



22 February 2016

HANG SENG BANK LIMITED 2015 RESULTS - HIGHLIGHTS

- Profit before tax up 69% to HK\$30,488m (HK\$18,049m in 2014).
- Attributable profit up 82% to HK\$27,494m (HK\$15,131m in 2014).
- Return on average ordinary shareholders' equity of 20.7% (13.4% in 2014).
- Earnings per share up 80% to HK\$14.22 per share (HK\$7.91 per share in 2014).
- Total assets up 6% to HK\$1,334bn (HK\$1,264bn at 31 December 2014).
- Fourth interim dividend of HK\$2.40 per share and a special interim dividend of HK\$3.00 per share; total dividends of HK\$8.70 per share for 2015 (HK\$5.60 per share in 2014).
- Common equity tier 1 ('CET1') capital ratio of 17.7%, tier 1 ('T1') capital ratio of 19.1% and total capital ratio of 22.1% at 31 December 2015. (Both CET1 and T1 capital ratios of 15.6% and total capital ratio of 15.7% at 31 December 2014.)
- Cost efficiency ratio of 33.8% (31.8% in 2014).

Reported results for 2015 include a gain on partial disposal of the ordinary shares of Industrial Bank of HK\$10,636m (details of the transaction are shown on page 64) and dividend of HK\$119m (HK\$107m after tax). Reported results for 2014 include an impairment loss of HK\$2,103m on the bank's investment in Industrial Bank and dividend of HK\$1,190m (HK\$1,071m after tax). Figures quoted as 'excluding the financial impact of Industrial Bank-related items in both years' have been adjusted for the above item.

Excluding the financial impact of Industrial Bank-related items in both years:

- Attributable profit of HK\$16,751m (HK\$16,163m in 2014).
- Return on average ordinary shareholders' equity of 13.8% (14.3% in 2014).
- Earnings per share of HK\$8.60 per share (HK\$8.45 per share in 2014).

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 2015.

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Comment by Raymond Ch'ien, Chairman

The complex picture of global recovery that developed in 2015 created challenging operating conditions for business. While improved economic indicators in the US led the Federal Reserve to begin raising interest rates, the slowing of external trade activity in Hong Kong and lower economic growth in mainland China, along with the uneven pace of fiscal reform across the eurozone, kept overall growth in the region modest. Falling prices for commodities and weak trade demand resulted in slower activity in many emerging market economies.

Against this backdrop, Hang Seng Bank achieved respectable full-year results for 2015. Profit attributable to shareholders rose by 82% to HK\$27,494m and earnings per share increased by 80% to HK\$14.22 per share. Excluding the financial impact of Industrial Bank-related items in both years, attributable profit rose by 4% and earnings per share increased by 2%.

The Directors have declared a fourth interim dividend of HK\$2.40 per share. Following the successful disposal of the majority of our shareholding interest in Industrial Bank in 2015, the Directors have also declared a special interim dividend of HK\$3.00 per share. This brings the total distribution for 2015 to HK\$8.70 per share, compared with HK\$5.60 in 2014.

Economic Environment

In Hong Kong, robust consumer spending and the strong labour market supported domestic demand, which was the primary driver of the 2.5% increase in gross domestic product recorded for the first three quarters of 2015. External trade, however, remained weak, in part reflecting the continuing challenges to growth faced by several of the world's major economies. We expect Hong Kong's GDP to grow by 1.8-2.4% in 2016.

Ongoing economic deleveraging on the Mainland had a moderating effect on its 2015 GDP growth rate which, at 6.9%, was down from 7.3% in 2014. However, while traditional drivers of the economy have slowed, consumption has been resilient, indicating a shift towards a more service-oriented economy. The People's Bank of China has cut its required reserve ratio and benchmark interest rates and is expected to maintain steady economic growth. Our forecast for 2016 GDP growth on the Mainland is 6.7%.

The effects of mainland economic transition and the normalisation of US monetary policy are likely to create ongoing challenges to the pace of economic development in Asia in the year ahead. At the same time, the 'One Belt, One Road' initiative, the further opening up of financial markets on the Mainland and efforts to further internationalise the renminbi should provide new opportunities to grow our business.

I would like to express my heartfelt appreciation to all staff, the bank's senior management and my fellow Board members for their invaluable contributions in the development and execution of our long-term growth objectives. I also wish to offer sincere thanks to our customers and shareholders for their continuing loyalty and trust.

With premium customer service at the heart of our strategy for sustainable growth, we will continue to invest capital and other resources in reinforcing our market position, enhancing efficiency and increasing value for shareholders.

