18 February 2020

HANG SENG BANK LIMITED
2019 ANNUAL RESULTS - HIGHLIGHTS

- Net operating income before change in expected credit losses and other credit impairment charges up 6% to HK$43,514m (HK$41,215m in 2018).
- Operating profit up 2% to HK$28,610m (HK$27,947m in 2018). Operating profit excluding change in expected credit losses and other credit impairment charges up 5% to HK$30,447m (HK$28,943m in 2018)
- Attributable profit to shareholders up 3% to HK$24,840m (HK$24,211m in 2018).
- Return on average ordinary shareholders' equity of 15.2% (16.0% in 2018).
- Earnings per share up 2% to HK$12.77 per share (HK$12.48 per share in 2018).
- Fourth interim dividend of HK$4.00 per share; total dividends of HK$8.20 per share for 2019 (HK$7.50 per share for 2018).
- Common equity tier 1 ('CET1') capital ratio of 16.9%, tier 1 ('T1') capital ratio of 18.7% and total capital ratio of 20.8% at 31 December 2019 (CET1 capital ratio of 16.6%, T1 capital ratio of 17.8% and total capital ratio of 20.2% at 31 December 2018).
- Cost efficiency ratio of 30.0% (29.5% in 2018).

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 2019.

Comment by Raymond Ch'ien, Chairman

2019 was a challenging year for Hong Kong. Externally, ongoing uncertainties regarding the future of the international trade order and other geopolitical factors weighed on the global economy. On the domestic front, business sentiment and the economy were adversely affected by social unrest.

In this fluid operating environment, Hang Seng abided by its customer-centric principles in conducting business. We continued to deliver best-in-class services and experiences. Our investments in people and technology enabled us to achieve better user friendliness at all customer touchpoints across all channels, physical and digital, and deliver continuously improving economic efficiencies for customers and the Bank. Our enhanced capabilities underpinned the resilience of our financial performance.

Attributable profit to shareholders increased by 3% to HK$24,840m. Earnings per share rose by 2% to HK$12.77.

Return on average ordinary shareholders' equity was 15.2%, compared with 16.0% for 2018. Return on average total assets was 1.5%, compared with 1.6% for the previous year.

The Directors have declared a fourth interim dividend of HK$4.00 per share, bringing the total distribution for 2019 to HK$8.20 per share, compared with HK$7.50 per share in 2018.

Economic Outlook

The various external and domestic factors that affected the Hong Kong economy last year look set to continue to influence economic performance during 2020.

Hong Kong's economic output shrank by 1.2% in 2019 after expanding by 2.9% in 2018. Businesses operating in retail, trade and other related sectors have been tested by the slowdown in the global economy as well as weaker consumer sentiment. An uptick in the unemployment rate in recent months is another indicator of the potential challenges facing the city's economy. The overhang of continuing social unrest and public health concerns over the novel coronavirus outbreak that came to light in mainland China in early 2020 also have the potential to further increase downside risk. We forecast a mild contraction in Hong Kong GDP for 2020.

The mainland economy expanded by 6.1% in 2019, down from a growth rate of 6.7% in the previous year, reflecting the softening of trade activity and a drop in exports demand, which held down growth in industrial production and manufacturing investment. These economic headwinds may become stronger in the months ahead, exacerbated by the impact of the novel coronavirus outbreak. The government's ongoing initiatives to support growth through new fiscal and monetary policy measures may help moderate the adverse effects of these challenges. We expect to see a slowdown in full-year GDP growth for 2020 compared with 2019.

Our actions to build a more agile and resilient organisation have improved our ability to thrive in all types of market conditions and act quickly on new opportunities.

Backed by our well-established competitive strengths, our drive to stay ahead of the curve of the rapid expansion and diversification of the financial needs and preferences of customers will allow us to grow market share. This will underpin our long-term sustainability and ensure our ability to deliver value for shareholders.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Ongoing international trade tensions abroad and the social situation at home in Hong Kong made 2019 a challenging year for our industry. Given the difficult operating conditions, I am pleased to report that Hang Seng recorded a solid financial performance by continuing to focus on achieving sustainable growth by taking a customer-centric approach to making banking simpler and easier.

Our good performance is reflected beyond the figures. Our investments in technology and systems infrastructure have also reaped significant results in 2019. More than 100 digital innovations and enhancements were rolled out to bring more convenient online and mobile banking solutions to customers. Among the highlights, Hang Seng is the first bank in Hong Kong to use near-field communication technology for mobile cash withdrawal services at its ATMs.

Overall, we increased net operating income before change in expected credit losses and other credit impairment charges by 6% and recorded a 2% rise in operating profit. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 5%. We maintained good momentum in the expansion of our balance sheet, growing loans and deposits by 8% and 5% respectively. All our business lines except Global Markets reported revenue and bottom-line growth.

We maintained a proactive approach to credit risk management, through which we achieved a HK$375m reduction in expected credit loss charges on actual impaired credit exposures compared with 2018. The overall increase in our credit risk provisions for 2019 reflects the effects of adjustments to key variables in our assessment model in line with current global and regional economic outlooks. While this has had an adverse impact on our bottom line, we are confident in our overall asset quality and the actions we have taken to mitigate potential credit risks.

Our more dynamic and responsive business structure enhanced our capability to provide more services to different types of customers. Our principal aim is excellent service by people and technology to make it faster, simpler and more convenient for clients to take care of their daily banking needs and work towards their long-term financial goals.

On the technology side, we introduced mobile cash withdrawal and e-ticketing services to help customers save time. A new standalone stock trading app, Invest Express, makes it easy for customers to review their portfolios at a glance and act swiftly on investment opportunities in rapidly moving markets. And our digital cash management solutions are supporting a major initiative to improve the efficiency and competitiveness of port services in Hong Kong.

Leveraging data analytics and other digital tools, we have strengthened our ability to provide expert and personalised financial services. Customer access has been widened with the introduction of lower investment thresholds for online-exclusive investment products and the waiving of minimum balance fees for general and Preferred accounts.

In today's environment, speed and efficiency are crucial to business success. In response, we have dramatically reduced transaction and application processing times for commercial customers. Our new mobile real-time payment tracking service has streamlined cash flow management, allowing businesses to make faster operational decisions.

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

Although global economic uncertainties moderated trade activity in 2019, our strong cross-border connectivity helped to maintain good momentum for future growth in mainland-related businesses, particularly in the economically dynamic Greater Bay Area. Hang Seng China achieved a 17% increase in total operating income in 2019. Profit before tax nearly doubled due to solid broad-based growth in the balance sheet as well as active management of credit risks and operating costs.

In the challenging market environment, we became even more closely connected with clients on all fronts by being sensitive to their situations and introducing various relief initiatives.

Our increased capacity to meet a diverse range of customer needs in a wide range of market conditions reinforces our position as a leading provider of banking services and will make our business more resilient over the long term.

Financial Performance

Overall, our customer-centric approach to service drove solid growth momentum in difficult market conditions, with a 6% increase in net operating income before change in expected credit losses and other credit impairment charges to HK$43,514m. Looking at the bottom line, operating profit was up by 2% to HK$28,610m and attributable profit to shareholders increased by 3% to HK$24,840m, reflecting the effects of our investments to support long-term business growth. Operating profit excluding change in expected credit losses and other credit impairment charges was up by 5% at HK$30,447m.

Net interest income grew by 7% to HK$32,255m, due mainly to the 7% increase in average interest-earning assets, improved deposit spreads and increased contribution from net-free funds. The net interest margin increased by 2 basis points to 2.20% compared with a year earlier.

Non-interest income remained resilient, increasing by 1% to HK$11,259m. New and enriched retirement and healthcare offerings and improved investment returns from the life insurance portfolio underpinned good growth in insurance income. This offset the impact of reduced income from stockbroking and related services and retail investment fund sales. Overall, wealth management income grew by 7%.

Operating expenses rose by 7% to HK$13,057m, due primarily to investments in people, technology and service enhancements that will drive greater operational efficiency and improve our ability to respond quickly to the changing needs of customers and new market opportunities. Our cost efficiency ratio of 30.0%, up just half a percentage point on 2018, remains one of the lowest in the industry.

At the end of December 2019, our common equity tier 1 capital ratio was 16.9% and our tier 1 capital ratio was 18.7%, compared with 16.6% and 17.8% respectively at 31 December 2018. Our total capital ratio was 20.8%, compared with 20.2% at 2018 year-end.

