23 February 2015

HANG SENG BANK LIMITED
2014 RESULTS - HIGHLIGHTS

- Operating profit up 6% to HK$19,450m (HK$18,410m in 2013).

- Operating profit excluding loan impairment charges up 9% to HK$20,594m (HK$18,946m in 2013).

- Attributable profit down 43% to HK$15,131m (HK$26,678m in 2013). Excluding the Industrial Bank impairment and reclassification, attributable profit up 0.4%.

- Profit before tax down 37% to HK$18,049m (HK$28,496m in 2013). Excluding the Industrial Bank impairment and reclassification, profit before tax up 0.5%.

- Return on average shareholders' funds of 13.4% (25.4% in 2013). Excluding the Industrial Bank impairment and reclassification, return on average shareholders' funds of 16.3% (17.6% in 2013).

- Total assets up 11% to HK$1,264.0bn (HK$1,143.7bn at 31 December 2013).

- Earnings per share down 43% to HK$7.91 per share (HK$13.95 per share in 2013). Excluding the Industrial Bank impairment and reclassification, earnings per share up 0.3% to HK$9.01 per share (HK$8.98 per share in 2013).

- Fourth interim dividend of HK$2.30 per share; total dividends of HK$5.60 per share for 2014 (HK$5.50 per share in 2013).

- Total capital ratio of 15.7%, both common equity tier 1 ('CET1') and tier 1 ('T1') capital ratios of 15.6% at 31 December 2014 (total capital ratio of 15.8%, both CET1 and T1 capital ratios of 13.8% at 31 December 2013).

- Cost efficiency ratio of 31.8% (32.4% in 2013).

Industrial Bank Co., Ltd. ('Industrial Bank')

Reported results for 2014 include an impairment loss of HK$2,103m on the bank's investment in Industrial Bank. Reported results for 2013 include a non-distributable accounting gain on the reclassification of Industrial Bank from an associate to a financial investment of HK$8,454m before tax (HK$9,517m attributable profit). Figures quoted as 'excluding the Industrial Bank impairment and reclassification' have been adjusted for the above items. On 13 February 2015, the group has completed the disposal of 5% of the ordinary shares of Industrial Bank and details of the transaction are shown on page 64 of the news release.

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 news 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 2014.

Comment by Raymond Ch'ien, Chairman

In a challenging economic environment, Hang Seng maintained good growth momentum in 2014. Capitalising on our strong market position and brand, we leveraged our competitive strength to improve efficiency and provide an enhanced service experience for customers.

The impact of the Industrial Bank reclassification in 2013 and impairment loss in 2014 saw profit attributable to shareholders and earnings per share both fall by 43% to HK$15,131m and HK$7.91 respectively. Excluding these items, profit attributable to shareholders increased by 0.4% to HK$17,234m and earnings per share rose by 0.3% to HK$9.01.

Return on average shareholders' funds for 2014 was 13.4%, compared with 25.4% in the previous year. Excluding the Industrial Bank reclassification in 2013 and impairment loss in 2014, return on average shareholders' funds was 16.3%, compared with 17.6% in 2013.

The Directors have declared a fourth interim dividend of HK$2.30 per share, bringing the total distribution for 2014 to HK$5.60 per share, up from HK$5.50 per share in 2013.

Economic environment

The global economy grew at a modest pace in 2014. Underpinned by stronger domestic demand, improved GDP growth in the US offset relatively slower growth in the eurozone. In Japan, an increase in the value-added tax rate dampened domestic demand during the second half of the year.

Hong Kong's economy expanded by 2.4% during the first three quarters of the year, supported by buoyant labour market conditions and improvement in the balance of trade. Stronger US demand and the continuing health of the domestic balance sheet should enable the city to withstand economic headwinds and remain on a growth track. We forecast real GDP growth of 2.6% for 2015 – a modest increase on the 2.2% we expect for 2014.

In mainland China, the property market correction and the overhang of surplus capacity have led to a slowdown in economic expansion. GDP growth for 2014 was 7.4%, compared with 7.7% in 2013. Economic challenges will persist in 2015, but resilient domestic consumption and government efforts to stimulate economic activity will provide support for growth, and we expect GDP growth to be lower in 2015 than 2014 although still above 7.0%.

The normalisation of US monetary policy and the possibility of a structural slowdown on the Mainland will continue to create uncertainty and downside risk in the Asian region. However, initiatives to further strengthen economic ties between Hong Kong and the Mainland, including the launch of the Shanghai-Hong Kong Stock Connect scheme in November 2014, and steps to further promote the internationalisation of the renminbi, continue to create opportunities for sustainable business growth.

Supported by our extensive network of service channels, loyal customer base and strong cross-border capabilities, we will take full advantage of new business opportunities and continue to deliver excellence.

Review by Rose Lee, Vice-Chairman and Chief Executive

In increasingly challenging operating conditions, Hang Seng made good progress with its customer-centred strategy for growth, achieving increases in income and profit across core business groups to return respectable results for 2014.

Operating profit excluding loan impairment charges increased by 9% to HK$20,594m compared with 2013. Operating profit rose by 6% to HK$19,450m.

Following the 2013 reclassification of our holding in Industrial Bank, we recorded a significant accounting gain in 2013 and an impairment loss in 2014. These two factors led to the 43% drop in profit attributable to shareholders to HK$15,131m. Excluding these items, profit attributable to shareholders rose by 0.4%, with the increase in operating profit offset by lower gains on the disposal and revaluation of properties.

Profit before tax fell by 37% to HK$18,049m. Excluding the Industrial Bank accounting gain and impairment loss, profit before tax rose by 0.5%, reflecting the impact of the aforementioned lower property-related gains.

We grew quality assets and further diversified our revenue base to achieve balanced growth, recording a 7% rise in net interest income and a 9% increase in non-interest income.

Our commitment to enhance the customer experience across our diverse range of service channels saw the implementation of further initiatives to optimise our network coverage, provide personalised wealth management solutions and offer our clients greater convenience and choice.

We opened new outlets for key customer segments and upgraded existing branches with a fresh design and service enhancements. New investments in technology and digital platforms enhanced our e-banking penetration rate among retail customers.

An exclusive 10-year medical insurance distribution agreement was entered into with international healthcare company Bupa to provide a holistic health management and insurance service to our clients. Our Hong Kong operations continued to work in close collaboration with Hang Seng Bank (China) Limited (Hang Seng China), strengthening our connectivity and network to capture a greater share of cross-border business and acquire new customers in target segments. Business initiatives that capitalise on the Shanghai-Hong Kong Stock Connect scheme and relaxation of controls on the renminbi reinforced our market position in wealth management and cross-border services.

Hang Seng China opened two new outlets and successfully launched a RMB1bn dim sum bond to support growth.

Net interest income grew by HK$1,267m to HK$19,871m, driven mainly by the 6% increase in average interest-earning assets. Net interest margin increased by one basis point to 1.90%. Focused customer acquisition strategies and prudent portfolio management led to a 10% increase in average customer lending and a 7% rise in average customer deposits. Non-interest income increased by HK$878m to HK$10,336m with a 6% increase in net fee income.

With the 8% increase in net operating income before loan impairment charges outpacing the 6% rise in operating expenses, our cost efficiency ratio improved by 60 basis points to 31.8%.

Review by Rose Lee, Vice-Chairman and Chief Executive *(continued)*

Loan impairment charges rose by HK$608m to HK$1,144m. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% compared with 0.22% at the end of 2013. The challenging credit environment in mainland China led to an increase in impaired loans and related impairment charges on mainland loan portfolios from a low base. We remained vigilant concerning asset quality and overall credit quality remained stable.

On 31 December 2014, our total capital ratio under Basel III was 15.7%, compared with 15.8% at the end of 2013. Our common equity tier 1 and tier 1 capital ratios were both 15.6%, compared with 13.8% a year earlier.

Charting future growth

As the leading domestic bank in Hong Kong with a history that spans more than 80 years, we have earned customer loyalty and trust with our service excellence and client-driven strategies. We are well positioned to benefit from the continuing growth of our city and its deepening economic ties with the Mainland.

We will continue to enhance efficiency and strategically deploy capital and other resources to continue to reinforce our market position in wealth management and cross-border business.

Slower economic growth, excess capacity in certain industries and the impact of continuing market reforms will create complex credit conditions on the Mainland in the year ahead. We will leverage our good cross-border connectivity to further enhance Hang Seng China's service proposition and take advantage of favourable policy developments and initiatives to support the internationalisation of the renminbi.

Engaging in active dialogue with customers and other stakeholders allows us to respond promptly to market changes and new business opportunities. Leveraging our strong brand, extensive service network and customer base, and diverse portfolio of products, we will continue to strengthen our platform to achieve balanced and sustainable growth in our core business.

We will uphold high standards of corporate governance and provide our staff with development opportunities to enhance their professional and leadership skills. Our investment and participation in a diverse range of corporate sustainability programmes remain key elements of our commitment to promoting the well-being of the communities that support us.

I wish to thank my colleagues for their dedication in driving our strategic initiatives to cater to the needs of our retail and corporate customers to achieve sustainable growth and maximise value for shareholders.

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported a profit attributable to shareholders of HK$15,131m for 2014, down 43.3% compared with 2013. Earnings per share were down 43.3% at HK$7.91. The results included an impairment of HK$2,103m on the bank's investment in Industrial Bank Co., Ltd ('Industrial Bank') in 2014 and an accounting gain of HK$9,517m on the reclassification of Industrial Bank in 2013. Excluding these items, attributable profit was up by 0.4%.

Operating profit excluding loan impairment charges grew by HK$1,648m, or 8.7%, to HK$20,594m, mainly driven by increases in net interest income and net fee income. Against a backdrop of continuing low interest rates and challenging operating environment, the group achieved solid growth, with increases in operating profit across core businesses lines. Operating expenses also rose, but at a slower pace than income growth.

Net interest income increased by HK$1,267m, or 6.8%, to HK$19,871m, driven mainly by growth in average interest-earning assets. Average interest-earning assets grew by 6.1%, compared with 2013. Average customer lending rose by 9.7% while financial investments increased by 5.1%. Net interest margin improved by one basis point to 1.90% while net interest spread remained unchanged at 1.77%. Average loan spreads in Hong Kong improved, notably for term lending, although the benefit of this was partly offset by compression of spread on mortgage lending. Average customer deposits grew by 7.1%, reflecting our deposit acquisition strategy to support growth, although the benefit of this was broadly offset by narrower deposit spreads. Treasury's active management of interest rate risk and active efforts to enhance yields on the commercial surplus led to an increase in balance sheet management income. In mainland China, higher average interest-earning assets coupled with a less volatile interbank market and improved deposit spreads outweighed the effect of narrowing of loan spreads.

Net fees and commissions rose by HK$362m, or 6.1%, to HK$6,249m, with growth recorded across all business lines. Income from retail investment fund sales and securities broking and related services increased by 8.6% and 9.2% respectively, primarily due to strong customer demand and favourable market sentiment towards the end of the year. Insurance-related fee income rose by 5.7%, reflecting growth in life reinsurance income and increased distribution commission from non-life insurance business. Account services income increased by 10.7%, while fee income from remittances grew by 16.1% as a result of the bank's efforts to capture more cross-border remittance business. Credit card fee income also rose by 2.5%, benefiting from increased cardholder spending and merchant acquiring business in Hong Kong.

Net trading income decreased by HK$101m, or 4.9%, to HK$1,944m, mainly due to the drop in dealing profits. Foreign exchange income fell by HK$140m compared with 2013, reflecting the combined effect of subdued customer activity levels due to low market volatility and decreased demand for foreign exchange-linked structured treasury products, partly offset by higher income from funding swap activities.

Dividend income increased by HK$196m, or 19.3%, to HK$1,210m, due mainly to higher dividend income received from Industrial Bank.

Results summary *(continued)*

Income from insurance business (included under 'net interest income', 'net fee income', 'net trading income', 'net income from financial instruments designated at fair value', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and 'other' within 'other operating income', 'share of profits from associates', and after deducting 'net insurance claims and benefits paid and movement in liabilities to policyholders') increased by HK$22m, or 0.60%, to HK$3,708m. Net interest income and fee income from life insurance business was broadly in line with 2013, with the bank rebalancing assets in the low interest rate environment. The investment return on the life insurance funds portfolio grew by 31.3%, benefiting from the improved performance of the equity market, although this was partly offset by lower property revaluation gains and a drop in share of profits from associates. 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. Net insurance premium income rose by 7.7% as a result of increased renewals of existing policies, while new business premiums written were broadly stable. The growth in insurance premiums resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders. The decrease in the movement in present value of in-force long-term insurance business was due to changes in product mix and actuarial assumptions. General insurance income increased by 5.8%, reflecting higher distribution commission income.

Operating expenses rose by HK$510m, or 5.6%, to HK$9,613m, reflecting the bank's continued investment in new business platforms, servicing capabilities and mainland operations to support business growth. Staff costs increased by 4.2%, mainly due to the annual salary increment and higher staff numbers to support business expansion. General and administrative expenses rose by 6.8%, reflecting higher rental expenses, marketing expenditure and processing charges.

With the 7.6% increase in net operating income before loan impairment charges outpacing the rise in operating expenses, the cost efficiency ratio improved by 0.6 percentage points to 31.8%.

Loan impairment charges rose by HK$608m, or 113.4%, to HK$1,144m, with higher individually assessed impairment charges due to the more challenging credit environment in mainland China. The increase in collectively assessed impairment charges was underpinned by a rise in impairment allowances for loans not individually identified as impaired as a result of growth in customer loan balances and updated assumptions in the assessment model. Impairment charges for credit card and personal loan portfolios remained relatively stable compared with the previous year.

- Operating profit rose by HK$1,040m, or 5.6%, to HK$19,450m.