Review by Rose Lee, Vice-Chairman and Chief Executive

In a challenging operating environment, Hang Seng Bank made good progress with our customer-focused strategy and recorded good growth in 2015.

Supported by well-integrated retail and commercial banking positioning, we maintained balanced growth in our core businesses and sustained profitability to enhance returns for shareholders.

The partial disposal of our shareholding in Industrial Bank provided us with a stronger capital base that supports our growth strategy and our ability to meet evolving regulatory requirements. We continued to maintain a strong liquidity position.

We acquired new clients in target segments and strengthened customer engagement by upgrading our Prestige and Preferred Banking Centres and Business Banking Centres. Leveraging data analytics, we enriched our product suite and enhanced our mobile and digital platforms to offer customers a more personalised experience and greater convenience and choice for financial management.

Increased cross-border and cross-business collaboration enabled us to capture more onshore and offshore business opportunities, resulting in growth in transaction banking and wealth management activities. In July, we became the first foreign bank to apply for the establishment of a majority, foreign-owned joint venture fund management company in Qianhai under Supplement X to Closer Economic Partnership Arrangement. We were also among the first group of financial institutions to receive approval to register a northbound fund under the Mainland-Hong Kong Mutual Recognition of Funds initiative. Our new branch in Jinan has extended our service capabilities in the economically significant Bohai Economic Rim region.

We strengthened our health-and-wealth proposition by further leveraging our exclusive partnership arrangement with Bupa, supporting sustained growth in wealth management income.

Financial Performance

Attributable profit grew by 82% to HK\$27,494m and earnings per share increased by 80% to HK\$14.22 per share. Profit before tax rose by 69% to HK\$30,488m.

Excluding the financial impact of Industrial Bank-related items in both years, attributable profit and profit before tax both increased by 4% and earnings per share were up 2%.

Operating profit excluding loan impairment charges was HK\$20,541m and operating profit was HK\$19,433m – both broadly in line with 2014. However, excluding dividend income received from Industrial Bank in 2015 and 2014, operating profit excluding loan impairment charges rose by 5% to HK\$20,422m and operating profit was up 6% at HK\$19,314m.

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

Net interest income increased by HK\$1,294m, or 7%, to HK\$21,165m, with growth in both average customer lending and average customer deposits. The additional interest earned from the 10% rise in average interest-earning assets more than offset the impact of the narrowing of net interest margin, which was down seven basis points at 1.83%.

Non-interest income fell by 4% to HK\$9,882m, due mainly to the drop of HK\$1,068m, or 88%, in dividend income from Industrial Bank compared with the previous year. Excluding Industrial Bank dividend income in both years, non-interest income increased by 7% to HK\$9,763m, with upbeat investor sentiment in the first half of 2015 driving growth in income from securities-related business.

Our cost efficiency ratio was 33.8%, compared with 31.8% in 2014, due partly to the drop in dividend income received from Industrial Bank.

On 31 December 2015, our total capital ratio was 22.1%, compared with 15.7% at the end of 2014. Our common equity tier 1 and tier 1 capital ratios were 17.7% and 19.1% respectively, compared with 15.6% for both ratios a year earlier. These improvements reflect the net effect of the increase in our capital base following the partial disposal of our holding in Industrial Bank and an 8% rise in risk-weighted assets.

A Customer-centred Strategy for Sustainable Growth

The effects of economic slowdown on the Mainland, normalisation of monetary policy in the US and ongoing uncertainty in the eurozone are creating increasingly challenging conditions for business.

We will continue to strengthen our competitiveness by leveraging our strong brand, network, customer base and cost effectiveness. The further differentiation of our offerings for different target segments will help us deepen client engagement and reach new customers.

The close integration of our cross-border and cross-business infrastructure will enable us to sustain quality growth and reinforce our leading position in our core businesses by providing customers with total banking solutions.

Intensification of capital, liability and liquidity management will help us meet changing regulatory requirements and manage the impact of market volatility.

Deeper engagement with clients and strengthened data analytics will support our development of tailored financial solutions and facilitate portfolio management for different customer segments in response to increasing market complexity. We will continue to expand our online and digital platforms to enhance efficiency and convenience for our increasingly mobile and tech-savvy client base.

We will further strengthen credit risk management and maintain high standards of corporate governance.

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

In continuing to promote a performance-driven culture that places strong emphasis on talent management, our people strategy will ensure staff receive the training and support they need to build strong connections with customers.

Our diverse range of corporate sustainability programmes remains a key element 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 deliver service excellence to our customers, achieve sustainable growth and increase value for shareholders.

