



大新銀行集團有限公司

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 2012 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 2012.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

HK\$'000	Note	2012	Restated 2011	Variance %
Interest income		3,871,798	3,312,848	
Interest expense		(1,667,405)	(1,393,614)	
Net interest income	5	2,204,393	1,919,234	14.9
Fee and commission income		741,781	633,326	
Fee and commission expense		(211,149)	(216,630)	
Net fee and commission income	6	530,632	416,696	27.3
Net trading income	7	178,043	132,004	
Other operating income	8	47,602	37,466	
Operating income		2,960,670	2,505,400	18.2
Operating expenses	9	(1,833,363)	(1,527,126)	20.1
Operating profit before impairment losses		1,127,307	978,274	15.2
Loan impairment losses and other credit provisions	10	(143,681)	(181,082)	-20.7
Operating profit after impairment losses		983,626	797,192	23.4
Net gain/(loss) on disposal and revaluation of premises and other fixed assets	11	957	(1,179)	
Net gain on disposal of and fair value adjustment on investment properties	12	140,572	93,159	
Net loss on disposal of investments in securities	13	(64,127)	(28,175)	
Share of results of an associate		490,806	353,404	
Share of results of jointly controlled entities		13,385	12,687	
Profit before taxation		1,565,219	1,227,088	27.6
Taxation	14	(154,677)	(134,645)	
Profit for the year		1,410,542	1,092,443	29.1
Profit for the year is apportioned as follows:				
– Loss attributable to non-controlling interests		(24)	(734)	
– Profit attributable to Shareholders of the Company		1,410,566	1,093,177	29.0
Dividends				
Interim dividend paid		100,110	97,835	
Proposed final dividend		287,815	244,587	
		387,925	342,422	
Earnings per share				
Basic	15	HK\$1.14	HK\$0.89	
Diluted	15	HK\$1.14	HK\$0.89	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

<i>HK\$'000</i>	2012	Restated 2011
Profit for the year	1,410,542	1,092,443
Other comprehensive income for the year		
Investment in securities		
Fair value gains recognised in equity	815,998	9,135
Fair value gains recognised in equity upon reclassification of certain investments in securities included in the loans and receivables category to the available-for-sale category	54,621	–
Fair value (gain)/loss realised and transferred to income statement upon:		
– Disposal of available-for-sale securities	(75,738)	(7,847)
– Disposal of held-to-maturity securities and investments in securities included in the loans and receivables category which were previously reclassified from the available-for-sale category	87,025	36,054
– Impairment of investments in securities included in the loans and receivables category which were previously reclassified from the available-for-sale category	3,723	–
Deferred income tax assets (released)/recognised on movements in investment revaluation reserve	(149,529)	15,324
	<u>736,100</u>	<u>52,666</u>
Premises		
Fair value gains recognised in equity	936,655	528,319
Deferred income tax liabilities recognised on movements in premises revaluation reserve	(64,672)	(23,160)
	<u>871,983</u>	<u>505,159</u>
Exchange differences arising on translation of the financial statements of foreign entities	28,040	118,946
Other comprehensive income for the year, net of tax	<u>1,636,123</u>	<u>676,771</u>
Total comprehensive income for the year, net of tax	<u>3,046,665</u>	<u>1,769,214</u>
Total comprehensive income for the year is apportioned as follows:		
– Comprehensive loss attributable to non-controlling interests	(24)	(689)
– Comprehensive income attributable to Shareholders of the Company	3,046,689	1,769,903

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

<i>HK\$'000</i>	<i>Note</i>	2012	Restated 2011
ASSETS			
Cash and balances with banks		13,473,250	11,904,817
Placements with banks maturing between one and twelve months		3,990,627	5,164,914
Trading securities	<i>16</i>	5,797,742	5,406,176
Financial assets designated at fair value through profit or loss	<i>16</i>	23,525	8,776
Derivative financial instruments	<i>17</i>	643,246	639,631
Advances and other accounts	<i>18</i>	97,309,096	91,760,160
Available-for-sale securities	<i>20</i>	21,920,524	17,286,806
Held-to-maturity securities	<i>21</i>	7,047,540	8,171,987
Investment in an associate		2,437,031	1,961,365
Investments in jointly controlled entities		54,246	68,650
Goodwill		811,690	811,690
Intangible assets		69,320	73,883
Premises and other fixed assets		4,228,240	3,166,932
Investment properties		772,513	748,893
Current income tax assets		51	4,372
Deferred income tax assets		7,259	50,069
Total assets		<u>158,585,900</u>	<u>147,229,121</u>
LIABILITIES			
Deposits from banks		2,645,620	2,384,503
Derivative financial instruments	<i>17</i>	1,498,692	1,541,553
Trading liabilities		2,278,044	3,045,202
Deposits from customers		117,936,402	113,369,268
Certificates of deposit issued		5,752,462	3,164,067
Issued debt securities		2,712,907	2,718,320
Subordinated notes		3,979,470	3,697,610
Other accounts and accruals		3,499,086	2,189,983
Current income tax liabilities		111,840	27,156
Deferred income tax liabilities		259,028	73,153
Total liabilities		<u>140,673,551</u>	<u>132,210,815</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at 31 December*

	<i>Note</i>	2012	Restated 2011
EQUITY			
Non-controlling interests		<u>15,480</u>	<u>15,504</u>
Equity attributable to the Company's shareholders			
Share capital		1,251,371	1,222,935
Reserves	22	16,357,683	13,535,280
Proposed final dividend		<u>287,815</u>	<u>244,587</u>
Shareholders' funds		<u>17,896,869</u>	<u>15,002,802</u>
Total equity		<u>17,912,349</u>	<u>15,018,306</u>
Total equity and liabilities		<u><u>158,585,900</u></u>	<u><u>147,229,121</u></u>

NOTE:

1. STATUTORY FINANCIAL STATEMENTS

The financial information set out in this results announcement does not constitute the Group's statutory consolidated financial statements for the year ended 31 December 2012 but is derived from those statutory financial statements. The consolidated financial statements of the Group for the year ended 31 December 2012 will be available from the website of The Stock Exchange of Hong Kong Limited in due course. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2013.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with 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.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties (including investment properties), available-for-sale financial assets, fair value-hedged loans and receivables, financial assets and financial liabilities held for trading, and financial assets and financial liabilities (including derivative instruments) designated 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 the process of applying the Group's accounting policies.

With the exception described in Note 3 below, the accounting policies and methods of computation used in the preparation of the 2012 consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2011.

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

3. NEW AND INTERPRETATIONS TO EXISTING HKFRSS

New and amended standards adopted by the Group

In December 2010, the HKICPA amended HKAS 12, "Income taxes", to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying value of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

The Group has adopted this amendment retrospectively. Previously, the Group measured deferred tax on investment properties on the basis that their carrying values were to be recovered through use.