- Profit before tax fell by HK$10,447m, or 36.7%, to HK$18,049m after taking into account the following major items:

- the accounting gain of HK$8,454m on **the reclassification of Industrial Bank** and the accounting loss of HK$297m on **the reclassification of Yantai Bank** in 2013;
- a HK$2,338m decrease in **gains less losses from financial investments and fixed assets**, the combined effect of the impairment loss of HK$2,103m on the bank's investment in Industrial Bank in September 2014 and lower property disposal gains compared with 2013.

Results summary *(continued)*

- a 56.1% (or HK$667m) decrease in **net surplus on property revaluation**; and
- a 57.8% (or HK$325m) reduction in **share of profits from associates**, mainly due to the reclassification of Yantai Bank in December 2013, coupled with a lower property revaluation gain in a property investment holding associate in 2014.

Consolidated balance sheet and key ratios

Total assets rose by HK$120.3bn, or 10.5%, to HK$1,264.0bn, reflecting the group's strategy to enhance profitability through sustainable growth. Customer loans and advances increased by HK$72.2bn, or 12.3%, to HK$658.4bn, driven largely by growth in corporate and commercial lending, with notable demand from customers in the property-related, wholesale and retail trade, and manufacturing industry sectors. Despite subdued activity in the property market, the group successfully grew residential mortgage lending by 9.3% when compared with the end of 2013. Hang Seng China's lending portfolio grew by 6.3%, mainly in corporate customer lending business. Overall loan quality remained stable with gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% compared with 0.22% at the end of 2013. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK$86.8bn, or 10%, to HK$956.5bn. In June 2014, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors. At 31 December 2014, the advances-to-deposits ratio was 68.8%, compared with 67.4% at 31 December 2013.

At 31 December 2014, shareholders' funds (excluding proposed dividends) were HK$134.8bn, an increase of HK$31.2bn, or 30.1%. Retained profits rose by HK$5.0bn, resulting from the 2014 attributable profit after the appropriation of interim dividends during the year. In December 2014, the bank issued an additional tier 1 ('AT1') perpetual capital instrument of HK$6,981m reported under 'other equity instruments' and repaid part of its subordinated liability to enhance capital efficiency. The premises revaluation reserve increased by HK$783m, or 5.3%, due to the increase in fair value of the bank's premises. The available-for-sale investment reserve recorded a surplus of HK$17.0bn, compared with a deficit of HK$1.6bn at the end of 2013, primarily reflecting the unrealised revaluation gain on the bank's investment in Industrial Bank at the end of 2014, subsequent to the recognition of impairment loss in September 2014.

Return on average total assets was 1.3% (2.4% for 2013). **Return on average shareholders' funds** was 13.4% (25.4% for 2013). Excluding the Industrial Bank reclassification gain in 2013 and impairment loss in 2014, return on average total assets was 1.4%, compared with 1.5% for 2013. On the same basis, return on average shareholders' funds was 16.3%, compared with 17.6% a year earlier. The decrease in return on average shareholders' funds when compared with 2013 was mainly the combined effect of lower property revaluation gains and the increase in average shareholders' funds. Higher average shareholders' funds mainly reflected the increase in attributable profit and increase in premises revaluation reserve during 2014.

Results summary *(continued)*

At 31 December 2014, the **total capital ratio** remained broadly stable at 15.7%, compared with 15.8% at the end of the previous year. There was an increase in the capital base, mainly reflecting the profit accumulation after accounting for dividends declared in the year and the net issuance of capital instruments, partly offset by the 14.5% increase in risk-weighted assets driven by loan growth and regulatory model changes.

The **CET1** and **T1** capital ratios improved to 15.6%, compared with 13.8% at the end of 2013, largely due to the increase in CET1 and T1 capital. In December 2014, the bank issued an AT1 perpetual capital instrument of US$900m and repaid a T2 subordinated loan of US$775m to enhance capital efficiency. The profit accumulation, together with the increase in market value of significant capital investments in unconsolidated financial sector entities under the Basel III phase-in arrangement also contributed to the increase in CET1 and T1 capital, although the increase was partly offset by the rise in risk-weighted assets.

The bank continued to maintain liquidity at a comfortable level. The **average liquidity ratio** for 2014 was 34.7% (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance), compared with 34.9% for 2013.

Dividends

The Directors have declared a fourth interim dividend of HK$2.30 per share, which will be payable on 26 March 2015 to shareholders on the register as of 11 March 2015. Together with the interim dividends for the first three quarters, the total distribution for 2014 will be HK$5.60 per share.

Segmental analysis

Figures in HK$m	*Hong Kong and other businesses* Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total	Mainland China business	Inter-segment elimination	Total
Year ended 31 December 2014								
Net interest income/(expense)	10,036	4,894	3,378	(197)	18,111	1,760	–	19,871
Net fee income	4,147	1,568	253	149	6,117	132	–	6,249
Net trading income/(loss)	174	414	1,148	(1)	1,735	209	–	1,944
Net income/(loss) from financial instruments designated at fair value	1,205	(1)	1	(4)	1,201	–	–	1,201
Dividend income	1	–	–	1,209	1,210	–	–	1,210
Net insurance premium income	10,671	108	–	–	10,779	–	–	10,779
Other operating income	1,268	64	1	425	1,758	8	(71)	1,695
Total operating income	27,502	7,047	4,781	1,581	40,911	2,109	(71)	42,949
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,655)	(87)	–	–	(12,742)	–	–	(12,742)
Net operating income before loan impairment charges	14,847	6,960	4,781	1,581	28,169	2,109	(71)	30,207
Loan impairment charges	(531)	(128)	(5)	–	(664)	(480)	–	(1,144)
Net operating income	14,316	6,832	4,776	1,581	27,505	1,629	(71)	29,063
Operating expenses ⌖	(5,545)	(1,754)	(595)	(277)	(8,171)	(1,513)	71	(9,613)
Operating profit	8,771	5,078	4,181	1,304	19,334	116	–	19,450
Gains less losses from financial investments and fixed assets	–	–	4	(2,161)	(2,157)	(2)	–	(2,159)
Net surplus on property revaluation	–	–	–	521	521	–	–	521
Share of profits from associates	246	1	–	–	247	(10)	–	237
Profit/(loss) before tax	9,017	5,079	4,185	(336)	17,945	104	–	18,049
Share of profit before tax	50.0%	28.1%	23.2%	(1.9%)	99.4%	0.6 %	–	100.0%
Share of profit before tax as a % of Hong Kong and other businesses	50.2%	28.3%	23.3%	(1.8%)	100.0%			
Operating profit excluding loan impairment charges	9,302	5,206	4,186	1,304	19,998	596	–	20,594
⌖ *Depreciation/amortisation included in operating expenses*	(46)	(28)	(5)	(767)	(846)	(96)	–	(942)
At 31 December 2014								
Total assets	339,219	253,833	462,197	114,123	1,169,372	127,948	(33,330)	1,263,990
Total liabilities	685,299	198,685	126,781	21,905	1,032,670	117,726	(25,599)	1,124,797
Interest in associates	2,186	12	–	–	2,198	20	–	2,218
Non-current assets acquired during the year	248	16	8	333	605	77	–	682

Segmental analysis *(continued)*

Figures in HK$m	*Hong Kong and other businesses* Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total	*Mainland China business*	*Inter-segment elimination*	*Total*
Year ended 31 December 2013 (restated)								
Net interest income/(expense)	9,959	4,171	3,236	(221)	17,145	1,459	–	18,604
Net fee income	3,849	1,565	231	144	5,789	98	–	5,887
Net trading income/(loss)	300	506	1,122	(14)	1,914	131	–	2,045
Net income/(loss) from financial instruments designated at fair value	350	(4)	(1)	–	345	–	–	345
Dividend income	–	7	–	1,007	1,014	–	–	1,014
Net insurance premium income	9,925	80	–	–	10,005	–	–	10,005
Other operating income	1,612	39	1	334	1,986	7	(57)	1,936
Total operating income	25,995	6,364	4,589	1,250	38,198	1,695	(57)	39,836
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,702)	(72)	–	–	(11,774)	–	–	(11,774)
Net operating income before loan impairment charges	14,293	6,292	4,589	1,250	26,424	1,695	(57)	28,062
Loan impairment charges	(482)	(38)	(8)	–	(528)	(8)	–	(536)
Net operating income	13,811	6,254	4,581	1,250	25,896	1,687	(57)	27,526
Operating expenses ⌖	(5,315)	(1,621)	(515)	(230)	(7,681)	(1,479)	57	(9,103)
Impairment loss on intangible assets	(11)	(2)	–	–	(13)	–	–	(13)
Operating profit	8,485	4,631	4,066	1,020	18,202	208	–	18,410
Gains less losses from financial investments and fixed assets	(1)	1	4	176	180	(1)	–	179
Gain on reclassification of Industrial Bank	–	–	–	–	–	8,454	–	8,454
Loss on reclassification of Yantai Bank	–	–	–	–	–	(297)	–	(297)
Net surplus on property revaluation	–	–	–	1,188	1,188	–	–	1,188
Share of profits from associates	455	2	–	–	457	105	–	562
Profit before tax	8,939	4,634	4,070	2,384	20,027	8,469	–	28,496
Share of profit before tax	31.4%	16.3%	14.3%	8.3%	70.3%	29.7%	–	100.0%
Share of profit before tax as a % of Hong Kong and other businesses	44.6%	23.2%	20.3%	11.9%	100.0%			
Operating profit excluding loan impairment charges	8,967	4,669	4,074	1,020	18,730	216	–	18,946
⌖ *Depreciation/amortisation included in operating expenses*	(49)	(28)	(5)	(695)	(777)	(98)	–	(875)
At 31 December 2013								
Total assets	309,758	211,747	426,288	104,027	1,051,820	118,476	(26,566)	1,143,730
Total liabilities	650,309	173,675	105,484	16,924	946,392	108,495	(18,935)	1,035,952
Interest in associates	2,022	10	–	–	2,032	30	–	2,062
Non-current assets acquired during the year	1,734	26	1	3,359	5,120	108	–	5,228

Segmental analysis *(continued)*

Retail Banking and Wealth Management ('RBWM') in Hong Kong reported a profit before tax of HK$9,017m in 2014, a 0.9% increase compared with 2013. Operating profit excluding loan impairment charges reached HK$9,302m, an increase of 3.7%. Operating profit grew by 3.4% to HK$8,771m.

Net interest income grew by 0.8% to HK$10,036m. Customer deposits and the lending portfolio recorded year-on-year growth of 5.0% and 9.1% respectively. Strong market competition put downward pressure on deposit business.

Non-interest income was up 11.0% at HK$4,811m reflecting growth in net fee income and net income from financial instruments at fair value. With strategic initiatives to enhance our wealth management capabilities, we were able to maintain growth momentum in the wealth management business, resulting in a 3.7% increase in income to HK$6,474m.

Our unsecured lending business continued to be a stable growth driver. Effective card usage programmes helped us to achieve a 9.4% year-on-year increase in card spending. We maintained our market position as the third-largest issuer of VISA and MasterCard cards. With improved analytic capabilities, we grew the personal loan portfolio by 26.8% from our existing customer base.

We maintained our top-three position for mortgage business, with a market share of 17.1% in terms of new mortgage registrations and grew our mortgage lending portfolio by 8.0% compared to 2013 year-end.

Amid volatile investment market conditions in 2014, we grew investment income by 8.2%. Investment fund income rose by 8.3% year-on-year, with an increase in turnover by 15.3% compared with 2013. The securities market turnover was subdued in the first half of 2014, but picked up towards the end of the year. Overall, securities income and turnover recorded a year-on-year growth of 9.0% and 9.5% respectively. To capitalise on the launch of the Shanghai-Hong Kong Stock Connect scheme and the relaxation of the renminbi daily conversion limit for personal customers, we launched A-share Northbound Trading services via Shanghai-Hong Kong Stock Connect and enriched our renminbi investment product suite.

With lower gains from property revaluation held in the insurance funds investment portfolio, income from insurance business was broadly in line with the previous year. We further diversified our product range to strengthen our ability to provide one-stop wealth and health propositions. Following the signing of a 10-year exclusive distribution agreement between the bank and international healthcare company Bupa, we launched the Hang Seng Bupa Precious Health Series, a series of bespoke health insurance services and schemes. We also introduced the Exquisite Universal Life Insurance Plan to cater for the legacy planning needs of high-net-worth customers.

With concerted efforts to enhance our Prestige and Preferred Banking propositions, we grew the number of Prestige and Preferred Banking customers by 7.3% year-on-year. In 2014, we opened more Prestige and Preferred Banking Centres in strategic locations, bringing the total number of outlets to 18. We launched a series of awareness campaigns to communicate our Prestige and Preferred Banking propositions and product features based on the wealth management needs of customers.

Segmental analysis *(continued)*

We continued to strengthen our infrastructure to support sustainable growth, with improvements to our digital capabilities and greater use of social media tools to enrich customer experience. We launched a dedicated Hang Seng Youtube channel to provide timely financial information and commentaries and enhanced our digital presence through better search engine optimisation. At 31 December 2014, the number of personal e-banking customers grew by 7.7% compared to 2013 year-end.

Commercial Banking ('CMB') in Hong Kong achieved a 9.6% increase in profit before tax to HK$5,079m. Operating profit excluding loan impairment charges grew by 11.5% to HK$5,206m. Operating profit rose by 9.7% to HK$5,078m.

Net interest income increased by 17.3% to HK$4,894m, supported by balanced growth in both customer advances and deposits. With continued emphasis on cross-border collaboration, we achieved a 20.2% increase in customer advances.

Deposits grew by 14.8%, mainly resulting from our continued acquisition of quality mainland China customers and the focus of customer-centric propositions targeting professional firms, listed companies, hospitals, schools and retailers.