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

Driving Stronger Connections in an Era of Change

'Business-as-usual' no longer exists. Fast-moving markets, changing lifestyles and service developments in other industries are driving dramatic shifts in what customers expect from and value in financial service providers.

As we start off 2020, we are also facing the additional challenges posed by the novel coronavirus outbreak, which is already having a disruptive impact on economic activity in the Mainland and Hong Kong.

While the situation is continuing to evolve, any prolonged economic slowdown could have an adverse impact across the industry, dampen consumer appetite and put pressure on our forecast for expected credit losses.

With our commitment to supporting customers and the health and well-being of our staff as primary concerns, we will continue to monitor the situation closely and take appropriate action. We have already established a number of relief measures for customers facing particular difficulties.

Working closely with our people and customers to overcome long-term and short-term challenges, we will continue to move ahead with our progressive, customer-centric strategy for transforming our business.

Combining digital innovations with our vast branch network and other existing competitive strengths, our business is becoming more agile and resilient for delivering valued outcomes for customers – simple and convenient banking, more personalised offerings, greater flexibility and choice, and high security standards.

We are placing more emphasis on engagement and building stronger connections: stronger connections with customers by gaining a deeper understanding of their financial priorities and aspirations; stronger connections between our online and offline offerings to deliver a seamless banking experience; stronger connections with strategic partners to develop innovative fintech and lifestyle offerings that make banking easier and add value to our service proposition; and stronger connections with and among our people to enhance communication and collaboration, as well as encourage a creative and supportive workplace culture.

The drive to build stronger connections extends beyond financial services. As a bank with deep local roots, we are actively involved in community initiatives that promote social mobility and well-being, particularly among younger generations.

Our flagship community partnership with the Hong Kong Table Tennis Association is heading towards its 30th year. Over the decades, Hang Seng Table Tennis Academy programmes have benefitted hundreds of thousands of individuals. They promote a more physically active community, help youngsters to develop valuable life skills such as courage and perseverance, and nurture young elite athletes – many of whom have gone on to represent Hong Kong on the international stage.

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

If our customers and community are at the foundation of our decision making, our people are the cornerstone of our success. In an era where 'innovation of service' rapidly becomes 'proliferation of service', we are investing heavily in the professional development and personal well-being of our staff. We believe that the expertise and human touch provided by our people will continue to be a key differentiating factor that marks us out as an industry leader into the future. So while we continue with transformation through technological means, we are also expanding our broad-based employee engagement and training initiatives to attract and nurture talented individuals and strengthen our competitive advantage.

I wish to express sincere appreciation to my colleagues for demonstrating adaptability, creativity, professionalism and resilience during a challenging year for Hong Kong. Their unwavering commitment to serving customers right, and from the heart, was central to our achievements in 2019.

Since the onset of the novel coronavirus outbreak, the staff of Hang Seng have worked tirelessly to protect the health and safety of our customers and each other. Our frontline employees have remained steadfast in their posts to provide essential banking services to customers. I commend them for their selfless dedication and hard work.

In an era of dramatic change, what remains unchanged is Hang Seng's commitment to Hong Kong, and the creation of lasting benefits for our customers, shareholders and the community.

Results Summary

The operating environment in Hong Kong was challenging in 2019. Factors such as the continuing US-China trade dispute and social unrest had an adverse impact on economic activity, with the economy recording a contraction in the fourth quarter of the year. Against this backdrop, Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') maintained good business momentum and returned solid results for 2019. The Bank's strong capital base and healthy liquidity position provided a firm foundation for continuing with its strategic priorities despite turbulent operating conditions. **Net operating income before change in expected credit losses and other credit impairment charges** was HK$43,514m, up 6% compared with 2018, driven primarily by robust growth in net interest income. Non-interest income remained in line with the previous year. Wealth management business income increased by 7% compared with 2018, with the increase in insurance business-related income partly offsetting decreases in income from securities broking-related services and retail investment fund sales in the subdued investment environment. Expected credit losses remained sensitive to forward economic guidance, with downside risks such as continuing uncertainties over future international trade policies and the economic outlook for Hong Kong leading the Bank to make higher impairment charge in the second half of the year as part of its prudent risk management strategy. This had an impact on **operating profit** which increased by 2% to HK$28,610m. **Operating profit excluding change in expected credit losses and other credit impairment charges** rose by 5% to HK$30,447m. **Attributable profit to shareholders** increased by 3% to HK$24,840m.

Net interest income rose by HK$2,208m, or 7%, to HK$32,255m. Growth was driven by the 7% increase in average interest-earning assets, improved deposit spreads and higher contribution from net free funds on the back of rising market interest rates. The Bank's effective balance sheet management, including steps to proactively defend the interest margin and achieve yield enhancement, helped partly offset the adverse effects of the flattening yield curve and tighter credit spreads, which limited opportunities for growing revenue by deploying new funds and funds from maturing balance sheet management portfolios.

Net interest margin improved by 2 basis points to 2.20%. The average loan spread remained under pressure. Customer deposit spreads improved but interest income from deposits was squeezed by customers shifting funds from low-cost savings and current deposits to time deposits as market interest rates rose during the year. The rise in market interest rates led to an increased contribution from net-free funds. To meet regulatory requirements, the Bank issued loss-absorbing capacity debt instruments during the year. Excluding the interest cost on these debt instruments and the associated interest income on this fund redeployment, net interest margin improved by 5 basis points to 2.23%.

Net fee income decreased by HK$614m, or 9%, to HK$6,453m, reflecting the effects of weaker market sentiment on investment-related income. Income from securities broking-related services fell by 20%, in line with the market-wide fall in securities turnover in Hong Kong during the year. Income from retail investment funds was down by 9% from the high level achieved in 2018. Fee income from insurance, account services and remittances fell by 4%, 11% and 20% respectively. These declines were somewhat mitigated by the 12% increase in credit facilities fee income, driven by corporate lending activity.

Net income from financial instruments measured at fair value through profit or loss increased by HK$1,997m, or 117%, to HK$3,702m.

Net trading income and net income from financial instruments designated at fair value through profit or loss together was HK$2,123m, broadly on par with 2018. Foreign exchange income fell, with the less volatile market resulting in lower levels of trading activity by customers. A revaluation loss on foreign currency swaps was more than offset by higher income from derivative trading activities.

Net income from assets and liabilities of insurance business measured at fair value through profit or loss recorded a gain of HK$1,589m, compared with a loss of HK$437m for the previous year. Investment returns on financial assets supporting insurance liabilities contracts improved, reflecting the positive movement in the equities markets compared with 2018. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement reported under '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')' under other operating income.

Income from insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value through profit or loss', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and **'other'** within **'other operating income', 'share of profits from associates'** and after deducting **'net insurance claims and benefits paid and movement in liabilities to policyholders')** increased by HK$1,180m, or 23%, to HK$6,258m. Net interest income and fee income from life insurance business rose by 3%. Investment returns on the life insurance portfolio recorded a gain of HK$1,704m compared with a loss of HK$605m in 2018, mainly reflecting favourable movements in equities 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 PVIF' under other operating income.

Net insurance premium income increased by 8%, reflecting the success of the Bank's total-solution retirement planning propositions. In particular, riding on the Hong Kong Government's initiatives to increase voluntary retirement saving by individuals, the Bank's new deferred annuity plan – which qualifies as a tax-deductible deferred annuity policy under new regulations – was well received by customers.

Net insurance claims and benefits paid and movement in liabilities to policyholders increased by 39%. The increase was mainly due to the regular review of the discount rate reflecting the lower prevailing interest rate. This had the effect of offsetting the increase in PVIF, resulting in an insignificant overall impact on the income statement.

The movement in PVIF increased by 244%, due mainly to the lower discount rate on insurance contract liabilities described above. The effects of this increase were partly offset by the adjustment to PVIF accounting for sharing of investment returns attributable to policyholders.

General insurance income was broadly in line with the previous year.

Change in expected credit losses and other credit impairment charges increased by HK$841m, or 84%, to HK$1,837m.