Results summary

Hang Seng Bank Limited ('the bank') and its subsidiaries ('the group') reported a **profit attributable to shareholders** of HK\$27,494m for 2015, up 82% compared with 2014. Earnings per share were up 80% at HK\$14.22. The result included a disposal gain of HK\$10,636m on the partial disposal of Industrial Bank in 2015 and an impairment charge of HK\$2,103m on the bank's investment in Industrial Bank in 2014. **Operating profit excluding loan impairment charges** was HK\$20,541m and **operating profit** was HK\$19,433m, both broadly in line with 2014. Robust growth in net interest income and net fee income was offset by lower dividend income of HK\$1,068m following our partial disposal of Industrial Bank and an increase in operating expenses to support business growth. Excluding the financial impact of Industrial Bank-related items in both years, operating profit excluding loan impairment charges, operating profit and attributable profit rose by 5%, 6% and 4% respectively.

Net interest income rose by HK\$1,294m, or 7%, to HK\$21,165m, driven mainly by a 10% increase in average interest-earning assets partly offset by a reduction in net interest margin. The bank's continuing efforts to expand and diversify lending and attract new deposits drove increases in average loans and deposits as well as financial investments. Net interest margin decreased by seven basis points to 1.83%, due mainly to narrower spreads on customer lending and lower reinvestment yields from balance sheet management, resulting from tightened interbank placement spreads and compression of average interest spreads of renminbi assets. However, customer deposit spreads improved due to a change in deposit mix as low-cost savings balances increased.

Net fee income grew by HK\$789m, or 13%, to HK\$7,038m, with growth recorded across core business lines. Securities broking and related services income increased by 38%, reflecting higher transaction volume amid favourable investment market sentiment in the first half of the year. Income from retail investment fund sales grew by 5%, supported by the bank's well diversified portfolio of products. Insurance-related fee income maintained growth momentum, benefiting from an increase in distribution commission from non-life insurance products. Credit card fee income rose by 9% on the back of growth in the number of cards in issue, merchant-acquiring business and cardholder spending. Account services grew by 12%, reflecting the group's strong transactional capabilities. Fees from remittances grew by 10%, underpinned by increased transactions as a result of the bank's efforts to capture more cross-border funds transactions. Credit facilities fee income rose by 4%, driven mainly by higher fees from increased corporate lending. Trade-related service income was down 6%, due mainly to a lower average trade finance lending balance.

Net trading income increased by HK\$86m, or 4%, to HK\$2,030m. Foreign exchange income rose by HK\$276m, or 15%. Successful efforts to expand customer-driven businesses and higher interest income from funding swap activities were partly offset by reduced demand for foreign exchange derivative products. Income from interest rate derivatives and debt securities decreased by HK\$23m, or 35%, reflecting the movement in market interest rates. Equities and other trading income recorded a revaluation loss of HK\$110m compared with a revaluation gain of HK\$63m in 2014, due mainly to a revaluation loss on equity-linked derivatives products from insurance business.

Dividend income decreased by HK\$1,068m, or 88%, to HK\$142m, due mainly to higher dividend received from Industrial Bank in 2014 prior to our partial disposal of our holding in 2015.

Results summary (*continued*)

Income from insurance business (included under ‘net interest income’, ‘net fee income’, ‘net trading income’, ‘net income/(loss) 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’, ‘net gains from disposal of available-for-sale debt securities’, ‘share of profits from associates’ and after deducting ‘net insurance claims and benefits paid and movement in liabilities to policyholders’) decreased by HK\$326m, or 9%, to HK\$3,382m. Net interest income and fee income from the life insurance business increased by 6%, as the size of the life insurance funds investment portfolio grew, reflecting a net inflow from new and renewal business. The investment return on life insurance business was, however, affected by unfavourable movements in the equities market in the second half of 2015. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in ‘net insurance claims and benefits paid and movement in liabilities to policyholders’ or ‘movement in present value of in-force long-term insurance business (‘PVIF’)’. Gross insurance premiums before deducting reinsurance premium income rose by 8%, as a result of increases in new business premiums from sales of high-net-worth and traditional whole-life products, partly offset by lower new business premiums from deferred annuity products. Net insurance premium income, after deducting the reinsurance premium, decreased by 9% mainly due to increased reinsurance premiums on new treaty arrangement for the in-force portfolio. The growth in insurance premiums resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders.

During 2015, there was an update in the discount rate used for valuing insurance liabilities leading to an increase in net insurance claims and benefits paid and movement in liabilities to policyholders, and a corresponding increase in PVIF. The movement in PVIF increased by 197%, due mainly to the net result of the liability discount rate update, the unfavourable change in market conditions and new business written throughout the year. General insurance income increased by 18%, reflecting higher distribution commission income by leveraging our exclusive partnership arrangement with Bupa to offer medical insurance services to meet the evolving needs of customers.

