>		
Fee and commission income from financial assets and liabilities not at fair value through profit or loss		
- Credit related fees and commissions	185,191	161,151
- Trade finance	91,867	84,787
- Credit card	377,738	339,119
Other fee and commission income		
- Securities brokerage	128,780	125,207
- Insurance distribution and others	324,957	231,365
- Retail investment and wealth management services	240,614	251,840
- Bank services and handling fees	73,681	73,474
- Other fees	55,005	61,809
	<b>1,477,833</b>	<b>1,328,752</b>
<b>Fee and commission expense</b>		
Fee and commission expense from financial assets and liabilities not at fair value through profit or loss		
- Handling fees and commission	296,033	255,163
- Other fees paid	20,571	21,182
	<b>316,604</b>	<b>276,345</b>

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	2018	2017
Net loss arising from dealing in foreign currencies	(9,008)	(18,816)
Net gain on trading securities	15,212	8,367
Net gain from derivatives entered into for trading purpose	211	29,429
Net (loss)/ gain arising from financial instruments subject to fair value hedge	(833)	6,453
Net gain on financial assets at fair value through profit or loss	326,879	86,541
	<b>332,461</b>	<b>111,974</b>

## 7. Other operating income

HK\$'000	2018	2017
Dividend income from investments in equity instruments at fair value through other comprehensive income		
- Held at the end of the year		
- Listed investments	2,646	-
- Unlisted investments	8,684	-
Dividend income from available-for-sale securities		
- Listed investments	-	12,534
- Unlisted investments	-	8,539
Gross rental income from investment properties	30,651	28,281
Other rental income	13,347	13,474
Others	16,817	12,417
	<b>72,145</b>	<b>75,245</b>

**8. Operating expenses**

HK\$'000	2018	2017
Employee compensation and benefit expenses		
- Salaries and other staff costs	<b>1,708,336</b>	1,581,115
- Provision for share-based compensation charged	<b>1,418</b>	21,295
- Pension costs - defined contribution plans	<b>91,497</b>	96,854
Premises and other fixed assets expenses, excluding depreciation		
- Rental of premises	<b>189,233</b>	183,096
- Others	<b>171,804</b>	146,980
Depreciation	<b>175,670</b>	169,800
Advertising and promotion costs	<b>86,779</b>	76,790
Printing, stationery and postage	<b>50,277</b>	48,471
Amortisation expenses of intangible assets	-	388
Auditors' remuneration	<b>9,374</b>	9,832
Others	<b>215,907</b>	178,307
	<b>2,700,295</b>	2,512,928

**9. Credit impairment losses**

HK\$'000	2018	2017
New allowances net of allowance releases	<b>318,875</b>	333,994
Recoveries of amounts previously written off	<b>(85,434)</b>	(63,112)
	<b>233,441</b>	270,882
Attributable to:		
- Advances to customers	<b>224,831</b>	264,099
- Other financial assets	<b>2,798</b>	6,783
- Loan commitments and financial guarantees	<b>5,812</b>	-
	<b>233,441</b>	270,882

**10. Impairment loss on the investment in an associate**

At 31 December 2018, the fair value of the Group's investment in Bank of Chongqing ("BOCQ") had been below the carrying amount for approximately 60 months. 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 as at 31 December 2017, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors and valuation assumptions, was lower than the carrying amount, and an impairment charge at HK\$815 million had been recognised, which had been included in the consolidated results of the Group for the year ended 31 December 2017. The written down value of the investment as at 31 December 2017 (i.e. carrying amount less impairment allowance made of HK\$815 million as at the same date) was HK\$4,134.7 million.

In the impairment assessment carried out for the first half of 2018, the recoverable amount, based on the VIU calculation, had dropped further below the carrying amount and an impairment charge of HK\$403 million was recognised in the Group's 2018 interim results. The latest impairment test performed for the position as at 31 December 2018 concludes that the recoverable amount is assessed as lower than the carrying amount before considering any impairment allowance made by HK\$1,448 million. With impairment allowance totalling HK\$1,218 million already made up to 30 June 2018, an impairment charge of HK\$230 million was recognised in the consolidated results of the Group for the second half of 2018. As a result, the carrying amount of the Group's investment in BOCQ at 31 December 2018 has been written down to HK\$3,620.6 million, which is the recoverable amount at 31 December 2018 assessed by the Group.