3. NEW AND INTERPRETATIONS TO EXISTING HKFRSS (CONTINUED)

New and amended standards adopted by the Group (Continued)

The effect of the change on the consolidated statement of financial position was to reduce overall deferred tax liabilities as at 1 January 2012 by HK\$61,709,000 (1 January 2011: HK\$46,843,000) and to increase retained earnings and premises revaluation reserve as at 1 January 2012 by HK\$58,414,000 (1 January 2011: HK\$43,537,000) and HK\$3,295,000 (1 January 2011: HK\$3,306,000) respectively.

The effect on the consolidated statement of comprehensive income for the year ended 31 December 2011 was to reduce tax expense and to increase profit for the year attributable to shareholders by HK\$14,877,000.

In respect of the Group's financial position as at, and results for the year ended, 31 December 2012, the impact from the adoption of the amendment is a saving in tax charge of HK\$34,208,000 which represented the tax liability otherwise required to be calculated on the increase in cumulative fair value gains on the Group's investment properties from the level as at 31 December 2011 had the amendment not been adopted.

There are no other new standards and amendments to standards effective for the first time for the financial year beginning 1 January 2012.

4. OPERATING SEGMENT REPORTING

Segment reporting by the Group was prepared in accordance with HKFRS 8 "Operating Segments". Information reported to the chief operating decision makers, 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 and credit card services, 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. Hire purchase finance and leasing related to equipment, vehicle and transport financing are included.
- 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).

4. OPERATING SEGMENT REPORTING (CONTINUED)

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. Starting from 2012, only segment's net interest income is disclosed, as this is the basis of reviewing business segment performance by the Group's chief operating decision makers. Certain comparative amounts have been revised to conform with the current year's presentation.

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.

For the year ended 31 December 2012

<i>HK\$'000</i>	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/(expenses)	983,375	794,491	305,964	392,840	(272,277)	–	2,204,393
Non-interest income/(expenses)	313,599	156,803	208,250	78,224	31,716	(32,315)	756,277
Total operating income/(expenses)	<u>1,296,974</u>	<u>951,294</u>	<u>514,214</u>	<u>471,064</u>	<u>(240,561)</u>	<u>(32,315)</u>	<u>2,960,670</u>
Operating (expenses)/income	<u>(1,009,200)</u>	<u>(300,075)</u>	<u>(135,839)</u>	<u>(365,492)</u>	<u>(55,072)</u>	<u>32,315</u>	<u>(1,833,363)</u>
Operating profit/(loss) before impairment losses	287,774	651,219	378,375	105,572	(295,633)	–	1,127,307
Loan impairment losses and other credit provisions (charged)/written back	<u>(118,800)</u>	<u>57,880</u>	<u>(61,966)</u>	<u>(20,857)</u>	<u>62</u>	<u>–</u>	<u>(143,681)</u>
Operating profit/(loss) after impairment losses	168,974	709,099	316,409	84,715	(295,571)	–	983,626
Net (loss)/gain on disposal of and fair value adjustment on premises, investment properties and other fixed assets	<u>(1,549)</u>	<u>–</u>	<u>–</u>	<u>965</u>	<u>142,113</u>	<u>–</u>	<u>141,529</u>
Net loss on disposal of investments in securities	–	–	<u>(64,127)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(64,127)</u>
Share of results of an associate	–	–	–	490,806	–	–	490,806
Share of results of jointly controlled entities	–	–	–	–	13,385	–	13,385
Profit/(loss) before taxation	<u>167,425</u>	<u>709,099</u>	<u>252,282</u>	<u>576,486</u>	<u>(140,073)</u>	<u>–</u>	<u>1,565,219</u>
Taxation (expenses)/credit	<u>(26,733)</u>	<u>(117,022)</u>	<u>(41,657)</u>	<u>(18,265)</u>	<u>49,000</u>	<u>–</u>	<u>(154,677)</u>
Profit/(loss) after taxation	<u><u>140,692</u></u>	<u><u>592,077</u></u>	<u><u>210,625</u></u>	<u><u>558,221</u></u>	<u><u>(91,073)</u></u>	<u><u>–</u></u>	<u><u>1,410,542</u></u>
For the year ended 31 December 2012							
Depreciation and amortisation	57,504	26,774	13,614	53,646	27,451	–	178,989
As at 31 December 2012							
Segment assets	29,634,802	49,797,444	49,757,413	26,306,191	6,007,692	(2,917,642)	158,585,900
Segment liabilities	65,553,628	28,983,016	13,101,445	20,031,758	15,921,346	(2,917,642)	140,673,551

4. OPERATING SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2011 (Restated)

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Inter- segment	Total
Net interest income/(expenses)	876,561	616,468	246,998	388,200	(208,993)	–	1,919,234
Non-interest income/(expenses)	248,624	126,323	112,171	74,643	54,309	(29,904)	586,166
Total operating income/(expenses)	1,125,185	742,791	359,169	462,843	(154,684)	(29,904)	2,505,400
Operating (expenses)/income	(809,793)	(259,537)	(107,740)	(326,285)	(53,675)	29,904	(1,527,126)
Operating profit/(loss) before impairment losses	315,392	483,254	251,429	136,558	(208,359)	–	978,274
Loan impairment losses and other credit provisions (charged)/written back	(73,046)	43,815	(100,000)	(51,851)	–	–	(181,082)
Operating profit/(loss) after impairment losses	242,346	527,069	151,429	84,707	(208,359)	–	797,192
Net (loss)/gain on disposal of and fair value adjustment on premises, investment properties and other fixed assets	(11)	–	–	(177)	92,168	–	91,980
Net loss on disposal of investments in securities	–	–	(28,175)	–	–	–	(28,175)
Share of results of an associate	–	–	–	353,404	–	–	353,404
Share of results of jointly controlled entities	–	–	–	–	12,687	–	12,687
Profit/(loss) before taxation	242,335	527,069	123,254	437,934	(103,504)	–	1,227,088
Taxation (expenses)/credit	(39,195)	(86,987)	(20,499)	(13,414)	25,450	–	(134,645)
Profit/(loss) after taxation	<u>203,140</u>	<u>440,082</u>	<u>102,755</u>	<u>424,520</u>	<u>(78,054)</u>	<u>–</u>	<u>1,092,443</u>
For the year ended 31 December 2011							
Depreciation and amortisation	54,110	19,469	12,283	48,751	21,499	–	156,112
As at 31 December 2011							
Segment assets	28,558,556	43,816,296	48,481,204	23,954,589	5,722,326	(3,303,850)	147,229,121
Segment liabilities	67,216,050	22,917,174	14,610,339	18,477,379	12,293,723	(3,303,850)	132,210,815

4. 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.