Non-interest income declined by 2.6% to HK$2,066m due to reduced renminbi hedging activity with the depreciation of the renminbi, and our strategic repositioning of trade finance business to support the needs of core corporate customers.

We recorded remittance income growth of 22.2%, driven in part by targeted marketing efforts to capture more cross-border fund flows. Investment fund income also achieved good growth of 15.3%, reflecting our strong capabilities in offering timely and tailor-made corporate wealth management solutions.

Insurance income grew by 8.6%, underpinned by satisfactory growth in both life insurance and general insurance businesses. General insurance income increased, supported by our strengthened collaboration with QBE Insurance. Leveraging the bank's exclusive distribution agreement with international healthcare company Bupa, we enriched our employee wellness coverage with new off-the-shelf and bespoke corporate employee insurance products. Increased penetration of the SME sector led to a 12.9% rise in life insurance income.

With effective credit risk management and enhanced post-approval monitoring, asset quality remained stable, with an impaired loan balance as a percentage of gross customer advances remaining at a low level of 0.34%. We continued to enhance our portfolio management to optimise the return on risk-weighted assets through effective bundling of transaction banking and wealth management products.

Quality commercial customer acquisition remained one of our strategic focuses. Mainland companies represented 45.2% of newly acquired customers in 2014. New customers were the primary drivers of SME deposits and contributed to the 14.8% growth in non-interest income from SME business. We expanded our business banking centres in Causeway Bay and Sheung Shui to enhance customer experience. Our business e-banking platform was further enriched with the addition of Shanghai-Hong Kong Stock Connect Northbound Trading services that enable commercial customers to capitalise on cross-border investment opportunities in a timely manner. For the ninth consecutive year, we received the 'Best SME's Partner Award' from the Hong Kong General Chamber of Small and Medium Business.

Segmental analysis *(continued)*

We were named the 'Hong Kong Domestic Trade Finance Bank of the Year' by *Asian Banking & Finance* for the third consecutive year, and were rated as the 'Best Local Cash Management Bank – Hong Kong' by *Asiamoney*.

Capitalising on our strong ability to tailor customer-focused propositions, good industry knowledge and closely connected relationship teams in Hong Kong and mainland China, we will continue to drive sustainable growth in customer deposits and capture new cross-border business opportunities arising from the ongoing liberalisation of renminbi business and the development of special economic zone in Qianhai and the Shanghai Free Trade Zone.

Global Banking and Markets ('GBM') in Hong Kong recorded a 2.8% increase in profit before tax to HK$4,185m. Operating profit excluding loan impairment charges grew by 2.7% to HK$4,186m. Operating profit rose by 2.8% to HK$4,181m.

Global Banking ('GB') in Hong Kong achieved a 3.3% increase in profit before tax to HK$1,682m. Operating profit excluding loan impairment charges grew by 3.1% to HK$1,684m. Operating profit grew by 3.3% to HK$1,679m.

Net interest income rose by 4.7% to HK$1,681m compared with 2013. Total loans increased by 5.5% year-on-year, with growth across a wide range of industries. Total deposits grew by 54.1%, underpinned by the 38.1% increase in current and saving account deposit balances achieved primarily by offering customers total cash management solutions.

Leveraging our well-established business infrastructure on the Mainland, Hong Kong and Singapore, we stepped up efforts to provide regional support for customers, with a focus on renminbi-related services including deposits, loans and trade finance.

Global Markets ('GM') in Hong Kong recorded a 2.5% increase in profit before tax to HK$2,503m. Operating profit excluding loan impairment charges increased by 2.5% to HK$2,502m. Operating profit increased by 2.5% to HK$2,502m.

Net interest income increased by 4.1% to HK$1,697m, reflecting concerted efforts by the balance sheet management team to actively manage interest rate risk and enhance yields.

Non-interest income increased by 3.8% to HK$1,160m, driven by a 2.2% increase in net trading income to HK$1,148m.

Front-line channels (including e-banking) and trading systems were enhanced to facilitate straight-through processing, enabling better position management. To strengthen our market standing as the leading domestic bank, Hang Seng will join OTC Clearing Hong Kong Limited as a direct member for central clearing of its over-the-counter derivatives in 2015.

Segmental analysis *(continued)*

To further diversify revenue, we increased cross-selling of GM products to RBWM and CMB customers through collaboration with RBWM and CMB to identify cross-selling opportunities and specific needs of customers.

Our enhancement of retail margin trading and various investment products strengthened our position as a provider of renminbi services for retail customers and to help us capitalise on growing opportunities for business in the offshore renminbi market.

Looking ahead, we will further develop our foreign exchange, gold, interest rate and fixed-income services and sales efforts to capture both investment and hedging business. We will explore opportunities for new business that will help us broaden our customer base.

With the launch of the Shanghai-Hong Kong Stock Connect scheme and further relaxation of controls on the renminbi exchange in Hong Kong, we will continue to develop new products to meet the needs of our customers.

Mainland China business

Hang Seng China's operating profit excluding loan impairment charges grew by 175.9% to HK$596m, underpinned by increases in net interest income and non-interest income. Operating profit fell by 44.2% to HK$116m, reflecting the increase in loan impairment charges in the challenging credit environment. Profit before tax fell by 44.9% to HK$114m.

Net interest income increased by 20.6%, mainly driven by growth in average interest-earning assets.

At 31 December 2014, total assets were up 8.0% at HK$127.9bn, driven mainly by the 6.7% increase in loan balances, whilst deposits increased by 3.6%.

Excluding the revaluation of structured deposits, non-interest income increased due to better treasury performance and a growth in fee and commission income. Cross-border collaboration in financing and trade activities and treasury sales drove a 34.7% rise in net fee and commission income.

With continuing investment in the enhancement of the service network and systems, operating expenses were well controlled, increasing by 2.3%.

RBWM and GBM recorded good business growth; whilst CMB was affected by the more challenging credit environment, resulting in a rise in loan impairments charges.

Benefiting from Hang Seng's strong cross-border capabilities, Hang Seng China continued to develop its franchise with the expansion of its product range and improvements to customer service channels. Hang Seng China's launch of Greater China Prestige Services and a Qualified Domestic Institutional Investor service enhanced the bank's cross-border proposition for high-end retail customers with financial needs in Hong Kong and in mainland China. Good progress was made in cross-border lending to companies in the special economic zone in Qianhai and in the Shanghai Free Trade Zone, cross-border renminbi cash pooling for entities in the Shanghai Free Trade Zone, and guarantee or deposit-backed lending to mainland-owned entities in Hong Kong.

Segmental analysis *(continued)*

The Shanghai Free Trade Zone sub-branch and Chengdu branch were opened in early 2014 to take advantage of favourable development policies to better serve the fast-growing demand for quality financial services in western China, bringing the total number of Hang Seng China outlets to 50. Both new outlets generated a profit in 2014. Regulatory approval to set up a new branch in Jinan in Shandong Province has also been obtained, with the new outlet scheduled to open in the first half of 2015.

Hang Seng China's core banking system was upgraded in the second half of 2014 with the aim to place more emphasis on direct service channels, including its online platform, call centre, SMS and Wechat to improve the service experience for customers.

In June 2014, Hang Seng China successfully launched a RMB1bn dim sum bond in Hong Kong to support future growth. The bond enjoyed a positive response from a diverse group of investors.

Figures in HK$m	***Year ended 31 December*** ***2014***	*2013*
Interest income	**26,270**	23,825
Interest expense	**(6,399)**	(5,221)
Net interest income	**19,871**	18,604
Fee income	**7,712**	7,329
Fee expense	**(1,463)**	(1,442)
Net fee income	**6,249**	5,887
Net trading income	**1,944**	2,045
Net income from financial instruments designated at fair value	**1,201**	345
Dividend income	**1,210**	1,014
Net insurance premium income	**10,779**	10,005
Other operating income	**1,695**	1,936
Total operating income	**42,949**	39,836
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(12,742)**	(11,774)
Net operating income before loan impairment charges	**30,207**	28,062
Loan impairment charges	**(1,144)**	(536)
Net operating income	**29,063**	27,526
Employee compensation and benefits	**(4,616)**	(4,432)
General and administrative expenses	**(4,055)**	(3,796)
Depreciation of premises, plant and equipment	**(831)**	(762)
Amortisation of intangible assets	**(111)**	(113)
Operating expenses	**(9,613)**	(9,103)
Impairment loss on intangible assets	**–**	(13)
Operating profit	**19,450**	18,410
Gains less losses from financial investments and fixed assets	**(2,159)**	179
Gain on reclassification of Industrial Bank	**–**	8,454
Loss on reclassification of Yantai Bank	**–**	(297)
Net surplus on property revaluation	**521**	1,188
Share of profits from associates	**237**	562
Profit before tax	**18,049**	28,496
Tax expense	**(2,918)**	(1,818)
Profit for the year	**15,131**	26,678
Profit attributable to shareholders	**15,131**	26,678
Earnings per share (in HK$)	**7.91**	13.95

Details of dividends payable to shareholders of the bank attributable to the profit for the year are set out on page 35.

Figures in HK$m	*Year ended 31 December* ***2014***	*2013*
Profit for the year	**15,131**	26,678
Other comprehensive income		
Items that will be reclassified subsequently to the income statement when specific conditions are met:		
Available-for-sale investment reserve:		
- fair value changes taken to equity:		
-- on debt securities	**319**	(913)
-- on equity shares	**16,744**	(2,638)
- fair value changes transferred to income statement:		
-- on hedged items	**32**	689
-- on disposal	**(34)**	(1)
-- on impairment	**2,188**	—
- share of changes in equity of associates:		
-- fair value changes	—	(1)
-- fair value changes transferred to income statement on reclassification of Industrial Bank and Yantai Bank	—	111
- deferred taxes	**(96)**	57
- exchange difference and other	**(523)**	851
Cash flow hedging reserve:		
- fair value changes taken to equity	**318**	432
- fair value changes transferred to income statement	**(339)**	(445)
- deferred taxes	**4**	2
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(155)**	438
- cumulative foreign exchange reserve transferred to income statement on reclassification of Industrial Bank and Yantai Bank	—	(2,150)
- other	—	2
Others	—	30
Items that will not be reclassified subsequently to the income statement:		
Premises:		
- unrealised surplus on revaluation of premises	**1,457**	2,103
- deferred taxes	**(244)**	(337)
- exchange difference	**(2)**	3
Defined benefit plans:		
- actuarial gains on defined benefit plans	**164**	778
- deferred taxes	**(27)**	(128)
Share-based payments	**(2)**	(3)
Other comprehensive income for the year, net of tax	**19,804**	(1,120)
Total comprehensive income for the year	**34,935**	25,558
Total comprehensive income for the year attributable to shareholders	**34,935**	25,558

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
ASSETS		
Cash and sight balances at central banks	**11,311**	22,717
Placings with and advances to banks	**145,731**	141,940
Trading assets	**41,823**	31,996
Financial assets designated at fair value	**11,112**	6,987
Derivative financial instruments	**7,421**	6,646
Reverse repurchase agreements – non-trading	**1,296**	–
Loans and advances to customers	**658,431**	586,240
Financial investments	**318,032**	282,845
Interests in associates	**2,218**	2,062
Investment properties	**11,732**	10,918
Premises, plant and equipment	**21,898**	21,000
Intangible assets	**9,053**	7,974
Other assets	**23,932**	22,405
Total assets	**1,263,990**	1,143,730
LIABILITIES AND EQUITY		
Liabilities		
Current, savings and other deposit accounts	**896,521**	824,996
Deposits from banks	**9,095**	11,826
Trading liabilities	**72,587**	62,117
Financial liabilities designated at fair value	**3,489**	489
Derivative financial instruments	**6,462**	5,246
Certificates of deposit and other debt securities in issue	**12,402**	8,601
Other liabilities	**21,304**	20,467
Liabilities to customers under insurance contracts	**92,442**	85,844
Current tax liabilities	**374**	692
Deferred tax liabilities	**4,304**	3,850
Subordinated liabilities	**5,817**	11,824
Total liabilities	**1,124,797**	1,035,952
Equity		
Share capital	**9,658**	9,559
Retained profits	**83,667**	78,679
Other equity instruments	**6,981**	–
Other reserves	**34,490**	15,334
Proposed dividends	**4,397**	4,206
Shareholders' funds	**139,193**	107,778
Total equity and liabilities	**1,263,990**	1,143,730

Figures in HK$m	***Year ended 31 December*** ***2014***	*2013*
Share capital		
At beginning of the year	**9,559**	9,559
Transfer from capital redemption reserve	**99**	–
	9,658	9,559
Retained profits (including proposed dividends)		
At beginning of the year	**82,885**	63,507
Dividends to shareholders		
- dividends approved in respect of the previous year	**(4,206)**	(3,824)
- dividends declared in respect of the current year	**(6,309)**	(6,309)
Transfer	**428**	2,184
Total comprehensive income for the year	**15,266**	27,327
	88,064	82,885
Other equity instruments		
At beginning of the year	–	–
Other equity instrument issued	**6,981**	–
	6,981	–
Other reserves		
Premises revaluation reserve		
At beginning of the year	**14,904**	13,790
Transfer	**(428)**	(655)
Total comprehensive income for the year	**1,211**	1,769
	15,687	14,904
Available-for-sale investment reserve		
At beginning of the year	**(1,618)**	227
Total comprehensive income for the year	**18,630**	(1,845)
	17,012	(1,618)
Cash flow hedging reserve		
At beginning of the year	**6**	17
Total comprehensive income for the year	**(17)**	(11)
	(11)	6
Foreign exchange reserve		
At beginning of the year	**1,295**	3,071
Transfer	–	(64)
Total comprehensive income for the year	**(155)**	(1,712)
	1,140	1,295
Other reserves		
At beginning of the year	**747**	2,152
Cost of share-based payment arrangements	**14**	30
Transfer	–	(1,465)
Transfer of capital redemption reserve	**(99)**	–
Total comprehensive income for the year	–	30
	662	747