## 11. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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	2018	2017
Current income tax:		
- Hong Kong profits tax	387,739	376,046
- Overseas taxation	38,414	45,705
- (Over)/ under-provision in prior years	(183)	126
Deferred income tax:		
- Origination and reversal of temporary differences	1,698	(7,559)
Taxation	<u>427,668</u>	<u>414,318</u>

## 12. Basic and diluted earnings per share

The calculation of basic earnings per share is based on earnings of HK\$2,479,735,000 (2017: HK\$2,186,236,000) and the weighted average number of 1,404,634,772 (2017: 1,403,668,386) ordinary shares in issue during the year.

The calculation of fully diluted earnings per share is based on earnings of HK\$2,479,735,000 (2017: HK\$2,186,236,000) and the weighted average number of 1,404,652,423 (2017: 1,404,611,329) 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 2018	As at 31 Dec 2017
Trading securities:		
Debt securities:		
- Listed in Hong Kong	33,575	97,672
- Unlisted	7,587,609	8,739,882
	<b>7,621,184</b>	<b>8,837,554</b>
Financial assets at fair value through profit or loss:		
Categorised by designation upon or subsequent to initial recognition:		
Debt securities:		
- Listed outside Hong Kong	-	375,187
- Unlisted	-	324,918
	-	700,105
Categorised based on requirements of HKFRS 9:		
Debt securities:		
- Unlisted	327,483	-
	<b>327,483</b>	<b>700,105</b>
Total	<b>7,948,667</b>	<b>9,537,659</b>
Included within debt securities are:		
- Treasury bills which are cash equivalents	-	1,122,876
- Other treasury bills	7,620,661	7,677,149
- Government bonds	523	37,529
- Other debt securities issued by:		
- Corporate entities	327,483	700,105
	<b>7,948,667</b>	<b>9,537,659</b>

As at 31 December 2018 and 2017, 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 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)

#### 14. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2017 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	82,495,665	581,964	(479,218)
Currency options purchased and written	12,675,402	7,543	(7,536)
b) <i>Interest rate derivatives</i>			
Interest rate futures	-	-	-
Interest rate swaps	2,385,852	16,002	(9,965)
Interest rate options purchased and written	676,566	479	(2,801)
c) <i>Equity derivatives</i>			
Equity options purchased and written	176,360	3,495	(3,495)
Total derivative assets/ (liabilities) held for trading	98,409,845	609,483	(503,015)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	26,856,746	288,484	(179,769)
Total derivative assets/ (liabilities) held for hedging	26,856,746	288,484	(179,769)
Total recognised derivative financial assets/ (liabilities)	125,266,591	897,967	(682,784)

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 2018	As at 31 Dec 2017
Exchange rate contracts	593,139	871,350
Interest rate contracts	156,974	148,097
Other contracts	16,778	7,862
	<b>766,891</b>	<b>1,027,309</b>

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 2018	As at 31 Dec 2017
Gross advances to customers	128,628,087	119,261,984
Less: impairment allowances		
- Stage 1	(423,650)	-
- Stage 2	(127,284)	-
- Stage 3	(362,989)	-
- Individually assessed	-	(280,641)
- Collectively assessed	-	(378,405)
	<u>(913,923)</u>	<u>(659,046)</u>
	<u>127,714,164</u>	<u>118,602,938</u>
Trade bills	4,677,262	4,065,401
Less: impairment allowances		
- Stage 1	(2,100)	-
- Stage 2	(23)	-
- Collectively assessed	-	(14,229)
	<u>(2,123)</u>	<u>(14,229)</u>
	<u>4,675,139</u>	<u>4,051,172</u>
Other assets	3,825,389	4,104,805
Less: impairment allowances		
- Stage 1	(6,651)	-
- Stage 2	(491)	-
- Stage 3	(9,643)	-
- Individually assessed	-	(10,093)
- Collectively assessed	-	(1,338)
	<u>(16,785)</u>	<u>(11,431)</u>
	<u>3,808,604</u>	<u>4,093,374</u>
Advances and other accounts	<u>136,197,907</u>	<u>126,747,484</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 2018		As at 31 Dec 2017	
	Outstanding balance	% of gross advances	Outstanding balance	% of gross advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	5,411,554	4.2	3,927,651	3.3
- Property investment	15,930,681	12.4	14,933,223	12.5
- Financial concerns	5,229,101	4.1	3,814,050	3.2
- Stockbrokers	1,711,512	1.3	2,141,027	1.8
- Wholesale and retail trade	6,584,127	5.1	7,202,373	6.0
- Manufacturing	1,702,636	1.3	1,900,894	1.6
- Transport and transport equipment	3,691,151	2.9	3,932,189	3.3
- Recreational activities	103,057	0.1	96,881	0.1
- Information technology	70,890	0.1	68,986	0.1
- Others	3,537,199	2.7	4,114,396	3.4
	<b>43,971,908</b>	<b>34.2</b>	<b>42,131,670</b>	<b>35.3</b>
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	632,804	0.5	687,074	0.6
- Loans for the purchase of other residential properties	26,609,223	20.7	22,988,102	19.3
- Credit card advances	3,721,632	2.9	3,613,411	3.0
- Others	12,927,451	10.0	12,308,030	10.3
	<b>43,891,110</b>	<b>34.1</b>	<b>39,596,617</b>	<b>33.2</b>
Loans for use in Hong Kong	<b>87,863,018</b>	<b>68.3</b>	<b>81,728,287</b>	<b>68.5</b>
Trade finance (Note (1))	9,265,660	7.2	8,766,204	7.4
Loans for use outside Hong Kong (Note (2))	31,499,409	24.5	28,767,493	24.1
	<b>128,628,087</b>	<b>100.0</b>	<b>119,261,984</b>	<b>100.0</b>