	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the year ended 31 December 2012				
Operating income	2,707,000	254,261	(591)	2,960,670
Profit before taxation	1,485,211	79,999	9	1,565,219
As at 31 December 2012				
Total assets	145,656,385	14,458,273	(1,528,758)	158,585,900
Total liabilities	130,238,146	11,964,163	(1,528,758)	140,673,551
Intangible assets and goodwill	318,667	562,343	–	881,010
Contingent liabilities and commitments	<u>64,318,306</u>	<u>2,056,644</u>	<u>–</u>	<u>66,374,950</u>
	Hong Kong and Others	Macau	Inter- segment elimination	Total
For the year ended 31 December 2011				
Operating income	2,275,074	230,669	(343)	2,505,400
Profit before taxation	1,167,508	59,580	–	1,227,088
As at 31 December 2011				
Total assets (restated)	135,085,381	13,731,520	(1,587,780)	147,229,121
Total liabilities (restated)	122,324,909	11,473,686	(1,587,780)	132,210,815
Intangible assets and goodwill	318,667	566,906	–	885,573
Contingent liabilities and commitments	<u>58,998,608</u>	<u>1,953,302</u>	<u>–</u>	<u>60,951,910</u>

5. NET INTEREST INCOME

<i>HK\$ '000</i>	2012	2011
Interest income		
Cash and balances with banks	342,753	336,652
Investments in securities	670,009	572,200
Advances to customers and banks	2,859,036	2,403,996
	<u>3,871,798</u>	<u>3,312,848</u>
Interest expense		
Deposits from banks/Deposits from customers	1,426,763	1,222,296
Certificates of deposit issued	43,706	38,977
Issued debt securities	48,446	40,459
Subordinated notes	141,109	81,020
Others	7,381	10,862
	<u>1,667,405</u>	<u>1,393,614</u>
Included within interest income		
Interest income on listed investments	582,943	486,473
Interest income on unlisted investments	87,066	85,727
	<u>670,009</u>	<u>572,200</u>
Interest income on financial assets not at fair value through profit or loss	<u>3,848,528</u>	<u>3,289,168</u>
Interest income on impaired assets	<u>3,688</u>	<u>9,296</u>
Included within interest expense		
Interest expense on financial liabilities not at fair value through profit or loss	<u>1,499,859</u>	<u>1,227,964</u>

6. NET FEE AND COMMISSION INCOME

<i>HK\$'000</i>	2012	2011
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	74,661	69,741
– Trade finance	51,203	44,327
– Credit card	276,929	286,611
Other fee and commission income		
– Securities brokerage	59,061	49,602
– Insurance distribution and others	67,517	41,971
– Retail investment and wealth management services	85,829	65,466
– Bank services and handling fees	44,537	40,925
– Other fees	82,044	34,683
	<u>741,781</u>	<u>633,326</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	198,586	203,833
– Other fees paid	12,563	12,797
	<u>211,149</u>	<u>216,630</u>

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

7. NET TRADING INCOME

<i>HK\$'000</i>	2012	2011
Net gain arising from dealing in foreign currencies	235,177	245,497
Net gain on trading securities	4,201	1,177
Net gain/(loss) from derivatives entered into for trading purpose	13,878	(42,775)
Net loss arising from financial instruments subject to fair value hedge	(65,960)	(61,379)
Net loss arising from financial instruments designated at fair value through profit or loss	(9,253)	(10,516)
	<u>178,043</u>	<u>132,004</u>

8. OTHER OPERATING INCOME

<i>HK\$'000</i>	2012	2011
Dividend income from investments in available-for-sale securities		
– Listed investments	4,719	2,389
– Unlisted investments	6,673	4,638
Gross rental income from investment properties	18,654	19,238
Other rental income	6,815	5,448
Others	10,741	5,753
	<u>47,602</u>	<u>37,466</u>

9. OPERATING EXPENSES

<i>HK\$'000</i>	2012	2011
Employee compensation and benefit expenses (including directors' remuneration)	1,068,038	935,532
Premises and other fixed assets expenses, excluding depreciation		
– Rental of premises	118,034	99,977
– Others	99,733	88,384
Depreciation	174,426	141,559
Advertising and promotion costs	77,050	101,050
Printing, stationery and postage	45,450	65,239
Amortisation expenses of intangible assets	4,563	14,553
Auditors' remuneration	6,995	6,493
Others	239,074	74,339
	<u>1,833,363</u>	<u>1,527,126</u>

10. LOAN IMPAIRMENT LOSSES AND OTHER CREDIT PROVISIONS

<i>HK\$'000</i>	2012	Restated 2011
Loan impairment losses		
Net charge/(reversal) of impairment losses on advances and other accounts		
– Trade bills	1,067	(1,358)
– Advances to customers	80,523	85,070
– Accrued interest and other accounts	117	(2,630)
	<u>81,707</u>	<u>81,082</u>
Net (reversal)/charge of impairment losses on advances and other accounts		
– Individually assessed	(1,496)	108,772
– Collectively assessed	83,203	(27,690)
	<u>81,707</u>	<u>81,082</u>
Of which		
– new and additional allowances (including amounts directly written off in the year)	176,026	191,205
– releases	(38,954)	(35,389)
– recoveries	(55,365)	(74,734)
	<u>81,707</u>	<u>81,082</u>
Other credit provisions		
Net charge of impairment losses on investment in securities included in the loans and receivables category		
– Individually assessed	61,974	–
– Collectively assessed	–	100,000
	<u>61,974</u>	<u>100,000</u>
Net charge to income statement	<u>143,681</u>	<u>181,082</u>

11. NET GAIN/(LOSS) ON DISPOSAL AND REVALUATION OF PREMISES AND OTHER FIXED ASSETS

<i>HK\$'000</i>	2012	2011
Deficit reversed/(charged) on revaluation of premises	1,902	(991)
Net gain on disposal of premises	1,163	–
Net loss on disposal of other fixed assets	(2,108)	(188)
	957	(1,179)

12. NET GAIN ON DISPOSAL OF AND FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

<i>HK\$'000</i>	2012	2011
Net gain on fair value adjustment on investment properties	140,572	93,423
Net loss on disposal of investment properties	–	(264)
	140,572	93,159

13. NET LOSS ON DISPOSAL OF INVESTMENTS IN SECURITIES

<i>HK\$'000</i>	2012	2011
Net gain on disposal of available-for-sale securities	75,738	7,847
Net loss on disposal of investments in securities included in the loans and receivables category	(107,284)	(38,515)
Net (loss)/gain on disposal of held-to-maturity securities (<i>Note</i>)	(32,581)	2,493
	(64,127)	(28,175)

Note:

The disposals in 2012 and 2011 were made after considering risk and external factors.

14. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

<i>HK\$'000</i>	2012	Restated 2011
Current income tax:		
– Hong Kong profits tax	124,228	128,044
– Overseas taxation	16,814	14,479
– (Over)/under-provision in prior years	(849)	2,369
Deferred income tax:		
– Origination and reversal of temporary differences	18,109	(9,266)
– Recognition of tax losses	(3,625)	(981)
Taxation	154,677	134,645

15. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on earnings of HK\$1,410,566,000 (2011: HK\$1,093,177,000) and the weighted average number of 1,236,919,845 (2011: 1,222,934,755) ordinary shares in issue during the year.

The calculation of fully diluted earnings per share is based on earnings of HK\$1,410,566,000 (2011: HK\$1,093,177,000) and the weighted average number of 1,236,919,845 (2011: 1,222,980,081) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential ordinary shares.