Figures in HK$m	***Year ended 31 December*** ***2014***	*2013*
Total equity		
At beginning of the year	**107,778**	92,323
Dividends to shareholders	**(10,515)**	(10,133)
Other equity instrument issued	**6,981**	–
Cost of share-based payment arrangements	**14**	30
Total comprehensive income for the year	**34,935**	25,558
	139,193	107,778

Figures in HK$m	*Year ended 31 December* **2014**	*2013*
Net cash inflow from operating activities	**2,219**	23,102
Cash flows from investing activities		
Purchase of available-for-sale investments	**(53,942)**	(43,174)
Purchase of held-to-maturity debt securities	**(1,855)**	(1,563)
Proceeds from sale or redemption of available-for-sale investments	**51,726**	33,488
Proceeds from redemption of held-to-maturity debt securities	**645**	84
Net cash inflow from the sale of loan portfolio	**610**	663
Purchase of properties, plant and equipment and intangible assets	**(682)**	(3,589)
Proceeds from sale of properties, plant and equipment and assets held for sale	**–**	911
Interest received from available-for-sale investments	**2,128**	1,525
Dividends received from available-for-sale investments	**1,209**	1,013
Net cash outflow from investing activities	**(161)**	(10,642)
Cash flows from financing activities		
Dividends paid	**(10,515)**	(10,133)
Interest paid for subordinated liabilities	**(302)**	(311)
Repayment of subordinated liabilities	**(6,008)**	–
Proceeds from issuance of other equity instruments	**6,981**	–
Net cash outflow from financing activities	**(9,844)**	(10,444)
(Decrease)/ increase in cash and cash equivalents	**(7,786)**	2,016
Cash and cash equivalents at 1 January	**115,779**	115,947
Effect of foreign exchange rate changes	**(2,643)**	(2,184)
Cash and cash equivalents at 31 December	**105,350**	115,779

Net interest income

Figures in HK$m	***2014***	*2013*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**21,888**	20,242
- trading assets and liabilities	**(2,014)**	(1,697)
- financial instruments designated at fair value	**(3)**	59
	19,871	18,604
Average interest-earning assets	**1,047,154**	986,606
Net interest spread	**1.77%**	1.77%
Net interest margin	**1.90%**	1.89%

Net interest income rose by HK$1,267m, or 6.8%, to HK$19,871m, driven mainly by the 6.1% increase in average interest-earning assets and an improvement in the net interest margin. Effective balance sheet management drove income growth as Treasury has been actively managing the interest rate risk and assessing different market opportunities for better yield enhancement. Partially offsetting this increase was a lower contribution from the insurance debt securities portfolios as the group re-balanced assets under the low interest rate environment.

Average interest-earning assets increased by HK$60.5bn or 6.1%, compared with last year. Average customer lending grew by 9.7%, notably in corporate and commercial and mortgage lending, while financial investments increased by 5.1%.

Net interest margin widened by one basis point to 1.90% whilst the net interest spread remained at 1.77%. In Hong Kong, the spread on customer lending improved, notably on corporate and commercial term lending, though this was offset in part by the spread compression in mortgage lending. On the back of the group's flexible deposit acquisition strategy to support balanced growth, average customer deposit balances increased, though the benefit of this growth was more than offset by narrower deposit spreads. On the Mainland, the net interest margin and net interest spread widened, reflecting improved deposit spread which coupled with a less volatile interbank market, outweighed the compression of loan spreads.

The contribution from net free funds grew by one basis point to 0.13%, benefiting from the modest increase in the average interest rate.

Net interest income in the second half of 2014 grew by HK$529m, or 5.5%, compared with the first-half of 2014, mainly supported by 5.9% increase in average interest earning assets, widening loan spreads and more calendar days in the second-half. However, net interest margin and net interest spread in the second half were under continuous downward pressure in light of strong competition for deposits and the low interest rate environment.

Net interest income *(continued)*

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

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

Figures in HK$m	***2014***	*2013*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**26,037**	23,613
- Interest expense	**(4,155)**	(3,371)
- Net interest income	**21,882**	20,242
Net interest income and expense reported as 'Net trading income'	**(2,014)**	(1,697)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	**3**	59
Average interest-earning assets	**1,013,705**	951,178
Net interest spread	**2.05%**	2.03%
Net interest margin	**2.16%**	2.13%

Net fee income

Figures in HK$m	***2014***	*2013*
- Securities broking and related services	**1,355**	1,241
- Retail investment funds	**1,681**	1,548
- Insurance	**466**	441
- Account services	**392**	354
- Remittances	**404**	348
- Cards	**2,196**	2,142
- Credit facilities	**403**	370
- Trade services	**521**	585
- Other	**294**	300
Fee income	**7,712**	7,329
Fee expense	**(1,463)**	(1,442)
	6,249	5,887

Net fee income rose by HK$362m, or 6.1%, to HK$6,249m when compared with 2013.

Securities broking and related services income rose by 9.2%, benefiting from increased market trading activity. Stock market trading turnover was lower in the first half but gradually picked up in the second half, coupled with the launch of the Shanghai-Hong Kong Stock Connect in late-2014.

Retail investment products drove increases in 15.3% of fund sales and 8.6% in investment funds income.

Insurance-related fee income rose by 5.7%, reflecting growth in life re-insurance commission income and increased distribution commission from non-life insurance products during the year.

Fees from remittances recorded encouraging growth of 16.1%, underpinned by increased business volumes as a result of the bank's effort in capturing cross-border fund transactions.

Account services fee income increased by 10.7% while gross fee income from credit card business grew by 2.5%.

Credit facilities fee income rose by 8.9%, due mainly to higher fees from increased corporate lending.

Trade-related service income was down by 10.9%, reflecting the decrease in trade finance lending business.

Net trading income

Figures in HK$m	***2014***	*2013*
- Foreign exchange	**1,824**	1,964
- Interest rate derivatives	**1**	64
- Debt securities	**65**	(35)
- Equities and other trading	**63**	59
Dealing profits	**1,953**	2,052
Net loss from hedging activities	**(9)**	(7)
	1,944	2,045

Net trading income decreased by HK$101m, or 4.9%, to HK$1,944m compared with 2013.

Dealing profits fell by HK$99m, or 4.8%, to HK$1,953m. Foreign exchange income was lower, affected by subdued customer activity levels as market volatility was low. Income from foreign exchange option-linked structured products fell, with reduced arbitrage opportunities reducing customer appetite for renminbi-denominated products. Dealing profits included a revaluation loss on foreign currency derivatives and a foreign exchange loss from insurance business. However, these unfavourable factors were partly offset by higher net income from funding swaps[⌖] activities.

Income from interest rate derivatives, debt securities, equities and other trading activities rose by HK$41m, or 46.6%, to HK$129m. Debt securities recorded a revaluation gain compared with a revaluation loss in last year, reflecting the movement in market interest rates. These increases were partly offset by a lower gain from interest rate derivatives trading.

[⌖] *Global Markets employs foreign exchange swaps for its funding activities, which involves swapping a currency ('original currency') into another currency ('swap currency') at the spot exchange rate for short-term placement and simultaneously entering into a forward exchange contract to convert the funds back to the original currency on maturity of the placement. In accordance with HKAS 39, the exchange difference of the spot and forward contracts is required to be recognised as a foreign exchange gain/loss, while the corresponding interest differential between the original and swap funding is reflected in net interest income.*

Net income from financial instruments designated at fair value

Figures in HK$m	***2014***	*2013*
Net income on assets designated at fair value which back insurance and investment contracts	**1,204**	345
Net change in fair value of other financial instruments designated at fair value	**(3)**	–
	1,201	345

Net income from financial instruments designated at fair value increased by HK$856m, or 248.1%, to HK$1,201m, reflecting the fair value changes of assets held by the life insurance business due mainly to favourable equity market movements during the year. To the extent that this fair value gain is attributable to policyholders, there is 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')'.

Dividend income

Figures in HK$m	***2014***	*2013*
Dividends	**1,210**	1,014
	1,210	1,014

Dividend income was HK$1,210m compared with HK$1,014m in 2013, mainly due to the dividend from Industrial Bank following its reclassification as a financial investment in 2013.

Other operating income

Figures in HK$m	***2014***	*2013*
Rental income from investment properties	**395**	293
Movement in present value of in-force long-term insurance business	**1,065**	1,195
Others	**235**	448
	1,695	1,936

Other operating income was HK$241m, or 12.4% lower than 2013 due to lower revaluation gains on a property held by the insurance business, and the decrease in the movement in present value of in-force long-term insurance business. The decrease in the movement in PVIF was mainly due to the change in product mix and an update of actuarial assumptions. These were partly offset by the increase in rental income.

Analysis of income from wealth management business

Figures in HK$m	***2014***	*2013 (restated)*
Investment income:		
- retail investment funds	**1,681**	1,548
- structured investment products[⌖]	**746**	965
- securities broking and related services	**1,322**	1,209
- margin trading and others	**102**	151
	3,851	3,873
Insurance income:		
- life insurance	**3,489**	3,479
- general insurance and others	**219**	207
	3,708	3,686
Total	**7,559**	7,559

[⌖] *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 trading income.*

Wealth management business income remained in line with 2013. Investment income was broadly in line with 2013, with higher fees from retail investment funds and increased brokerage income largely offset by lower structured investment product income due to weaker customer appetite for renminbi-denominated products. Insurance business income grew by 0.6% with increases in both life and general insurance businesses.

Analysis of insurance business income

Figures in HK$m	***2014***	*2013*
Life insurance:		
- net interest income and fee income	**3,048**	3,033
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**1,339**	1,020
- net insurance premium income	**10,779**	10,005
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(12,742)**	(11,774)
- movement in present value of in-force long-term insurance business	**1,065**	1,195
	3,489	3,479
General insurance and others	**219**	207
Total	**3,708**	3,686

Life insurance business achieved strong investment portfolios return and business growth. This was largely offset by a lower share of associate's profit and property revaluation gains and movement in PVIF, resulting in a slight increase of life insurance income to HK$3,489m.

Supported by our diversified range of life insurance products, the group achieved a 4.1% increase in new annualised life insurance premiums when compared with 2013.

Net interest income and fee income from the life insurance investment portfolio grew slightly as the group re-balanced assets under the low interest rate environment. Investment returns on life insurance increased strongly by 31.3%, benefiting from the favourable movement in equity markets, though partly offset by lower property revaluation gains and share of profit from an associate in the year. To the extent that the investment return is attributable to policyholders, there is an offsetting movement reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' or PVIF. Net insurance premium income rose by 7.7% as a result of increased renewals of existing policies, partly offset by lower new business premiums written. The growth in insurance premium income resulted in a corresponding increase in 'net insurance claims and benefits paid and movement in liabilities to policyholders'. The decrease in the PVIF was due to the change in product mix and updated actuarial assumptions.

General insurance income increased by 5.8%, reflecting higher distribution commission income.

Loan impairment charges

Figures in HK$m	***2014***	*2013*
Net charge for impairment of loans and advances to customers:		
Individually assessed impairment allowances:		
- new allowances	**(699)**	(191)
- releases	**131**	91
- recoveries	**36**	16
	(532)	(84)
Net charge for collectively assessed impairment allowances	**(612)**	(452)
Loan impairment charges	**(1,144)**	(536)

Loan impairment charges increased by HK$608m, or 113.4%, reflecting the more challenging credit environment in mainland China. Overall credit quality remained relatively stable with gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% compared with 0.22% at the end of 2013. The group remains cautious on the credit outlook.

Individually assessed impairment charges increased from a low base of a HK$84m to HK$532m, mainly due to the downgrade of certain corporate and commercial customers in mainland China, reflecting the challenging credit environment. This was partly offset by higher releases and recoveries from corporate and commercial customers in 2014.

Collectively assessed loan impairment charges increased by HK$160m, or 35.4%. Impairment allowances for loans not individually identified as impaired recorded a charge compared with a release in 2013 as a result of the increase in customer loan balances and updated assumptions in the assessment model. Impairment charges for credit card and personal loan portfolios remained relatively stable when compared with last year.

Operating expenses

Figures in HK$m	***2014***	*2013*
Employee compensation and benefits:		
- salaries and other costs	**4,155**	3,991
- retirement benefit costs	**461**	441
	4,616	4,432
General and administrative expenses:		
- rental expenses	**682**	645
- other premises and equipment	**1,112**	1,098
- marketing and advertising expenses	**829**	713
- other operating expenses	**1,432**	1,340
	4,055	3,796
Depreciation of premises, plant and equipment	**831**	762
Amortisation of intangible assets	**111**	113
	9,613	9,103
Cost efficiency ratio	**31.8%**	32.4%

Full-time equivalent staff numbers by region	***2014***	*2013*
Hong Kong and others	**8,278**	8,001
Mainland	**1,914**	1,855
Total	**10,192**	9,856

Operating expenses increased by HK$510m, or 5.6%, compared with 2013, reflecting the bank's continued investment in new business platforms, servicing capabilities and mainland operations to support business growth. Mainland-related operating expenses increased by 2.3%, reflecting strong cost management while continuing to invest for future growth.

Employee compensation and benefits increased by HK$184m, or 4.2%. Salaries and other costs increased by 4.1%, reflecting the annual salary increment and higher staff numbers, notably in Hong Kong to support business growth. General and administrative expenses were up 6.8%, due mainly to the rise in marketing expenditure to support business growth. Rental expenses rose as a result of increased rents for branches in Hong Kong and the mainland. Other operating expenses also increased as a result of higher processing charges and office expenses. Depreciation charges were up 9.1%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation in Hong Kong.

At 31 December 2014, the group's number of full-time equivalent staff was up by 336 compared with the end of 2013.