Operating expenses rose by HK\$869m, or 9%, to HK\$10,482m, reflecting new investments in upgrading and expanding our physical and digital service channels, as well as increases in staff-related, marketing and rental costs. Staff costs increased by 6%, due mainly to the annual salary increment and higher performance-related remuneration. General and administrative expenses rose by 12%, owing to higher spending on IT, premises maintenance, marketing expenditure and processing charges. Depreciation charges were up by 15%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation and branch renovation costs.

With the increase in operating expenses outpacing the growth in net operating income before loan impairment charges, our cost efficiency ratio rose by 2.0 percentage points compared with 2014 to 33.8%. The bank continued to focus on enhancing operational efficiency while maintaining growth momentum and market leadership.

Results summary (continued)

Loan impairment charges decreased by HK\$36m, or 3%, to HK\$1,108m. Individually assessed impairment charges were broadly unchanged. Collectively assessed impairment charges fell by HK\$32m, or 5%. Higher impairment charges on credit card and personal loan portfolios were recorded, which reflected growth in the portfolios. Impairment allowances for loans not individually identified as impaired recorded a net release compared with a net charge in 2014, mainly due to lower average historical loss rate. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Profit before tax rose by 69% to HK\$30,488m after taking the following major items into account:

- a gain on partial disposal of Industrial Bank of HK\$10,636m in 2015 and an impairment loss of HK\$2,103m of Industrial Bank in 2014;
- a HK\$62m increase in **gains less losses from financial investments and fixed assets**, representing a gain of HK\$6m recorded in 2015 compared with a loss of HK\$56m in 2014, the combined effect of an impairment loss on Yantai Bank and higher disposal gain of equity investments in 2014;
- a HK\$260m, or 50% decrease in **net surplus on property revaluation**; and
- a HK\$85m, or 36% decrease in **share of profits from associates**, mainly from a property investment company.

Consolidated balance sheet and key ratios

Total assets rose by HK\$70bn, or 6%, to HK\$1,334bn, on the back of the group's strategy to enhance profitability through sustainable growth. Customer loans and advances grew by HK\$31bn, or 5%, to HK\$689bn, principally in mortgages, corporate and commercial lending and trade finance. We maintained our strong position in the residential mortgage sector and market share in terms of new mortgage registrations. Residential mortgages increased by 10% when compared with 2014 year-end. Trade finance lending grew by 13% as a result of the group strategically positioning itself to focus on core trade business and serve growing demand from customers for renminbi-related financial solutions. Overall credit quality remained sound with total gross impaired loans and advances as a percentage of gross loans and advances standing at 0.40% at the end of 2015, and 0.32% at the end of December 2014. Customer deposits, including certificates of deposit and other debt securities in issue, rose by HK\$41bn, or 4%, to HK\$998bn. At 31 December 2015, the advances-to-deposits ratio was 69.1%, compared with 68.8% at 31 December 2014.

At 31 December 2015, shareholders' funds were HK\$142bn, an increase of HK\$3bn, or 2%. Retained profits rose by HK\$17bn, resulting from the 2015 attributable profit after the appropriation of 2015 interim dividends paid during the year. The premises revaluation reserve increased by HK\$1,090m, or 7%, reflecting an increase in the fair value of the group's premises. The available-for-sale investment reserve decreased by HK\$15bn, or 89%, against the end of 2014, mainly reflecting our partial disposal of Industrial Bank.

Results summary *(continued)*

Return on average total assets was 2.1% (1.3% for 2014). **Return on average ordinary shareholders' equity** was 20.7% (13.4% for 2014). Excluding the financial impact of Industrial Bank in both years, return on average total assets was 1.3% (1.3% for 2014). On the same basis, return on average ordinary shareholders' equity was 13.8%, compared with 14.3% a year earlier. The decrease in return on average ordinary shareholders' equity when compared with 2014 was mainly due to the increase in average ordinary shareholders' equity.

At 31 December 2015, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio and total capital ratio** improved to 17.7%, 19.1% and 22.1% respectively, compared with 15.6%, 15.6% and 15.7% respectively at 2014 year-end. The improvement was mainly due to the increase in capital base resulting from our partial disposal of our shareholding in Industrial Bank in 2015. This favourable impact was partly offset by an 8% increase in risk-weighted assets, driven by the loan growth and regulatory requirements.