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 Dah Sing Bank, Limited ("DSB")) totalling HK\$306,245,000 (31 December 2017: HK\$476,119,000) 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 2018
Gross loans and advances	128,628,087
Less: total impairment allowances	(913,923)
Net	<u>127,714,164</u>
Credit-impaired loans and advances	970,166
Less: Stage 3 impairment allowances	(362,989)
Net	<u>607,177</u>
Fair value of collaterals held*	<u>503,728</u>
Credit-impaired loans and advances as a % of total loans and advances to customers	<u>0.75%</u>

Gross impaired loans and advances to customers as at 1 January 2018 to reflect the adoption of HKFRS 9 from that date amounted to HK\$1,243,227,000 and the corresponding credit-impaired loan ratio was 1.04%.

In the past and up to 31 December 2017, retail restructured unsecured loans with regularised account conduct and non-performing loans ("NPLs") which were fully secured and on which no individually assessed loan impairment allowances were made under HKAS 39 were not counted as impaired loans. Under HKFRS 9, such NPLs and retail restructured unsecured loans form part of the Group's impaired loans.

The below disclosures were included in our 2017 external reports and do not reflect the adoption of HKFRS 9. As these tables are not directly comparable to the current 2018 tables, which are disclosed on a HKFRS 9 basis, these 2017 disclosures have been shown and not adjacent to 2018 table.

**15. Advances and other accounts (Continued)**

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

(i) Impaired loans (Continued)

HK\$'000	As at 31 Dec 2017
Neither past due nor individually impaired	116,276,565
Past due but not individually impaired	2,230,155
Individually impaired	755,264
Gross	119,261,984
Less: allowance for impairment	(659,046)
Net	118,602,938
Impaired loans and advances	
- Individually impaired (Note (a))	755,264
- Collectively impaired (Note (b))	19,033
	774,297
Impairment allowances made	
- Individually assessed (Note (c))	(280,641)
- Collectively assessed (Note (b))	(17,447)
	(298,088)
	476,209
Fair value of collaterals held*	563,247
Impaired loans and advances as a % of total loans and advances to customers	0.65%

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

Note:

- (a) Individually impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated cash flows of the loans that can be reliably estimated.
- (b) Collectively impaired loans and advances refer to those unsecured loans and advances assessed for impairment on a collective basis and which have become overdue for more than 90 days as at the reporting date. The collective impairment allowance for these impaired loans, which is a part of the overall collective impairment allowances, is shown above.
- (c) The above individual impairment allowances were made after taking into account the value of collaterals in respect of such advances as at 31 December 2017.



**15. Advances and other accounts (Continued)**

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

(ii) Gross amount of overdue loans

HK\$'000	As at 31 Dec 2018		As at 31 Dec 2017	
	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	99,729	0.08	91,458	0.08
- one year or less but over six months	51,812	0.04	126,354	0.11
- over one year	429,568	0.33	582,967	0.49
	<u>581,109</u>	<u>0.45</u>	<u>800,779</u>	<u>0.68</u>
Market value of securities held against the secured overdue advances	<u>565,273</u>		<u>798,711</u>	
Secured overdue advances	392,626		593,375	
Unsecured overdue advances	<u>188,483</u>		<u>207,404</u>	
Stage 3 impairment allowances	<u>227,437</u>		<u>-</u>	
Individual impairment allowances	<u>-</u>		<u>258,988</u>	