The Bank regularly reviews its forward economic guidance to reflect changes in the economic outlook and other factors that may influence the credit environment. Downside risks for the future performance of the Hong Kong economy increased in 2019. The increase in credit provisions arising from the updating of key macroeconomic variables in the Bank's expected credit losses ('ECL') assessment model, in line with current global and regional economic outlooks, accounts largely for the change in ECL and other credit impairment charges for unimpaired credit exposures (stages 1 & 2) recording a net charge of HK$1,138m, compared with a net release of HK$78m for 2018. The increase in ECL charges for stages 1 & 2 amounted to HK$1,216m. Retail Banking and Wealth Management ('RBWM') accounted for HK$344m and the remaining HK$872m was related to Commercial Banking ('CMB') and Global Banking and Markets ('GBM').

ECL charges for impaired credit exposures (stage 3 & purchased or originated credit-impaired) decreased by HK$375m. The downgrading of several large CMB customers in 2018 did not reoccur in 2019, although the positive impact of this was partly offset by higher charges on credit card and personal loan portfolios under RBWM.

Gross impaired loans and advances were down by HK$87m, or 4%, against 2018 year-end at HK$2,073m. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.22% at the end of December 2019, compared with 0.25% at the end of December in the previous year. Overall credit quality remained robust.

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$889m, or 7%, to HK$13,057m, reflecting the Bank's continued investment in people, technology and operational infrastructure to drive service enhancement and business development in Hong Kong and the Mainland, and better position its operations for future growth. Staff costs were up 10%, due primarily to the salary increment and higher staff-related allowances.

Depreciation charges increased by 45%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation in last year. Depreciation charges for 2019 also included depreciation of right-of-use assets amounting to HK$528m following the adoption of HKFRS 16 'Leases', which came into effect on 1 January 2019. Correspondingly, there was a similar decrease in rental expenses under general and administrative expenses.

General and administrative expenses fell by 7%. Excluding the impact of the adoption of HKFRS16 as stated in the previous paragraph, general and administrative expenses registered an increase when compared with 2018. Continued investment in digital capabilities across all business segments and increases in processing fees led to higher costs, but the effects of these increases were partly offset by lower marketing and advertising expenses.

The Group continued to focus on enhancing operational efficiency while maintaining good growth momentum. The cost efficiency ratio was 30.0%, one of the lowest among banks in Hong Kong.

Reflecting the less favourable property market when compared with 2018, **net surplus on property revaluation** decreased by HK$243m, or 87%, to HK$35m. **Share of profits of associates** fell by HK$39m, or 19%, to HK$168m, mainly reflecting the lower revaluation surplus of a property investment company.

Second half of 2019 compared with first half of 2019

The operating environment became increasingly challenging in the second half of 2019, with continuing uncertainties over trade flows and other geopolitical factors having an adverse impact on economic growth momentum in Hong Kong. The Group's key financial indicators are generally less favourable in the second half of 2019 when compared with first half of the year. Net operating income before change in expected credit losses and other credit impairment charges was HK$21,105m, down by HK$1,304m, or 6%, with the increase in net interest income more than offset by the decline in non-interest income, due largely to a drop in wealth management income. Operating profit decreased by HK$2,512m, or 16%, due mainly to increased operating expenses and ECL charges. The decrease in net surplus on property revaluation and share of profits of associates resulted in a HK$2,472m, or 18%, decrease in attributable profit to shareholders.

Net interest income increased by HK$549m, or 3%, driven mainly by the growth in average interest-earning assets, increased contribution from net-free funds and more calendar days in the second half. Net interest margin was under pressure, narrowing by 2 basis points to 2.19%. Excluding the impact of loss-absorbing capacity debt instruments issued by the Bank during the year, net interest margin rose by 2 basis points. There was an unfavourable change in the liability mix as rising market interest rates prompted customers to shift from current and savings accounts to time deposits.

Non-interest income was down by HK$1,853m, or 28%, due largely to a drop in wealth management business income as investment activity by customers fell in the less favourable market environment.

Operating expenses rose by HK$401m, or 6%, driven mainly by higher general and administrative expenses with increases in processing fees and marketing and advertising costs.

ECL charges increased by HK$817m, or 160%, due largely to the update of forward economic guidance to reflect the more uncertain economic outlook. Unimpaired credit exposures (stages 1 &2) accounted for 83% of the additional ECL charges, with the remaining charges related to impaired credit exposures (stage 3).

Consolidated Balance Sheet and Key Ratios

Assets

Total assets increased by HK$106bn, or 7%, to HK$1,677bn compared with 2018 year-end, with the Group maintaining good business momentum and advancing its strategy of enhancing profitability through sustainable growth.

Cash and balances at central banks decreased by HK$3bn, or 21%, to HK$13bn reflecting the redeployment of the commercial surplus. Trading assets were broadly in line with 2018 year-end at HK$47bn. Financial assets designated and otherwise mandatorily measured at fair value grew by HK$6bn, or 44%, driven by the growth in the life insurance funds investment portfolio. Placing with banks decreased by HK$14bn, or 17%, to HK$66bn. Reverse repurchase agreements – non trading was HK$7bn, driven by demand from the Bank's Global Markets customers.

Customer loans and advances (net of ECL allowances) grew by HK$68bn, or 8%, to HK$943bn compared with the end of 2018. Loans for use in Hong Kong increased by 7%. Lending to industrial, commercial and financial sectors grew by 6%, mainly reflecting growth in lending to property development and investment sectors and working capital financing for certain large corporate customers operating in industries that are classified under 'Others' sector. Stronger partnerships with Commercial Banking customers enabled the Bank to grow lending to the manufacturing sector. Lending to transport and transport equipment, recreational activities and information technology sectors registered an increase when compared with the end of 2018. These increases were partly offset by the decrease in lending to the wholesale and retail trade and financial concerns sectors. Lending to individuals increased by 9%, due primarily to a rise in residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending. Trade finance lending decreased by 7%, reflecting the maturation of certain trade finance loans during the year. Loans and advances for use outside Hong Kong increased by 13%. This was due largely to growth in the lending granted by the Hong Kong office and the Group's mainland banking subsidiary.

Financial investments increased by HK$33bn, or 8%, to HK$462bn, mainly reflecting the deployment of funds arising from the issuance of Additional Tier 1 ('AT1') capital instruments and non-capital loss-absorbing capacity debt instruments to meet regulatory requirements and further optimise the Bank's capital and funding structure. There was also an increase in the life insurance funds investment portfolio.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$59bn, or 5%, to HK$1,250bn against the end of 2018. Customers continued to shift funds from low-cost savings and current deposits to time deposits in response to rising market interest rates during the year. At 31 December 2019, the advances-to-deposits ratio was 75.4%, compared with 73.4% at 31 December 2018.

The Bank issued subordinated liabilities amounting to HK$19.5bn during the first half of 2019 to meet loss-absorbing capacity requirements and further strengthen the Bank's financial resilience.

At 31 December 2019, shareholders' equity was up by HK$17bn, or 10%, to HK$179bn compared with 2018 year-end. Retained profits was up by HK$10bn, or 8%, reflecting profit accumulation after the appropriation of 2019 interim dividends paid during the year. Other equity instruments, specifically AT1 capital instruments, increased by HK$5bn, or 68%, reflecting the Bank's cancellation and repayment of an AT1 capital instrument of US$0.9bn and subsequent issuance of new AT1 capital instruments totalling US$1.5bn to further optimise its capital structure and comply with regulatory requirements. The premises revaluation reserve remained at broadly the same level as 2018 year-end, with the upward trend in the commercial property market during the first half of 2019 largely nullified by downward movement in the market in the second half. Financial assets at fair value through other comprehensive income reserve increased by HK$1.7bn, or 110%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value.

Key ratios

Return on average total assets was 1.5% (1.6% for 2018). **Return on average ordinary shareholders' equity** was 15.2% (16.0% for 2018).

At 31 December 2019, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.9%, 18.7% and 20.8% respectively, compared with 16.6%, 17.8% and 20.2% respectively at 2018 year-end. The increase reflects the net effect of an increase in capital base and a 7.7% rise in risk-weighted assets, mainly driven by lending growth. The T1 capital ratio was higher due to the net effect of the increase in the capital base following the refinancing and issuance of AT1 capital instruments in first half of 2019 and the increase in risk-weighted assets.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** ranged from 198.5% to 210.8% for the quarters ended 31 March, 30 June, 30 September and 31 December 2019. The average LCR ranged from 207.0% to 209.6% for the corresponding quarters in 2018. The Group maintained a healthy average LCR for both years, and both were higher than the statutory requirement of 100%. The LCR at 31 December 2019 was 205.9% compared with 214.7% at 31 December 2018. The period-end **net stable funding ratio ('NSFR')** ranged from 148.6% to 152.5% for the quarters ended 31 March, 30 June, 30 September and 31 December 2019, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 150.5% to 154.0% for the corresponding quarters in 2018.