The group is required under Rule 11(1) of the Banking (Liquidity) Rules to calculate its **Liquidity Coverage Ratio ('LCR')** on a consolidated basis, under the Basel III LCR standard which came into effective from 1 January 2015. The liquidity position of the group remained strong in 2015. The average LCR ranged from 167.4% to 237.2% for the quarters ended 31 December, 30 September, 30 June and 31 March 2015. The average liquidity ratio under the Fourth Schedule of the Hong Kong Banking Ordinance was 34.7% for the year ended 31 December 2014.

The average LCR reported under Basel III are therefore not directly comparable with the average liquidity ratio reported for the year ended 31 December 2014, which were calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

Dividends

The Directors have declared a fourth interim dividend of HK\$2.40 per share and a special interim dividend of HK\$3.00 per share, with the total dividend amount of HK\$5.40 per share payable on 29 March 2016 to shareholders on the register as of 9 March 2016. Together with interim dividends for the first three quarters, the total distribution for 2015 will be HK\$8.70 per share.

Segmental analysis

Figures in HK\$m

	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
<i>Year ended</i>					
<i>31 December 2015</i>					
Net interest income	11,281	5,929	3,498	457	21,165
Net fee income	4,864	1,672	320	182	7,038
Net trading income/(loss)	72	410	1,576	(28)	2,030
Net (loss)/income from financial instruments designated at fair value	(132)	(8)	—	22	(118)
Dividend income	1	—	—	141	142
Net insurance premium income	9,366	479	—	—	9,845
Other operating income	3,460	128	18	307	3,913
Total operating income	28,912	8,610	5,412	1,081	44,015
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,575)	(393)	—	—	(12,968)
Net operating income before loan impairment charges	16,337	8,217	5,412	1,081	31,047
Loan impairment (charges)/ releases	(620)	(524)	36	—	(1,108)
Net operating income	15,717	7,693	5,448	1,081	29,939
Operating expenses †	(6,623)	(2,481)	(946)	(432)	(10,482)
Impairment loss on intangible assets	(5)	—	—	(19)	(24)
Operating profit	9,089	5,212	4,502	630	19,433
Net gain on partial disposal of Industrial Bank	—	—	—	10,636	10,636
Gains less losses from financial investments and fixed assets	10	(1)	4	(7)	6
Net surplus on property revaluation	—	—	—	261	261
Share of profits from associates	151	1	—	—	152
Profit before tax	9,250	5,212	4,506	11,520	30,488
Share of profit before tax	30.3 %	17.1 %	14.8 %	37.8 %	100.0 %
Share of profit before tax (excluding Industrial Bank-related items)	46.9 %	26.4 %	22.8 %	3.9 %	100.0 %
Operating profit excluding loan impairment charges	9,709	5,736	4,466	630	20,541
* Depreciation/amortisation included in operating expenses	(57)	(27)	(6)	(977)	(1,067)

At 31 December 2015

Total assets	392,667	302,086	571,178	68,498	1,334,429
Total liabilities	753,208	253,626	167,178	18,436	1,192,448
Interest in associates	2,261	14	—	—	2,275
Non-current assets acquired during the year	1,090	43	4	355	1,492

Segmental analysis (continued)

<i>Figures in HK\$m</i>	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
Year ended					
31 December 2014 (restated)					
Net interest income	10,315	5,507	4,001	48	19,871
Net fee income	4,169	1,714	217	149	6,249
Net trading income	183	432	1,310	19	1,944
Net income/(loss) from financial instruments designated at fair value	1,206	(1)	–	(4)	1,201
Dividend income	1	–	–	1,209	1,210
Net insurance premium income	10,671	108	–	–	10,779
Other operating income	1,273	67	–	355	1,695
Total operating income	27,818	7,827	5,528	1,776	42,949
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,655)	(87)	–	–	(12,742)
Net operating income before loan impairment charges	15,163	7,740	5,528	1,776	30,207
Loan impairment charges	(543)	(592)	(9)	–	(1,144)
Net operating income	14,620	7,148	5,519	1,776	29,063
Operating expenses †	(6,230)	(2,321)	(831)	(231)	(9,613)
Operating profit	8,390	4,827	4,688	1,545	19,450
Impairment of investment in Industrial Bank	–	–	–	(2,103)	(2,103)
Gains less losses from financial investments and fixed assets	(1)	(1)	4	(58)	(56)
Net surplus on property reevaluation	–	–	–	521	521
Share of profits from associates	236	1	–	–	237
Profit/(loss) before tax	8,625	4,827	4,692	(95)	18,049
Share of profit/(loss) before tax	47.8%	26.7%	26.0%	(0.5%)	100.0%
Share of profit before tax (excluding Industrial Bank-related items)	45.5%	25.5%	24.7%	4.3%	100.0%
Operating profit excluding loan impairment charges	8,933	5,419	4,697	1,545	20,594
* Depreciation/amortisation included in operating expenses	(52)	(31)	(6)	(853)	(942)
At 31 December 2014 (restated)					
Total assets	358,323	294,332	501,290	110,045	1,263,990
Total liabilities	717,572	231,673	155,465	20,087	1,124,797
Interest in associates	2,206	12	–	–	2,218
Non-current assets acquired during the year	253	18	9	402	682