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

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

	As at 31 Dec 2018	% of total	As at 31 Dec 2017	% of total
Advances to customers	<u>311,262</u>	0.24	<u>344,868</u>	0.29
Impairment allowances	<u>115,877</u>		<u>1,640</u>	

(c) Trade bills

	As at 31 Dec 2018	As at 31 Dec 2017
Trade bills which have been overdue for:		
- one year or less but over six months	-	4,397
- over one year	-	10,868
	<u>-</u>	<u>15,265</u>
Impairment allowances	<u>-</u>	<u>-</u>

**15. Advances and other accounts (Continued)**

## (d) Repossessed collateral

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

HK\$'000	As at 31 Dec 2018	As at 31 Dec 2017
Nature of assets		
Reposessed properties	<b>153,639</b>	282,643
Others	<b>8,336</b>	21,343
	<b>161,975</b>	303,986

Reposessed 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\$60,349,000 (2017: HK\$65,433,000), which had been foreclosed and reposessed 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/ Available-for-sale securities**

HK\$'000	As at 31 Dec 2018	As at 31 Dec 2017
	Financial assets at fair value through other comprehensive income	Available-for- sale securities
Debt securities:		
- Listed in Hong Kong	17,295,716	14,538,680
- Listed outside Hong Kong	16,638,018	17,654,181
- Unlisted	7,607,538	5,894,077
	<u>41,541,272</u>	<u>38,086,938</u>
Equity securities:		
- Listed in Hong Kong	30,201	53,387
- Unlisted	83,038	82,939
	<u>113,239</u>	<u>136,326</u>
Total	<u>41,654,511</u>	<u>38,223,264</u>
Included within debt securities are:		
- Certificates of deposit held	429,758	1,363,762
- Treasury bills which are cash equivalents	2,098,522	1,999,211
- Other treasury bills	6,698,961	5,760,110
- Government bonds	191,387	192,197
- Other debt securities	32,122,644	28,771,658
	<u>41,541,272</u>	<u>38,086,938</u>
Financial assets at fair value through other comprehensive income/ available-for-sale securities are analysed by categories of issuers as follows:		
Debt securities:		
- Central governments and central banks	8,988,870	7,951,518
- Public sector entities	481,574	639,637
- Banks and other financial institutions	7,495,726	7,672,393
- Corporate entities	24,575,027	21,820,862
- Others	75	2,528
	<u>41,541,272</u>	<u>38,086,938</u>
Equity securities:		
- Corporate entities	<u>113,239</u>	<u>136,326</u>
	<u>41,654,511</u>	<u>38,223,264</u>

**17. Financial assets at amortised cost/ Held-to-maturity securities**

HK\$'000	As at 31 Dec 2018	As at 31 Dec 2017
	Financial assets at amortised cost	Held-to- maturity securities
Debt securities		
- Listed in Hong Kong	2,019,488	1,751,107
- Listed outside Hong Kong	3,605,219	1,028,787
- Unlisted	3,521,596	3,453,810
	<b>9,146,303</b>	<b>6,233,704</b>
Less: impairment allowance		
- Stage 1	(4,947)	-
Total	<b>9,141,356</b>	<b>6,233,704</b>
Included within debt securities are:		
- Certificates of deposit held	1,126,132	746,813
- Treasury bills	1,941,080	2,179,817
- Government bonds	523,450	574,061
- Other debt securities	5,555,641	2,733,013
	<b>9,146,303</b>	<b>6,233,704</b>
Financial assets at amortised cost/ held-to-maturity securities are analysed by categories of issuers as follows:		
- Central governments and central banks	2,464,530	2,753,878
- Banks and other financial institutions	3,998,975	1,714,336
- Corporate entities	2,671,709	1,765,490
- Others	11,089	-
	<b>9,146,303</b>	<b>6,233,704</b>

# 18. Shareholders' funds

HK\$'000	As at 31 Dec 2018	As at 31 Dec 2017
Share capital	6,893,494	6,873,813
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	270,120	270,120
Investment revaluation reserve	66,447	318,224
Exchange reserve	(209,794)	96,578
General reserve	700,254	700,254
Reserve for share-based compensation	2,204	5,518
Retained earnings	18,064,533	16,921,198
	<b>25,566,272</b>	<b>24,964,719</b>
Proposed final dividends/ final dividend paid included in retained earnings	<b>491,991</b>	<b>435,287</b>

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 2018, DSB has earmarked a regulatory reserve of HK\$1,195,194,000 (2017: HK\$1,427,215,000) 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 2018	As at 31 Dec 2017
Expenditure contracted but not provided for	<b>89,469</b>	<b>55,462</b>

