19 February 2019

HANG SENG BANK LIMITED
2018 ANNUAL RESULTS - HIGHLIGHTS

- Attributable profit up 21% to HK$24,211m (HK$20,018m in 2017).
- Profit before tax up 20% to HK$28,432m (HK$23,674m in 2017).
- Operating profit up 19% to HK$27,947m (HK$23,547m in 2017).
- Operating profit excluding change in expected credit losses and other credit impairment charges up 18% to HK$28,943m. (Operating profit excluding loan impairment charges and other credit risk provisions of HK$24,589m in 2017.)
- Return on average ordinary shareholders' equity of 16.0% (14.2% in 2017).
- Earnings per share up 21% to HK$12.48 per share (HK$10.30 per share in 2017).
- Fourth interim dividend of HK$3.60 per share; total dividends of HK$7.50 per share for 2018 (HK$6.70 per share in 2017).
- Common equity tier 1 ('CET1') capital ratio of 16.6%, tier 1 ('T1') capital ratio of 17.8% and total capital ratio of 20.2% at 31 December 2018. (CET1 capital ratio of 16.5%, T1 capital ratio of 17.7% and total capital ratio of 20.1% at 31 December 2017.)
- Cost efficiency ratio of 29.5% (30.5% in 2017).

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions of Hong Kong dollars respectively.

The financial information in this press release is based on the audited consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the year ended 31 December 2018.

Comment by Raymond Ch'ien, Chairman

The global economy recorded a moderate pace of expansion during 2018. Continuing concerns over international trade flows and increased volatility in the world's financial markets created more challenging operating conditions in the second half, with economic indicators signalling slower growth in 2019.

To advance our long-term growth strategy, we invested in further leveraging our competitive strengths and building better operational infrastructure to sustain good business momentum in variable market conditions. Our improved ability to anticipate the changing needs of customers and deliver an enhanced service experience supported good income and profit growth.

Attributable profit increased by 21% to HK$24,211m. Earnings per share also rose by 21% to HK$12.48 per share.

Return on average ordinary shareholders' equity was 16.0%, compared with 14.2% in 2017. Return on average total assets was 1.6%, compared with 1.4% for the previous year.

The Directors have declared a fourth interim dividend of HK$3.60 per share. This brings the total distribution for 2018 to HK$7.50 per share, compared with HK$6.70 per share in 2017.

Economic Outlook

After reaching a seven-year high of 4.6% in the first quarter of 2018, economic growth in Hong Kong slowed to a two-year low of 2.9% in the third quarter of the year. Given the city's highly open economy, heightened uncertainty over external economic and geopolitical factors may weigh on short-term growth prospects, although the tight employment market reflects solid fundamentals that continue to support the domestic economy. We forecast full-year GDP growth of 2.7% for 2019, down from an expected rate of 3.3% for 2018.

As mainland China's economy shifts away from a heavy reliance on exports to focus more on services and consumption, private spending is playing an increasingly important role in driving growth. While softer global growth and potential shifts in international trade continue to pose downside risks, the economy should broadly maintain the 'new normal' pace of growth recorded in recent years. We expect full-year GDP growth of between 6.2% and 6.5% in 2019, compared with 6.6% for 2018.

In a dynamic operating environment, we remain focused on executing our progressive strategy for sustainable growth. Our actions to uphold high standards of service excellence, optimise efficiency and take full advantage of new market opportunities will ensure we consistently deliver on the objectives and expectations of our customers and shareholders over the long term.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Hang Seng recorded strong full-year results for 2018. Our investments in technology, staff engagement and operational infrastructure are delivering on our commitment to providing customers with better financial services, growing our market leadership and reinforcing our status as a progressive and preferred brand.

We have adopted a dynamic, yet strategic, approach to capture new business, mitigate risk and drive business momentum in various market conditions for long-term sustainable growth.

Attributable profit rose by 21% year on year, with growth in both net interest income and non-interest income. All business lines achieved increases in revenue and profitability.

Enhanced data analytics gave us greater insight into the priorities and aspirations of our more than 3.5 million customers in Hong Kong. Supported by our comprehensive product range and extensive distribution network, we delivered timely tailor-made financial solutions that deepened existing relationships and won us new customers.

We expanded the digitisation of our services and distribution channels, focusing particularly on mobile platforms, to provide easier access and greater choice. This increased our engagement with customers and strengthened our appeal among younger generations and other target segments.

New digital services such as our all-in-one payment platforms offer retail and commercial customers greater flexibility and ease in making and receiving digital payments. Our AI chatbots, timely market alerts and 'anytime, anywhere' services enable customers to act swiftly on business and investment opportunities.

As part of our forward-thinking strategy, we have teamed up with industry peers and strategic partners such as Tencent and Hong Kong Science and Technology Parks to strengthen our digital capabilities, create new business opportunities and help advance fintech development in Hong Kong.

Our well-integrated cross-border capabilities and closer cross-business collaboration reinforced our mainland China operations. Hang Seng China recorded strong profit growth, reflecting an increase in non-interest income and effective management of overall credit quality.

Our initiatives to enhance the working environment and employee benefits continued to improve staff engagement and well-being. Our 'digital floor', which opened in January this year, is a new type of workspace that facilitates the generation of ideas, promotes closer collaboration and supports different ways of working based on individual preferences and needs. We also launched H@SE, our in-house social media platform, to encourage open communication among colleagues.

Our commitment to excellence is recognised by *The Asset*, which has named us 'Best Domestic Bank in Hong Kong' for 19 consecutive years.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

Financial Performance

Attributable profit grew by 21% to HK$24,211m and earnings per share rose by 21% to HK$12.48 per share.

Operating profit was up 19% at HK$27,947m and operating profit excluding change in expected credit losses and other credit impairment charges grew by 18% to HK$28,943m. Profit before tax rose by 20% to HK$28,432m.

Net operating income rose by 17% to HK$40,219m.

Net interest income was up 22% at HK$30,047m, reflecting the 9% increase in average interest-earning assets and the acquisition of new customers, which helped drive solid growth in loans and deposits. The net interest margin improved by 24 basis points to 2.18%.

Non-interest income grew by 4% to HK$11,168m, with our strong performance in the first half partly offset by the downturn in investment sentiment later in the year. The drop in international financial markets in 2018, compared with a significant gain in 2017, reduced investment returns from the life insurance portfolio. To mitigate the impact of this challenge, we leveraged our deep customer knowledge and diverse range of wealth-and-health products to record a 4% increase in wealth management income to HK$9,063m.

We made significant investments for the future. Operating expenses rose by 13% to HK$12,168m, reflecting investments in our people and technology to drive our long-term growth strategy. Depreciation charges on business premises also increased. With the growth in net operating income outpacing the rise in operating costs, we achieved positive jaws.

Our cost efficiency ratio was 29.5% – the lowest since 2007.

We continue to maintain a strong capital position. At 31 December 2018, our common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio were 16.6%, 17.8% and 20.2% respectively, compared with 16.5%, 17.7% and 20.1% at the end of 2017.

A Dynamic Approach for Driving Future Growth

Looking ahead, we expect the operating environment to remain challenging. Increased volatility in the financial markets and concerns over geopolitical developments and international trade suggest that global growth will slow in 2019.

Our investments in staff, technology and operational infrastructure are further strengthening us as a forward-thinking organisation that is setting high standards of service excellence in this new era of banking.

We are building a dynamic operational environment that facilitates the execution of our progressive strategy. We are better placed to further leverage our leading market position and our large and loyal customer base. We have the business resilience necessary to achieve long-term growth in a diverse range of market conditions.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

A Dynamic Approach for Driving Future Growth *(continued)*

By putting customers first, promoting greater efficiency and driving innovation, we are in a stronger position to achieve our business objectives. We will uphold the values of our trusted brand. We will continue to invest in initiatives and opportunities that will support future growth and deliver long-term results.

Our emphasis on improving convenience and choice is delivering an enhanced service experience that integrates with the increasingly mobile lifestyle of customers. As Hong Kong's leading domestic bank, we will continue to act as a driving force for fintech innovation in collaboration with strategic partners.

Our new Green Financing Promotion Scheme demonstrates our commitment to launching products and services that anticipate increasing market demand as customers focus on new priorities and concerns.

All these actions are fundamental to our customer-centric business strategy. They also reflect our broader undertaking as a good corporate citizen to continue to contribute to the future growth of Hong Kong.

We are doing more to bring out the best in our employees. Our new workspace model will drive innovation and create a more dynamic corporate culture. With flexi-hours, improved medical coverage and various well-being programmes, we aim to provide working conditions that ensure our people will reach their potential and play an active role in growing our business.

I wish to thank the Bank's more than 10,000 colleagues for their many contributions during 2018. Their commitment to our dynamic business approach will continue to strengthen Hang Seng's position as a vibrant, inclusive and progressive financial institution.

Results Summary

In challenging operating conditions, Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') maintained good business momentum and achieved strong results for 2018. **Profit attributable to shareholders** grew by HK$4,193m, or 21%, to HK$24,211m. **Profit before tax** increased by HK$4,758m, or 20%, to HK$28,432m. **Operating profit** rose by HK$4,400m, or 19% to HK$27,947m. **Operating profit excluding change in expected credit losses and other credit impairment charges** increased by HK$4,354m, or 18% to HK$28,943m, with solid growth in both net interest income and non-interest income partly offset by higher operating expenses. All business lines achieved increases in revenue and profitability.