Dividends

The Directors have declared a fourth interim dividend of HK$4.00 per share, which will be payable on 20 March 2020 to shareholders on the register as of 5 March 2020. Together with interim dividends for the first three quarters, the total distribution for 2019 will be HK$8.20 per share.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2019					
Net interest income/(expense)	17,717	10,439	4,527	(428)	32,255
Net fee income	3,928	1,945	321	259	6,453
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,977	396	1,366	(37)	3,702
Gains less losses from financial investments	(3)	(1)	26	–	22
Dividend income	–	–	–	143	143
Net insurance premium income	13,930	1,722	–	–	15,652
Other operating income	4,807	42	–	265	5,114
Total operating income	42,356	14,543	6,240	202	63,341
Net insurance claims and benefits paid and movement in liabilities to policyholders	(18,297)	(1,530)	–	–	(19,827)
Net operating income before change in expected credit losses and other credit impairment charges	24,059	13,013	6,240	202	43,514
Change in expected credit losses and other credit impairment charges	(836)	(857)	(144)	–	(1,837)
Net operating income	23,223	12,156	6,096	202	41,677
Operating expenses *	(8,024)	(3,361)	(1,136)	(536)	(13,057)
Impairment loss on intangible assets	–	–	–	(10)	(10)
Operating profit/(loss)	15,199	8,795	4,960	(344)	28,610
Net surplus on property revaluation	–	–	–	35	35
Share of profits/(losses) of associates	172	–	–	(4)	168
Profit/(loss) before tax	15,371	8,795	4,960	(313)	28,813
Share of profit/(loss) before tax	53.4%	30.5%	17.2%	(1.1)%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	16,035	9,652	5,104	(344)	30,447
* *Depreciation/amortisation included in operating expenses*	(25)	(4)	(2)	(2,105)	(2,136)
At 31 December 2019					
Total assets	522,253	405,779	712,927	36,032	1,676,991
Total liabilities	971,389	303,606	201,948	21,131	1,498,074
Interest in associates	2,522	–	–	(2)	2,520
Non-current assets acquired during the year	152	25	9	1,548	1,734
Year ended 31 December 2019					
Net fee income by segment					
- securities broking and related services	1,167	171	27	–	1,365
- retail investment funds	1,511	23	–	–	1,534
- insurance	491	80	66	–	637
- account services	294	168	7	–	469
- remittances	70	382	41	–	493
- cards	1,433	1,548	32	–	3,013
- credit facilities	25	489	158	–	672
- trade services	–	409	37	–	446
- other	84	84	26	249	443
Fee income	5,075	3,354	394	249	9,072
Fee expense	(1,147)	(1,409)	(73)	10	(2,619)
Net fee income	3,928	1,945	321	259	6,453

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 through profit or loss	(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 of 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	2,442	–	–	2	2,444
Non-current assets acquired during the year	328	20	2	542	892

Year ended 31 December 2018

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
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

Retail Banking and Wealth Management ('RBWM') recorded a 6% year-on-year increase in both operating profit and profit before tax to HK$15,199m and $15,371m respectively. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 9% to HK$16,035m.

Net interest income increased by 7% year-on-year to HK$17,717m. Despite keen market competition, enhanced analytics and our robust customer-centric digital channels supported solid growth in our balance sheet. Deposits and lending in Hong Kong rose by 3% and 8% respectively compared with 2018 year-end.

We grew non-interest income by 13% to HK$6,342m, driven mainly by the 10% increase in income from wealth management business.

Hong Kong residential property market recorded a mild growth in transactions against 2018, with significant growth in primary market partly offset by downturn in secondary market. We continued to lead the mortgage market across all segments through uplifted distribution capability in strategic segments, resulting in our mortgage balances increasing by 11% in Hong Kong compared with 2018 year-end. Our new mortgage business continued to rank among the top three in Hong Kong with market share of 16%.

Ongoing global investment market volatility amid concerns over international trade policies and social unrest in Hong Kong had an adverse impact on local investment market sentiment. Revenue from securities and investment services dropped 23% and 10% respectively compared with 2018. More fixed-income products and capital-protected instruments were leveraged to meet the needs of customers with a lower appetite for risk in the uncertain market conditions.

Insurance income grew by 31%. Our prudent investment strategy drove better investment returns from the life insurance investment portfolio. In addition, we enriched our retirement planning and healthcare solutions with launch of new insurance products, including retirement, tax waiver and Voluntary Health Insurance Scheme ('VHIS') products, to enable customers to reap the benefits of the HKSAR Government's latest tax concession measures. Our strong retirement and healthcare proposition uplifted our life protection product mix, which drove an increase in our insurance distribution revenue.

Better customer segmentation, achieved through strong data analytics and machine learning, enabled our team of experts to better leverage our diverse portfolio of wealth management products and deepen relationships with clients by providing more timely needs-based financial products and various online-offline service delivery options to meet different needs. We grew our Prestige Signature customer base by 9% year-on-year in Hong Kong. In mainland China, the Prestige and Preferred customer base grew by 6% compared with a year earlier. We aspired to develop new capabilities and tailored solutions to meet life-stage transformational journey for the younger generations, including the revamp of MPOWER card with mobile, music and movie privileges and lowered the entry level for buying various investment products online. Young segment customers grew 74% year-on-year.

We are committed to investing in fintech and building a robust digital infrastructure to bring greater banking ease and convenience to customers. We continued to uplift our mobile banking and e-Banking user experiences to provide customers with smarter and easier banking services. We upgraded the user interfaces of our mobile banking and e-banking platforms to offer more personalised features. We leveraged technology to further digitise our extensive distribution channels and provide seamless customer service with the launch of new online-offline services such as e-Ticketing and Mobile Cash Withdrawal. We rolled out new online products and services, such as our Hang Seng Invest Express Stock Trading app, and launched 'live chat' customer support. We also strengthened the capabilities of HARO, our retail banking AI chatbot assistant, increasing its number of services from service inquiry to conversational banking. We introduced FX price alert and order watch, with enhanced journey to facilitate customers to timely capture market opportunity. Year-on-year, the number of Personal e-Banking customers increased by 8% in Hong Kong, and the number of active mobile banking users grew by 38%.

Commercial Banking ('CMB') reported a year-on-year growth of 3% in both operating profit and profit before tax to HK$8,795m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 5% to HK$9,652m.

Despite the challenging external and local economic environments, net interest income rose by 12% to HK$10,439m, supported by loan balance growth and a slight improvement in the deposit yield. Non-interest income contracted by 16% to HK$2,574m, reflecting the impact of weakened business sentiment on commercial activity and trade flows during the year. We took actions to mitigate the effects of the challenging operating environment, such as stepping up our participation in the syndicated loan market, which resulted in a 12% increase in fee income from credit facilities. We ranked third in the Mandated Arranger League Table for Hong Kong and Macau syndicated loans in terms of number of deals in 2019 according to Refinitiv LPC.

To support SMEs with relatively shorter operating histories, we extended our participation in the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Insurance Limited to include its new 90% Guarantee Product. Riding on our strategic alliance with Hong Kong Science and Technology Parks Corporation, we also developed and launched a tailor-made banking and financing solution, 'Inno Booster', under which eligible innovation and technology companies can enjoy pre-approved loans and other preferential banking service offers.

We moved forward on our continuing digital transformation journey to improve customer experience and satisfaction. We revamped our Business e-Banking website to make it easier for customers to quickly find information and services that meet their specific needs. We expanded the capabilities of our commercial banking AI chatbot assistant, BERI, to allow customers to request graphic representations of their account balances. BERI can also now provide one-stop foreign exchange services, including market news and current exchange rates in addition to executing foreign exchange transactions. We also launched Linkscreen, a screen-sharing technology to provide SME customers with online guidance and support to complete loan and commercial card applications.