The bank continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio lowered by 0.6 percentage points to 31.8%.

Gains less losses from financial investments and fixed assets

Figures in HK$m	**2014**	2013
Net gains from disposal of available-for-sale equity securities	**33**	–
Net gains from disposal of available-for-sale debt securities	**1**	1
Gains less losses on disposal of assets held for sale	–	177
Gains less losses on disposal of loans and advances	**3**	5
Gains less losses on disposal of fixed assets	**(8)**	(4)
Impairment of investment in Industrial Bank	**(2,103)**	–
Impairment of investment in Yantai Bank	**(85)**	–
	(2,159)	179

Gains less losses from financial investments and fixed assets recorded a loss of HK$2,159m in 2014 compared with a gain of HK$179m in 2013. Impairment losses of HK$2,103m and HK$85m were provided on the bank's investment in Industrial Bank and Yantai Bank in September 2014 following an impairment assessment in accordance with the group's accounting policies. The decrease was also due to non-recurrence of disposal gains of certain properties in Hong Kong in 2013.

Net gain on reclassification of Industrial Bank Co., Ltd. ('Industrial Bank') and Yantai Bank Co., Ltd. ('Yantai Bank')

Figures in HK$m	**2014**	2013
Gain on reclassification of Industrial Bank	–	8,454
Loss on reclassification of Yantai Bank	–	(297)
	–	8,157

The group recorded an accounting gain of HK$8,454m on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties in the first half of 2013.

The group recorded an accounting loss of HK$297m on the reclassification of Yantai Bank as a financial investment following a private placement of additional share capital to a third party in the second half of 2013.

Tax expense

Taxation in the consolidated income statement represents:

Figures in HK$m	***2014***	*2013*
Current tax – provision for Hong Kong profits tax		
Tax for the year	**2,808**	2,534
Adjustment in respect of prior years	**(100)**	(14)
Current tax – taxation outside Hong Kong		
Tax for the year	**151**	213
Adjustment in respect of prior years	**13**	7
Deferred tax		
Origination and reversal of temporary differences	**46**	(922)
Total tax expense	**2,918**	1,818

The current tax provision is based on the estimated assessable profit for 2014, and is determined for the bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2013). 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. The release in deferred tax in 2013 was mainly related to the reclassification of Industrial Bank as a financial investment.

Earnings per share

The calculation of earnings per share in 2014 is based on earnings of HK$15,131m (HK$26,678m in 2013) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2013).

Dividends per share

	2014		*2013*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	1.10	2,103
Second interim	**1.10**	**2,103**	1.10	2,103
Third interim	**1.10**	**2,103**	1.10	2,103
Fourth interim	**2.30**	**4,397**	2.20	4,206
	5.60	**10,706**	5.50	10,515

Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS 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. In 2014, there was a change in the reportable segments information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment. To align with the internal reporting information, the group has presented the following five reportable segments. Corresponding amounts have been restated to ensure information is provided on a basis consistent with the revised segment information. Consolidation adjustments made in preparing the group's financial statements and inter-segment elimination of income or expenses upon consolidation are included in the 'Inter-segment elimination'.

Hong Kong and other businesses segment

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

Segmental analysis *(continued)*

Mainland China business segment

- **Mainland China** business segment comprises the business of Hang Seng Bank (China) Limited and our share of profits from mainland associates.

(a) Segmental result

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

Profit before tax contributed by the business segments for the periods stated is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 11.

	Hong Kong and other businesses						
Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*	*Mainland China business*	*Total*
Year ended 31 December 2014							
Profit/(loss) before tax	**9,017**	**5,079**	**4,185**	**(336)**	**17,945**	**104**	**18,049**
Share of profit before tax	**50.0%**	**28.1%**	**23.2%**	**(1.9%)**	**99.4%**	**0.6%**	**100.0%**
Share of profit before tax as a % of Hong Kong & other businesses	**50.2%**	**28.3%**	**23.3%**	**(1.8%)**	**100.0%**		
Year ended 31 December 2013 (restated)							
Profit before tax	8,939	4,634	4,070	2,384	20,027	8,469	28,496
Share of profit before tax	31.4%	16.3%	14.3%	8.3%	70.3%	29.7%	100.0%
Share of profit before tax as a % of Hong Kong & other businesses	44.6%	23.2%	20.3%	11.9%	100.0%		

Segmental analysis *(continued)*

(b) Geographic information

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.

Figures in HK$m	*Hong Kong*	*Mainland China*	*Others*	*Inter-segment elimination*	*Total*
Year ended 31 December 2014					
Income and expense					
Total operating income	**40,698**	**2,109**	**213**	**(71)**	**42,949**
Profit before tax	**17,814**	**104**	**131**	**–**	**18,049**
At 31 December 2014					
Total assets	**1,165,918**	**127,948**	**14,636**	**(44,512)**	**1,263,990**
Total liabilities	**1,029,796**	**117,726**	**14,170**	**(36,895)**	**1,124,797**
Equity	**136,122**	**10,222**	**466**	**(7,617)**	**139,193**
Share capital	**9,658**	**8,700**	**12**	**(8,712)**	**9,658**
Interest in associates	**2,198**	**20**	**–**	**–**	**2,218**
Non-current assets ⌖	**41,571**	**1,108**	**4**	**–**	**42,683**
Year ended 31 December 2013					
Income and expense					
Total operating income	37,458	1,695	758	(75)	39,836
Profit before tax	19,343	8,469	684	–	28,496
At 31 December 2013					
Total assets	1,048,106	118,476	12,887	(35,739)	1,143,730
Total liabilities	943,141	108,495	12,404	(28,088)	1,035,952
Equity	104,965	9,981	483	(7,651)	107,778
Share capital	9,559	8,847	30	(8,877)	9,559
Interest in associates	2,032	30	–	–	2,062
Non-current assets ⌖	38,786	1,105	1	–	39,892

⌖ *Non-current assets consist of properties, plant and equipment, goodwill and other intangible assets.*

Analysis of assets and liabilities by remaining maturity

The maturity analysis is based on the remaining contractual maturity at the balance sheet date, with the exception of the trading portfolio that may be sold before maturity and is accordingly recorded as 'Trading'.

Figures in HK$m	*Repayable on demand*	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
At 31 December 2014									
Assets									
Cash and sight balances at central banks	11,311	–	–	–	–	–	–	–	11,311
Placings with and advances to banks	21,413	67,164	50,532	4,510	–	2,112	–	–	145,731
Trading assets	–	–	–	–	–	–	41,823	–	41,823
Financial assets designated at fair value	–	–	–	–	15	60	–	11,037	11,112
Derivative financial instruments	–	–	–	353	179	1	6,888	–	7,421
Reverse repurchase agreements – non-trading	–	1,296	–	–	–	–	–	–	1,296
Loans and advances to customers	13,250	49,544	53,498	139,508	218,166	184,465	–	–	658,431
Financial investments	–	23,231	66,247	74,081	67,439	42,750	–	44,284	318,032
Interest in associates	–	–	–	–	–	–	–	2,218	2,218
Investment properties	–	–	–	–	–	–	–	11,732	11,732
Premises, plant and equipment	–	–	–	–	–	–	–	21,898	21,898
Intangible assets	–	–	–	–	–	–	–	9,053	9,053
Other assets	8,414	5,825	3,921	2,287	2,774	138	–	573	23,932
	54,388	147,060	174,198	220,739	288,573	229,526	48,711	100,795	1,263,990
Liabilities									
Current, savings and other deposit accounts	630,301	124,457	94,150	44,590	3,023	–	–	–	896,521
Deposits from banks	3,797	3,171	–	2,127	–	–	–	–	9,095
Trading liabilities	–	–	–	–	–	–	72,587	–	72,587
Financial liabilities designated at fair value	2	–	–	–	2,994	493	–	–	3,489
Derivative financial instruments	–	2	20	67	351	108	5,914	–	6,462
Certificates of deposit and other debt securities in issue	–	–	–	7,156	5,246	–	–	–	12,402
Other liabilities	6,707	5,606	4,090	2,237	127	46	–	2,491	21,304
Liabilities to customers under insurance contracts	–	–	–	–	–	–	–	92,442	92,442
Current tax liabilities	–	–	–	374	–	–	–	–	374
Deferred tax liabilities	–	–	–	–	–	–	–	4,304	4,304
Subordinated liabilities	–	–	–	–	–	5,817	–	–	5,817
	640,807	133,236	98,260	56,551	11,741	6,464	78,501	99,237	1,124,797

Analysis of assets and liabilities by remaining maturity *(continued)*

Figures in HK$m	*Repayable on demand*	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
At 31 December 2013									
Assets									
Cash and sight balances at central banks	22,717	–	–	–	–	–	–	–	22,717
Placings with and advances to banks	13,222	62,104	58,380	6,206	–	2,028	–	–	141,940
Trading assets	–	–	–	–	–	–	31,996	–	31,996
Financial assets designated at fair value	–	–	5	38	482	287	–	6,175	6,987
Derivative financial instruments	–	–	177	210	372	17	5,870	–	6,646
Loans and advances to customers	10,528	46,148	49,992	117,086	193,905	168,581	–	–	586,240
Financial investments	–	35,239	52,689	60,243	66,896	39,469	–	28,309	282,845
Interest in associates	–	–	–	–	–	–	–	2,062	2,062
Investment properties	–	–	–	–	–	–	–	10,918	10,918
Premises, plant and equipment	–	–	–	–	–	–	–	21,000	21,000
Intangible assets	–	–	–	–	–	–	–	7,974	7,974
Other assets	8,691	5,624	3,808	2,275	1,439	130	–	438	22,405
	55,158	149,115	165,051	186,058	263,094	210,512	37,866	76,876	1,143,730
Liabilities									
Current, savings and other deposit accounts	601,180	113,464	71,154	36,116	3,081	1	–	–	824,996
Deposits from banks	3,868	7,570	388	–	–	–	–	–	11,826
Trading liabilities	–	–	–	–	–	–	62,117	–	62,117
Financial liabilities designated at fair value	2	–	–	–	–	487	–	–	489
Derivative financial instruments	–	15	6	216	362	122	4,525	–	5,246
Certificates of deposit and other debt securities in issue	–	–	–	3,949	4,652	–	–	–	8,601
Other liabilities	5,977	5,240	3,917	2,391	167	71	–	2,704	20,467
Liabilities to customers under insurance contracts	–	–	–	–	–	–	–	85,844	85,844
Current tax liabilities	–	–	–	692	–	–	–	–	692
Deferred tax liabilities	–	–	–	–	–	–	–	3,850	3,850
Subordinated liabilities	–	–	–	–	–	11,824	–	–	11,824
	611,027	126,289	75,465	43,364	8,262	12,505	66,642	92,398	1,035,952

Cash and sight balances at central banks

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Cash in hand	**5,016**	6,005
Sight balances at central banks	**6,295**	16,712
	11,311	22,717

Placings with and advances to banks

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Balances with banks	**15,972**	10,577
Placings with and advances to banks maturing within one month	**72,605**	64,749
Placings with and advances to banks maturing after one month but less than one year	**55,042**	64,586
Placings with and advances to banks maturing after one year	**2,112**	2,028
	145,731	141,940

Trading assets

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Treasury bills	**24,228**	18,336
Certificates of deposit	**–**	–
Other debt securities	**13,499**	5,471
Debt securities	**37,727**	23,807
Investment funds	**40**	28
Total trading securities	**37,767**	23,835
Other⌖	**4,056**	8,161
Total trading assets	**41,823**	31,996
Debt securities:		
- listed in Hong Kong	**9,829**	3,783
- listed outside Hong Kong	**424**	700
	10,253	4,483
- unlisted	**27,474**	19,324
	37,727	23,807
Investment funds:		
- listed in Hong Kong	**40**	28
Total trading securities	**37,767**	23,835
Debt securities:		
Issued by public bodies:		
- central governments and central banks	**34,481**	22,650
- other public sector entities	**–**	–
	34,481	22,650
Issued by other bodies:		
- banks	**598**	853
- corporate entities	**2,648**	304
	3,246	1,157
	37,727	23,807
Investment funds:		
Issued by corporate entities	**40**	28
Total trading securities	**37,767**	23,835

⌖ *This represents the amount receivable from counterparties on trading transactions not yet settled.*

Trading assets increased by HK$9.8bn, or 30.7%, compared with the end of 2013. Trading securities rose by HK$13.9bn, mainly in high quality treasury bills and debt securities, mostly in Hong Kong Exchange Fund bills and notes.