Net interest income grew by HK$5,470m, or 22%, to HK$30,047m, supported by balanced growth in both customer advances and deposits. Effective balance sheet management and the successful acquisition of new customers drove growth in average loan and deposit balances, which rose by 15% and 9% respectively.

With improved customer deposit spreads being partly offset by compressed customer loan spreads, the Bank recorded a 24-basis-point increase in the net interest margin to 2.18% through effective management of its assets and liabilities. The Bank's treasury team proactively managed interest rate risk and identified good opportunities in the interbank market to enhance yields on the balance sheet investment portfolio, which partly offset the effects of the reduced commercial surplus. The contribution from net free funds also increased, reflecting the favourable effect of rising market interest rates.

Net fee income grew by HK$312m, or 5%, to HK$7,067m, with the Group's strong performance in the first half partly offset by the downturn in investment activity in the second half of the year. Income from stockbroking and related services rose by 2% year on year. Gross fee income from credit card business increased by 10%, supported by the rise in cardholder spending and merchant acquiring volume. Credit facilities fee income grew by 30%, due mainly to higher fees from corporate lending. Enhanced cross-border commercial payment capabilities resulted in a 10% increase in remittance-related fees. Fees from insurance-related business, account services and trade services rose by 13%, 8% and 6% respectively. The less favourable investment environment in the second half resulted in an 11% year-on-year decline in retail investment fund sales.

Net income from financial instruments measured at fair value decreased by HK$2,452m, or 59%, to HK$1,705m.

The Bank has considered market practices for the presentation of certain financial liabilities that contain both deposit and derivative components. It was determined that a change in accounting policy and presentation with respect to 'trading liabilities - structured deposits and structured debt securities in issue' was appropriate to better align with the presentation of similar financial instruments by industry peers and, thereby, provide more comparative information to the market about the effect of these financial liabilities on the Bank's financial position and performance. This change in accounting policy and presentation took effect on 1 January 2018. Accordingly, rather than classifying 'trading liabilities - structured deposits and structured debt securities in issue' as held for trading, such financial liabilities are now designated as at fair value through profit or loss since they are managed and their performance is evaluated on a fair-value basis. Further information is set out in the 'additional information' section of the press release and the 'accounting policies' section of the Group's 2018 Annual Report.

Net income from assets and liabilities of insurance business measured at fair value recorded a loss of HK$437m compared with a gain of HK$1,768m in 2017. Investment returns on financial assets supporting insurance contract liabilities were adversely affected by unfavourable movements in the equity markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or movement in present value of in-force long-term insurance business ('PVIF').

Net trading income and net income from financial instruments designated at fair value together declined by HK$246m, or 10%, to HK$2,143m. Foreign exchange income increased steadily but was more than offset by the loss on equity-linked derivatives due to unfavourable equity market movements. Income from foreign exchange derivatives was also down compared with a year earlier.

Income from insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and **'other'** within **'other operating income', 'share of profits/(losses) from associates'** and after deducting **'net insurance claims and benefits paid and movement in liabilities to policyholders')** increased by HK$438m, or 9%, to HK$5,078m.

For life insurance, net interest income and fee income from life insurance business rose by 6%. Investment returns on life insurance business recorded a loss of HK$605m compared with a gain of HK$1,761m in 2017, reflecting the less favourable movements in the equity markets in the second half of 2018. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or movement in PVIF under other operating income.

Net insurance premium income increased by 13%, reflecting higher new premiums attributable to the success of our total-solution retirement planning propositions covering a wide range of retirement and protection products as well as an increase in renewal premiums. This growth was partly offset by the increase in reinsurance premiums arising from tactical reinsurance arrangements executed in 2018. Excluding reinsurance premiums, gross insurance premium income rose by 19%.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by 3%. Despite the increase in new and renewal business written, the net decrease was mainly due to regular review of discount rate reflecting the higher prevalent interest rate. This would have an offsetting impact in reduction of PVIF and overall financial impact should not be significant.

The 45% rise in movement in PVIF reflects the combined effect of several factors. Higher new business sales and a positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders as mentioned above were the major increase drivers. These were partially offset by the reduction of PVIF arising from the revision of the discount rate on insurance contract liabilities.

Income from general insurance and others decreased by 10%, reflecting lower MPF business distribution.

Change in expected credit losses and other credit impairment charges/loan impairment charges and other credit risk provisions was HK$996m, compared with HK$1,042m in 2017.

Under Hong Kong Financial Reporting Standard 9 ('HKFRS 9') 'Financial Instruments', the recognition and measurement of expected credit losses ('ECL') is different to that required under Hong Kong Accounting Standard 39 ('HKAS 39') 'Financial Instruments: Recognition and Measurement'. The change in expected credit losses relating to financial assets under HKFRS 9 is more forward-looking and recorded in the income statement under 'change in expected credit losses and other credit impairment charges'. As relevant figures in the prior period have not been restated, changes in impairment of financial assets in the comparative period have been reported in accordance with HKAS 39 under 'Loan impairment charges and other credit risk provisions' and are therefore not necessarily comparable to the change in ECL recorded for the current period. Further information is provided in the 'accounting policies' section of the Group's 2018 Annual Report.

Although the Group has not restated prior year figures, comparisons are made to the balances of gross impaired loans and advances, ECL and gross loans and advances to customers as at 1 January 2018. Gross impaired loans and advances decreased by HK$14m, or 1%, to HK$2,160m when compared with 1 January 2018 using HKFRS 9. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.25% at the end of 31 December 2018, compared with 0.27% at 1 January 2018 using HKFRS 9. Overall credit quality remained robust and we remain alert to and monitor portfolio indicators for early signs of weakness.

Change in expected credit losses and other credit impairment charges recorded a charge of HK$996m for 2018. Retail Banking and Wealth Management ('RBWM') recorded an ECL charge of HK$371m, mainly in credit card and personal loan portfolios. ECL for the Commercial Banking ('CMB') and Global Banking and Markets business segments collectively recorded a net charge of HK$625m. Additional ECL arising from the downgrading of several CMB customers was partly offset by the decrease in ECL resulting from the updating of macroeconomic forecasts in expected credit losses assessment models.

Loan impairment charges and other credit risk provisions were HK$1,042m for 2017. Individually assessed impairment charges were HK$443m, with the adverse impact of the downgrading of several CMB customers partly offset by a release in impairment charges. Collectively assessed impairment charges were HK$599m, with credit card and personal loan portfolios accounting for HK$510m and the remaining related to collectively assessed impairment charges for loans not individually identified as impaired.

HKFRS 9 requires the recognition of impairment earlier in the lifecycle of a financial asset, taking forward-looking information into consideration. As a result, measurement involves more complex judgement with impairment likely to be more volatile as the economic outlook changes. The Bank's senior management will continue to closely monitor market developments and shifts in the economic environment in its management and assessment of the credit performance of financial assets.

Operating expenses increased by HK$1,400m, or 13%, to HK$12,168m, due mainly to the Bank's continued investment in technology, people and services enhancement, as well as increased professional and consultancy expenses on initiatives to support business growth and investment in regulatory compliance and transformation programmes.

Staff costs were up 10%, reflecting the salary increment, higher performance-related pay expenses and an increase in headcount.

Depreciation charges increased by 11%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation in 2017. General and administrative expenses rose by 17%, reflecting increases in marketing and advertising expenses, processing charges, professional and consultancy fees, and continued investment in technology, regulatory compliance and transformation programmes.

The rise in costs was outpaced by the 17% growth in net operating income before change in expected credit losses and other credit impairment charges. With positive jaws of 3.6 percentage points, our cost efficiency ratio improved by 1.0 percentage point compared with 2017 to 29.5%. The Group continues to focus on enhancing operational efficiency while maintaining growth momentum.

Profit before tax increased by HK$4,758m, or 20%, to HK$28,432m after taking into account the following major items:

- a HK$137m increase in **net surplus on property revaluation**; and
- a gain of HK$207m compared with a loss of HK$14m in 2017 in **share of profits/(losses) from associates**, mainly reflecting the revaluation surplus of a property investment company in 2018 compared with a revaluation loss in 2017.

Second half of 2018 compared with first half of 2018

Hang Seng recorded good results in the first half of 2018, supported by a buoyant investment environment. However, the slowdown of the global economy and less favourable investment environment posted significant challenges in the second half, leading to a 9.0% drop in attributable profit when compared with the first half of the year.

Net interest income increased by HK$1,591m, or 11%, benefiting from the increase in average interest-earning assets and improvement in the net interest margin as well as more calendar days in the second half of 2018. There was an improvement in deposit spreads following rises in Hong Kong dollar and US dollar interest rates, coupled with increased income from effective balance sheet management. However, the impact of these supportive developments was partly offset by increased competitive pressure on lending margins.

The worldwide economic slowdown and increased volatility in global financial markets adversely affected the Bank's wealth management income in the second half. Non-interest income was down 26% when compared with first half. With the changing risk appetites of investors, investment funds income decreased by 43% in the second half. The slowdown in equity market transactions in the second half against the high base established in the first half, resulted in a 38% decline in income from stockbroking and related services. Insurance income was down by 21%, attributable to lower sales alongside the volatile equity markets in the second half. We have enriched our wealth management product portfolios to mitigate the effect of the market conditions.

Operating expenses rose by HK$724m, or 13%, in the second half compared with the first half, due mainly to higher investment in IT-related costs to support business growth as well as investment in regulatory compliance and transformation programmes.