To assist customers in streamlining their operational flow, we rolled out various corporate application programming interface solutions for cash management services. The launch of Track Payments allows customers to keep track of the end-to-end status of cross-border payments in a fast, simple and transparent manner. We extended the service of One Collect, our integrated point-of-sale terminal, from offline to online merchants and to support payments through Faster Payment System.

Apart from improving our digital capabilities, we also enhanced our network of physical outlets, including by upgrading our Tsim Sha Tsui Business Banking Centre to provide a more spacious and comfortable environment for our customers.

We continued to be proactive and vigilant in managing credit risk to uphold good overall asset quality.

Our dedicated efforts to provide comprehensive and convenient services have been recognised with a number of awards, including 'Best Bank for SMEs, Hong Kong' from Asiamoney, 'Best Payment Bank in Hong Kong' and 'Best Automated Advisory/ Chatbot Initiative, Application or Programme' at the The Asian Banker's Transaction Banking Awards. We also received awards from Asian Banking & Finance, who recognised us as 'Hong Kong Domestic Technology & Operations Bank of the Year' and 'Hong Kong Liquidity Management Bank of the Year'.

Global Banking and Markets ('GBM') reported a 7% decline in both operating profit and profit before tax to HK$4,960m. Operating profit excluding change in expected credit losses and other credit impairment charges fell by 4% to HK$5,104m.

Global Banking ('GB') achieved a 4% increase in both operating profit and profit before tax to HK$2,193m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 9% to HK$2,332m.

Net interest income increased by 9% to HK$2,525m, which we achieved by enhancing the lending portfolio mix and improving our cash management capabilities. In the challenging market environment, we proactively managed our balance sheet portfolios, resulting in an 11% year-on-year increase in the loan balance. On the deposits side, we took successful steps to increase new deposits business, driving a significant increase of 32% in the deposits balance.

Non-interest income grew by 11% to HK$354m, mainly reflecting increased fee income from credit facilities on the back of solid lending growth.

Backed by our deep market knowledge and closer engagement with customers, we continued to collaborate with teams across the Bank to enrich our products and services to meet the different needs of clients.

Global Markets ('GM') reported a 14% decrease in both operating profit and profit before tax to HK$2,767m. Operating profit excluding change in expected credit losses and other credit impairment charges fell by 14% to HK$2,772m.

Net interest income decreased by 11% to HK$2,002m. The adverse effects of the yield curve flattening and tightening credit spreads limited the revenue gained from deploying new funds and funds from maturing balance sheet management portfolios. The balance sheet management team continued to manage interest rate risk effectively, taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income decreased by 11% to HK$1,359m. The flattening yield curve environment, ongoing uncertainty related to the US-China trade dispute, the trend towards deglobalisation and low foreign exchange volatility resulted in a decline in non-fund income from sales and trading activities. We continued with initiatives to deepen the penetration of GM products among customers through close collaboration with the RBWM, CMB and GB teams.

Our response to the challenging conditions in 2019 included stepping up actions to further diversify our revenue flows. In the second half of the year, we established a repo trading department. We were an active participant in the financial markets, aiming to provide customers with fully integrated and tailor-made competitively-priced solutions. Awards such as the Top 5 Trading Volume (SPOT) and Top G10 Trader (SPOT) awards from Refinitiv and the Top NDIRS Clearing Award (Regional Bank) from HKEX recognised our participation in the foreign exchange market and the over-the-counter market with derivatives eligible for central clearing since we joined OTC Clearing Hong Kong Limited as a direct member in 2015.

Figures in HK$m	***Year ended 31 December*** ***2019***	*2018*
Interest income	**44,190**	37,633
Interest expense	**(11,935)**	(7,586)
Net interest income	**32,255**	30,047
Fee income	**9,072**	9,669
Fee expense	**(2,619)**	(2,602)
Net fee income	**6,453**	7,067
Net income from financial instruments measured at fair value through profit or loss	**3,702**	1,705
Gains less losses from financial investments	**22**	57
Dividend income	**143**	146
Net insurance premium income	**15,652**	14,530
Other operating income	**5,114**	1,880
Total operating income	**63,341**	55,432
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(19,827)**	(14,217)
Net operating income before change in expected credit losses and other credit impairment charges	**43,514**	41,215
Change in expected credit losses and other credit impairment charges	**(1,837)**	(996)
Net operating income	**41,677**	40,219
Employee compensation and benefits	**(6,229)**	(5,656)
General and administrative expenses	**(4,692)**	(5,025)
Depreciation expenses	**(1,972)**	(1,363)
Amortisation of intangible assets	**(164)**	(124)
Operating expenses	**(13,057)**	(12,168)
Impairment loss on intangible assets	**(10)**	(104)
Operating profit	**28,610**	27,947
Net surplus on property revaluation	**35**	278
Share of profits of associates	**168**	207
Profit before tax	**28,813**	28,432
Tax expense	**(3,991)**	(4,244)
Profit for the year	**24,822**	24,188
Attributable to:		
Shareholders of the Bank	**24,840**	24,211
Non-controlling interests	**(18)**	(23)
Earnings per share – basic and diluted (in HK$)	**12.77**	12.48

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 31.

Figures in HK$m	*Year ended 31 December* ***2019***	*2018*
Profit for the year	**24,822**	24,188
Other comprehensive income		
Items that will be reclassified subsequently to income statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI'):		
- fair value changes taken to equity	**771**	319
- fair value changes transferred to income statement:		
-- on hedged items	**(760)**	36
-- on disposal	**(26)**	(24)
- expected credit losses recognised in income statement	**6**	–
- deferred taxes	**1**	(87)
- exchange difference	**(3)**	13
Cash flow hedge reserve:		
- fair value changes taken to equity	**344**	489
- fair value changes transferred to income statement	**(312)**	(384)
- deferred taxes	**(5)**	(17)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(238)**	(664)
Items that will not be reclassified subsequently to income statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(5)**	(4)
Equity instrument:		
- fair value changes taken to equity	**1,808**	(562)
- exchange difference	**(71)**	(163)
Premises:		
- unrealised surplus on revaluation of premises	**888**	2,458
- deferred taxes	**(150)**	(410)
- exchange difference	**(7)**	(13)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**252**	(703)
- deferred taxes	**(41)**	116
Exchange difference and others[1]	**(76)**	–
Other comprehensive income for the year, net of tax	**2,376**	400
Total comprehensive income for the year	**27,198**	24,588
Total comprehensive income for the year attributable to:		
- shareholders of the Bank	**27,216**	24,611
- non-controlling interests	**(18)**	(23)
	27,198	24,588

[1] *Include mainly exchange difference arising from cancellation of AT1 capital instrument.*

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
ASSETS		
Cash and balances at central banks	**13,038**	16,421
Trading assets	**47,357**	47,164
Derivative financial instruments	**7,338**	8,141
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**18,771**	13,070
Reverse repurchase agreements – non-trading	**6,659**	–
Placings with and advances to banks	**65,807**	79,400
Loans and advances to customers	**942,930**	874,456
Financial investments	**461,704**	428,532
Interest in associates	**2,520**	2,444
Investment properties	**10,121**	10,108
Premises, plant and equipment	**32,362**	30,510
Intangible assets	**21,954**	16,751
Other assets	**46,430**	44,300
Total assets	**1,676,991**	1,571,297
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**2,491**	2,712
Current, savings and other deposit accounts	**1,203,458**	1,154,415
Repurchase agreements – non-trading	**1,878**	410
Trading liabilities	**37,976**	33,649
Derivative financial instruments	**7,462**	8,270
Financial liabilities designated at fair value	**29,580**	33,454
Certificates of deposit and other debt securities in issue	**17,190**	3,748
Other liabilities	**35,183**	45,247
Liabilities under insurance contracts	**132,120**	120,195
Current tax liabilities	**4,159**	696
Deferred tax liabilities	**7,083**	6,394
Subordinated liabilities	**19,494**	–
Total liabilities	**1,498,074**	1,409,190
Equity		
Share capital	**9,658**	9,658
Retained profits	**133,734**	123,350
Other equity instruments	**11,744**	6,981
Other reserves	**23,674**	22,093
Total shareholders' equity	**178,810**	162,082
Non-controlling interests	**107**	25
Total equity	**178,917**	162,107
Total equity and liabilities	**1,676,991**	1,571,297