Segmental analysis *(continued)*

Retail Banking and Wealth Management ('RBWM') reported profit before tax of HK\$9,250m in 2015, a 7% increase compared with year end of 2014. Operating profit excluding loan impairment charges reached HK\$9,709m, an increase of 9%. Operating profit grew by 8% to HK\$9,089m.

Net interest income grew 9% against 2014 to HK\$11,281m, supported by balance sheet growth. Customer deposits and the lending portfolio recorded growth of 4% and 9% respectively compared to 2014 year-end.

Non-interest income grew by 4% to HK\$5,056m and wealth management business income rose by 3% to HK\$6,708m compared to 2014. With initiatives to provide sales and services based on our customers' needs, we were able to drive net fee income growth but partly outweighed by lower return on the insurance funds investment portfolio.

Unsecured lending continued to be a key revenue driver. With effective marketing campaigns and a good quality credit card customer base, card spending achieved year-on-year growth of 9% in Hong Kong. Total cards in circulation rose by 2% year-on-year to 2.56 million and we were the second and third-largest card issuer for VISA and MasterCard cards respectively in Hong Kong for 2015. Supported by customer analytics to target our existing customer base and an enhanced online application process, we were able to grow our personal loan portfolio by 17% year-on-year in Hong Kong.

Amid the slowdown of the property market in the second half of 2015, our mortgage business maintained its top-three position in Hong Kong, with a market share of 17% in terms of new mortgage registrations. Mortgage balances grew by 9% in Hong Kong and 26% on the Mainland compared to 2014 year-end.

Amid favorable investment market sentiment in the first half of 2015, we capitalised on our time-to-market products and services to grow investment income by 20% against 2014. Benefitting from substantial growth in equities market transaction volume, securities turnover and revenue increased significantly by 49% and 38% respectively. Income from other investment products, mainly retail investment funds and structured products, grew by 9% against 2014. We captured cross-border opportunities unleashed by ongoing policy relaxation on the Mainland, obtaining approval from China Securities Regulatory Commission to distribute the Hang Seng China H-share Index Fund manufactured by Hang Seng Investment Management Limited under the Mutual Recognition of Funds scheme and signing a joint venture ('JV') agreement with Shenzhen Qianhai Financial Holdings Co. Ltd. to prepare for establishing a JV fund management company on the Mainland.

Insurance income decreased by 12% against 2014, due mainly to lower investment returns from our portfolio. We diversified the life insurance product mix to create more balanced business growth. Our Universal Life Insurance Plan offers customers a flexible solution that caters to both their wealth management and protection needs. The distribution of the Hang Seng Bupa PreciousHealth Series has strengthened our ability to provide tailored 'wealth-and-health' solutions to customers since its launch in late 2014 in Hong Kong and in 2015 on the Mainland.

Segmental analysis (continued)

In Hong Kong, we enhanced our customer proposition by leveraging our diverse portfolio of products focusing on wealth management needs and the premium banking experience offered at our upgraded Prestige and Preferred Banking Centres. Our branch refurbishment exercise, which included the renovation of our Hong Kong main branch, has strengthened our brand image and enhanced customer perceptions, providing support for ongoing business growth. On the Mainland, we launched Preferred Banking propositions to strengthen relationships with mass affluent customers. The Prestige and Preferred Banking customer base in Hong Kong and on the Mainland grew by 5% and 45% respectively year-on-year.

We continued to enhance features on our digital channels, with the aims of improving the customer experience and capturing new business opportunities. We revamped our online banking platform and launched a new personal banking app. The number of e-Banking customers rose by 7% and 24% year-on-year in Hong Kong and on the Mainland respectively. We are among the first batch of banks in Hong Kong to launch an e-Cheque issuance service, providing e-Banking customers with a secure, efficient and environmentally friendly online payment option.

Commercial Banking ('CMB') achieved growth of 8% in profit before tax to HK\$5,212m. Operating profit excluding loan impairment charges was up 6% to HK\$5,736m. Operating profit grew by 8% to HK\$5,212m.

Net interest income grew by 8%, driven mainly by increases in both average customer advances and deposits. Focused deposit acquisition strategies supported by strengthened cash management capabilities led to a 26% rise in current and savings balances.