ECL charge increased by HK$520m, reflecting higher impairment charges for CMB due to the downgrading of several CMB customers. The Group maintains a cautious outlook on the credit environment and will uphold its prudent approach to growing the loan portfolio and take proactive steps to enhance asset quality.

Consolidated balance sheet and key ratios

Assets

Total assets increased by HK$93bn, or 6%, to HK$1,571bn compared with end of 2017, with the Group maintaining good business momentum by continuing to execute its strategy for enhancing profitability through sustainable growth.

Cash and sight balances at central banks decreased by HK$5bn, or 24%, to HK$16bn, due mainly to the decrease in the commercial surplus placed with the Hong Kong Monetary Authority (‘HKMA’). Placings with banks fell by HK$24bn, or 23%, to HK$79bn, and trading assets dropped by HK$7bn, or 12%, to HK$47bn, reflecting redeployment of these assets to customer loans and advances and financial investments.

Net customer loans and advances (net of ECL allowances) grew by HK$68bn, or 8%, to HK$874bn compared with the end of 2017. Gross loans for use in Hong Kong increased by 11% to HK$663bn. Lending to industrial, commercial and financial sectors grew by 11%, with increased lending across a diverse range of industries, including property development and investment, wholesale and retail trade sectors and working capital financing for large conglomerate customers. Lending to individuals increased by 12%. Amid a slowdown in the property market in the second half of 2018, the Group maintained its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending recording satisfactory growth of 12% and 16% respectively compared with the previous year-end. Credit card advances grew by 2%. Other loans to personal customers grew by 22%. Trade finance lending fell by 23%. Loans and advances for use outside Hong Kong increased by 8%, due mainly to lending by our Hong Kong operation.

Financial investments increased by HK$43bn, or 11%, to HK$429bn, reflecting the partial redeployment of the commercial surplus in debt securities for yield enhancement and the increase in the insurance financial instruments portfolio.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$76bn, or 7%, to HK$1,191bn against end of 2017. Growth in time deposits was partly offset by the decrease in current and savings account deposits. At 31 December 2018, the advances-to-deposits ratio was 73.4%, compared with 72.3% at 31 December 2017.

At 31 December 2018, shareholders’ equity increased by HK$10bn, or 7%, to HK$162bn compared with 2017 year-end. Retained profits grew by HK$10bn, or 9%, resulting from the 2018 attributable profit after the appropriation of 2018 interim dividends paid during the year. The premises revaluation reserve increased by HK$1.4bn, or 8%, reflecting the upward trend in the commercial property market. Financial assets at fair value through other comprehensive income reserve/available-for-sale investment reserve decreased by HK$0.5bn, or 26%, due mainly to the fair-value movement of the Group’s investments in financial assets measured at fair value through other comprehensive income. Other reserves (including foreign exchange reserve) decreased by HK$0.6bn, or 47%, due mainly to a decline in the foreign exchange reserve with the depreciation of the renminbi.

Key ratios

Return on average total assets was 1.6% (1.4% for 2017).

Return on average ordinary shareholders' equity was 16.0% (14.2% for 2017).

At 31 December 2018, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.6%, 17.8% and 20.2% respectively, compared with 16.5%, 17.7% and 20.1% respectively at 2017 year-end. The increase reflects the net effect of an increase in capital base and a 6.8% rise in risk-weighted assets mainly driven by lending growth.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** remained strong in 2018. The average LCR ranged from 207.0% to 209.6% for the quarters ended 31 March, 30 June, 30 September and 31 December 2018. The average LCR ranged from 209.5% to 267.7% for the corresponding quarters in 2017. The LCR at 31 December 2018 was 214.7% compared with 232.3% at 31 December 2017. The **net stable funding ratio ('NSFR')** has been implemented in Hong Kong since 1 January 2018 and the Group is required to maintain a NSFR of not less than 100%. The period end NSFR ranged from 150.5% to 154.0% for the quarters ended 31 March, 30 June, 30 September and 31 December 2018.

Dividends

The Directors have declared a fourth interim dividend of HK$3.60 per share payable on 22 March 2019 to shareholders on the register as of 6 March 2019. Together with interim dividends for the first three quarters, the total distribution for 2018 will be HK$7.50 per share.

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Year ended 31 December 2018					
Net interest income/(expense)	**16,515**	**9,331**	**4,566**	**(365)**	**30,047**
Net fee income	**4,508**	**2,040**	**300**	**219**	**7,067**
Net income/(loss) from financial instruments measured at fair value	**(398)**	**543**	**1,518**	**42**	**1,705**
Gains less losses from financial Investments	**31**	**3**	**23**	–	**57**
Dividend income	–	–	–	**146**	**146**
Net insurance premium income	**13,513**	**1,017**	–	–	**14,530**
Other operating income	**1,347**	**264**	**7**	**262**	**1,880**
Total operating income	**35,516**	**13,198**	**6,414**	**304**	**55,432**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(13,401)**	**(816)**	–	–	**(14,217)**
Net operating income before change in expected credit losses and other credit impairment charges	**22,115**	**12,382**	**6,414**	**304**	**41,215**
Change in expected credit losses and other credit impairment charges	**(371)**	**(602)**	**(23)**	–	**(996)**
Net operating income	**21,744**	**11,780**	**6,391**	**304**	**40,219**
Operating expenses ✝	**(7,391)**	**(3,205)**	**(1,071)**	**(501)**	**(12,168)**
Impairment loss on intangible assets	–	–	–	**(104)**	**(104)**
Operating profit/(loss)	**14,353**	**8,575**	**5,320**	**(301)**	**27,947**
Net surplus on property revaluation	–	–	–	**278**	**278**
Share of profits from associates	**204**	–	–	**3**	**207**
Profit/(Loss) before tax	**14,557**	**8,575**	**5,320**	**(20)**	**28,432**
Share of profit/(loss) before tax	**51.2%**	**30.2%**	**18.7%**	**(0.1)%**	**100.0%**
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	**14,724**	**9,177**	**5,343**	**(301)**	**28,943**
✝ Depreciation/amortisation included in operating expenses	**(25)**	**(3)**	**(2)**	**(1,457)**	**(1,487)**
At 31 December 2018					
Total assets	**475,964**	**382,359**	**661,736**	**51,238**	**1,571,297**
Total liabilities	**931,201**	**307,798**	**163,123**	**7,068**	**1,409,190**
Interest in associates	**2,415**	–	–	**29**	**2,444**
Non-current assets acquired during the year	**328**	**20**	**2**	**542**	**892**
Year ended 31 December 2018					
Net fee income by segment					
- securities broking and related services	**1,514**	**166**	**24**	–	**1,704**
- retail investment funds	**1,662**	**20**	–	–	**1,682**
- insurance	**511**	**86**	**64**	–	**661**
- account services	**330**	**191**	**6**	–	**527**
- remittances	**89**	**492**	**38**	–	**619**
- cards	**1,383**	**1,602**	**29**	–	**3,014**
- credit facilities	**25**	**438**	**137**	–	**600**
- trade services	–	**419**	**27**	–	**446**
- other	**75**	**79**	**34**	**228**	**416**
Fee income	**5,589**	**3,493**	**359**	**228**	**9,669**
Fee expense	**(1,081)**	**(1,453)**	**(59)**	**(9)**	**(2,602)**
Net fee income	**4,508**	**2,040**	**300**	**219**	**7,067**

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
***Year ended 31 December 2017 (restated)*[1]**					
Net interest income/(expense)	13,667	7,030	3,953	(73)	24,577
Net fee income	4,444	1,820	290	201	6,755
Net income from financial instruments measured at fair value	2,175	512	1,462	8	4,157
Gains less losses from financial investments	30	–	18	–	48
Dividend income	24	–	–	164	188
Net insurance premium income	12,172	645	–	–	12,817
Other operating income	1,044	210	7	273	1,534
Total operating income	33,556	10,217	5,730	573	50,076
Net insurance claims and benefits paid and movement in liabilities to policyholders	(14,211)	(508)	–	–	(14,719)
Net operating income before loan impairment charges and other credit risk provisions	19,345	9,709	5,730	573	35,357
Loan impairment charges and other credit risk provisions	(490)	(544)	(8)	–	(1,042)
Net operating income	18,855	9,165	5,722	573	34,315
Operating expenses ✝	(6,490)	(2,823)	(967)	(488)	(10,768)
Operating profit	12,365	6,342	4,755	85	23,547
Net surplus on property revaluation	–	–	–	141	141
Share of losses from associates	(12)	–	–	(2)	(14)
Profit before tax	12,353	6,342	4,755	224	23,674
Share of profit before tax	52.2%	26.8%	20.1%	0.9%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	12,855	6,886	4,763	85	24,589
✝ Depreciation/amortisation included in operating expenses	(25)	(4)	(2)	(1,305)	(1,336)
At 31 December 2017					
Total assets	445,489	350,693	611,717	70,519	1,478,418
Total liabilities	860,396	288,476	156,806	20,661	1,326,339
Interest in associates	2,170	–	–	–	2,170
Non-current assets acquired during the year	148	11	1	561	721
Year ended 31 December 2017					
Net fee income by segment					
- securities broking and related services	1,467	187	19	–	1,673
- retail investment funds	1,873	21	–	–	1,894
- insurance	410	102	74	–	586
- account services	307	176	6	–	489
- remittances	103	424	35	–	562
- cards	1,300	1,403	39	–	2,742
- credit facilities	15	330	118	–	463
- trade services	–	394	27	–	421
- other	76	70	30	203	379
Fee income	5,551	3,107	348	203	9,209
Fee expense	(1,107)	(1,287)	(58)	(2)	(2,454)
Net fee income	4,444	1,820	290	201	6,755

[1] *To better reflect the costs incurred to support business segments, certain overheads (mainly information technology related costs) have been reallocated to respective business segments to conform with current year's presentation.*

Retail Banking and Wealth Management ('RBWM') recorded an 18% increase in profit before tax to HK$14,557m. Operating profit increased by 16% to HK$14,353m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 15% to HK$14,724m.