## (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:

	<b>Contract amount</b>	
	As at 31 Dec 2018	As at 31 Dec 2017
Direct credit substitutes	<b>604,991</b>	321,146
Transaction-related contingencies	<b>507,169</b>	525,329
Trade-related contingencies	<b>966,996</b>	627,706
Commitments that are unconditionally cancellable without prior notice	<b>71,049,928</b>	71,273,512
Other commitments with an original maturity of:		
- under 1 year	<b>3,093,217</b>	3,125,645
- 1 year and over	<b>621,803</b>	799,392
	<b>76,844,104</b>	<b>76,672,730</b>
	<b>Credit risk weighted amount</b>	
	As at 31 Dec 2018	As at 31 Dec 2017
Contingent liabilities and commitments	<b>1,548,583</b>	<b>1,473,077</b>

# 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 2018	As at 31 Dec 2017
Assets pledged with HKMA:		
Trading securities	3,718,420	6,064,992
Financial assets at fair value through other comprehensive income	1,416,143	-
Available-for-sale securities	-	725,732
	<u>5,134,563</u>	<u>6,790,724</u>
Associated liabilities:		
Trading liabilities	<u>5,758,954</u>	<u>8,668,508</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 2018	As at 31 Dec 2017
Assets pledged under repurchase agreements:		
Trading securities	500,000	-
Financial assets at fair value through other comprehensive income	1,676,716	-
Available-for-sale securities	-	462,403
Financial assets at amortised cost	<u>469,964</u>	<u>-</u>
	<u>2,646,680</u>	<u>462,403</u>
Associated liabilities:		
Deposits from banks	1,995,696	453,740
Other accounts and accruals	<u>500,000</u>	<u>-</u>
	<u>2,495,696</u>	<u>453,740</u>

The fair value of the transferred securities and associated liabilities approximate the carrying amount of the transferred securities.

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.

**19. Contingent liabilities and commitments (Continued)**

(d) Operating lease commitments

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

	<b>As at 31 Dec 2018</b>	As at 31 Dec 2017
Not later than 1 year	<b>225,429</b>	182,950
Later than 1 year and not later than 5 years	<b>657,244</b>	460,828
Later than 5 years	<b>410,863</b>	233,800
	<b><u>1,293,536</u></b>	<u>877,578</u>

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

	<b>As at 31 Dec 2018</b>	As at 31 Dec 2017
Not later than 1 year	<b>26,228</b>	30,173
Later than 1 year and not later than 5 years	<b>20,891</b>	5,997
	<b><u>47,119</u></b>	<u>36,170</u>



# 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 2018		As at 31 Dec 2017	
	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	5,411,554	69.4	3,927,651	87.5
- Property investment	15,930,681	98.7	14,933,223	96.3
- Financial concerns	5,229,101	3.2	3,814,050	7.9
- Stockbrokers	1,711,512	28.2	2,141,027	54.2
- Wholesale and retail trade	6,584,127	89.2	7,202,373	85.9
- Manufacturing	1,702,636	75.0	1,900,894	80.0
- Transport and transport equipment	3,691,151	73.1	3,932,189	76.6
- Recreational activities	103,057	99.8	96,881	100.0
- Information technology	70,890	82.3	68,986	90.7
- Others	3,537,199	82.9	4,114,396	72.0
	<b>43,971,908</b>	<b>75.2</b>	<b>42,131,670</b>	<b>78.6</b>
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	632,804	100.0	687,074	100.0
- Loans for the purchase of other residential properties	26,609,223	100.0	22,988,102	99.9
- Credit card advances	3,721,632	-	3,613,411	-
- Others	12,927,451	51.3	12,308,030	51.6
	<b>43,891,110</b>	<b>77.2</b>	<b>39,596,617</b>	<b>75.8</b>
Loans for use in Hong Kong	<b>87,863,018</b>	<b>76.2</b>	<b>81,728,287</b>	<b>77.3</b>
Trade finance (Note (1))	<b>9,265,660</b>	<b>62.8</b>	<b>8,766,204</b>	<b>62.6</b>
Loans for use outside Hong Kong (Note (2))	<b>31,499,409</b>	<b>67.8</b>	<b>28,767,493</b>	<b>68.1</b>
	<b>128,628,087</b>	<b>73.2</b>	<b>119,261,984</b>	<b>74.0</b>

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\$306,245,000 (31 December 2017: HK\$476,119,000) 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, and individually and collectively assessed loan impairment allowances are as follows:

HK\$'000	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	31,499,409	220,458	182,600	90,693	122,411
	As at 31 Dec 2017				
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property investment	14,933,223	78,968	59,897	6,925	47,835
Individuals					
- Loans for the purchase of other residential properties	22,988,102	6,305	9,337	-	4,107
Loans for use outside Hong Kong	28,767,493	187,828	258,196	100,236	106,550

# 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

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
<b>2018</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ("JV"s)	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>		

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

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
2017			
1. Central government, central government-owned entities and their subsidiaries and JVs	7,145,507	70,194	7,215,701
2. Local governments, local government-owned entities and their subsidiaries and JVs	896,387	78,815	975,202
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	13,523,930	1,113,634	14,637,564
4. Other entities of central government not reported in item 1 above	1,635,173	15,391	1,650,564
5. Other entities of local governments not reported in item 2 above	835,183	-	835,183
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credits are granted for use in Mainland China	8,511,455	206,141	8,717,596
7. Other counterparties where the exposures are considered to be non-bank Mainland China exposures	1,113,077	48,625	1,161,702
	<u>33,660,712</u>	<u>1,532,800</u>	<u>35,193,512</u>
Total assets of DSB and its Mainland subsidiary bank after provision	<u>201,200,282</u>		
On-balance sheet exposures as percentage of total assets	<u>16.73%</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, individually impaired advances to customers, overdue advances to customers and individually and collectively assessed impairment allowances by geographical area.

### As at 31 Dec 2018

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	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
	<b>128,628,087</b>	<b>970,166</b>	<b>581,109</b>	<b>362,989</b>	<b>550,934</b>

### As at 31 Dec 2017

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	95,759,022	702,373	662,535	246,470	282,407
China	8,229,210	26,578	66,982	20,955	51,365
Macau	13,200,459	26,302	60,870	13,205	38,645
Others	2,073,293	11	10,392	11	5,988
	<b>119,261,984</b>	<b>755,264</b>	<b>800,779</b>	<b>280,641</b>	<b>378,405</b>

# 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 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
Non-bank private sector					
At 31 Dec 2017 In millions of HK\$	Banks	Official sector	Non-bank private sector		Total claims
			Non-bank financial institutions	Non- financial private sector	
Offshore centres	6,903	17,445	7,429	114,262	146,039
- of which: Hong Kong	5,781	15,164	7,133	98,814	126,892
Developing Asia and Pacific	32,271	2,083	1,058	12,780	48,192
- of which: Mainland China	26,357	2,005	694	11,135	40,191

## (e) Credit commitments and contingent liabilities analysed by percentage covered by collateral

HK\$'000	2018		2017	
	Contract amount	% covered by collateral	Contract amount	% covered by collateral
Financial guarantees and other credit related contingent liabilities	2,079,156	26.3	1,474,181	23.7
Loan commitments and other credit related commitments	74,764,948	4.9	75,198,549	3.0
	76,844,104	5.5	76,672,730	3.4

## 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 2018 and the corresponding comparative balances.

The Group did not have any structural foreign exchange position as at 31 December 2018 and 2017.

As at 31 December 2018					
	US dollars	Renminbi	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions					
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	534	509	(804)	22	261

  

As at 31 December 2017				
	US dollars	Macau Pataca	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ millions				
Spot assets	69,163	9,139	18,957	97,259
Spot liabilities	(32,744)	(10,817)	(22,919)	(66,480)
Forward purchases	26,575	-	18,272	44,847
Forward sales	(62,053)	-	(14,330)	(76,383)
Net options position	1	-	(1)	-
Net long/ (short) position	942	(1,678)	(21)	(757)

### 3. Capital adequacy ratio

	As at 31 Dec 2018	As at 31 Dec 2017
Capital adequacy ratio		
- Common Equity Tier 1	13.1%	13.4%
- Tier 1	13.7%	14.0%
- Total	<u>18.1%</u>	<u>18.7%</u>

The capital adequacy ratio as at 31 December 2018 and 31 December 2017 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. Capital buffers

	As at 31 Dec 2018	As at 31 Dec 2017
Capital conservation buffer ratio	1.875%	1.250%
Countercyclical capital buffer ratio	<u>1.444%</u>	<u>0.925%</u>
	<u>3.319%</u>	<u>2.175%</u>

With effect from 1 January 2016, the above capital buffers are phased-in and applicable to DSB. The countercyclical capital buffer ratio is computed on the same consolidated basis as the capital adequacy ratio.

### 5. Leverage ratio

	As at 31 Dec 2018	As at 31 Dec 2017
Leverage ratio	<u>8.8%</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.