Financial assets designated at fair value

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Debt securities	**75**	812
Equity shares	**6,799**	3,639
Investment funds	**4,238**	2,536
	11,112	6,987
Debt securities:		
- listed in Hong Kong	**20**	103
- listed outside Hong Kong	**55**	489
	75	592
- unlisted	–	220
	75	812
Equity shares:		
- listed in Hong Kong	**1,958**	2,072
- listed outside Hong Kong	**4,735**	1,539
	6,693	3,611
- unlisted	**106**	28
	6,799	3,639
Investment funds:		
- listed in Hong Kong	**1,504**	32
- listed outside Hong Kong	**332**	314
	1,836	346
- unlisted	**2,402**	2,190
	4,238	2,536
	11,112	6,987
Debt securities:		
Issued by public bodies:		
- central governments and central banks	–	358
- other public sector entities	**1**	44
	1	402
Issued by other bodies:		
- banks	**14**	208
- corporate entities	**60**	202
	74	410
	75	812
Equity shares:		
Issued by banks	**1,069**	634
Issued by public sector entities	**9**	12
Issued by corporate entities	**5,721**	2,993
	6,799	3,639
Investment funds:		
Issued by banks	–	–
Issued by corporate entities	**4,238**	2,536
	4,238	2,536
	11,112	6,987

Loans and advances to customers

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Gross loans and advances to customers	**660,269**	587,688
Less:		
Loan impairment allowances:		
- individually assessed	**(999)**	(709)
- collectively assessed	**(839)**	(739)
	658,431	586,240

Loan impairment allowances against loans and advances to customers

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2014	**709**	**739**	**1,448**
Amounts written off	**(266)**	**(563)**	**(829)**
Recoveries of loans and advances written off in previous years	**36**	**56**	**92**
New impairment allowances charged to income statement	**699**	**668**	**1,367**
Impairment allowances released to income statement	**(167)**	**(56)**	**(223)**
Unwinding of discount of loan impairment allowances recognised as ‘interest income’	**(8)**	**(4)**	**(12)**
Exchange difference	**(4)**	**(1)**	**(5)**
At 31 December 2014	**999**	**839**	**1,838**

Total loan impairment allowances as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2014	*At 31 December 2013*
	%	%
Loan impairment allowances:		
- individually assessed	**0.15**	0.12
- collectively assessed	**0.13**	0.13
Total loan impairment allowances	**0.28**	0.25

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.28% at 31 December 2014 compared with 0.25% at the end of 2013. Individually assessed allowances as a percentage of gross loans and advances increased by three basis points to 0.15%, reflecting the more challenging credit environment in mainland China. Overall credit quality remained stable. Collectively assessed allowances as a percentage of gross loans and advances remained unchanged compared with the end of 2013 at 0.13%.

Impaired loans and advances to customers and allowances

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Gross impaired loans and advances	**2,115**	1,311
Individually assessed allowances	**(999)**	(709)
	1,116	602
Individually assessed allowances as a percentage of gross impaired loans and advances	**47.2%**	54.1%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.32%**	0.22%

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely.

Gross impaired loans and advances increased by HK$804m, or 61.3%, to HK$2,115m compared with the year end of 2013, due to the downgrade of a few corporate and commercial customers in mainland China. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.32% compared with 0.22% at the year end of 2013.

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Gross individually assessed impaired loans and advances	**1,963**	1,157
Individually assessed allowances	**(999)**	(709)
	964	448
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.30%**	0.20%
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**637**	516

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

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 2014		*At 31 December 2013*	
	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	**449**	**0.1**	121	–
- more than six months but not more than one year	**98**	**–**	73	–
- more than one year	**558**	**0.1**	637	0.1
	1,105	**0.2**	831	0.1

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period end. Loans and advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at the period end. Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, or when the loans and advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Overdue loans and advances increased by HK$274m, or 33.0%, to HK$1,105m compared with last year end. Overdue loans and advances as a percentage of gross loans and advances to customers stood at 0.2%.

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 2014		*At 31 December 2013*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**90**	**–**	123	–

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. This will normally involve the granting of concessionary terms and resetting the overdue account to non-overdue status. A rescheduled loan and advance will continue to be disclosed as such unless the debt has been performing in accordance with the rescheduled terms for a period of six to 12 months. Rescheduled loans and advances to customers which have been overdue for more than three months under the rescheduled terms are reported as overdue loans and advances.

Rescheduled loans and advances stood at HK$90m at 31 December 2014, a drop of HK$33m or 26.8% compared with last year end mainly due to loan repayment.

Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

Figures in HK$m	***At 31 December 2014***				
	Gross loans and advances	***Individually impaired loans and advances***	***Overdue loans and advances***	***Individually assessed allowances***	***Collectively assessed allowances***
Hong Kong	**543,757**	**1,124**	**842**	**506**	**692**
Rest of Asia-Pacific	**109,520**	**837**	**263**	**493**	**138**
Others	**6,992**	**2**	**–**	**–**	**9**
	660,269	**1,963**	**1,105**	**999**	**839**

Figures in HK$m	*At 31 December 2013*				
	Gross loans and advances	*Individually impaired loans and advances*	*Overdue loans and advances*	*Individually assessed allowances*	*Collectively assessed allowances*
Hong Kong	480,545	924	642	527	589
Rest of Asia-Pacific	99,987	233	189	182	140
Others	7,156	–	–	–	10
	587,688	1,157	831	709	739

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 2014***	*At 31 December 2013*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**41,676**	30,529
Property investment	**112,589**	100,912
Financial concerns	**5,499**	2,773
Stockbrokers	**531**	304
Wholesale and retail trade	**27,550**	21,912
Manufacturing	**21,501**	17,372
Transport and transport equipment	**7,530**	6,289
Recreational activities	**125**	160
Information technology	**2,935**	1,870
Other	**34,279**	35,664
	254,215	217,785
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**15,710**	14,452
Loans and advances for the purchase of other residential properties	**143,541**	131,305
Credit card loans and advances	**24,175**	21,419
Other	**17,039**	14,431
	200,465	181,607
Total gross loans and advances for use in Hong Kong	**454,680**	399,392
Trade finance	**41,537**	52,117
Gross loans and advances for use outside Hong Kong	**164,052**	136,179
Gross loans and advances to customers	**660,269**	587,688

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

Gross loans and advances to customers grew by HK$72.6bn, or 12.4%, to HK$660.3bn compared with the end of 2013.

Loans and advances for use in Hong Kong increased by HK$55.3bn, or 13.8%. Lending to the industrial, commercial and financial sectors grew by 16.7%. Lending to property development and property investment remained active, increasing by 36.5% and 11.6% respectively whilst lending to financial concerns grew by 98.3%. The bank's continued efforts to support local business saw lending to wholesale and retail trade and manufacturing sectors grew by 25.7% and 23.8% respectively.

Lending to individuals increased by 10.4% compared with the last year end. The bank was able to maintain its market share for the mortgage business based on its comprehensive product suite and thus residential mortgage lending to individuals rose by 9.3% compared with the end of 2013. Credit card advances increased by 12.9% compared with last year end. Other loans to individuals grew by 18.1%, reflecting the success of the bank in expanding its consumer finance business.

Trade finance declined by 20.3% against last year end as certain cross-border documentary credit loans matured and repaid during the year, partly offset by the growth in other trade finance loan products as a result of the group strategic repositioning to focus on core trade business.

Loans and advances for use outside Hong Kong rose by 20.5%, compared with the end of 2013, partly driven by lending on the Mainland. Lending by Hang Seng China increased by 6.7% to HK$65.3bn, underpinned by the expansion of renminbi lending to corporate and commercial customers as well as residential mortgages. The group employed a cautious approach to lending on the Mainland and will continue to strengthen its prudent credit policies in light of the more challenging credit environment in mainland China.

Financial investments

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Available-for-sale at fair value:		
- debt securities	**205,747**	183,344
- equity shares	**44,039**	27,948
- investment funds	**10**	48
Held-to-maturity debt securities at amortised cost	**68,236**	71,505
	318,032	282,845
Fair value of held-to-maturity debt securities	**70,829**	72,014
Treasury bills	**107,503**	91,811
Certificates of deposit	**12,089**	9,729
Other debt securities	**154,391**	153,309
Debt securities	**273,983**	254,849
Equity shares	**44,039**	27,948
Investment funds	**10**	48
	318,032	282,845
Debt securities:		
- listed in Hong Kong	**12,574**	11,709
- listed outside Hong Kong	**66,786**	67,778
	79,360	79,487
- unlisted	**194,623**	175,362
	273,983	254,849
Equity shares:		
- listed in Hong Kong	**69**	67
- listed outside Hong Kong	**42,736**	26,897
	42,805	26,964
- unlisted	**1,234**	984
	44,039	27,948
Investment funds:		
- unlisted	**10**	48
	318,032	282,845
Fair value of listed financial investments	**122,963**	106,674
Debt securities:		
Issued by public bodies:		
- central governments and central banks	**156,879**	127,599
- other public sector entities	**19,636**	27,680
	176,515	155,279
Issued by other bodies:		
- banks	**63,682**	69,189
- corporate entities	**33,786**	30,381
	97,468	99,570
	273,983	254,849
Equity shares:		
Issued by banks	**43,556**	27,510
Issued by corporate entities	**483**	438
	44,039	27,948
Investment funds:		
Issued by corporate entities	**10**	48
	318,032	282,845

Financial investments *(continued)*

Debt securities by rating agency designation

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
AA- to AAA	**203,647**	187,387
A- to A+	**61,098**	59,463
B+ to BBB+	**6,670**	5,714
Unrated	**2,568**	2,285
	273,983	254,849

Financial investments include treasury bills, certificates of deposit, other debt securities and equity shares intended to be held for an indefinite period of time.

Available-for-sale financial investments may be sold in response to needs for liquidity or changes in the market environment, and are carried at fair value with the gains and losses from changes in fair value recognised through equity reserves. Held-to-maturity debt securities are stated at amortised cost. Where debt securities have been purchased at premiums or discounts, the carrying value of the securities are adjusted to reflect the effective interest rate of the debt securities taking into account such premiums and discounts.

Financial investments rose by HK$35.2bn, or 12.4%, compared with the last year end. Debt securities investments increased by HK$19.1bn. Equity shares increased by HK$16.1bn, reflecting the fair value change of the bank's investment in Industrial Bank. Available-for-sale financial investments are tested for impairment when there is an indication that the investment may be impaired. The group's policy is to recognise an impairment loss where there is a 'significant' or 'prolonged' decline in the fair value of an equity investment. At 30 September 2014, the fair value of the bank's investment in Industrial Bank was HK$26.7bn, which was below the deemed cost of HK$28.8bn (the fair value on reclassification from associate to available-for-sale equity investment in January 2013). In accordance with the group's policy, the bank recognised an impairment loss of HK$2.1bn. In subsequent periods, any further declines in fair value below HK$26.7bn will be reflected in the bank's income statement for the relevant period as additional impairment losses, whereas any increases in fair value will be reflected in the bank's available-for-sale investment reserves. Subsequent to the impairment provided in September 2014, there was an increase in fair value of the bank's investment in Industrial Bank, resulting in unrealised revaluation gain at the end of 2014.

At 31 December 2014, about 99% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The unrated debt securities were issued by subsidiaries of investment-grade banks and are guaranteed by their corresponding holding companies. These notes rank equally with all of the respective guarantors' other senior debt obligations. The group did not hold any investments in structured investment vehicles or any sub-prime related assets such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

Amounts due from/to immediate holding company and fellow subsidiary companies

The amounts due from/to the bank's immediate holding company and fellow subsidiary companies included in the assets and liabilities balances of the consolidated balance sheet are as follows:

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Amounts due from:		
Placings with and advances to banks	**29,571**	17,749
Financial assets designated at fair value	–	–
Derivative financial instruments	**443**	607
Reverse repurchase agreements – non-trading	**1,296**	–
Loans and advances to customers	**300**	–
Financial investments	–	–
Other assets	**27**	23
	31,637	18,379
Amounts due to:		
Current, savings and other deposit accounts	**1,440**	1,042
Deposits from banks	**3,811**	1,117
Derivative financial instruments	**2,224**	856
Certificates of deposit and other debt securities in issue	**6,493**	–
Subordinated liabilities	**5,817**	11,824
Other liabilities	**379**	460
	20,164	15,299

Interest in associates

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Share of net assets	**2,218**	2,062
	2,218	2,062

Intangible assets

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Present value of in-force long-term insurance business	**8,263**	7,198
Internally developed/ acquired software	**461**	447
Goodwill	**329**	329
	9,053	7,974

Other assets

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Items in the course of collection from other banks	**5,182**	4,743
Bullion	**3,681**	4,184
Prepayments and accrued income	**3,820**	3,519
Acceptances and endorsements	**5,715**	6,351
Other accounts	**5,534**	3,608
	23,932	22,405

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Current, savings and other deposit accounts:		
- as stated in consolidated balance sheet	**896,521**	824,996
- structured deposits reported as trading liabilities	**40,380**	34,489
	936,901	859,485
By type:		
- demand and current accounts	**76,807**	74,664
- savings accounts	**550,765**	526,403
- time and other deposits	**309,329**	258,418
	936,901	859,485

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Certificates of deposit and other debt securities in issue:		
- as stated in consolidated balance sheet	**12,402**	8,601
- certifcates of deposit in issue designated at fair value	**2,994**	–
- other structured debt securities in issue reported as trading liabilities	**4,223**	1,615
	19,619	10,216
By type:		
- certificates of deposit in issue	**14,150**	8,601
- other debt securities in issue	**5,469**	1,615
	19,619	10,216

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue recorded growth of HK$86.8bn, 10.0% to HK$956.5bn at 31 December 2014 from last year end. Structured deposits, certificates of deposit and other debt securities in issue increased as instruments with yield enhancement features gained popularity. Deposits with Hang Seng China also rose by 3.6%, driven mainly by renminbi deposits. In June 2014, Hang Seng China successfully raised RMB1bn in Hong Kong through its debut offshore renminbi bond issue with a positive response from a diverse group of investors.

At 31 December 2014, the advances-to-deposits ratio was 68.8%, compared with 67.4% at 31 December 2013.

Trading liabilities

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Other structured debt securities in issue	**4,223**	1,615
Structured deposits	**40,380**	34,489
Short positions in securities and others	**27,984**	26,013
	72,587	62,117

Other liabilities

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Items in the course of transmission to other banks	**7,508**	6,987
Accruals	**3,859**	3,330
Acceptances and endorsements	**5,715**	6,351
Retirement benefit liabilities	**1,615**	1,772
Other	**2,607**	2,027
	21,304	20,467

Subordinated liabilities

Figures in HK$m		***At 31 December 2014***	*At 31 December 2013*
Nominal value	Description		
Amounts owed to HSBC Group undertakings			
US$775m	Floating rate subordinated loan due December 2020ᶲ	–	6,009
US$450m	Floating rate subordinated loan due July 2021	**3,490**	3,489
US$300m	Floating rate subordinated loan due July 2022	**2,327**	2,326
		5,817	11,824
Representing:			
- measured at amortised cost		**5,817**	11,824

ᶲ *The bank exercised its option to redeem the subordinated loan at par of US$775m.*

The outstanding subordinated loans serve to help the bank maintain a balanced capital structure and support business growth.