Net interest income increased by 21% year on year to HK$16,515m. Leveraging our extensive network, and enhanced core banking relationships with customers, we achieved strong growth in deposit and loan balances of 9% and 10% respectively compared with 2017 year-end.

Non-interest income dropped by 1% to HK$5,600m, reflecting the adverse impact of the more volatile investment markets in the second half of 2018. Despite the increasingly unfavourable market conditions, we achieved a 3% year-on-year increase in wealth management business by leveraging our all-weather portfolio of investment and insurance products.

To mitigate the effects of a slower property market in 2018, we continued to uplift our mortgage distribution capabilities in strategic segments and identify new business opportunities. This resulted an 11% increase in mortgage balances in Hong Kong compared with 2017 year-end. Our new mortgage business continued to rank among the top three in Hong Kong.

Effective marketing campaigns and our deeper understanding of our client base through enhanced analytics enabled us to grow card spending by 9% year on year. The personal and tax loan portfolio increased by 12% in Hong Kong.

With growing volatility in global financial markets in 2018, our diverse range of product offerings enabled us to maintain investment services income in line with the previous year. We grew securities turnover and revenue by 1% and 3% respectively compared with 2017. Investment services revenue excluding securities-related income dropped by 5%.

Life insurance annualised new premiums grew by 25% year on year. Leveraging our extensive distribution network, we offered customers greater peace of mind for retirement with our all-round planning and protection solutions. With sales of annuity products driving new business growth, we continued to enrich our suite of insurance offerings, including with the launch of a new whole-life insurance product. Insurance income increased by 8% compared with 2017.

Strengthened analytics, powered by machine learning, and our sophisticated customer segmentation strategy helped us deepen client relationships and our ability to provide needs-based financial products and services. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to drive new business. We grew our Prestige Signature customer base by 25% year on year in Hong Kong. In mainland China, the Prestige customer base grew by 3% compared with a year earlier.

We continued to invest in fintech and the building of a robust infrastructure to provide safe, fast and convenient end-to-end digital banking services and increase customer engagement. Following our introduction of Hong Kong's first retail banking artificial intelligence ('AI') chatbots – 'HARO' and 'DORI' – in early 2018, we further enhanced HARO's capabilities to assist customers with managing their personal finances in a simpler way, including making peer-to-peer payment transfers through personal e-banking accounts. Leveraging Hong Kong's Faster Payment System, our new digital payment platform for customers delivers greater convenience and flexibility for fund transfer. We continued to uplift the mobile banking and e-banking user experience to provide customers with smarter, easier and more relevant banking services. The number of personal e-banking customers increased by 8% year on year in Hong Kong, and the number of active mobile users increased by 35%.

Commercial Banking ('CMB') recorded a 35% increase in both profit before tax and operating profit to HK$8,575m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 33% to HK$9,177m.

Net interest income increased by 33% to HK$9,331m, with balanced growth in average customer loans and average customer deposits, which rose by 16% and 11% respectively. Our industry sector expertise supported a solid year-on-year expansion in syndicated lending.

Supported by improved analytics for assessing customer needs and our commitment to service enhancement through digital transformation, we successfully identified new business opportunities among SME customers. The expansion of lending led to a 33% increase in credit facilities fees. Insurance income and remittance fees rose by 24% and 16% respectively. This business growth drove a 14% increase in non-interest income to HK$3,051m.

We continue to strengthen our capabilities in transactional banking. The launch of eTradeConnect, a blockchain-based trade finance platform developed in collaboration with the Hong Kong Monetary Authority and our industry peers, aims to enhance efficiency and reduce risk by digitalising trade documents and automating the trade finance process. Hang Seng One Collect, our new all-in-one payment collection service, enables merchants to accept a wide range of digital payment methods – including contactless mobile and QR code payments – through one integrated point-of-sale (POS) terminal.

In line with the Bank's values as a good corporate citizen and to support the sustainability objectives of our customers, we launched our Green Financing Promotion Scheme, which offers customers incentives for the acquisition of environmental friendly equipment.

Our investments in digital services enabled customers to track market trends more closely and enjoy easy access to information and assistance. Our AI chatbot and live chat online messaging service provide 24/7 banking services support. Customers can also enjoy instant mobile updates via our WeChat Account and the convenience of initiating the account-opening process online. On the Mainland, we launched our mobile banking app and Mobile Collection – a new digital payments service that allows customers to collect electronic payments through a broad range of channels online or at point of sales terminals – in 2018.

We also upgraded our physical commercial banking outlets to enhance the customer experience. We expanded our business banking centre in Kwun Tong to capture the growth in business opportunities in and around the Kowloon East commercial hub.

The credit environment remained challenging. We upheld good asset quality by adopting proactive credit risk management and improved our overall return on risk assets.

Our continuing commitment to service excellence in 2018 was recognised with 'Hong Kong Domestic Trade Finance Bank of the Year' and 'Hong Kong Domestic Technology & Operations Bank of the Year' awards from *Asian Banking & Finance*. We also received the 'Outstanding Import & Export Industry Partner Award' from The Hong Kong Chinese Importers & Exporters Association.

Global Banking and Markets ('GBM') reported a 12% rise in both profit before tax and operating profit to HK$5,320m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 12% to HK$5,343m.

Global Banking ('GB') recorded a 19% increase in both profit before tax and operating profit to HK$2,110m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 20% to HK$2,135m.

Net interest income grew by 20% to HK$2,318m, reflecting an increase in loans-related income resulting from enhancements to the lending portfolio mix and growth in the loans balance.

Non-interest income remained broadly steady. Fee income from credit facilities increased by 16% on the back of solid lending growth. In competitive operating conditions, fees from merchant card products declined by 26%.

Global Markets ('GM') reported an 8% increase in both profit before tax and operating profit to HK$3,210m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 8% to HK$3,208m.

Net interest income increased by 12% to HK$2,248m. Our balance sheet management team identified good opportunities for achieving enhanced yields under its diverse investment strategy. In addition, our interest rate management team proactively managed its fixed-income portfolio, resulting in strong growth in interest income.

Non-interest income increased by 5% to HK$1,530m. Increase in non-fund income from sales and trading activities outweighed the less favourable returns on balance sheet management-related funding swap activities. Strong collaboration with the RBWM, CMB and GB teams supported effective cross-selling of GM products to a diverse range of customers.

Supported by stronger customer demand for interest rate products and active management of interest rate risk, we recorded significant growth in interest rate-related income.

The active stock market in Hong Kong in the first half of the year supported an 8% year-on-year rise in income from equity-linked products.

Figures in HK$m	***Year ended 31 December*** ***2018***	*2017*	*Variance (%)*
Interest income	**37,633**	29,221	29
Interest expense	**(7,586)**	(4,644)	(63)
Net interest income	**30,047**	24,577	22
Fee income	**9,669**	9,209	5
Fee expense	**(2,602)**	(2,454)	(6)
Net fee income	**7,067**	6,755	5
Net income from financial instruments measured at fair value	**1,705**	4,157	(59)
Gains less losses from financial investments	**57**	48	19
Dividend income	**146**	188	(22)
Net insurance premium income	**14,530**	12,817	13
Other operating income	**1,880**	1,534	23
Total operating income	**55,432**	50,076	11
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,217)**	(14,719)	3
Net operating income before change in expected credit losses and other credit impairment charges	**41,215**	35,357	17
Change in expected credit losses and other credit impairment charges	**(996)**	N/A	N/A
Loan impairment charges and other credit risk provisions	**N/A**	(1,042)	N/A
Net operating income	**40,219**	34,315	17
Employee compensation and benefits	**(5,656)**	(5,122)	(10)
General and administrative expenses	**(5,025)**	(4,310)	(17)
Depreciation of premises, plant and equipment	**(1,363)**	(1,229)	(11)
Amortisation of intangible assets	**(124)**	(107)	(16)
Operating expenses	**(12,168)**	(10,768)	(13)
Impairment loss on intangible assets	**(104)**	–	N/A
Operating profit	**27,947**	23,547	19
Net surplus on property revaluation	**278**	141	97
Share of profits/(losses) from associates	**207**	(14)	N/A
Profit before tax	**28,432**	23,674	20
Tax expense	**(4,244)**	(3,671)	(16)
Profit for the year	**24,188**	20,003	21
Attributable to:			
Shareholders of the company	**24,211**	20,018	21
Non-controlling interests	**(23)**	(15)	(53)
Earnings per share – basic and diluted (in HK$)	**12.48**	10.30	21

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 29.