### 6. Liquidity maintenance ratio

	2018	2017
Liquidity maintenance ratio	<u>45.6%</u>	<u>44.0%</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

	<b>Year ended 31 Dec 2018</b>	<b>Restated Year ended 31 Dec 2017</b>
Net interest income/ operating income	<b>72.7%</b>	75.8%
Cost to income ratio	<b>47.1%</b>	49.0%
Return on average total assets	<b>1.1%</b>	1.0%
Adjusted return on average total assets <sup>(Note 1)</sup>	<b>1.4%</b>	1.4%
Return on average shareholders' funds	<b>9.8%</b>	9.1%
Adjusted return on average shareholders' funds <sup>(Note 1)</sup>	<b>12.3%</b>	12.5%
Net interest margin	<b>2.01%</b>	1.98%
	<b>As at 31 Dec 2018</b>	<b>As at 31 Dec 2017</b>
Loan to deposit ratio	<b>71.7%</b>	70.3%

Note:

1. Excluding the impairment loss on the investment in an associate

## FINAL DIVIDEND

At the forthcoming annual general meeting ("AGM") of the Company to be held on Friday, 24 May 2019, the Directors will propose a final dividend of HK\$0.35 per share for 2018 to shareholders whose names are on the Register of Shareholders as at the close of business on Tuesday, 4 June 2019. Subject to shareholders' approval at the AGM, the final dividend will be payable on Wednesday, 12 June 2019.

## 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)	21 May 2019 (Tuesday) to 24 May 2019 (Friday)
Latest time to lodge transfers	4:30 p.m. on 20 May 2019 (Monday)
Record date	24 May 2019 (Friday)
AGM	24 May 2019 (Friday)

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

Closure dates of Register of Shareholders (both days inclusive)	31 May 2019 (Friday) to 4 June 2019 (Tuesday)
Latest time to lodge transfers	4:30 p.m. on 30 May 2019 (Thursday)
Record date	4 June 2019 (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**

Overall, whilst growth slowed somewhat in 2018, it was still generally a good year for the Hong Kong economy. GDP growth was 3.0%, down from 3.8% in 2017, but still above the trend growth averaging at 2.8% over the past 10 years. Imports and exports both grew during the year, albeit at a slightly slower pace than in 2017, and overall trade growth was a respectable 7.9% for the year. The performance of retail sales was particularly strong, with growth of 8.8%, much stronger than the 2.2% reported in 2017, and due in part to the increase in visitor numbers from 58.5 million to 65.1 million. Unemployment remained very low at 2.8%, whilst inflation increased from 1.5% to 2.4% year on year.

Globally, conditions were steady, with the IMF forecasting global GDP growth for 2018 of 3.7%, the same as in 2017. Economic growth in the Mainland slowed from 6.9% in 2017 to 6.6% for the year, and the RMB weakened during the year, particularly in the first half. The US economy continued to recover, with GDP growth of 2.9% for the year, compared with 2.3% in the prior year. Employment figures also improved, with unemployment falling to 3.9% by the year end, from 4.1% at the beginning of the year. The European Union's economic growth slowed during the year, falling to 1.4% in the fourth quarter of the year.

The US Federal Reserve raised the Fed Funds rate four times in 2018, and market interest rates generally followed suit, although towards the year end, expectations for further rate increases in 2019 began to moderate. Hong Kong market interest rates were volatile, generally remaining below US interest rates, reflecting continued strong liquidity in the Hong Kong domestic market, and from time to time trading significantly below US dollar interest rates, resulting in the Hong Kong Monetary Authority having to intervene in the market as the Hong Kong dollar exchange rate reached the weak end of the range of the linked exchange rate mechanism of 7.85 to the US dollar.

With satisfactory market conditions, albeit with a slowing economy particularly in the second half of the year, our operating profit after credit impairment losses increased by 19.1% to HK\$2,796 million. Due to the write-down of our investment in Bank of Chongqing ("BOCQ") by HK\$633 million in total in 2018 as a result of a lower Value in Use (see below), our profit attributable to shareholders was up by 13.4% to HK\$2,480 million.

### **BUSINESS AND FINANCIAL REVIEW**

Key revenue lines all improved, with net interest income up by 7.0% to HK\$4,164 million, mainly due to volume growth, with our net interest margin at 2.01%. Net fee and commission income grew by 10.3% to HK\$1,161 million due mainly to the growth in our wealth management business during the year. Despite the adoption of a new accounting standard, HKFRS 9, relating to credit impairment starting January 2018, credit impairment losses dropped slightly during the year to HK\$233 million.