16. TRADING SECURITIES AND FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>HK\$'000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Trading securities:		
Debt securities:		
– Listed in Hong Kong	548,781	533,415
– Unlisted	5,248,961	4,872,761
	<hr/>	<hr/>
Total trading securities	5,797,742	5,406,176
	<hr/>	<hr/>
Financial assets designated at fair value through profit or loss:		
Debt securities:		
– Listed outside Hong Kong	23,525	8,776
	<hr/>	<hr/>
Total trading securities and financial assets designated at fair value through profit or loss	<u>5,821,267</u>	<u>5,414,952</u>
	<hr/>	<hr/>
Included within debt securities are:		
– Government bonds included in trading securities	5,795,924	5,404,319
– Other debt securities	25,343	10,633
	<hr/>	<hr/>
	<u>5,821,267</u>	<u>5,414,952</u>
	<hr/>	<hr/>

As at 31 December 2012 and 2011, there were no certificates of deposit held included in the above balances of investments in debt securities.

Trading securities and financial assets designated at fair value through profit or loss are analysed by categories of issuers as follows:

	As at 31 Dec 2012	As at 31 Dec 2011
– Central governments and central banks	5,795,924	5,404,319
– Public sector entities	1,409	1,433
– Banks and other financial institutions	409	424
– Corporate entities	23,525	8,776
	<hr/>	<hr/>
	<u>5,821,267</u>	<u>5,414,952</u>
	<hr/>	<hr/>

17. DERIVATIVE FINANCIAL INSTRUMENTS

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2012 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 future contracts	64,252,866	130,837	(66,258)
Currency swaps	–	–	–
Currency options purchased and written	43,336,993	71,746	(71,809)
b) <i>Interest rate derivatives</i>			
Interest rate futures	1,550,230	116	–
Interest rate swaps	7,487,004	10,177	(103,140)
c) <i>Equity derivatives</i>			
Equity options purchased and written	39,874	621	(621)
Total derivative assets/(liabilities) held for trading	<u>116,666,967</u>	<u>213,497</u>	<u>(241,828)</u>
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	18,685,659	397,412	(1,256,864)
Currency swaps	1,427,468	32,337	–
Total derivative assets/(liabilities) held for hedging	<u>20,113,127</u>	<u>429,749</u>	<u>(1,256,864)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	–	–	–
Total derivative assets not qualified as hedges	<u>–</u>	<u>–</u>	<u>–</u>
Total recognised derivative financial assets/(liabilities)	<u><u>136,780,094</u></u>	<u><u>643,246</u></u>	<u><u>(1,498,692)</u></u>

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2011 were as follows:

	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and future contracts	42,691,478	231,257	(89,675)
Currency swaps	189,270	–	(21,753)
Currency options purchased and written	1,554,859	4,317	(4,299)
b) <i>Interest rate derivatives</i>			
Interest rate futures	3,300,805	270	–
Interest rate swaps	9,735,389	7,297	(87,910)
c) <i>Equity derivatives</i>			
Equity options purchased and written	–	–	–
Total derivative assets/(liabilities) held for trading	<u>57,471,801</u>	<u>243,141</u>	<u>(203,637)</u>
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	15,288,995	366,613	(1,337,916)
Currency swaps	–	–	–
Total derivative assets/(liabilities) held for hedging	<u>15,288,995</u>	<u>366,613</u>	<u>(1,337,916)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	<u>1,164,990</u>	<u>29,877</u>	<u>–</u>
Total derivative assets not qualified as hedges	<u>1,164,990</u>	<u>29,877</u>	<u>–</u>
Total recognised derivative financial assets/(liabilities)	<u><u>73,925,786</u></u>	<u><u>639,631</u></u>	<u><u>(1,541,553)</u></u>

The effect of bilateral netting agreements has been taken into account in disclosing the fair value of derivatives.

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The credit risk weighted amounts of the above off-balance sheet exposures calculated under Basel II basis and without taking into account the effect of bilateral netting arrangement that the Group entered into, are as follows:

	As at 31 Dec 2012	As at 31 Dec 2011
Exchange rate contracts	963,492	435,921
Interest rate contracts	183,695	181,052
Other contracts	1,586	–
	<u>1,148,773</u>	<u>616,973</u>

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.

18. ADVANCES AND OTHER ACCOUNTS

<i>HK\$'000</i>	As at 31 Dec 2012	Restated As at 31 Dec 2011
Gross advances to customers	86,173,581	80,867,228
Trade bills	4,329,872	1,559,061
Other assets		
– Other accounts receivable and prepayments	3,822,959	2,919,424
	<u>94,326,412</u>	<u>85,345,713</u>
Less: impairment allowances		
– Individually assessed	(90,726)	(190,859)
– Collectively assessed	(170,578)	(193,994)
	<u>(261,304)</u>	<u>(384,853)</u>
Investments in securities included in the loans and receivables category (<i>Note 19</i>)	3,243,988	6,799,300
Advances and other accounts	<u>97,309,096</u>	<u>91,760,160</u>

18. ADVANCES AND OTHER ACCOUNTS (CONTINUED)

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

	As at 31 Dec 2012		Restated As at 31 Dec 2011	
	Outstanding balance	% of gross advances	Outstanding balance	% of gross advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	1,662,651	1.9	902,519	1.1
– Property investment	14,047,519	16.3	14,857,643	18.4
– Financial concerns	336,280	0.4	916,269	1.1
– Stockbrokers	100,240	0.1	31,372	–
– Wholesale and retail trade	3,219,507	3.7	2,020,735	2.5
– Manufacturing	1,996,894	2.3	1,647,656	2.0
– Transport and transport equipment	4,635,150	5.4	4,192,698	5.2
– Recreational activities	287,610	0.3	302,656	0.4
– Information technology	8,703	–	2,864	–
– Others	2,894,403	3.4	2,678,926	3.3
	29,188,957	33.8	27,553,338	34.0
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,123,393	1.3	1,147,664	1.4
– Loans for the purchase of other residential properties	16,026,972	18.6	15,935,118	19.7
– Credit card advances	4,240,329	4.9	4,107,677	5.1
– Others	5,465,362	6.4	4,413,867	5.5
	26,856,056	31.2	25,604,326	31.7
Loans for use in Hong Kong	56,045,013	65.0	53,157,664	65.7
Trade finance (<i>Note (1)</i>)	5,024,007	5.8	5,091,959	6.3
Loans for use outside Hong Kong (<i>Note (2)</i>)	25,104,561	29.2	22,617,605	28.0
	86,173,581	100.0	80,867,228	100.0

18. ADVANCES AND OTHER ACCOUNTS (CONTINUED)

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

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.

Starting 2012, trade bills and bills receivable associated with trade finance activities are not classified and included as trade finance lending to customers, and are separately disclosed.

Trade bills and bills receivable amounting to HK\$1,766,805,000 as at 31 December 2011 are excluded from trade finance to conform with the 2012 classification.