For the year ended 31 December 2019

Figures in HK$m	Share capital	Other equity instrument[1]	Retained profits[2]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[3]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2019	9,658	6,981	123,350	19,822	1,570	(11)	42	670	162,082	25	162,107
Profit for the year	–	–	24,840	–	–	–	–	–	24,840	(18)	24,822
Other comprehensive income (net of tax)	–	–	135	731	1,726	27	(238)	(5)	2,376	–	2,376
Debt instruments at fair value through other comprehensive income	–	–	–	–	(11)	–	–	–	(11)	–	(11)
Equity instruments at fair value through other comprehensive income	–	–	–	–	1,737	–	–	–	1,737	–	1,737
Cash flow hedges	–	–	–	–	–	27	–	–	27	–	27
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(5)	(5)	–	(5)
Property revaluation	–	–	–	731	–	–	–	–	731	–	731
Actuarial gains on defined benefit plans	–	–	211	–	–	–	–	–	211	–	211
Exchange differences and others[4]	–	–	(76)	–	–	–	(238)	–	(314)	–	(314)
Total comprehensive income for the year	–	–	24,975	731	1,726	27	(238)	(5)	27,216	(18)	27,198
Cancellation and repayment of AT1 capital instrument	–	(6,981)	–	–	–	–	–	–	(6,981)	–	(6,981)
Issue of new AT1 capital instruments	–	11,744	–	–	–	–	–	–	11,744	–	11,744
Dividends paid[5]	–	–	(14,914)	–	–	–	–	–	(14,914)	–	(14,914)
Coupons paid to holders of AT1 capital instruments	–	–	(342)	–	–	–	–	–	(342)	–	(342)
Movement in respect of share-based payment arrangements	–	–	1	–	–	–	–	4	5	–	5
Others	–	–	–	–	–	–	–	–	–	100	100
Transfers	–	–	664	(664)	–	–	–	–	–	–	–
At 31 December 2019	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917

[1] *During 2019, the Bank has cancelled and repaid the AT1 capital instrument of US$900m and issued new AT1 capital instruments of US$1,500m.*

[2] *To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a 'regulatory reserve' directly from retained profits. As at 31 December 2019, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$3,509m (31 December 2018: HK$4,982m).*

[3] *Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. 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.*

[4] *Include exchange difference arising from cancellation of AT1 capital instrument.*

[5] *Dividends paid represented the payment of fourth interim dividend of 2018 and the first three interim dividends of 2019 amounted to HK$6,883m and HK$8,031m respectively.*

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 reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[3]	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 income	–	–	–	–	257	–	–	–	257	–	257
Equity instruments at fair value through other comprehensive income	–	–	–	–	(725)	–	–	–	(725)	–	(725)
Cash flow hedges	–	–	–	–	–	88	–	–	88	–	88
Change in fair value of financial liabilities designated at fair value upon initial recognition 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

Net interest income

Figures in HK$m	***2019***	*2018*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**33,299**	31,585
- trading assets and liabilities	**299**	192
- financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	**(1,343)**	(1,730)
	32,255	30,047
Average interest-earning assets	**1,466,871**	1,376,091
Net interest spread	**1.99%**	2.03%
Net interest margin	**2.20%**	2.18%

Net interest income increased by HK$2,208m, or 7%, to HK$32,255m, benefitting from the increase in average interest-earning assets and improvement in net interest margin.

Average interest-earning assets rose by HK$91bn, or 7%, when compared with 2018. Average customer lending increased by 8%, notably in corporate and commercial and mortgage lending. Average financial investments grew by 8% while average interbank placements fell by 12%.

Net interest margin improved by 2 basis points to 2.20%, mainly from the widening of customer deposits spreads and higher contribution from net free funds as market interest rates rose during 2019. Average loan spread on customer lending reduced, notably in corporate and commercial term lending. The adverse effects of the yield curve flattening and credit spread tightening have limited opportunities for growing revenue from deploying the new funds and funds from maturing balance sheet management portfolios. However, these adverse effects were partly offset by the Bank's effective balance sheet management, including steps to proactively defend the interest margin and achieve yield enhancement.

Compared with the first half of 2019, net interest income increased by HK$549m, or 3%, benefitting from the favourable impact of the increase in average interest-earning assets, contribution from net free funds as a result of the rising market interest rates, improved deposits spreads and more calendar days in the second half. However, these favourable factors were offset by compressed loan 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 through profit or loss' (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	***2019***	*2018*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**43,214**	36,711
- Interest expense	**(9,966)**	(5,158)
- Net interest income	**33,248**	31,553
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(993)**	(1,506)
Average interest-earning assets	**1,422,968**	1,328,533
Net interest spread	**2.14%**	2.24%
Net interest margin	**2.34%**	2.37%

Net fee income

Figures in HK$m	***2019***	*2018*
- securities broking and related services	**1,365**	1,704
- retail investment funds	**1,534**	1,682
- insurance	**637**	661
- account services	**469**	527
- remittances	**493**	619
- cards	**3,013**	3,014
- credit facilities	**672**	600
- trade services	**446**	446
- other	**443**	416
Fee income	**9,072**	9,669
Fee expense	**(2,619)**	(2,602)
	6,453	7,067

Net income from financial instruments measured at fair value through profit or loss

Figures in HK$m	***2019***	*2018*
Net trading income		
- trading income	**2,197**	1,928
- other trading income - hedging ineffectiveness		
- on cash flow hedges	**–**	–
- on fair value hedges	**1**	8
	2,198	1,936
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(75)**	207
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss		
- financial assets held to meet liabilities under insurance and investment contracts	**1,615**	(440)
- liabilities to customers under investment contracts	**(26)**	3
	1,589	(437)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(10)**	(1)
Net income from financial instruments measured at fair value through profit or loss	**3,702**	1,705

Other operating income

Figures in HK$m	***2019***	*2018*
Rental income from investment properties	**342**	341
Movement in present value of in-force long-term insurance business	**4,559**	1,324
Net losses from disposal of fixed assets	**(7)**	(5)
Net losses from the derecognition of loans and advances to customers measured at amortised cost	**(3)**	(4)
Others	**223**	224
	5,114	1,880

Analysis of income from wealth management business

Figures in HK$m	***2019***	*2018 (restated)*
Investment services income[⌖]:		
- retail investment funds	**1,521**	1,670
- structured investment products	**403**	504
- securities broking and related services	**1,331**	1,665
- margin trading and others	**84**	89
	3,339	3,928
Insurance income:		
- life insurance:		
- net interest income and fee income	**3,907**	3,777
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**1,704**	(605)
- net insurance premium income	**15,652**	14,530
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(19,827)**	(14,217)
- movement in present value of in-force long-term insurance business	**4,559**	1,324
	5,995	4,809
- general insurance and others	**263**	269
	6,258	5,078
Total	**9,597**	9,006

[⌖] *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 through profit or loss.*

Change in expected credit losses and other credit impairment charges

Figures in HK$m	***2019***	*2018*
Loans and advances to banks and customers	**1,684**	1,023
- new allowances net of allowance releases	**1,773**	1,153
- recoveries of amounts previously written off	**(106)**	(143)
- other movements	**17**	13
Loan commitments and guarantees	**99**	(25)
Other financial assets	**54**	(2)
Change in expected credit losses and other credit impairment charges	**1,837**	996

Operating expenses

Figures in HK$m	***2019***	*2018*
Employee compensation and benefits:		
- salaries and other costs	**5,744**	5,225
- retirement benefit costs	**485**	431
	6,229	5,656
General and administrative expenses:		
- rental expenses	**82**	611
- other premises and equipment	**1,466**	1,498
- marketing and advertising expenses	**423**	526
- other operating expenses	**2,721**	2,390
	4,692	5,025
Depreciation of premises, plant and equipment⌖	**1,972**	1,363
Amortisation of intangible assets	**164**	124
	13,057	12,168
Cost efficiency ratio	**30.0%**	29.5%

Full-time equivalent staff numbers by region	***At 31 December 2019***	*At 31 December 2018*
Hong Kong and others	**8,629**	8,611
Mainland	**1,761**	1,741
Total	**10,390**	10,352

⌖ *Included depreciation of right-of-use assets of HK$528m in 2019 (2018: N/A).*

Tax expense

Taxation in the Consolidated Income Statement represents:

Figures in HK$m	***2019***	*2018*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**3,527**	3,888
- Adjustment in respect of prior years	**(62)**	19
Current tax – taxation outside Hong Kong		
- Tax for the year	**47**	55
- Adjustment in respect of prior years	**(11)**	–
Deferred tax		
- Origination and reversal of temporary differences	**490**	282
Total tax expense	**3,991**	4,244

The current tax provision is based on the estimated assessable profit for 2019, 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 2018). 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$24,421m (HK$23,863m in 2018), adjusted for the AT1 capital instrument related deductions and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2018).