We recorded steady growth of 2% in non-interest income, attributable mainly to effective sales distribution efforts and enriched product offerings in various revenue streams. Insurance income recorded satisfactory growth of 12%. Securities trading income rose by 41%, driven by increased trading activities alongside growth in stock market transaction volume during the first half of 2015. Remittance income was up by 13%, as a result of targeted products and propositions that enhanced our cross-border payment capabilities and effective marketing programmes that deepened our wallet share with cross-border customers. This broad-based growth, more than offset the 36% decline in structured investment income, which was due mainly to depreciation in the renminbi reducing customer appetite for related structured products.

Growth in small and medium-sized enterprises ('SME') business continued to be a driver of our revenue. Acquiring quality new customers remained a major focus for our SME business. Mainland customers represented 51% of newly acquired SME customers in 2015. Our SME deposits were up by 19% while total operating income increased by 11%, mainly led by growth in foreign exchange, remittances and life insurance. The upgrade of our Sheung Wan Business Banking Centre in March 2015 served to further enhance the customer experience. We received a 'Best SME's Partner Award' from The Hong Kong General Chamber of Small and Medium Business for the 10th consecutive year.

Segmental analysis (continued)

We enhanced our transaction banking services to provide more efficient financial management solutions for our customers. The launch of a new host-to-host solution provided customers with a secure and seamless channel to help enhance their operational efficiency. We are among the first batch of banks in Hong Kong to provide e-Cheque issuance service. Commercial customers can make use of this new online payment service to issue and deposit paperless cheques through our secure and efficient online banking platform, Business e-Banking. We were awarded ‘Best Hong Kong Bank Provider of Cash Management Services’ by *CFO Innovation Asia* and ‘Hong Kong Domestic Trade Finance Bank of the Year’ by *Asian Banking & Finance*.

Syndicated lending also contributed to the growth in our business. We ranked third in the Mandated Arranger League Table for Hong Kong and Macau Syndicated Loans in terms of number of deals in 2015 according to Thomson Reuters LPC data.

Initiatives to connect customers with business opportunities in Greater China remained as one of our business priorities – including enriched cross-border trade propositions through improved efficiency in trade processing centres, more timely cross-border payment services such as the cut-off time extension of renminbi remittances and closer cooperation of Hong Kong and mainland relationship teams in supporting cross-border customers with presence in both locations. The opening of our Jinan branch in April 2015 will enable us to better serve the growing financial services demand from commercial customers in the Bohai Economic Rim region.

The credit environment on the Mainland remained challenging. We continued to be proactive and vigilant in credit risk management to uphold our asset quality. Overall credit quality remained resilient in 2015 and we recorded a decreasing trend in loan impairment charges.

Global Banking and Markets (‘GBM’) recorded a 4% decrease in profit before tax to HK\$4,506m. Operating profit excluding loan impairment charges was down by 5% to HK\$4,466m. Operating profit dropped 4% to HK\$4,502m.

Global Banking (‘GB’) achieved a 5% increase in total operating income to HK\$2,276m. With weakened loan demand and narrowed interest margin in the second half of 2015, net interest income was broadly in-line with the previous year. Non-interest income grew by 45% year-on-year with increase in credit-related fees and card merchant income. Operating profit excluding loan impairment charges increased by 2% to HK\$1,821m while profit before tax grew by 4%.

In view of the uncertain economic conditions, we adopted a prudent credit strategy and recorded a 1% increase in customer loans. Customer deposits grew by 2% as we actively promoted payment and cash management solutions with the aim of growing operational deposits.

Global Markets (‘GM’) recorded a 9% decrease in profit before tax to HK\$2,650m. Operating profit fell by 9% to HK\$2,645m.

Net interest income fell by 23% to HK\$1,610m, with limited opportunities for the deployment of new and maturing proceeds resulting from a narrowed interbank placement spread as compared with 2014.

Segmental analysis *(continued)*

Non-interest income increased by HK\$266m to HK\$1,526m. Total trading income increased by HK\$271m, or 21%, to HK\$1,571m. Foreign exchange trading income rose by 55% year-on-year, supported by an increase in foreign exchange and foreign exchange derivatives activity.

Under the challenging and low interest rate environment, we placed increased focus on growing non-fund income. Through product enhancements and closer collaboration to identify the specific needs of customers, we increased cross-selling of GM products to RBWM and CMB clients.

In the second half of the year, renminbi liberalisation was stepped up a gear by the Mainland authorities. The People's Bank of China announced a move to improve the pricing mechanism of the daily fixing rate by making reference to the previous day's closing rate as well as taking into account foreign exchange market supply-demand and major global currency movements. In response to this development, we took steps to provide timely information and products to help corporate customers meet their hedging needs in the volatile foreign exchange market.