Trade finance loans not involving Hong Kong totalling HK\$336,534,000 (31 December 2011: HK\$131,566,000) 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.

18. ADVANCES AND OTHER ACCOUNTS (CONTINUED)

(b) Impaired, overdue and rescheduled assets

Apart from the investments in certain securities included in the loans and receivables category described in Note 19, advances to customers (as set out below), and other assets of HK\$639,000 as at 31 December 2011 against which full individual impairment allowances had been made, there were no trade bills or other assets which were individually impaired, overdue for over 3 months or rescheduled as at 31 December 2012 and 31 December 2011. In respect of advances to customers, the relevant amounts are analysed below:

(i) Impaired loans

	As at 31 Dec 2012	As at 31 Dec 2011
Impaired loans and advances		
– Individually impaired (<i>Note (a)</i>)	283,292	372,032
– Collectively impaired (<i>Note (b)</i>)	16,251	13,652
	<u>299,543</u>	<u>385,684</u>
Impairment allowances made		
– Individually assessed (<i>Note (c)</i>)	(90,726)	(190,220)
– Collectively assessed (<i>Note (b)</i>)	(14,948)	(12,392)
	<u>(105,674)</u>	<u>(202,612)</u>
	<u>193,869</u>	<u>183,072</u>
Fair value of collaterals held*	<u>221,109</u>	<u>213,682</u>
Impaired loans and advances as a % of total loans and advances to customers	<u>0.35%</u>	<u>0.48%</u>

* Fair value of collaterals is determined as 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.

18. ADVANCES AND OTHER ACCOUNTS (CONTINUED)

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

(ii) Gross amount of overdue loans

	As at 31 Dec 2012		Restated As at 31 Dec 2011	
	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	70,549	0.08	49,794	0.06
– one year or less but over six months	33,986	0.04	254,138	0.31
– over one year	195,040	0.23	78,912	0.10
	<u>299,575</u>	<u>0.35</u>	<u>382,844</u>	<u>0.47</u>
Market value of securities held against the secured overdue advances	<u>379,646</u>		<u>320,045</u>	
Secured overdue advances	242,553		235,326	
Unsecured overdue advances	<u>57,022</u>		<u>147,518</u>	
Individual impairment allowances	<u>78,668</u>		<u>173,957</u>	

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

	As at 31 Dec 2012	% of total	As at 31 Dec 2011	% of total
Advances to customers	<u>147,594</u>	0.17	<u>169,644</u>	0.21
Impairment allowances	<u>–</u>		<u>900</u>	

18. ADVANCES AND OTHER ACCOUNTS (CONTINUED)

(c) Repossessed collateral

The repossessed collateral held at the year-end is as follows:

	As at 31 Dec 2012	As at 31 Dec 2011
Nature of assets		
– Repossessed properties	73,702	19,400
– Others	6,760	5,804
	<u>80,462</u>	<u>25,204</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\$72,342,000 (2011: Nil), 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” above. The relevant loans had been derecognised.

19. INVESTMENTS IN SECURITIES INCLUDED IN THE LOANS AND RECEIVABLES CATEGORY

<i>HK\$'000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Investments in securities reclassified from the available-for-sale category		
– At fair value under fair value hedge (for hedging interest rate risk)	2,227,771	4,580,292
– At amortised cost	1,117,929	2,259,567
	<u>3,345,700</u>	<u>6,839,859</u>
Less: impairment allowances		
– Individually assessed	(58,251)	–
– Collectively assessed	(100,000)	(100,000)
	<u>(158,251)</u>	<u>(100,000)</u>
	<u>3,187,449</u>	<u>6,739,859</u>
Investments in securities classified as loan and receivables upon initial recognition	56,539	59,441
	<u>3,243,988</u>	<u>6,799,300</u>

Investments in securities classified as loans and receivables upon initial recognition were overdue at the time of recognition. As at 31 December 2012 and 2011, these investments were overdue for more than one year.

19. INVESTMENTS IN SECURITIES INCLUDED IN THE LOANS AND RECEIVABLES CATEGORY (CONTINUED)

Investments in securities included in the loans and receivables category are analysed as follows:

	As at 31 Dec 2012	As at 31 Dec 2011
Debt securities:		
– Listed in Hong Kong	–	862,149
– Listed outside Hong Kong	3,102,803	5,669,217
– Unlisted	299,436	367,934
	<u>3,402,239</u>	<u>6,899,300</u>
Less: impairment allowances		
– Individually assessed	(58,251)	–
– Collectively assessed	(100,000)	(100,000)
	<u>(158,251)</u>	<u>(100,000)</u>
	<u>3,243,988</u>	<u>6,799,300</u>
Market value of listed securities	<u>2,770,374</u>	<u>5,692,801</u>

As at 31 December 2012 and 2011, there were no certificates of deposit held included in the above balances of investments in debt securities.

	As at 31 Dec 2012	As at 31 Dec 2011
Investments in securities included in the loans and receivables category are analysed by categories of issuers as follows:		
– Banks and other financial institutions	2,282,015	3,614,285
– Corporate entities	1,120,224	3,285,015
	<u>3,402,239</u>	<u>6,899,300</u>

20. AVAILABLE-FOR-SALE SECURITIES

<i>HK\$'000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Debt securities:		
– Listed in Hong Kong	8,919,452	7,587,474
– Listed outside Hong Kong	11,599,410	8,151,314
– Unlisted	1,068,197	1,201,961
	<u>21,587,059</u>	<u>16,940,749</u>
Equity securities:		
– Listed in Hong Kong	73,026	110,572
– Listed outside Hong Kong	72,610	84,599
– Unlisted	187,829	150,886
	<u>333,465</u>	<u>346,057</u>
Total available-for-sale securities	<u><u>21,920,524</u></u>	<u><u>17,286,806</u></u>
Included within debt securities are:		
– Certificates of deposit held	–	24,270
– Other debt securities	21,587,059	16,916,479
	<u><u>21,587,059</u></u>	<u><u>16,940,749</u></u>
Available-for-sale securities are analysed by categories of issuers as follows:		
– Central governments and central banks	2,867,068	5,814,123
– Public sector entities	294,279	199,393
– Banks and other financial institutions	6,060,201	4,874,427
– Corporate entities	12,697,448	6,397,335
– Others	1,528	1,528
	<u><u>21,920,524</u></u>	<u><u>17,286,806</u></u>

21. HELD-TO-MATURITY SECURITIES

<i>HK\$'000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Debt securities		
– Listed in Hong Kong	711,921	240,544
– Listed outside Hong Kong	4,797,430	5,757,491
– Unlisted	1,538,189	2,173,952
	<u>7,047,540</u>	<u>8,171,987</u>
Market value of listed securities	<u><u>5,536,303</u></u>	<u><u>5,624,025</u></u>