Dividends/Distributions

	2019		*2018*	
(a) Dividends attributable to the year	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.40**	**2,677**	1.30	2,485
Second interim	**1.40**	**2,677**	1.30	2,485
Third interim	**1.40**	**2,677**	1.30	2,485
Fourth interim	**4.00**	**7,647**	3.60	6,883
	8.20	**15,678**	7.50	14,338

	2019	*2018*
	HK$m	*HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**342**	418

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, time deposits, mortgages and personal loans, credit cards, insurance and wealth management;
- **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('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 of central support services and functions are allocated to business segments based on cost drivers which reflect or correlate with the use of services. 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 15.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2019					
Profit/(loss) before tax	**15,371**	**8,795**	**4,960**	**(313)**	**28,813**
Share of profit/(loss) before tax	**53.4%**	**30.5%**	**17.2%**	**(1.1)%**	**100.0%**
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%

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 2019					
Total operating income	**60,530**	**2,580**	**271**	**(40)**	**63,341**
Profit before tax	**27,732**	**913**	**168**	**–**	**28,813**
At 31 December 2019					
Total assets	**1,578,710**	**120,696**	**23,239**	**(45,654)**	**1,676,991**
Total liabilities	**1,404,716**	**107,172**	**22,070**	**(35,884)**	**1,498,074**
Equity	**173,994**	**13,524**	**1,169**	**(9,770)**	**178,917**
Share capital	**9,658**	**10,018**	**–**	**(10,018)**	**9,658**
Interest in associates	**2,522**	**(2)**	**–**	**–**	**2,520**
Non-current assets[⌖]	**63,001**	**1,415**	**21**	**–**	**64,437**
Contingent liabilities and commitments	**460,924**	**49,529**	**6,060**	**–**	**516,513**
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

[⌖] *Non-current assets consist of investment properties, premises, plant and equipment, intangible assets and right-of-use assets.*

Trading assets

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Treasury bills	**24,894**	26,700
Other debt securities	**22,452**	20,448
Debt securities	**47,346**	47,148
Investment funds	**11**	16
Total trading assets	**47,357**	47,164

Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Debt securities	**2**	6
Equity shares	**6,916**	5,472
Investment funds	**10,442**	6,267
Other	**1,411**	1,325
	18,771	13,070

Loans and advances to customers

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Gross loans and advances to customers	**946,443**	877,134
Less: Expected credit losses	**(3,513)**	(2,678)
	942,930	874,456
Expected credit losses as a percentage of gross loans and advances to customers	**0.37%**	0.31%
Gross impaired loans and advances	**2,073**	2,160
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.22%**	0.25%

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[3]**
At 1 January 2019	1,210,584	(777)	53,786	(1,000)	2,154	(959)	6	–	1,266,530	(2,736)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(83,702)	94	83,702	(94)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	18,965	(250)	(18,965)	250	–	–	–	–	–	–
- transfers to Stage 3	(300)	–	(130)	6	430	(6)	–	–	–	–
- transfers from Stage 3	5	–	10	(1)	(15)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	151	–	(276)	–	(3)	–	–	–	(128)
New financial assets originated and purchased	208,472	(273)	22,627	(235)	135	(74)	–	–	231,234	(582)
Assets derecognised (including final repayments)	(150,907)	71	(13,601)	172	(148)	70	(6)	–	(164,662)	313
Changes to risk parameters – further lending/repayments	6,635	78	(8,887)	(17)	467	15	–	–	(1,785)	76
Changes to risk parameters – credit quality	–	(131)	–	(457)	–	(797)	–	–	–	(1,385)
Changes to model used for ECL calculation	–	23	–	(186)	–	–	–	–	–	(163)
Assets written off	–	–	–	–	(939)	939	–	–	(939)	939
Foreign exchange and others	(1,968)	–	(241)	–	(11)	–	–	–	(2,220)	–
At 31 December 2019	1,207,784	(1,014)	118,301	(1,838)	2,073	(814)	–	–	1,328,158	(3,666)

	Total
Change in ECL in income statement (charge)/release for the year	(1,869)
Add: Recoveries	106
Add/(less): Others	(17)
Total ECL (charge)/release for the year[2]	(1,780)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The provision for ECL balance at 31 December 2019 and total ECL charges for the year does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$104m and HK$57m respectively.*
[3] *The above table does not include balances due from HSBC Group companies.*

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 2019		*At 31 December 2018*	
	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	**228**	**0.02**	533	0.06
- more than six months but not more than one year	**54**	**0.01**	395	0.05
- more than one year	**896**	**0.09**	657	0.07
	1,178	**0.12**	1,585	0.18

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 2019		*At 31 December 2018*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**117**	**0.01**	102	0.01

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 Hong Kong Monetary Authority ('HKMA') is as follows:

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**72,692**	67,295
Property investment	**157,472**	145,791
Financial concerns	**7,764**	8,737
Stockbrokers	**185**	20
Wholesale and retail trade	**29,591**	31,044
Manufacturing	**23,274**	22,653
Transport and transport equipment	**13,891**	13,077
Recreational activities	**867**	177
Information technology	**9,043**	8,736
Other	**89,898**	84,705
	404,677	382,235
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**30,007**	25,664
Loans and advances for the purchase of other residential properties	**216,131**	194,839
Credit card loans and advances	**29,137**	29,793
Other	**30,814**	30,275
	306,089	280,571
Total gross loans and advances for use in Hong Kong	**710,766**	662,806
Trade finance	**33,431**	36,127
Gross loans and advances for use outside Hong Kong	**202,246**	178,201
Gross loans and advances to customers	**946,443**	877,134

Financial investments

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**212,041**	217,636
- debt securities	**125,927**	107,400
- equity shares	**5,881**	4,144
Debt instruments measured at amortised cost		
- treasury bills	**500**	1,842
- debt securities	**117,435**	97,547
Less: Expected credit losses	**(80)**	(37)
	461,704	428,532
Fair value of debt securities at amortised cost	**121,987**	99,260
Treasury bills	**212,541**	219,478
Certificates of deposit	**9,773**	12,379
Other debt securities	**233,509**	192,531
Debt securities	**455,823**	424,388
Equity shares	**5,881**	4,144
	461,704	428,532

Intangible assets

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Present value of in-force long-term insurance business	**20,469**	15,910
Internally developed/acquired software	**1,156**	512
Goodwill	**329**	329
	21,954	16,751

Other assets

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Items in the course of collection from other banks	**5,650**	7,236
Bullion	**9,394**	5,257
Prepayments and accrued income	**4,503**	4,276
Acceptances and endorsements	**8,336**	6,868
Less: Expected credit losses	**(8)**	(5)
Reinsurers' share of liabilities under insurance contracts	**8,503**	8,788
Settlement accounts	**4,175**	4,796
Cash collateral	**2,216**	1,838
Other accounts	**3,661**	5,246
	46,430	44,300

Other accounts included 'Assets held for sale' of HK$19m (31 December 2018: HK$18m). It also included 'Retirement benefit assets' of HK$26m (31 December 2018: HK$13m).