The Value in Use of our investment in BOCQ was again below the carrying value of the investment as at 31 December 2018, resulting in the need for a further impairment charge of HK\$230 million at the year end, which together with the impairment charge of HK\$403 million made at the mid-year, resulted in a total impairment charge for the year of HK\$633 million, lower than 2017 by HK\$182 million, or 22%. 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 profit was HK\$660 million for the year, around 5% higher than the prior year. Our wholly owned subsidiaries, Banco Comercial de Macau and Dah Sing Bank (China), continued to deliver a steady performance.

As mentioned above, credit costs overall were down slightly for the year, led mainly by decreases in loan impairments in our Hong Kong and Mainland based commercial banking businesses. Credit impairment charges were, however, higher in the second half of the year. The credit quality in our retail banking business remained satisfactory throughout the year, although reported some increase in credit impairment charges due mainly to volume increases.

Measuring on the net profit excluding the impairment charge on BOCQ, the underlying return on assets of 1.4% and return of shareholders' funds of 12.3% were slightly below 2017. Our cost to income ratio improved from 49.0% to 47.1% during the year, a result of stronger rate of growth in operating income and continued efforts on cost control.

## **BUSINESS AND FINANCIAL REVIEW (CONTINUED)**

As at 31 December 2018, the consolidated Common Equity Tier 1 ratio of Dah Sing Bank, Limited (“DSB”) was 13.1%, slightly lower than 13.4% at the end of 2017. Taking into account DSB’s outstanding Tier 2 subordinated debts, DSB’s consolidated capital adequacy level at the year end was 18.1%, slightly lower than the prior year, due partly to the amortisation of the capital eligibility of certain previously issued Tier 2 subordinated debts. 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**

We entered 2019 with a number of uncertainties, notably, the possible impact of a trade war, and particularly the impact of higher tariffs and restrictions on trade with the Mainland by the US. These developments, amongst others, unsettled equity investors in Hong Kong, resulting in a much weaker equity market in Hong Kong in late 2018 and early 2019. Moreover, it is also difficult to gauge the implications of Brexit on the global economy.

All of this makes us somewhat more cautious on the outlook for 2019. However, currently our overall business conditions remain relatively stable, so we are not at this stage unduly pessimistic, and we expect to continue to see at least modest loan growth in 2019. The potential impact of a Sino-US trade war has made us somewhat less positive about the credit outlook, particularly for our commercial banking business, although there are currently some signs that the trade war may be downplayed or even resolved before too long. However, we have considered this uncertain and less favourable outlook, and made sufficient credit impairment provisions at the end of 2018. Impairment charges, barring exceptional market developments, are expected to be manageable.

Expectations for US interest rate rises have moderated, and this is likely to mean that Hong Kong interest rates also remain somewhat lower than initially expected. However, the current substantial differential in rates between US dollars and HK dollars may put some pressure on our asset yields, and this could have some impact on our net interest margin for the year. Pressure on expenses is expected to remain manageable, although investments in our IT systems and infrastructure are becoming more demanding.

Our capital adequacy remains robust, and after the new issuance of US\$225 million of Basel III compliant Tier 2 subordinated debt in January, we expect our capital position to remain adequate for the remaining part of 2019. Liquidity in the Hong Kong market also remains generally robust, and our funding base, mainly comprising domestic Hong Kong deposits is also expected to remain stable.

Whilst we are still somewhat cautious over the outlook in 2019, we continue to believe that there are opportunities to continue to grow our businesses, and to provide a greater range and depth of products and services to our retail and commercial customers. We are excited by the developments in the Greater Bay Area, where we will strive to grow with our customers to capture new and increasing business and market opportunities, with our presence in Hong Kong, Macau, Shenzhen and Guangzhou, the key cities in the region.

## **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”) contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, with the exception of code provision A.4.1 and code provision 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. Mr. David Shou-Yeh Wong, the Chairman of the Board, was unable to attend the 2018 Annual General Meeting (the “2018 AGM”) of the Company held on 25 May 2018 due to a minor physical indisposition. Mr. Hon-Hing Wong (Derek Wong), Vice Chairman, Managing Director and Chief Executive of the Company, took the chair of the 2018 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 2018.

## **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 this financial report and the consolidated financial statements of the Group for the year ended 31 December 2018.

## **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 2018.

## **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](http://www.hkexnews.hk) and Dah Sing Bank at [www.dahsing.com](http://www.dahsing.com).

The 2018 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 2018 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 2019.

## **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; Mr. Jun Fujimoto as Non-Executive Director; 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, 27 March 2019