Figures in HK$m	*Year ended 31 December* ***2018***	*2017*
Profit for the year	**24,188**	20,003
Other comprehensive income		
Items that will be reclassified subsequently to the income statement when specific conditions are met:		
Available-for-sale investment reserve:		
- fair value changes taken to equity:		
-- on debt securities	**N/A**	(101)
-- on equity shares	**N/A**	396
- fair value changes transferred to income statement:		
-- on hedged items	**N/A**	230
-- on disposal	**N/A**	(48)
- deferred taxes	**N/A**	7
- exchange difference and other	**N/A**	198
Debt instruments at fair value through other comprehensive income reserve:		
- fair value changes taken to equity	**319**	N/A
- fair value changes transferred to income statement:		
-- on hedged items	**36**	N/A
-- on disposal	**(24)**	N/A
- expected credit losses recognised in income statement	**-**	N/A
- deferred taxes	**(87)**	N/A
- exchange difference	**13**	N/A
Cash flow hedging reserve:		
- fair value changes taken to equity	**489**	(1,914)
- fair value changes transferred to income statement	**(384)**	1,949
- deferred taxes	**(17)**	(6)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(664)**	868
Items that will not be reclassified subsequently to the income statement:		
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	**(4)**	(4)
Equity instrument:		
- fair value changes taken to equity	**(562)**	N/A
- exchange difference	**(163)**	N/A
Premises:		
- unrealised surplus on revaluation of premises	**2,458**	2,285
- deferred taxes	**(410)**	(381)
- exchange difference	**(13)**	16
- other	**-**	3
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**(703)**	564
- deferred taxes	**116**	(93)
Other comprehensive income for the year, net of tax	**400**	3,969
Total comprehensive income for the year	**24,588**	23,972
Total comprehensive income for the year attributable to:		
- shareholders of the company	**24,611**	23,987
- non-controlling interests	**(23)**	(15)
	24,588	23,972

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**16,421**	21,718	(24)
Placings with and advances to banks	**79,400**	103,113	(23)
Trading assets	**47,164**	53,704	(12)
Financial assets designated and otherwise mandatorily measured at fair value	**13,070**	N/A	N/A
Financial assets designated at fair value	**N/A**	9,313	N/A
Derivative financial instruments	**8,141**	10,836	(25)
Loans and advances to customers	**874,456**	806,573	8
Financial investments	**428,532**	385,261	11
Interest in associates	**2,444**	2,170	13
Investment properties	**10,108**	10,166	(1)
Premises, plant and equipment	**30,510**	28,499	7
Intangible assets	**16,751**	15,354	9
Other assets	**44,300**	31,711	40
Total assets	**1,571,297**	1,478,418	6
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**1,154,415**	1,074,837	7
Repurchase agreements – non-trading	**410**	2,389	(83)
Deposits from banks	**2,712**	3,676	(26)
Trading liabilities	**33,649**	88,270	(62)
Financial liabilities designated at fair value	**33,454**	1,047	3,095
Derivative financial instruments	**8,270**	11,169	(26)
Certificates of deposit and other debt securities in issue	**3,748**	600	525
Other liabilities	**45,247**	22,222	104
Liabilities under insurance contracts	**120,195**	115,545	4
Current tax liabilities	**696**	568	23
Deferred tax liabilities	**6,394**	6,016	6
Total liabilities	**1,409,190**	1,326,339	6
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**123,350**	113,646	9
Other equity instruments	**6,981**	6,981	–
Other reserves	**22,093**	21,745	2
Total shareholders' equity	**162,082**	152,030	7
Non-controlling interests	**25**	49	(49)
Total equity	**162,107**	152,079	7
Total equity and liabilities	**1,571,297**	1,478,418	6

For the year ended 31 December 2018

Figures in HK$m	Share capital	Other equity instruments	Retained profits	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI[1] reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 31 December 2017	9,658	6,981	113,646	18,379	2,116	(99)	706	643	152,030	49	152,079
Impact on transition to HKFRS 9	–	–	(776)	–	(78)	–	–	–	(854)	–	(854)
At 1 January 2018	9,658	6,981	112,870	18,379	2,038	(99)	706	643	151,176	49	151,225
Profit for the year	–	–	24,211	–	–	–	–	–	24,211	(23)	24,188
Other comprehensive income (net of tax)	–	–	(587)	2,035	(468)	88	(664)	(4)	400	–	400
Debt instruments at fair value through other comprehensive	–	–	–	–	257	–	–	–	257	–	257
Equity instruments at fair value through other comprehensive	–	–	–	–	(725)	–	–	–	(725)	–	(725)
Cash flow hedges	–	–	–	–	–	88	–	–	88	–	88
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Property revaluation	–	–	–	2,035	–	–	–	–	2,035	–	2,035
Actuarial losses on defined benefit plans	–	–	(587)	–	–	–	–	–	(587)	–	(587)
Exchange differences and others	–	–	–	–	–	–	(664)	–	(664)	–	(664)
Total comprehensive income for the year	–	–	23,624	2,035	(468)	88	(664)	(4)	24,611	(23)	24,588
Dividends paid	–	–	(13,382)	–	–	–	–	–	(13,382)	–	(13,382)
Coupon paid to holder of AT1 capital instrument	–	–	(418)	–	–	–	–	–	(418)	–	(418)
Movement in respect of share-based payment arrangements	–	–	(5)	–	–	–	–	31	26	–	26
Others	–	–	69	–	–	–	–	–	69	(1)	68
Transfers	–	–	592	(592)	–	–	–	–	–	–	–
At 31 December 2018	9,658	6,981	123,350	19,822	1,570	(11)	42	670	162,082	25	162,107

[1] *FVOCI stands for fair value through other comprehensive income and the balance at 31 December 2017 represents the available-for-sale investment reserve under HKAS 39 basis.*

[2] *Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the corresponding amount of share options granted by the ultimate holding company to the Group's employees and other cost of share-based payment arrangement. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

For the year ended 31 December 2017

Figures in HK$m	Share capital	Other equity instruments	Retained profits	Other Reserves: Premises revaluation reserve	Available-for-sale investment reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2017	9,658	6,981	105,204	16,982	1,434	(128)	(162)	657	140,626	60	140,686
Profit for the year	–	–	20,018	–	–	–	–	–	20,018	(15)	20,003
Other comprehensive income (net of tax)	–	–	471	1,923	682	29	868	(4)	3,969	–	3,969
Available-for-sale investments	–	–	–	–	682	–	–	–	682	–	682
Cash flow hedges	–	–	–	–	–	29	–	–	29	–	29
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Property revaluation	–	–	–	1,923	–	–	–	–	1,923	–	1,923
Actuarial gains on defined benefit plans	–	–	471	–	–	–	–	–	471	–	471
Exchange differences and others	–	–	–	–	–	–	868	–	868	–	868
Total comprehensive income for the year	–	–	20,489	1,923	682	29	868	(4)	23,987	(15)	23,972
Dividends paid	–	–	(12,235)	–	–	–	–	–	(12,235)	–	(12,235)
Coupon paid to holder of AT1 capital instrument	–	–	(389)	–	–	–	–	–	(389)	–	(389)
Movement in respect of share-based payment arrangements	–	–	(4)	–	–	–	–	(19)	(23)	–	(23)
Others	–	–	64	–	–	–	–	–	64	4	68
Transfers	–	–	517	(526)	–	–	–	9	–	–	–
At 31 December 2017	9,658	6,981	113,646	18,379	2,116	(99)	706	643	152,030	49	152,079

Net interest income

Figures in HK$m	***2018***	*2017*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**31,585**	25,924
- trading assets and liabilities	**192**	(1,314)
- financial instruments designated and otherwise mandatorily measured at fair value	**(1,730)**	(33)
	30,047	24,577
Average interest-earning assets	**1,376,091**	1,267,484
Net interest spread	**2.03%**	1.85%
Net interest margin	**2.18%**	1.94%

Net interest income increased by HK$5,470m, or 22%, to HK$30,047m, reflecting an improved net interest margin and increased average interest-earning assets.

Average interest-earning assets rose by HK$109bn, or 9%, when compared with 2017. Average customer lending increased by 15%, with notable growth in corporate and commercial and mortgage lending. Average interbank placement and financial investments remained broadly in line with last year.

Net interest margin improved by 24 basis points to 2.18%, mainly due to wider customer deposit spreads and a change in asset portfolio mix as average customer lending grew. Treasury realised opportunities in the interbank market and proactively managed the interest rate risk to enhance the portfolios yield. Average loan spread on customer lending reduced, notably on corporate and commercial term lending.

Compared with the first half of 2018, net interest income in the second half of 2018 increased by HK$1,591m, or 11%, mainly supported by increase in average interest-earning assets and widening of net interest margin together with the effect of more calendar days in the second half of 2018. There was an improvement in deposit spreads following the rise in market interest rates in the second half, coupled with increased income from effective balance sheet management, partly offset by compressed lending spreads.