21. HELD-TO-MATURITY SECURITIES (CONTINUED)

	As at 31 Dec 2012	As at 31 Dec 2011
Included within debt securities are:		
– Certificates of deposit held	399,701	6,126
– Other debt securities	6,647,839	8,165,861
	<u>7,047,540</u>	<u>8,171,987</u>
	As at 31 Dec 2012	As at 31 Dec 2011
Held-to-maturity securities are analysed by issuer as follows:		
– Central governments and central banks	910,343	1,691,869
– Public sector entities	193,620	193,906
– Banks and other financial institutions	3,914,755	4,285,601
– Corporate entities	2,028,822	2,000,611
	<u>7,047,540</u>	<u>8,171,987</u>

22. RESERVES

<i>HK\$'000</i>	As at 31 Dec 2012	Restated As at 31 Dec 2011
Reserves		
Share premium	4,404,692	4,241,183
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	2,619,372	1,812,389
Investment revaluation reserve	(98,643)	(834,743)
Exchange reserve	285,772	257,732
General reserve	700,254	700,254
Reserve for share-based compensation	130	–
Retained earnings	8,954,907	7,824,038
	<u>16,645,498</u>	<u>13,779,867</u>
Proposed final dividends included in retained earnings	<u>287,815</u>	<u>244,587</u>

The Group's Hong Kong banking subsidiaries are required to maintain minimum impairment provisions in excess of those required under HKFRS in the form of regulatory reserve. The regulatory reserve 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.

22. RESERVES (CONTINUED)

As at 31 December 2012, DSB has earmarked a regulatory reserve of HK\$1,286,675,000 (2011: HK\$1,158,201,000) first against its general reserve; and for any excess amount, the balance is earmarked against its retained earnings. As at 31 December 2011, MEVAS (1931) Limited had also earmarked a regulatory reserve of HK\$4,279,000 in its retained earnings when it was still operating as a licensed bank in the name of MEVAS Bank Limited.

23. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Capital expenditure in respect of projects and acquisition of fixed assets at the end of reporting date but not yet incurred is as follows:

<i>HK\$ '000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Expenditure		
– Authorised but not contracted for	43,423	88,320
– Contracted but not provided for	153,073	130,126
	<u>196,496</u>	<u>218,446</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 amounts	
	As at 31 Dec 2012	As at 31 Dec 2011
Direct credit substitutes	478,535	461,738
Transaction-related contingencies	507,025	247,862
Trade-related contingencies	1,759,318	1,781,429
Commitments that are unconditionally cancellable without prior notice	52,779,971	50,057,972
Other commitments with an original maturity of:		
– under 1 year	5,604,862	3,109,602
– 1 year and over	1,602,379	1,112,384
Forward forward deposits placed	–	5,760
	<u>62,732,090</u>	<u>56,776,747</u>

23. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

(b) Credit commitments (Continued)

	Credit risk weighted amounts	
	As at 31 Dec 2012	As at 31 Dec 2011
Contingent liabilities and commitments	2,589,868	1,338,349

(c) Assets pledged

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

	As at 31 Dec 2012	As at 31 Dec 2011
Trading securities	2,548,496	3,103,841
Available-for-sale securities	132,544	155
	2,681,040	3,103,996

Non-government bonds pledged with unrelated financial institutions under repurchase agreements are as follows:

	As at 31 Dec 2012	As at 31 Dec 2011
Available-for-sale securities	256,838	428,356
Held-to-maturity securities	51,970	37,896
Investments in securities included in the loans and receivables category	–	65,655
	308,808	531,907

(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:

	As at 31 Dec 2012	As at 31 Dec 2011
Not later than 1 year	144,870	111,119
Later than 1 year and not later than 5 years	253,485	130,749
Later than 5 years	58,161	78,946
	456,516	320,814

23. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

(d) Operating lease commitments (Continued)

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

	As at 31 Dec 2012	As at 31 Dec 2011
Not later than 1 year	15,850	14,928
Later than 1 year and not later than 5 years	856	13,234
	<u>16,706</u>	<u>28,162</u>

24. CROSS-BORDER CLAIMS

Equivalent in HK\$ millions

	As at 31 Dec 2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	20,697	154	15,317	36,168
North and South America	2,109	–	2,854	4,963
Europe	3,751	80	1,475	5,306
	<u>26,557</u>	<u>234</u>	<u>19,646</u>	<u>46,437</u>
	As at 31 Dec 2011			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	19,028	147	12,457	31,632
North and South America	1,393	–	2,776	4,169
Europe	4,581	89	2,228	6,898
	<u>25,002</u>	<u>236</u>	<u>17,461</u>	<u>42,699</u>

The information of cross-border 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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. LOANS AND ADVANCES TO CUSTOMERS

(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 2012		Restated As at 31 Dec 2011	
	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	1,662,651	70.4	902,519	46.2
– Property investment	14,047,519	98.4	14,857,643	94.6
– Financial concerns	336,280	36.4	916,269	32.2
– Stockbrokers	100,240	90.0	31,372	52.2
– Wholesale and retail trade	3,219,507	92.9	2,020,735	97.1
– Manufacturing	1,996,894	94.7	1,647,656	96.7
– Transport and transport equipment	4,635,150	96.3	4,192,698	96.7
– Recreational activities	287,610	1.5	302,656	–
– Information technology	8,703	47.7	2,864	75.8
– Others	2,894,403	80.8	2,678,926	95.9
	29,188,957	92.1	27,553,338	90.6
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,123,393	100.0	1,147,664	100.0
– Loans for the purchase of other residential properties	16,026,972	99.9	15,935,118	99.9
– Credit card advances	4,240,329	–	4,107,677	–
– Others	5,465,362	28.2	4,413,867	28.1
	26,856,056	69.6	25,604,326	71.5
Loans for use in Hong Kong	56,045,013	81.3	53,157,664	81.4
Trade finance (Note (1))	5,024,007	61.0	5,091,959	56.4
Loans for use outside Hong Kong (Note (2))	25,104,561	64.8	22,617,605	69.0
	86,173,581	75.3	80,867,228	76.4

1. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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 Hong Kong Monetary Authority (“HKMA”).

Starting 2012, trade bills and bills receivable associated with trade finance activities are not classified and included as trade finance lending to customers, and are separately disclosed.

Trade bills and bills receivable amounting to HK\$1,766,805,000 as at 31 December 2011 are excluded from trade finance to conform with the 2012 classification.