Shareholders' funds

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Share capital	**9,658**	9,559
Retained profits	**83,667**	78,679
Other equity instruments	**6,981**	–
Premises revaluation reserve	**15,687**	14,904
Cash flow hedging reserve	**(11)**	6
Available-for-sale investment reserve		
- on debt securities	**261**	(113)
- on equity securities	**16,751**	(1,505)
Capital redemption reserve	**–**	99
Other reserves	**1,802**	1,943
Total reserves	**125,138**	94,013
	134,796	103,572
Proposed dividends	**4,397**	4,206
Shareholders' funds	**139,193**	107,778
Return on average shareholders' funds	**13.4%**	25.4%

Shareholders' funds (excluding proposed dividends) grew by HK$31,224m, or 30.1%, to HK$134,796m at 31 December 2014. Retained profits rose by HK$4,988m, mainly reflecting the growth in attributable profit after the appropriation of interim dividends during the year. Other equity instruments recorded a balance of HK$6,981m at 31 December 2014, representing the issuance of an AT1 perpetual capital instrument of US$900m to repay part of the subordinated liability of US$775m and to enhance capital efficiency. The premises revaluation reserve increased by HK$783m, reflecting the commercial property market movement during 2014.

The available-for-sale investment reserve for equity securities recorded a surplus of HK$16,751m compared with a deficit of HK$1,505m at 2013 year end, reflecting mainly the fair value change of the bank's investment in Industrial Bank subsequent to the impairment loss recognised in September 2014.

The capital redemption reserve of HK$99m has been included in share capital under the Hong Kong New Companies Ordinance (Cap. 622) which became effective on 3 March 2014. Please refer to the section 'The New Hong Kong Companies Ordinance (Cap. 622)' on page 66 for details.

The return on average shareholders' funds was 13.4%, compared with 25.4% for 2013. Excluding the Industrial Bank reclassification in 2013 and impairment loss in 2014, the return on average shareholders' funds was 16.3%, compared with 17.6% for 2013.

There was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's listed securities during 2014.

Capital management

The following tables show the capital ratios, risk-weighted assets and capital base as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by the bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold bullion) 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. Accordingly, the investment cost of these unconsolidated regulated financial entities is deducted from the capital base.

The bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2014, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK$6,229m (31 December 2013: HK$5,440m).

There are no relevant capital shortfalls in any of the group's subsidiaries at 31 December 2014 (31 December 2013: nil) which are not included in its consolidation group for regulatory purposes.

In December 2014, the bank issued an additional tier 1 ('AT1') perpetual capital instrument of US$900m and repaid a tier 2 ('T2') subordinated loan of US$775m so as to enhance the capital efficiency. Throughout the year, the group has complied with all of the externally imposed capital requirements by the HKMA.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Common equity tier 1 ('CET1') capital		
Shareholders' equity	**120,407**	98,068
- Shareholders' equity per balance sheet	**139,193**	107,778
- Additional tier 1 ('AT1') perpetual capital instrument	**(6,981)**	–
- Unconsolidated subsidiaries	**(11,805)**	(9,710)
Regulatory deductions to CET1 capital	**(47,201)**	(41,329)
- Cash flow hedging reserve	**–**	(6)
- Changes in own credit risk on fair valued liabilities	**(4)**	(4)
- Property revaluation reserves[1]	**(21,784)**	(20,481)
- Regulatory reserve	**(6,229)**	(5,440)
- Intangible assets	**(417)**	(401)
- Defined benefit pension fund assets	**(35)**	(33)
- Deferred tax assets net of deferred tax liabilities	**(80)**	(43)
- Valuation adjustments	**(325)**	(180)
- Significant capital investments in unconsolidated financial sector entities	**(8,436)**	(500)
- Excess AT1 deductions	**(9,891)**	(14,241)
Total CET1 capital	**73,206**	56,739
AT1 capital		
Total AT1 capital before regulatory deductions	**6,981**	–
- Perpetual capital instrument	**6,981**	–
Regulatory deductions to AT1 capital	**(6,981)**	–
- Significant capital investments in unconsolidated financial sector entities	**(16,872)**	(14,241)
- Excess AT1 deductions	**9,891**	14,241
Total AT1 capital	**–**	–
Total tier 1 ('T1') capital	**73,206**	56,739
Tier 2 ('T2') capital		
Total T2 capital before regulatory deductions	**17,733**	22,518
- Term subordinated debt	**5,117**	10,872
- Property revaluation reserves[1]	**9,803**	9,216
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**2,813**	2,430
Regulatory deductions to T2 capital	**(17,187)**	(14,241)
- Significant capital investments in unconsolidated financial sector entities	**(17,187)**	(14,241)
Total T2 capital	**546**	8,277
Total capital	**73,752**	65,016

[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)*

(a) Capital base *(continued)*

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules as at 31 December 2014; it is not a projection. On this pro-forma basis, the group's CET1 capital ratio is 10.5%, which is above the Basel III minimum requirement, including the capital conservation buffer.

Reconciliation of regulatory capital from transitional basis to a pro-forma Basel III end point basis

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
CET1 capital on a transitional basis	**73,206**	56,739
Transitional provisions		
- Significant capital investments in unconsolidated financial sector entities	**(33,744)**	(28,482)
Excess AT1 deductions	**9,891**	14,241
CET1 capital end point basis	**49,353**	42,498
AT1 capital on a transitional basis	–	–
Transitional provisions		
- Significant capital investments in unconsolidated financial sector entities	**16,872**	14,241
Excess AT1 deductions	**(9,891)**	(14,241)
AT1 capital end point basis	**6,981**	–
T2 capital on a transitional basis	**546**	8,277
Grandfathered instruments		
- Term subordinated debt	**(2,790)**	(8,546)
Transitional provisions		
- Significant capital investments in unconsolidated financial sector entities	**16,872**	14,241
T2 capital end point basis	**14,628**	13,972

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Credit risk	**418,880**	365,077
Market risk	**5,749**	4,293
Operational risk	**45,538**	41,100
Total	**470,167**	410,470

(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 2014	*At 31 December 2013*
CET1 capital ratio	**15.6 %**	13.8 %
Tier 1 capital ratio	**15.6 %**	13.8 %
Total capital ratio	**15.7 %**	15.8 %

(d) Capital instruments

The following is a summary of the group's CET1, AT1 and T2 capital instruments:

Figures in HK$m	***Amount recognised in regulatory capital*** ***At 31 December 2014***	*At 31 December 2013*
CET1 capital instruments issued by the bank		
Ordinary shares:		
1,911,842,736 issued and fully paid ordinary shares	**9,658**	9,559
AT1 capital instruments issued by the bank		
Perpetual capital instrument (nominal value: US$900m)	**6,981**	–
Tier 2 capital instruments issued by the bank		
Subordinated loan due 2020 (nominal value: US$775m)	–	5,407
Subordinated loan due 2021 (nominal value: US$450m)	**2,790**	3,139
Subordinated loan due 2022 (nominal value: US$300m)	**2,327**	2,326

(e) Additional information

To comply with the Banking (Disclosure) Rules ('BDR'), the following capital information can be found in the Regulatory Disclosures section of our website www.hangseng.com:

- A description of the main features and the full terms and conditions of the group's capital instruments.
- A detailed breakdown of the group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

Liquidity ratio

The average liquidity ratio for the year, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, is as follows:

	2014	2013
The bank and its subsidiaries designated by the HKMA	**34.7%**	34.9%

Reconciliation of cash flow statement

(a) Reconciliation of operating profit to net cash flow from operating activities

Figures in HK$m	*2014*	*2013*
Operating profit	**19,450**	18,410
Net interest income	**(19,871)**	(18,604)
Dividend income	**(1,210)**	(1,014)
Loan impairment charges	**1,144**	536
Impairment loss of intangible assets	–	13
Depreciation	**831**	762
Amortisation of intangible assets	**111**	113
Amortisation of available-for-sale investments	**9**	67
Amortisation of held-to-maturity debt securities	–	1
Loans and advances written off net of recoveries	**(737)**	(495)
Movement in present value of in-force long-term insurance business	**(1,065)**	(1,195)
Interest received	**24,432**	22,760
Interest paid	**(6,548)**	(4,999)
Operating profit before changes in working capital	**16,546**	16,355
Change in treasury bills and certificates of deposit with original maturity more than three months	**(26,402)**	5,631
Change in placings with and advances to banks maturing after one month	**9,544**	(3,271)
Change in trading assets	**(11,000)**	4,705
Change in financial assets designated at fair value	–	–
Change in derivative financial instruments	**441**	(339)
Change in reverse repurchase agreements – non-trading	**(1,296)**	–
Change in loans and advances to customers	**(72,569)**	(50,676)
Change in other assets	**(5,079)**	(1,846)
Change in financial liabilities designated at fair value	**2,975**	–
Change in current, savings and other deposit accounts	**71,542**	55,832
Change in deposits from banks	**(2,815)**	(8,019)
Change in trading liabilities	**10,470**	2,264
Change in certificates of deposit and other debt securities in issue	**3,801**	(2,690)
Change in other liabilities	**5,393**	3,020
Elimination of exchange differences and other non-cash items	**3,779**	4,832
Cash generated from operating activities	**5,330**	25,798
Taxation paid	**(3,111)**	(2,696)
Net cash inflow from operating activities	**2,219**	23,102

Reconciliation of cash flow statement *(continued)*

(b) Analysis of the balances of cash and cash equivalents

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Cash and sight balances at central banks	**11,311**	22,717
Balances with banks	**15,972**	10,577
Items in the course of collection from other banks	**5,182**	4,743
Placings with and advances to banks maturing within one month	**67,553**	62,043
Treasury bills	**12,840**	22,686
Less: items in the course of transmission to other banks	**(7,508)**	(6,987)
	105,350	115,779

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 31 December 2014***	*At 31 December 2013*
Direct credit substitutes	**4,541**	8,977
Transaction-related contingencies	**2,474**	1,821
Trade-related contingencies	**13,355**	14,922
Forward asset purchases	**85**	43
Commitments that are unconditionally cancellable without prior notice	**280,000**	243,895
Commitments which have an original maturity of not more than one year	**4,286**	3,723
Commitments which have an original maturity of more than one year	**26,029**	24,620
Contract amounts	**330,770**	298,001
Risk-weighted amounts	**31,464**	30,818

Contingent liabilities, commitments and derivatives *(continued)*

Figures in HK$m	***Contract amounts***	***Credit equivalent amounts***	***Risk-weighted amounts***
At 31 December 2014			
Exchange rate contracts:			
Spot and forward foreign exchange	**556,036**	**4,353**	**1,525**
Other exchange rate contracts	**132,135**	**6,705**	**5,473**
	688,171	**11,058**	**6,998**
Interest rate contracts:			
Interest rate swaps	**228,436**	**1,280**	**405**
Other interest rate contracts	**2,130**	**1**	**–**
	230,566	**1,281**	**405**
Other derivative contracts	**7,661**	**623**	**394**

Figures in HK$m	*Contract amounts*	*Credit equivalent amounts*	*Risk-weighted amounts*
At 31 December 2013			
Exchange rate contracts:			
Spot and forward foreign exchange	537,659	4,414	1,133
Other exchange rate contracts	108,223	3,651	2,570
	645,882	8,065	3,703
Interest rate contracts:			
Interest rate swaps	225,524	2,021	626
Other interest rate contracts	78	–	–
	225,602	2,021	626
Other derivative contracts	6,044	423	188

The credit equivalent amounts are calculated for the purpose of deriving the risk-weighted amounts. The nominal contract amounts, credit equivalent amounts, risk-weighted amounts and the consolidation basis for the years indicated were calculated in accordance with the Banking (Capital) Rules issued by the HKMA.

For the above analysis, contingent liabilities and commitments are credit-related instruments that include acceptances and endorsements, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit origination, portfolio management and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Contingent liabilities, commitments and derivatives *(continued)*

Derivative financial instruments are held for trading, designated at fair value, or designated as either fair value or cash flow hedges. The following table shows the nominal contract amounts and marked-to-market value of assets and liabilities by class of derivatives.

	At 31 December 2014			*At 31 December 2013*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**191,497**	**3,000**	**41,153**	193,353	–	32,249
Exchange rate contracts	**867,294**	–	**4,332**	802,099	–	3,463
Other derivative contracts	**16,428**	–	–	9,988	–	–
	1,075,219	**3,000**	**45,485**	1,005,440	–	35,712
Derivative assets:						
Interest rate contracts	**760**	–	**42**	1,553	–	109
Exchange rate contracts	**5,878**	–	**491**	4,253	–	667
Other derivative contracts	**250**	–	–	64	–	–
	6,888	–	**533**	5,870	–	776
Derivative liabilities:						
Interest rate contracts	**640**	**1**	**538**	1,348	–	715
Exchange rate contracts	**5,044**	–	**10**	3,019	–	6
Other derivative contracts	**229**	–	–	158	–	–
	5,913	**1**	**548**	4,525	–	721

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

Additional information

1. Non-adjusting post balance sheet event

On 10 February 2015, the group entered into a placing agreement with Goldman Sachs Gao Hua Securities Company Limited to sell 5% (up to 952,616,838 ordinary shares ('Shares')) of its shareholding of the ordinary shares of Industrial Bank Co., Ltd. ('Industrial Bank'), at a price of RMB13.36 per share. The disposal price represents a discount of approximately 7% to the closing price of Industrial Bank's ordinary shares listed on the Shanghai Stock Exchange on the date of entry into the placing agreement. The transaction was completed on 13 February 2015. Upon completion of the transaction, the group's remaining shareholding in Industrial Bank represented approximately 5.87% of the ordinary shares of Industrial Bank. Please refer to the group's announcement on 10 February 2015 for further details on the transaction.