Net interest income *(continued)*

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading and income arising from financial instruments designated at fair value through profit and loss as 'Net income from financial instruments measured at fair value' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng Bank, as included in the HSBC Group accounts:

Figures in HK$m	***2018***	*2017*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**36,711**	28,745
- Interest expense	**(5,158)**	(2,865)
- Net interest income	**31,553**	25,880
Net interest income and expense reported as 'Net income from financial instruments measured at fair value'	**(1,506)**	(1,303)
Average interest-earning assets	**1,328,533**	1,223,050
Net interest spread	**2.24%**	2.04%
Net interest margin	**2.37%**	2.12%

Net fee income

Figures in HK$m	***2018***	*2017 (restated)*
- securities broking and related services	**1,704**	1,673
- retail investment funds	**1,682**	1,894
- insurance	**661**	586
- account services	**527**	489
- remittances	**619**	562
- cards	**3,014**	2,742
- credit facilities	**600**	463
- trade services	**446**	421
- other	**416**	379
Fee income	**9,669**	9,209
Fee expense	**(2,602)**	(2,454)
	7,067	6,755

Net income from financial instruments measured at fair value

Figures in HK$m	***2018***	*2017*
Net trading income		
- trading income	**1,928**	2,384
- other trading income - hedging ineffectiveness		
- on cash flow hedges	**–**	1
- on fair value hedges	**8**	(1)
	1,936	2,384
Net income from financial instruments designated at fair value	**207**	5
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value		
- financial assets held to meet liabilities under insurance and investment contracts	**(440)**	1,824
- liabilities to customers under investment contracts	**3**	(56)
	(437)	1,768
Changes in fair value of other financial instruments measured at fair value	**(1)**	–
Net income from financial instruments measured at fair value	**1,705**	4,157

Other operating income

Figures in HK$m	***2018***	*2017*
Rental income from investment properties	**341**	363
Movement in present value of in-force long-term insurance business	**1,324**	910
Net losses from disposal of fixed assets	**(5)**	(10)
Gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**(4)**	3
Others	**224**	268
	1,880	1,534

Analysis of income from wealth management business

Figures in HK$m	***2018***	*2017 (restated)*
Investment services income[ǂ]:		
- retail investment funds	**1,670**	1,765
- structured investment products	**561**	582
- securities broking and related services	**1,665**	1,638
- margin trading and others	**89**	92
	3,985	4,077
Insurance income:		
- life insurance:		
- net interest income and fee income	**3,777**	3,573
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**(605)**	1,761
- net insurance premium income	**14,530**	12,817
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,217)**	(14,719)
- movement in present value of in-force long-term insurance business	**1,324**	910
	4,809	4,342
- general insurance and others	**269**	298
	5,078	4,640
Total	**9,063**	8,717

[ǂ] *Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net income from financial instruments measured at fair value.*

The Group's diverse range of products and swift response to the changing market generated a 4% increase in wealth management income amidst uncertain market conditions.

Despite subdued investor sentiment and global economic uncertainties in the second half of 2018, the Group maintained wealth management business flows, recording a 2% decline in investment services income. The increase in securities broking and related service income was more than offset by the decrease in retail investment funds income.

Insurance business income increased by 9%, reflecting new and renewal premiums, but being offset by the unfavourable investment returns on life insurance funds.

Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions

Figures in HK$m	***2018***	*2017*
Change in expected credit losses/ Loan impairment charges		
New allowances net of allowance releases	**1,139**	1,141
Recoveries of amounts previously written off	**(143)**	(99)
	996	1,042
Impairment allowances/(releases) of available-for-sale debt securities	**N/A**	–
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	**996**	1,042
Attributable to:		
- loans and advances to banks and customers	**1,023**	1,042
- other financial assets	**(2)**	–
- loan and other credit related commitments and guarantees	**(25)**	–
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	**996**	1,042

Operating expenses

Figures in HK$m	***2018***	*2017*
Employee compensation and benefits:		
- salaries and other costs	**5,225**	4,720
- retirement benefit costs	**431**	402
	5,656	5,122
General and administrative expenses:		
- rental expenses	**611**	614
- other premises and equipment	**1,498**	1,345
- marketing and advertising expenses	**526**	426
- other operating expenses	**2,390**	1,925
	5,025	4,310
Depreciation of premises, plant and equipment	**1,363**	1,229
Amortisation of intangible assets	**124**	107
	12,168	10,768
Cost efficiency ratio	**29.5%**	30.5%

Full-time equivalent staff numbers by region	***At 31 December 2018***	*At 31 December 2017*
Hong Kong and others	**8,611**	8,215
Mainland	**1,741**	1,765
Total	**10,352**	9,980

Tax expense

Taxation in the consolidated income statement represents:

Figures in HK$m	***2018***	*2017*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**3,888**	3,208
- Adjustment in respect of prior years	**19**	70
Current tax – taxation outside Hong Kong		
- Tax for the year	**55**	49
- Adjustment in respect of prior years	**–**	(3)
Deferred tax		
- Origination and reversal of temporary differences	**282**	347
Total tax expense	**4,244**	3,671

The current tax provision is based on the estimated assessable profit for 2018, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2017). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$23,863m in 2018 (HK$19,693m in 2017) which is after the deduction of the coupon paid on AT1 capital instrument and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2017).

Dividends per share

	2018		*2017*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
(a) Dividends to ordinary shareholders				
First interim	**1.30**	**2,485**	1.20	2,294
Second interim	**1.30**	**2,485**	1.20	2,294
Third interim	**1.30**	**2,485**	1.20	2,294
Fourth interim	**3.60**	**6,883**	3.10	5,927
	7.50	**14,338**	6.70	12,809

	2018	*2017*
	HK$m	*HK$m*
(b) Distribution to holder of AT1 capital instrument classified as equity		
Coupon paid on AT1 capital instrument	**418**	389

Segmental analysis

Hong Kong Financial Reporting Standard 8 requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the internal reporting information, the Group has presented the following four reportable segments.

- **Retail Banking and Wealth Management** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance and wealth management;
- **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and SME customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;
- **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities;
- **Other** mainly represents the Bank's holdings of premises, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of management overheads. Bank-owned premises are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 14.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2018					
Profit/(loss) before tax	**14,557**	**8,575**	**5,320**	**(20)**	**28,432**
Share of profit/(loss) before tax	**51.2%**	**30.2%**	**18.7%**	**(0.1)%**	**100.0%**
Year ended 31 December 2017 (restated)					
Profit before tax	12,353	6,342	4,755	224	23,674
Share of profit before tax	52.2%	26.8%	20.1%	0.9%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. Consolidation adjustments made in preparing the Group's financial statements upon consolidation are included in the 'Inter-region elimination'.

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-region elimination***	***Total***
Year ended 31 December 2018					
Total operating income	**53,004**	**2,200**	**269**	**(41)**	**55,432**
Profit before tax	**27,887**	**437**	**108**	–	**28,432**
At 31 December 2018					
Total assets	**1,482,980**	**106,124**	**22,103**	**(39,910)**	**1,571,297**
Total liabilities	**1,324,871**	**93,611**	**21,093**	**(30,385)**	**1,409,190**
Equity	**158,109**	**12,513**	**1,010**	**(9,525)**	**162,107**
Share capital	**9,658**	**9,857**	–	**(9,857)**	**9,658**
Interest in associates	**2,442**	**2**	–	–	**2,444**
Non-current assets⁺	**56,235**	**1,125**	**9**	–	**57,369**
Contingent liabilities and commitments	**428,206**	**50,274**	**5,593**	–	**484,073**
Year ended 31 December 2017					
Total operating income	47,940	1,917	286	(67)	50,076
Profit before tax	23,242	241	191	–	23,674
At 31 December 2017					
Total assets	1,385,176	121,941	20,944	(49,643)	1,478,418
Total liabilities	1,236,896	109,542	20,019	(40,118)	1,326,339
Equity	148,280	12,399	925	(9,525)	152,079
Share capital	9,658	10,396	–	(10,396)	9,658
Interest in associates	2,170	–	–	–	2,170
Non-current assets⁺	52,832	1,173	14	–	54,019
Contingent liabilities and commitments	388,347	59,573	5,549	–	453,469

⁺ *Non-current assets consist of investment properties, premises, plant and equipment, and intangible assets.*

Trading assets

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Treasury bills	**26,700**	33,066
Other debt securities	**20,448**	18,509
Debt securities	**47,148**	51,575
Investment funds	**16**	24
Total trading securities	**47,164**	51,599
Other[⌖]	**–**	2,105
Total trading assets	**47,164**	53,704

[⌖] *This represents the amount receivable from counterparties on trading transactions not yet settled. Please also refer to the 'Changes in accounting policy' as set out in note (1) of the 2018 Annual Report.*

Financial assets designated and otherwise mandatorily measured at fair value / Financial assets designated at fair value

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Debt securities	**6**	792
Equity shares	**5,472**	5,486
Investment funds	**6,267**	3,035
Other	**1,325**	–
	13,070	9,313

Loans and advances to customers

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Gross loans and advances to customers	**877,134**	808,170
Less: Expected credit losses/loan impairment allowances	**(2,678)**	(1,597)
	874,456	806,573
Expected credit losses/loan impairment allowances as a percentage of gross loans and advances to customers	**0.31%**	0.20%

Expected credit losses at 1 January 2018 to reflect the adoption of HKFRS 9 from that date was HK$2,540m and the corresponding ratio of expected credit losses as a percentage of gross loans and advances to customers was 0.31%.

Gross impaired loans and advances	**2,160**	1,970
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.25 %**	0.24%

Gross impaired loans and advances at 1 January 2018 to reflect the adoption of HKFRS 9 from that date was HK$2,174m and the corresponding ratio of gross impaired loans and advances as a percentage of gross loans and advances to customers was 0.27%.

Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitments and financial guarantees

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL
At 1 January 2018	1,110,402	(692)	77,109	(1,175)	2,001	(745)	173	(18)	1,189,685	(2,630)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(31,781)	61	31,781	(61)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	44,845	(427)	(44,845)	427	–	–	–	–	–	–
- transfers to Stage 3	(880)	2	(526)	7	1,406	(9)	–	–	–	–
- transfers from Stage 3	–	–	22	–	(22)	–	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	286	–	(219)	–	(5)	–	–	–	62
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–	–	–
Net new and further lending/(repayments)	93,785	(65)	(7,898)	206	(226)	109	(159)	10	85,502	260
Changes to risk parameters (model inputs)	–	54	–	(191)	–	(1,313)	–	2	–	(1,448)
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	(999)	999	(6)	6	(1,005)	1,005
Foreign exchange and others	(5,787)	4	(1,857)	6	(6)	5	(2)	–	(7,652)	15
At 31 December 2018	1,210,584	(777)	53,786	(1,000)	2,154	(959)	6	–	1,266,530	(2,736)

	Total
Change in ECL in income statement (charge)/release for the year	(1,126)
Add: Recoveries	143
Add/(less): Others	(13)
Total ECL (charge)/release for the year	(996)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The above table does not include balances due from HSBC Group companies.*

Loan impairment allowances against loans and advances to customers

Movement of loan impairment allowances against loans and advances to customers during 2017 as below do not reflect the adoption of HKFRS 9 and are not comparable to the Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitments and financial guarantees which are disclosed on HKFRS 9 basis as shown on page 33.

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2017	923	936	1,859
Amounts written off	(790)	(646)	(1,436)
Recoveries of loans and advances written off in previous years	43	87	130
New impairment allowances charged to consolidated income statement	542	686	1,228
Impairment allowances released to consolidated income statement	(99)	(87)	(186)
Unwinding of discount of loan impairment allowances recognised as 'interest income'	(45)	(4)	(49)
Exchange difference	28	23	51
At 31 December 2017	602	995	1,597

Overdue loans and advances to customers

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2018		At 31 December 2017	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**533**	**0.06**	162	0.02
- more than six months but not more than one year	**395**	**0.05**	253	0.03
- more than one year	**657**	**0.07**	1,226	0.15
	1,585	**0.18**	1,641	0.20

Overdue loans and advances decreased by HK$56m, or 3%, to HK$1,585m compared with last year-end, due mainly to loan written off and repayment during the year. Overdue loans and advances as a percentage of gross loans and advances to customers was down by 2 basis points to 0.18% at 31 December 2018.

Rescheduled loans and advances to customers

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2018		At 31 December 2017	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**102**	**0.01**	118	0.01

Rescheduled loans and advances decreased by HK$16m, or 14%, to HK$102m compared with last year-end mainly related to retail portfolios during the year.

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the HKMA is as follows:

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**67,295**	62,715
Property investment	**145,791**	136,214
Financial concerns	**8,737**	8,757
Stockbrokers	**20**	150
Wholesale and retail trade	**31,044**	27,523
Manufacturing	**22,653**	23,548
Transport and transport equipment	**13,077**	14,153
Recreational activities	**177**	191
Information technology	**8,736**	7,027
Other	**84,705**	65,039
	382,235	345,317
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**25,664**	22,046
Loans and advances for the purchase of other residential properties	**194,839**	174,068
Credit card loans and advances	**29,793**	29,229
Other	**30,275**	24,888
	280,571	250,231
Gross loans and advances for use in Hong Kong	**662,806**	595,548
Trade finance	**36,127**	47,125
Gross loans and advances for use outside Hong Kong	**178,201**	165,497
Gross loans and advances to customers	**877,134**	808,170
Expected credit losses/loan impairment allowances	**(2,678)**	(1,597)
Net loans and advances to customers	**874,456**	806,573

Gross loans and advances to customers by industry sector *(continued)*

Gross loans and advances to customers increased by HK$69.0bn, or 9%, to HK$877.1bn compared with the end of 2017.

Loans and advances for use in Hong Kong rose by 11%. Lending to industrial, commercial and financial sectors grew by 11%. Lending to property development and property investment sectors remained active, both increased by 7% despite property market sentiment slowdown in second half of 2018. The Bank's continued efforts to support local business saw lending to wholesale and retail trade sector grew by 13%. Lending to information technology sector increased by 24% while lending to transport and transport equipment fell by 8%. Lending to 'Other' sector grew by 30%, due mainly to the granting of certain new working capital financing facilities to large conglomerate customers.

Lending to individuals increased by 12%. We grew our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending by 12% and 16% respectively, and maintained our top-three market position in terms of new mortgage business in Hong Kong. Credit card advances grew by 2% and other loans to personal customers grew by 22% when compared with last year-end.

Loans and advances for use outside Hong Kong increased by 8%, mainly reflecting lending by our Hong Kong operation to finance the work capital, property development and investment of large conglomerate customers for loan use in mainland China.

Financial investments

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Financial investments measured at fair value through other comprehensive income:		
- treasury bills	**217,636**	N/A
- debt securities	**107,400**	N/A
- equity shares	**4,144**	N/A
Debt instruments measured at amortised cost:		
- treasury bills	**1,842**	N/A
- debt securities	**97,547**	N/A
- Less: Expected credit losses	**(37)**	N/A
Available-for-sale at fair value:		
- debt securities	**N/A**	283,993
- equity shares	**N/A**	4,942
- investment funds	**N/A**	1,269
Held-to-maturity debt securities at amortised cost	**N/A**	95,057
	428,532	385,261
Fair value of debt securities at amortised cost	**99,260**	97,614
Treasury bills	**219,478**	154,292
Certificates of deposit	**12,379**	12,140
Other debt securities	**192,531**	212,618
Debt securities	**424,388**	379,050
Equity shares	**4,144**	4,942
Investment funds	**–**	1,269
	428,532	385,261

Intangible assets

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Present value of in-force long-term insurance business	**15,910**	14,574
Internally developed/acquired software	**512**	451
Goodwill	**329**	329
	16,751	15,354

Other assets

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Items in the course of collection from other banks	**7,236**	6,464
Bullion	**5,257**	4,127
Prepayments and accrued income	**4,276**	3,773
Acceptances and endorsements	**6,868**	5,108
Less: Expected credit losses	**(5)**	N/A
Reinsurers' share of liabilities under insurance contracts	**8,788**	8,232
Settlement accounts ⱷ	**4,796**	N/A
Cash collateral ⱷ	**1,838**	N/A
Other accounts	**5,246**	4,007
	44,300	31,711

ⱷ *Please refer to the 'Statutory financial statements and accounting policies' as set out in note (1) of the 'Additional Information'.*

Other accounts included 'Assets held for sale' of HK$18m (2017: HK$42m). It also included 'Retirement benefit assets' of HK$13m (2017: HK$53m).

There was no accumulated loss recognised directly in equity relating to assets held for sale for 2018 and 2017.

There was no significant impaired, overdue or rescheduled other assets at the year-end of 2018 and 2017.

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Current, savings and other deposit accounts:		
- as stated in consolidated balance sheet	**1,154,415**	1,074,837
- structured deposits reported as trading liabilities	**N/A**	36,507
- structured deposits reported as financial liabilities designated as fair value	**28,594**	N/A
	1,183,009	1,111,344
By type:		
- demand and current accounts	**106,096**	117,525
- savings accounts	**707,158**	757,828
- time and other deposits	**369,755**	235,991
	1,183,009	1,111,344

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Certificates of deposit and other debt securities in issue:		
- as stated in consolidated balance sheet	**3,748**	600
- certificates of deposit in issue designated at fair value	**2,008**	493
- other structured debt securities in issue reported as financial liabilities designated at fair value	**2,404**	N/A
- other structured debt securities in issue reported as trading liabilities	**N/A**	2,929
	8,160	4,022
By type:		
- certificates of deposit in issue	**5,756**	1,093
- other debt securities in issue	**2,404**	2,929
	8,160	4,022

Trading liabilities

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Other structured debt securities in issue	**N/A**	2,929
Structured deposits	**N/A**	36,507
Short positions in securities and others	**33,649**	48,834
	33,649	88,270

Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Certificates of deposit in issue	**2,008**	493
Structured deposits	**28,594**	N/A
Other structured debt securities in issue	**2,404**	N/A
Liabilities to customers under investment contracts	**448**	554
	33,454	1,047

Other liabilities

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Items in the course of transmission to other banks	**10,053**	8,987
Accruals	**4,190**	3,511
Acceptances and endorsements	**6,868**	5,108
Retirement benefit liabilities	**834**	89
Settlement accounts [⌖]	**17,213**	N/A
Cash collateral [⌖]	**995**	N/A
Other	**5,094**	4,527
	45,247	22,222

[⌖] *Please refer to the 'Statutory financial statements and accounting policies' as set out in note (1) of the 'Additional Information'.*

Shareholders' equity

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Share capital	**9,658**	9,658
Retained profits	**123,350**	113,646
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**19,822**	18,379
Cash flow hedge reserve	**(11)**	(99)
Available-for-sale investment reserve		
- on debt securities	**N/A**	(90)
- on equity securities	**N/A**	2,206
Financial assets at fair value through other comprehensive income reserve	**1,570**	N/A
Other reserves	**712**	1,349
Total reserves	**152,424**	142,372
Total shareholders' equity	**162,082**	152,030
Return on average ordinary shareholders' equity	**16.0 %**	14.2 %

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2018.