Trade finance loans not involving Hong Kong totalling HK\$336,534,000 (31 December 2011: HK\$131,566,000) 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. LOANS AND ADVANCES TO CUSTOMERS (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:

	As at 31 Dec 2012				
	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	14,047,519	–	–	–	6,657
Individuals					
– Loans for the purchase of other residential properties	<u>16,026,972</u>	<u>–</u>	<u>541</u>	<u>–</u>	<u>7,594</u>
	As at 31 Dec 2011				
	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	14,857,643	–	–	–	7,531
Individuals					
– Loans for the purchase of other residential properties	<u>15,935,118</u>	<u>–</u>	<u>649</u>	<u>–</u>	<u>808</u>

1. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Non-bank Mainland exposures

	As at 31 Dec 2012			Individually assessed impairment allowances
	On-balance sheet exposure	Off-balance sheet exposure	Total	
Type of counterparties				
Mainland entities	11,852,148	1,483,651	13,335,799	37,119
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	10,294,395	329,327	10,623,722	37,873
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	<u>76,028</u>	<u>–</u>	<u>76,028</u>	<u>–</u>
	As at 31 Dec 2011			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
Type of counterparties				
Mainland entities	8,610,976	1,219,140	9,830,116	42,497
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	12,183,169	345,278	12,528,447	131,514
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	<u>160,624</u>	<u>–</u>	<u>160,624</u>	<u>–</u>

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

1. LOANS AND ADVANCES TO CUSTOMERS (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 2012

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	64,568,498	100,985	112,919	42,602	88,156
China	12,313,706	152,742	152,742	37,124	41,047
Macau	8,412,400	29,513	33,862	10,979	36,223
Others	878,977	52	52	21	2,290
	<u>86,173,581</u>	<u>283,292</u>	<u>299,575</u>	<u>90,726</u>	<u>167,716</u>

As at 31 Dec 2011 (Restated)

	Gross advances to customers	Individually impaired advances to customers	Overdue advances to customers	Individually assessed impairment allowances	Collectively assessed impairment allowances
Hong Kong	65,184,854	194,817	200,530	140,187	128,138
China	6,927,228	152,271	153,209	36,861	22,447
Macau	7,578,182	19,778	23,939	10,325	38,469
Others	1,176,964	5,166	5,166	2,847	3,324
	<u>80,867,228</u>	<u>372,032</u>	<u>382,844</u>	<u>190,220</u>	<u>192,378</u>

2. Currency concentrations

The following sets out the Group's 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 2012 and the corresponding comparative balances.

Equivalent in HK\$ millions	As at 31 December 2012						
	US dollars	Renminbi	Macau pataca	Euro	Other foreign currencies	Total foreign currencies	
Spot assets	40,839	21,000	4,739	3,359	4,095	74,032	
Spot liabilities	(27,282)	(20,991)	(6,382)	(1,018)	(8,879)	(64,552)	
Forward purchases	26,892	569	–	418	6,912	34,791	
Forward sales	(38,198)	(416)	–	(2,829)	(2,146)	(43,589)	
Net long/(short) position	<u>2,251</u>	<u>162</u>	<u>(1,643)</u>	<u>(70)</u>	<u>(18)</u>	<u>682</u>	

Equivalent in HK\$ millions	As at 31 December 2011							
	US dollars	Renminbi	Macau pataca	Australian dollars	Singapore dollars	South African Rands	Other foreign currencies	Total foreign currencies
Spot assets	36,984	18,698	5,098	1,198	5	5	6,741	68,729
Spot liabilities	(23,693)	(18,627)	(6,190)	(4,750)	(90)	(317)	(4,696)	(58,363)
Forward purchases	15,900	3,723	–	4,127	85	346	3,672	27,853
Forward sales	(28,220)	(3,611)	–	(604)	(8)	–	(5,725)	(38,168)
Net long/(short) position	<u>971</u>	<u>183</u>	<u>(1,092)</u>	<u>(29)</u>	<u>(8)</u>	<u>34</u>	<u>(8)</u>	<u>51</u>

The Group did not have any structural foreign exchange position as at 31 December 2012 and 2011.

3. CAPITAL ADEQUACY RATIO

	As at 31 Dec 2012	As at 31 Dec 2011
Capital adequacy ratio		
– Core	10.3%	10.5%
– Overall	<u>14.9%</u>	<u>15.2%</u>

The capital adequacy ratio as at 31 December 2011 represents the combined ratio of the consolidated position of Dah Sing Bank, Limited (“DSB”) (covering Banco Comercial de Macau, S.A. (“BCM”) and Dah Sing Bank (China) Limited (“DSB China”)) and MEVAS (1931) Limited formerly known as Mevas Bank Limited which had ceased to be a licensed bank in Hong Kong with effect from the close of business on 22 November 2012) computed on Basel II basis with reference to the Banking (Capital) Rules.

The capital adequacy ratio as at 31 December 2012 represents the consolidated ratio of DSB. These capital adequacy ratios take into account market risk and operational risk.

Only the Hong Kong incorporated banking subsidiaries within the Group are 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. The above ratios of the Group are calculated for reference only.

3. CAPITAL ADEQUACY RATIO (CONTINUED)

The capital base after deductions used in the calculation of the above capital adequacy ratios is analysed as follows:

<i>HK\$'000</i>	As at 31 Dec 2012	As at 31 Dec 2011
Core capital		
Paid up ordinary share capital	5,000,000	5,000,000
Reserves	6,871,969	5,715,673
Less: goodwill	(811,690)	(811,690)
Less: other intangible assets	(73,320)	(73,883)
Less: net deferred tax assets	(12,253)	(9,877)
	<hr/>	<hr/>
Total core capital	10,974,706	9,820,223
Less: 50% of total amount of deductible items	(465,027)	(457,803)
	<hr/>	<hr/>
Core capital	10,509,679	9,362,420
	<hr/>	<hr/>
Supplementary capital		
Reserves on revaluation of holding of land and building	238,403	238,403
Eligible amount of collective impairment allowances for impaired assets and regulatory reserve	1,294,000	1,130,931
Revaluation reserve for available-for-sale investments	–	949
Perpetual subordinated debt	426,313	427,163
Term subordinated debt	3,171,476	2,912,475
	<hr/>	<hr/>
Total Supplementary capital	5,130,192	4,709,921
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Less: 50% of total amount of deductible items	(465,028)	(457,803)
	<hr/>	<hr/>
Supplementary capital	4,665,164	4,252,118
	<hr/>	<hr/>
Total capital base	15,174,843	13,614,538
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

4. Liquidity ratio

	2012	2011
Liquidity ratio	50.1%	44.7%
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Group's banking subsidiaries for the twelve months of the financial year. The liquidity ratio is computed with reference to the methods set out in the Fourth Schedule of the Hong Kong Banking Ordinance.

Only the locally incorporated banking subsidiaries within the Group are subject to the minimum liquidity ratio requirement under the Hong Kong Banking Ordinance. The above ratios of the Group are calculated for reference only.

FINANCIAL RATIOS

	Year ended 31 Dec 2012	Restated Year ended 31 Dec 2011
Net interest income/operating income	74.5%	76.6%
Cost to income ratio	61.9%	61.0%
Return on average total assets	0.9%	0.8%
Return on average shareholders' funds	8.6%	7.7%
Net interest margin	1.54%	1.41%
	As at 31 Dec 2012	As at 31 Dec 2011
Loan to deposit ratio	69.7%	69.4%

FINAL DIVIDENDS

At the forthcoming annual general meeting (“AGM”) of the Company to be held on Tuesday, 28 May 2013, the Directors will propose a final dividend of HK\$0.23 per share for 2012 to Shareholders whose names are on the Register of Shareholders as at the close of business on Tuesday, 28 May 2013. The final dividend is payable on or about Monday, 10 June 2013.