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Current, savings and other deposit accounts:		
- as stated in Consolidated Balance Sheet	**1,203,458**	1,154,415
- structured deposits reported as financial liabilities designated as fair value	**24,498**	28,594
	1,227,956	1,183,009
By type:		
- demand and current accounts	**99,431**	106,096
- savings accounts	**670,573**	707,158
- time and other deposits	**457,952**	369,755
	1,227,956	1,183,009

Trading liabilities

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Short positions in securities	**37,976**	33,649

Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Certificates of deposit in issue	**2,014**	2,008
Structured deposits	**24,498**	28,594
Other structured debt securities in issue	**2,639**	2,404
Liabilities to customers under investment contracts	**429**	448
	29,580	33,454

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Certificates of deposit and other debt securities in issue:		
- as stated in Consolidated Balance Sheet	**17,190**	3,748
- certificates of deposit in issue designated at fair value	**2,014**	2,008
- other structured debt securities in issue reported as financial liabilities designated at fair value	**2,639**	2,404
	21,843	8,160
By type:		
- certificates of deposit in issue	**19,204**	5,756
- other debt securities in issue	**2,639**	2,404
	21,843	8,160

Other liabilities

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Items in the course of transmission to other banks	**6,751**	10,053
Accruals	**4,634**	4,190
Acceptances and endorsements	**8,336**	6,868
Retirement benefit liabilities	**670**	834
Settlement accounts	**8,410**	17,213
Cash collateral	**688**	995
Lease liabilities	**1,438**	N/A
Other	**4,256**	5,094
	35,183	45,247

Shareholders' equity

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Share capital	**9,658**	9,658
Retained profits	**133,734**	123,350
Other equity instruments	**11,744**	6,981
Premises revaluation reserve	**19,889**	19,822
Cash flow hedging reserve	**16**	(11)
Financial assets at fair value through other comprehensive income reserve	**3,296**	1,570
Other reserves	**473**	712
Total reserves	**169,152**	152,424
Total shareholders' equity	**178,810**	162,082
Return on average ordinary shareholders' equity	**15.2%**	16.0%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2019.

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 counterparty credit risk, the Group uses the current exposure method to calculate its default risk 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.

During the year, the HKMA has classified the Bank as a material subsidiary of HSBC's Asian resolution group and required the Bank to comply with internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules, with phased implementation periods starting from 1 July 2019. To meet the requirements, the Bank has cancelled and repaid the perpetual capital instrument of US$0.9bn, issued new perpetual capital instruments of US$1.5bn and non-capital loss-absorbing capacity debt instruments totalling HK$19.5bn to its immediate holding company in the first half of 2019.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**143,026**	133,990
- Shareholders' equity per Consolidated Balance Sheet	**178,810**	162,082
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(6,981)
- Unconsolidated subsidiaries	**(24,040)**	(21,111)
Non-controlling interests	–	–
- Non-controlling interests per Consolidated Balance Sheet	**107**	25
- Non-controlling interests in unconsolidated subsidiaries	**(107)**	(25)
Regulatory deductions to CET1 capital	**(31,466)**	(32,266)
- Cash flow hedge reserve	**(7)**	4
- Changes in own credit risk on fair valued liabilities	**(5)**	(12)
- Property revaluation reserves[1]	**(26,631)**	(26,543)
- Regulatory reserve	**(3,509)**	(4,982)
- Intangible assets	**(1,027)**	(463)
- Defined benefit pension fund assets	**(22)**	(11)
- Deferred tax assets net of deferred tax liabilities	**(110)**	(111)
- Valuation adjustments	**(155)**	(148)
Total CET1 Capital	**111,560**	101,724
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	6,981
- Perpetual capital instruments	**11,744**	6,981
Total AT1 Capital	**11,744**	6,981
Total Tier 1 ('T1') Capital	**123,304**	108,705
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**14,860**	15,517
- Property revaluation reserves[1]	**11,984**	11,944
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**2,876**	3,573
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**13,945**	14,602
Total Capital	**137,249**	123,307

[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 2019***	*At 31 December 2018*
Credit risk	**584,631**	541,542
Market risk	**8,357**	11,020
Operational risk	**65,868**	59,323
Total	**658,856**	611,885

(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 2019	*At 31 December 2018*
CET1 capital ratio	**16.9 %**	16.6 %
T1 capital ratio	**18.7 %**	17.8 %
Total capital ratio	**20.8 %**	20.2 %

In addition, the capital ratios of all tiers as of 31 December 2019 would be reduced by approximately 1.1 percentage point after the prospective fourth interim dividend payment for 2019. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2019	*Pro-forma At 31 December 2018*
CET1 capital ratio	**15.8 %**	15.5 %
T1 capital ratio	**17.6 %**	16.6 %
Total capital ratio	**19.7 %**	19.0 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and net stable funding ratio ('NSFR') on a consolidated basis. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%. The LCR for the reportable periods are as follows:

	Average LCR for			
	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2019	**201.8%**	**210.5%**	**198.5%**	**210.8%**
- 2018	209.1%	208.2%	209.6%	207.0%

The LCR as at 31 December 2019 was 205.9% compared with 214.7% at 31 December 2018.

The Group is required to maintain the NSFR of not less than 100% and the NSFR at the reportable quarter-end are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2019	**149.1%**	**148.6%**	**152.5%**	**150.3%**
- 2018	154.0%	150.5%	153.6%	152.9%

Contingent liabilities and commitments

Figures in HK$m	***At 31 December 2019***	*At 31 December 2018*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**3,825**	4,168
- Performance and other guarantees	**13,959**	12,048
- Other contingent liabilities	**59**	172
	17,843	16,388
Commitments		
- Documentary credits and short-term trade-related transactions	**2,570**	3,310
- Forward asset purchases and forward forward deposits placed	**4,356**	2,895
- Undrawn formal standby facilities, credit lines and other commitments to lend	**491,744**	461,480
	498,670	467,685

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 2019 ('2019 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 18 February 2020. 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 157 to 176 of the 2018 statutory financial statements.

Standards applied during the year ended 31 December 2019

1) On 1 January 2019, the Group has adopted the requirements of HKFRS 16 and recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' in accordance with HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The associated right-of-use ('ROU') assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised on balance sheet at 31 December 2018.

   The Group adopted the requirements of HKFRS 16 retrospectively, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. In relation to the operating lease that were under HKAS 17 'Leases', the adoption of the standard increased assets by HK$1.4bn and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

2) Amendments to HKFRS 9 and HKAS 39 were issued in November 2019 that modify the specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These amendments apply from 1 January 2020 with early adoption permitted. The Group has adopted the amendments from 1 January 2019 and has made the additional disclosures as required by the amendments. There is no material impact upon the early adoption of such amendment.

3) In addition, 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 was applied on 1 January 2019 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. As a result of its application, the impact on profit after tax for the year ended 31 December 2019 was immaterial (2018: nil) with no effect on equity.

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments will be set out in the accounting policies of the Group's 2019 Annual Report.

---

2. Future accounting standard 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 2019 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

<u>HKFRS 17 'Insurance Contracts'</u>
HKFRS 17 'Insurance Contracts' was issued in January 2018 which sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. HKFRS 17 is effective from 1 January 2021. However, HKICPA is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

---

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. Events after the balance sheet date

Coronavirus and impact on ECL

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under HKFRS 9 in 2020.

6. Register of shareholders

The register of shareholders of the Bank will be closed on Thursday, 5 March 2020, 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 Wednesday, 4 March 2020. The fourth interim dividend will be payable on Friday, 20 March 2020, to shareholders whose names appear on the register of shareholders of the Bank on Thursday, 5 March 2020. Shares of the Bank will be traded ex-dividend as from Tuesday, 3 March 2020.

7. 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 (the 'Listing Rules') on The Stock Exchange of Hong Kong Limited ('HKEx') throughout the year of 2019. The Bank has taken into account the new requirements of the Listing Rules which impose, among others, greater demand on the Board or the Nomination Committee when appointing Independent Non-executive Directors which took effect on 1 January 2019, when making necessary disclosure.

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. Since the third quarter of 2019, the Bank is in the process of implementing the 'Subsidiary Accountability Framework' initiative introduced by the HSBC Group with an aim of simplifying subsidiary oversight framework, and strengthening and enhancing corporate governance. In addition, the Bank has also continued to embed 'Ways of Working' Governance implemented since 2018 into the Bank's Board and Board Committee governance for meeting effectiveness. 'Ways of Working' Governance launched by the HSBC Group has been recognised by The Chartered Governance Institute in the United Kingdom by awarding the HSBC Group 'Governance Project of the Year 2019'.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2019.

8. Board of Directors

At 18 February 2020, 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 Kathleen C H Gan#, Ms Margaret W H Kwan, Ms Irene Y L Lee*, 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

---

9. Press release and Annual Report

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

The 2019 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2019 Annual Report will be sent to shareholders before the end of March 2020.

---

10. Other financial information

To comply with the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (referred to as '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 Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Annual Report, contained all the disclosures required by the Rules issued by the HKMA.

<u>Press enquiries to</u>:
May Wong Telephone: (852) 2198 9003
Ruby Chan Telephone: (852) 2198 4236