The Bank has issued perpetual capital instrument of HK$6,981m that was included in the Group's capital base as Basel III compliant additional tier 1 capital ('AT1') under the Banking (Capital) Rules to its immediate holding company reported under 'other equity instruments'.

Capital management

The following tables show the capital base, risk-weighted assets and capital ratios on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are ‘regulated financial entities’ (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**133,990**	126,241
- Shareholders' equity per consolidated balance sheet	**162,082**	152,030
- Additional Tier 1 ('AT1') perpetual capital instrument	**(6,981)**	(6,981)
- Unconsolidated subsidiaries	**(21,111)**	(18,808)
Non-controlling interests	–	–
- Non-controlling interests per consolidated balance sheet	**25**	49
- Non-controlling interests in unconsolidated subsidiaries	**(25)**	(49)
Regulatory deductions to CET1 capital	**(32,266)**	(31,783)
- Cash flow hedging reserve	**4**	41
- Changes in own credit risk on fair valued Liabilities	**(12)**	(5)
- Property revaluation reserves[1]	**(26,543)**	(24,842)
- Regulatory reserve	**(4,982)**	(6,018)
- Intangible assets	**(463)**	(408)
- Defined benefit pension fund assets	**(11)**	(45)
- Deferred tax assets net of deferred tax liabilities	**(111)**	(211)
- Valuation adjustments	**(148)**	(295)
Total CET1 Capital	**101,724**	94,458
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**6,981**	6,981
- Perpetual capital instrument	**6,981**	6,981
Total AT1 Capital	**6,981**	6,981
Total Tier 1 ('T1') Capital	**108,705**	101,439
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**15,517**	14,723
- Property revaluation reserves[1]	**11,944**	11,179
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,573**	3,544
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**14,602**	13,808
Total Capital	**123,307**	115,247

[1] *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Credit risk	**541,542**	512,720
Market risk	**11,020**	7,208
Operational risk	**59,323**	52,795
Total	**611,885**	572,723

(c) Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	At 31 December 2018	*At 31 December 2017*
CET1 capital ratio	**16.6 %**	16.5 %
T1 capital ratio	**17.8 %**	17.7 %
Total capital ratio	**20.2 %**	20.1 %

In addition, the capital ratios of all tiers as of 31 December 2018 would be reduced by approximately 1.1 percentage point after the prospective fourth interim dividend payment for 2018. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2018	*Pro-forma At 31 December 2017*
CET1 capital ratio	**15.5 %**	15.5 %
T1 capital ratio	**16.6 %**	16.7 %
Total capital ratio	**19.0 %**	19.1 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') on a consolidated basis. During the year of 2018, the Group is required to maintain a LCR of not less than 90%, increasing to not less than 100% by 1 January 2019. The average LCRs for the reportable periods are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2018	**209.1%**	**208.2%**	**209.6%**	**207.0%**
- 2017	209.5%	242.3%	256.7%	267.7%

The NSFR was implemented in Hong Kong since 1 January 2018 and the Group is required to maintain the NSFR of not less than 100%. The NSFRs for the reportable periods are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2018	**154.0%**	**150.5%**	**153.6%**	**152.9%**

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 31 December 2018***	*At 31 December 2017*
Contingent liabilities and financial guarantee contracts		
- Guarantee and irrevocable letters of credit pledged as collateral security	**16,216**	15,267
- Other contingent liabilities	**172**	61
	16,388	15,328
Commitments		
- Documentary credits and short-term trade-related transactions	**3,310**	3,188
- Forward asset purchases and forward forward deposits placed	**2,895**	983
- Undrawn formal standby facilities, credit lines and other commitments to lend	**461,480**	433,970
	467,685	438,141

Derivative financial instruments are held for trading, designated at fair value, or designated as either fair value or cash flow hedges. The following table shows the nominal contract amounts and marked-to-market value of assets and liabilities by class of derivatives which is prepared on the Group's basis of consolidation for accounting purposes. Therefore, the contract amounts are different from those calculated under the Banking (Capital) Rules.

	At 31 December 2018			*At 31 December 2017*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**386,463**	**2,000**	**62,699**	379,937	500	66,565
Exchange rate contracts	**830,511**	–	**22,468**	808,696	–	22,531
Other derivative contracts	**34,795**	–	–	42,591	–	–
	1,251,769	**2,000**	**85,167**	1,231,224	500	89,096
Derivative assets:						
Interest rate contracts	**1,723**	**18**	**591**	1,327	–	452
Exchange rate contracts	**5,265**	–	**254**	7,893	–	375
Other derivative contracts	**290**	–	–	789	–	–
	7,278	**18**	**845**	10,009	–	827
Derivative liabilities:						
Interest rate contracts	**1,762**	**4**	**185**	1,386	4	234
Exchange rate contracts	**5,197**	–	**542**	8,284	–	926
Other derivative contracts	**580**	–	–	335	–	–
	7,539	**4**	**727**	10,005	4	1,160

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs.

1. Statutory financial statements and accounting policies

The information in this press release does not constitute statutory financial statements.

Certain financial information in this press release is extracted from the statutory financial statements for the year ended 31 December 2018 ('2018 account') which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those financial statements in their report dated 19 February 2019. The auditor's report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 144 to 157 of the 2017 statutory financial statements.

<u>Standards applied during the year ended 31 December 2018</u>

The Group has adopted the requirements of HKFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to HKFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. HKFRS 9 includes an accounting policy choice to remain with HKAS 39 hedge accounting, which the Group has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by HKFRS 9, the Group has not restated comparatives. Adoption reduced net assets at 1 January 2018 by HK$854m as set out in note 3 of the Group's 2018 consolidated financial statements.

In addition, the Group has adopted the requirements of HKFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the consolidated financial statements of the Group.

While not necessarily required by the adoption of HKFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation in note 3 of the Group's 2018 consolidated financial statements and the comparatives have not been restated.

- The Group have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. It was concluded that a change in accounting policy and presentation with respect to 'trading liabilities - structured deposits and structured debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on the financial position and performance. As a result, rather than being classified as held for trading, the Group will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effect of changes in the liabilities' credit risk will be presented in other comprehensive income with the remaining effect presented in profit or loss in accordance with accounting policy adopted in 2017 (following the adoption of the requirements in HKFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).

1. Statutory financial statements and accounting policies *(continued)*

- Cash collateral, margin and settlement accounts have been reclassified from ‘Trading assets’, ‘Placings with and advances to banks’ and ‘Loans and advances to customers’ to ‘Other assets’ and from ‘Trading liabilities’ and ‘Deposits from banks’ and ‘Current, savings and other deposit accounts’ to ‘Other liabilities’. Settlement accounts in relation to trading activities have been reclassified from ‘Trading assets’ to ‘Other assets’ in accordance with HKFRS 9. Cash collateral, margin and settlement accounts previously presented as ‘Placings with and advances to banks’ and ‘Loans and advances to customers’ have been represented in ‘Other assets’ to ensure consistent presentation of such balances. The change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore on retained earnings or profit for any period.

Further information on summary of significant accounting policies, use of estimates and judgements, future accounting developments and effect of reclassification upon adoption of HKFRS 9 will be set out in the accounting policies of the Group’s 2018 Annual Report.

2. Future accounting development

The Hong Kong Institute of Certified Public Accountants (‘HKICPA’) has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

<u>HKFRS16 ‘Leases’</u>
In May 2016, the HKICPA issued HKFRS16 ‘Leases’ with an effective date of annual periods beginning on or after 1 January 2019. HKFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under HKAS 17 ‘Leases’. Lessees will recognise a right of use (‘ROU’) asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under HKAS 17. At 1 January 2019, the Group expects to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognised an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to increase assets (ROU assets) and financial liabilities by HK$1.4bn with no effect on net assets or retained earnings. As a consequence, RWAs increase since ROU assets are risk weighted at 100%.

2. Future accounting development *(continued)*

HKFRS17 'Insurance Contracts'
In January 2018, HKICPA issued HKFRS17 'Insurance contracts' and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. HKFRS17 is effective from 1 January 2021 which is proposed to be deferred to 1 January 2022, and the Group is in the process of considering its impact.

Amendment to HKAS 12 'Income Taxes'
An amendment to HKAS 12 was issued in February 2018 as part of the Annual Improvement Cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment will be effective for annual periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period. As a consequence, income tax related to distributions on perpetual subordinated loans will be presented in profit or loss rather than equity.

3. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

4. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc, which is incorporated in England.

5. Register of shareholders

The register of shareholders of the Bank will be closed on Wednesday, 6 March 2019, during which no transfer of shares can be registered. In order to qualify for the fourth interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 5 March 2019. The fourth interim dividend will be payable on Friday, 22 March 2019, to shareholders whose names appear on the register of shareholders of the Bank on Wednesday, 6 March 2019. Shares of the Bank will be traded ex-dividend as from Monday, 4 March 2019.

6. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA.

The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2018. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2018.

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7. Board of Directors

At 19 February 2019, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Ms L Y Chiang*, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Peter T S Wong# and Mr Michael W K Wu*.

* Independent non-executive Directors
\# Non-executive Directors

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8. Press release and Annual Report

This press release is available on the Bank's website www.hangseng.com.

The 2018 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank in mid March 2019. Printed copies of the 2018 Annual Report will be sent to shareholders before the end of March 2019.

9. Other financial information

To comply with the Banking (Disclosure) Rules, the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Banking (Disclosure) Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Banking Disclosure Statement together with the Annual Report will be available in mid March 2019.

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