The group's investment in Industrial Bank was accounted for as available-for-sale financial investment in the financial statements of the group. The fair value of the investment in Industrial Bank as at 31 December 2014 was HK$42,736m, with HK$16,001m accumulated unrealised gains recorded in other comprehensive income.

It is estimated that the net gain on the transaction will be approximately HK$2.8bn, representing the difference between the consideration and the carrying value of the Shares as at 31 December 2014 in the bank and group's financial statements, together with the reclassification of the related cumulative foreign exchange and revaluation reserve less any tax effect and expenses on the transaction. The net gain will be recognised in the income statements of the bank and the group for the year ending 31 December 2015. The transaction is estimated to increase the group's common equity tier 1 ('CET1'), tier 1 and total capital ratios by 1.0 percentage point ('pp'), 1.3pp and 3.5pp respectively based on the group's published financial statements for the year ended 31 December 2014. As at 31 December 2014, the group's CET1 and tier 1 capital ratios were both 15.6% and the total capital ratio was 15.7%. The transaction is estimated to increase the group's Basel III end point basis proforma CET1 ratio by 3.8pp.

Additional information *(continued)*

2. Statutory accounts and accounting policies

The information in this news release does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2014 ('2014 accounts') which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 23 February 2015.

Disclosures required by the Banking (Disclosure) Rules issued by the HKMA are contained in the bank's Annual Report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of the issue of this news release.

Except as described below, the accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 144 to 164 of the 2013 accounts.

During the year, the group has adopted the following amendments to standards and standard interpretations which had insignificant or no effect on the group's consolidated financial statements.

- Amendments to Hong Kong Accounting Standard ('HKAS') 32 'Offsetting Financial Assets and Financial Liabilities'

- Amendments to HKAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'

- Amendments to Hong Kong Financial Reporting Standard ('HKFRS') 10, HKFRS 12 and HKAS 27 'Investment Entities'

- Amendments to HKAS 36 'Impairment of Assets: Recoverable Amounts Disclosures for Non-Financial Assets'

- Hong Kong (International Financial Reporting Standards Interpretations Committee) 'HK(IFRIC)' Interpretation 21 'Levies'

- Amendments to HKAS 19 'Defined Benefit Plan: Employee Contributions'

Additional information *(continued)*

3. The New Hong Kong Companies Ordinance (Cap. 622)

The New Hong Kong Companies Ordinance (‘NCO’) (Cap. 622) came into effect on 3 March 2014. On this effective date, the concept of par (nominal) value no longer exists. Consequently, the concepts of ‘share premium’, ‘capital redemption reserve’ and ‘authorised share capital’ are also abolished. Any amount received for issuing equity shares of a company should be recorded as part of ‘share capital’. The effect of the transition is to subsume share premium account and capital redemption reserve balances into share capital as set out in section 37 of Schedule 11 to the NCO (Cap. 622). Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32).

As at 31 December 2013, 1,911,842,736 ordinary shares of the bank, with par value of HK$5 each, were authorised for issue. Under the NCO (Cap. 622), as part of the transition to the no-par value regime, the amount of HK$99m standing to the credit of the capital redemption reserve on 3 March 2014 has become part of the bank’s share capital, under the NCO (Cap. 622).

These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

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4. Changes in presentation

From 1 January 2014, non-trading reverse repurchase agreements and repurchase agreements are presented as separate lines in the balance sheet to align disclosure with market practice and provide more meaningful information in relation to loans and advances. Previously, non-trading reverse repurchase agreements were included within ‘Placings with and advances to banks’ and ‘Loans and advances to customers’ and non-trading repurchase agreements were included within ‘Deposits from banks’ and ‘Current, savings and other deposit accounts’.

The group has also changed the balance sheet line item, ‘Cash and balances with banks’ to ‘Cash and sight balances at central banks’. ‘Balances with banks’ is now included within ‘Placings with and advances to banks’.

Comparative figures have been presented accordingly and the affected lines are shown below. There are no other effects of this change in presentation.

Figures in HK$m	***As disclosed***	***Adjustments***	***As restated***
31 December 2013 consolidated balance sheet items			
Assets			
Cash and balances with banks/ Cash and sight balances at central banks	33,294	(10,577)	22,717
Placings with and advances to banks	131,363	10,577	141,940

Additional information *(continued)*

5. Comparative figures

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

6. The appointment of PricewaterhouseCoopers ('PwC') as the bank's auditor

In 2013, HSBC Holdings plc announced its intention to appoint PwC as its auditor for the year ending 31 December 2015. The aforesaid appointment of PwC will be recommended to shareholders of HSBC Holdings plc for approval at its annual general meeting ('AGM') to be held in 2015.

Both the Audit Committee and the Board of the bank consider that PwC is an equally professional and qualified audit firm with extensive expertise and experience in the audit of financial institutions as KPMG. As such, appointment of PwC as the bank's auditor would align the audit arrangements between the bank and HSBC Holdings plc, the ultimate holding company of the bank, with a view to enhancing the efficiency and effectiveness of the audit in terms of both cost and audit process which would be in the best interests of the bank and its shareholders as a whole.

Upon recommendation of the Audit Committee and with endorsement of the Board, the bank announced on 4 August 2014 its intention to propose to its shareholders to approve the appointment of PwC as the bank's auditor at the AGM to be held on 7 May 2015.

On 23 February 2015, KPMG tendered its resignation as the bank's auditor upon its signing of the bank's financial statements for the year ended 31 December 2014, whereupon the Board, upon the recommendation of the Audit Committee, has appointed PwC to fill the casual vacancy arising from KPMG's resignation as aforesaid, with effect from 23 February 2015. PwC will hold office until the bank's 2015 AGM.

KPMG has confirmed in writing that there are no matters in relation to its resignation as the bank's auditor which KPMG needs to bring to the attention of the shareholders. The bank also confirms that there is no disagreement between KPMG and the bank, and that there are no other matters in respect of KPMG's resignation that need to be brought to the attention of the shareholders.

Accordingly, the Board proposed to seek the approval of the shareholders by way of an ordinary resolution at the 2015 AGM for the proposed appointment of PwC as the bank's auditor for the year ending 31 December 2015. The aforesaid appointment shall come into effect upon the passing of such ordinary resolution by the shareholders at the 2015 AGM.

Additional information *(continued)*

7. Accounting treatment for Industrial Bank and Yantai Bank

Industrial Bank

The group recorded an accounting gain of HK$9,517m (the accounting gain included the deemed disposal profit on the reclassification of HK$8,454m and the release of deferred tax of HK$1,063m) on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties in 2013.

At 30 September 2014, the fair value of the bank's investment in Industrial Bank was HK$26.7bn, which was below the deemed cost of HK$28.8bn (the fair value on reclassification from associate to available-for-sale equity investment in January 2013). Following an impairment assessment, the bank has recognised an impairment loss of HK$2.1bn. In subsequent periods, any further declines in fair value below HK$26.7bn will be reflected in the bank's income statement for the relevant period as additional impairment losses, whereas any increases in fair value will be reflected in the bank's available-for-sale investment reserves. Subsequent to the impairment provided in September 2014, there was an increase in the fair value of the bank's investment in Industrial Bank, resulting in the increase in unrealised revaluation gain at 31 December 2014.

Since there are significant financial implications as a result of the change in accounting treatment for Industrial Bank, the key financial results and performance metrics are not directly comparable when comparing 2014 with last year. For the sake of comparison, we have prepared the following key financial results and performance metrics by excluding the accounting gain in 2013 and the impairment loss on Industrial Bank in 2014.

	As reported			*Excluding Industrial Bank impairment loss and reclassification*		
	Year ended 31 December			*Year ended 31 December*		
	2014	*2013*	*Change*[⌖]	***2014***	*2013*	*Change*[⌖]
Attributable profit	**15,131**	26,678	(43.3%)	**17,234**	17,161	0.4%
Profit before tax	**18,049**	28,496	(36.7%)	**20,152**	20,042	0.5%
Return on average shareholders' funds (%)	**13.4**	25.4	(12.0pp)	**16.3**	17.6	(1.3pp)
Return on average total assets (%)	**1.3**	2.4	(1.1pp)	**1.4**	1.5	(0.1pp)
Earnings per share (HK$)	**7.91**	13.95	(43.3%)	**9.01**	8.98	0.3%

[⌖] *Change in 'pp' represents change in percentage points.*

Additional information *(continued)*

7. Accounting treatment for Industrial Bank and Yantai Bank *(continued)*

Yantai Bank

The group recorded an accounting loss of HK$297m on the reclassification of Yantai Bank as a financial investment following a private placement of additional share capital to a third party in the second half of 2013. Since then, the fair value of the bank's investment in Yantai Bank had been below the carrying amount for a prolonged period and a HK$85m impairment loss on the bank's investment on Yantai Bank was recognised in September 2014 following an impairment assessment according to the accounting policies of the group. The group will continue to perform impairment review of its investment in Yantai Bank at each balance sheet date in accordance with the group's accounting policy. In subsequent periods, any further decline in fair value will be reflected in the bank's income statement for the relevant period as additional impairment losses, whereas any increases in fair value will be reflected in the bank's available-for-sale investment reserves.

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8. Property revaluation

The group's premises and investment properties were revalued at 30 November 2014 and updated for any material changes at 31 December 2014 by DTZ Debenham Tie Leung Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for group premises amounted to HK$1,457m and was credited to the premises revaluation reserve. The related deferred tax provision for group premises was HK$244m. Revaluation gains of HK$521m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

The revaluation exercise also covered business premises and investment properties reclassified as properties held for sale. There was no revaluation gain recognised through the income statement on properties held for sale during the year.

Additional information *(continued)*

9. Foreign currency positions

The group's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets and currency exposures originated by its banking business. The latter are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the Risk Management Committee. The net options position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts.

The group's gross structural foreign exchange exposure is represented by the net asset value of the group's foreign currency investments in subsidiaries, branches and associates, and the fair value of the group's long-term foreign currency equity investments. The group's structural foreign currency exposures are managed by the group's Asset and Liability Management Committee ('ALCO') with the primary objective of ensuring, where practical, that the group's and the bank's capital ratios are protected from the effect of changes in exchange rates.

At 31 December 2014, the US dollar ('US$') was the currency in which the group had non-structural foreign currency positions that were not less than 10% of the total net position in all foreign currencies. The group also had a RMB structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

The table below summarises the net structural and non-structural foreign currency positions of the group.

Figures in HK$m	*US$*	*RMB*	*EUR*	*AUD*	*Other foreign currencies*	*Total foreign currencies*
At 31 December 2014						
Non-structural position						
Spot assets	**188,559**	**163,709**	**16,256**	**14,516**	**52,824**	**435,864**
Spot liabilities	**(157,303)**	**(159,501)**	**(8,877)**	**(23,523)**	**(32,474)**	**(381,678)**
Forward purchases	**325,133**	**147,597**	**6,725**	**13,587**	**49,354**	**542,396**
Forward sales	**(347,341)**	**(151,149)**	**(14,100)**	**(4,505)**	**(69,855)**	**(586,950)**
Net options position	**205**	**(276)**	**(2)**	**(115)**	**191**	**3**
Net long/(short) non-structural position	**9,253**	**380**	**2**	**(40)**	**40**	**9,635**
Structural position	**–**	**52,993**	**–**	**–**	**669**	**53,662**

Additional information *(continued)*

9. Foreign currency positions *(continued)*

Figures in HK$m	*US$*	*RMB*	*EUR*	*AUD*	*Other foreign currencies*	*Total foreign currencies*
At 31 December 2013						
Non-structural position						
Spot assets	176,324	157,293	4,807	20,569	44,217	403,210
Spot liabilities	(154,695)	(137,449)	(7,621)	(26,347)	(32,777)	(358,889)
Forward purchases	287,769	132,637	7,320	13,358	28,817	469,901
Forward sales	(310,493)	(150,555)	(4,610)	(7,658)	(40,072)	(513,388)
Net options position	404	(146)	–	(15)	(215)	28
Net long/(short) non-structural position	(691)	1,780	(104)	(93)	(30)	862
Structural position	205	37,530	–	–	535	38,270

10. Ultimate holding company

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

11. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 11 March 2015, during which no transfer of shares can be registered. To qualify for the fourth interim dividend for 2014, 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 not later than 4:30 pm on Tuesday, 10 March 2015. The fourth interim dividend will be payable on Thursday, 26 March 2015 to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 11 March 2015. Shares of the bank will be traded ex-dividend as from Monday, 9 March 2015.

Additional information *(continued)*

12. Code on corporate governance 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 ('SPM') issued by the HKMA. The bank has also complied with all the code provisions and most of the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2014, save that the Risk Committee (all the members of which are Independent Non-executive Directors), which was established pursuant to HKMA's SPM on corporate governance, is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems. If there were no Risk Committee, these matters would be the responsibility of the Audit Committee, as provided under the aforesaid Corporate Governance Code.

The Audit Committee of the bank has reviewed the results of the bank for the year ended 31 December 2014.

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13. Board of Directors

At 23 February 2015, the Board of Directors of the bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan, Dr Henry K S Cheng*, Ms L Y Chiang*, Mr Andrew H C Fung, Dr Fred Zuliu Hu*, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

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

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14. News release

This news release is available on the bank's website www.hangseng.com.

The 2014 Annual Report and Financial Statements, which contains all disclosures required by the Banking (Disclosure) Rules issued by the HKMA, will be published on the websites of Hong Kong Exchanges and Clearing Limited and the bank on the date of issue of this news release. Printed copies of the 2014 Annual Report will be sent to shareholders in late-March 2015.

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