CLOSURE OF REGISTER OF SHAREHOLDERS

The register of Shareholders of the Company will be closed for the following periods:

- (1) For the purpose of determining Shareholders who are entitled to attend and vote at the AGM, the register of Shareholders will be closed from Friday, 24 May 2013 to Tuesday, 28 May 2013, both days inclusive. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Registrars, Computershare Hong Kong Investors Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23 May 2013.
- (2) For the purpose of determining Shareholders who are entitled to receive the final dividend in respect of the year ended 31 December 2012, the register of Shareholders will be closed from Wednesday, 5 June 2013 to Friday, 7 June 2013, both days inclusive. In order to qualify for the said final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Registrars, Computershare Hong Kong Investors Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 4 June 2013.

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

In general, business conditions in 2012 were somewhat better than expected. Concerns over the Eurozone and a potential slowdown in Mainland China during the second quarter of the year, eased in the second half. This assisted us to report significantly improved profitability, with profit attributable to shareholders increasing by 29% from HK\$1,093 million to HK\$1,411 million for the year. Key trends included an improved net interest margin, from 1.41% in 2011 to 1.54% in 2012, as well as reasonable loan growth of 6.6%, and including trade bills, a total growth of 9.8% over 2011.

Our Hong Kong banking business generated a particularly strong improvement in earnings relative to 2011, and our investment in Bank of Chongqing once again made a strong contribution to our overall results.

Most key ratios showed improvement, with return on equity increasing from 7.7% to 8.6%, capital adequacy ratio broadly stable at 14.9% and the impaired loan ratio down slightly from 0.48% to 0.35%.

Overall, we made significant progress in 2012, with growth in our core businesses, broadly in line with the strategy developed by the current management team in 2011 and adopted by the Board.

BUSINESS AND FINANCIAL REVIEW

All major operating income items reported growth in the year. Net interest income was up by 14.9% from HK\$1,919 million to HK\$2,204 million. Net interest margin (“NIM”) was up from 1.41% to 1.54% during the year, and the sequential improvement was encouraging, with NIM increasing from 1.47% in the first half of the year to 1.60% in the second half. The sequential increase in margin was driven largely by lower deposit costs, resulting from improved market liquidity and a sharp focus on deposit cost management, and higher asset yields, including Treasury business investment yields, as well as upward repricing of our loan products in general.

Net fee and commission income increased by 27.3% from HK\$417 million to HK\$531 million and net trading income increased from HK\$132 million to HK\$178 million. The improvement in fee income was driven largely by improvements in wealth management and bancassurance revenues, increases in our sales of treasury products to customers, securities services and general banking related fees. The increase in trading income was driven mainly by a significant improvement in the mark-to-market valuation of financial instruments designated at fair value through profit or loss.

The improved operating income items led to an overall increase in operating income by 18.2% from HK\$2,505 million to HK\$2,961 million. Whilst headline operating expenses increased by 20.1% to HK\$1,833 million, it should be noted that a major portion of the year on year increase relates to the effect of the write back of certain provisions relating to settlement of Lehman Minibond cases in 2011, which were not repeated in 2012. Eliminating the impact of these operating expense provisions, normalized operating expenses grew by a high single digit percentage.

BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Loan impairment losses and other credit provisions fell from HK\$181 million to HK\$144 million indicating the benign credit quality of our loan book and the generally robust financial positions of our customers during the period.

Bank of Chongqing continued to perform well with a contribution of HK\$491 million for the year, an increase of 38.9% over the prior year.

Our capital position remained strong, with the overall capital adequacy ratio of our Banking Group at 14.9%, and our core equity tier 1 at 10.3%. Based on the capital rules including the transition arrangement consistent with the Basel III capital standards prescribed by the Hong Kong Monetary Authority, we are confident that we will be able to operate at capital levels in 2013 meeting the HKMA and the new Basel III capital rules that have come into effect from 1 January 2013.

PROSPECTS

Whilst global growth remains somewhat below trend, at present different markets seem to be moving in different directions. The US is demonstrating some signs of recovery, both in unemployment and the housing market, and corporate earnings remain robust, although there is still a lack of consensus between major parties on government finances. The Eurozone remains weaker, with potential volatility from countries such as Italy. Closer to home, Mainland China has experienced a 'soft landing', and with a new leadership in 2013, we are hopeful that stability and growth will continue for the foreseeable future.

Prospects in the Pearl River Delta and Macau remain good in the long term, and we look forward to solidifying the foundations that we have built in those locations. Whilst in Hong Kong, economic growth this year is forecast to remain modest in the range of 1.5-3.5%, we believe that the underlying conditions are stable, and with low unemployment, will provide opportunities for growth in the years to come.

We are therefore cautiously optimistic about the markets in which we operate for the coming year. Nevertheless, we remain vigilant as to any risks arising, particularly in terms of any sustained rise in bad debts in the Mainland market. Local liquidity conditions remain good, and we do not see any major signs of stress at present in Hong Kong or Macau. We continue to roll out and implement the medium term strategy for our banking businesses, with a focus on core customers, deposit cost management, service quality, wealth management and bancassurance, and the development of our Mainland China and cross-border businesses, in addition to our core Hong Kong hub.

Although internationally, Basel III remains challenging for many banks, we believe that the Hong Kong banking market, including ourselves, is well prepared for the changes to the capital regime introduced with effect from 1 January 2013, and that this should not present major issues. Indeed, internationally, we feel that Hong Kong, and Asia in general, is the area which will most readily be able to accommodate the increased capital requirements, bearing in mind the relatively high levels of capital held by banks in the region in general.

Overall, despite the notes of caution sounded above, we are still broadly optimistic about the key markets in which we operate for the 2013 year, and expect that we will still see growth in those markets.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2012.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors (Appendix 10 of the Main Board Rules). After having made specific enquiry of all Directors, the Company confirmed that the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions have been fully complied with.

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

In preparing the statutory financial statements for the year ended 31 December 2012, the Group's Hong Kong banking subsidiaries have fully complied with the requirements set out in the Banking (Disclosure) Rules issued by the HKMA.

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 2012.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

The Annual Report of the Company containing all the information required by Appendix 16 of the Listing Rules will be published on the websites of the Hong Kong Stock Exchange and the Company in due course.

DEALINGS IN THE COMPANY'S SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year ended 31 December 2012.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of the Company comprises Messrs. David Shou-Yeh Wong (Chairman), Hon-Hing Wong (Derek Wong) (Vice Chairman), Harold Tsu-Hing Wong (Managing Director and Chief Executive) and Gary Pak-Ling Wang as Executive Directors; Mr. Kazutake Kobayashi as Non-Executive Director; Messrs. Robert Tsai-To Sze, Andrew Kwan-Yuen Leung, Seng-Lee Chan and Yuen-Tin Ng as Independent Non-Executive Directors.

By Order of the Board
Doris Wai Nar Wong
Company Secretary

Hong Kong, Wednesday, 20 March 2013

Website: <http://www.dahsing.com>