In response to the Mutual Recognition of Funds, we provided support for fund sales and development to capture opportunities from increasing customer demand for cross-border transaction services and renminbi-denominated products.

In May 2015, the bank officially joined OTC Clearing Hong Kong Limited as a direct member for central clearing of its over-the-counter derivatives. This strengthened our market standing as Hong Kong's leading domestic bank.

<i>Figures in HK\$m</i>	<i>Year ended 31 December</i>	
	<i>2015</i>	<i>2014</i>
Interest income	27,063	26,270
Interest expense	(5,898)	(6,399)
Net interest income	21,165	19,871
Fee income	8,624	7,712
Fee expense	(1,586)	(1,463)
Net fee income	7,038	6,249
Net trading income	2,030	1,944
Net income/(loss) from financial instruments designated at fair value	(118)	1,201
Dividend income	142	1,210
Net insurance premium income	9,845	10,779
Other operating income	3,913	1,695
Total operating income	44,015	42,949
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,968)	(12,742)
Net operating income before loan impairment charges	31,047	30,207
Loan impairment charges	(1,108)	(1,144)
Net operating income	29,939	29,063
Employee compensation and benefits	(4,893)	(4,616)
General and administrative expenses	(4,522)	(4,055)
Depreciation of premises, plant and equipment	(957)	(831)
Amortisation of intangible assets	(110)	(111)
Operating expenses	(10,482)	(9,613)
Impairment loss on intangible assets	(24)	–
Operating profit	19,433	19,450
Net gain on partial disposal of Industrial Bank	10,636	–
Impairment of investment in Industrial Bank	–	(2,103)
Gains less losses from financial investments and fixed assets	6	(56)
Net surplus on property revaluation	261	521
Share of profits from associates	152	237
Profit before tax	30,488	18,049
Tax expense	(2,994)	(2,918)
Profit for the year	27,494	15,131
Profit attributable to shareholders	27,494	15,131
Earnings per share (in HK\$)	14.22	7.91

Details of dividends payable to shareholders of the bank attributable to the profit for the year are set out on page 32.

<i>Figures in HK\$m</i>	<i>Year ended 31 December</i>	
	<i>2015</i>	<i>2014</i>
Profit for the year	27,494	15,131
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	(416)	319
-- on equity shares	183	16,744
- fair value changes transferred to income statement:		
-- on hedged items	91	32
-- on disposal	(14,759)	(34)
-- on impairment	—	2,188
- share of changes in equity of associates:		
-- fair value changes	(5)	—
- deferred taxes	19	(96)
- exchange difference and other	(186)	(523)
Cash flow hedging reserve:		
- fair value changes taken to equity	191	318
- fair value changes transferred to income statement	(188)	(339)
- deferred taxes	(1)	4
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	(540)	(155)
Items that will not be reclassified subsequently to the income statement:		
Premises:		
- unrealised surplus on revaluation of premises	1,878	1,457
- deferred taxes	(314)	(244)
- exchange difference	(7)	(2)
Defined benefit plans:		
- actuarial gains on defined benefit plans	422	164
- deferred taxes	(70)	(27)
Share-based payments	2	(2)
Other comprehensive income for the year, net of tax	(13,700)	19,804
Total comprehensive income for the year	13,794	34,935
Total comprehensive income for the year attributable to shareholders	13,794	34,935

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
ASSETS		
Cash and sight balances at central banks	10,118	11,311
Placings with and advances to banks	123,990	145,731
Trading assets	40,373	41,823
Financial assets designated at fair value	7,903	11,112
Derivative financial instruments	11,595	7,421
Reverse repurchase agreements – non-trading	—	1,296
Loans and advances to customers	688,946	658,431
Financial investments	372,272	318,032
Interests in associates	2,275	2,218
Investment properties	10,075	11,732
Premises, plant and equipment	26,186	21,898
Intangible assets	12,221	9,053
Other assets	28,475	23,932
Total assets	1,334,429	1,263,990
LIABILITIES AND EQUITY		
Liabilities		
Current, savings and other deposit accounts	959,228	896,521
Repurchase agreements – non-trading	2,315	—
Deposits from banks	18,780	9,095
Trading liabilities	62,917	72,587
Financial liabilities designated at fair value	3,994	3,489
Derivative financial instruments	9,988	6,462
Certificates of deposit and other debt securities in issue	5,191	12,402
Other liabilities	20,891	21,304
Liabilities under insurance contracts	101,817	92,442
Current tax liabilities	185	374
Deferred tax liabilities	4,817	4,304
Subordinated liabilities	2,325	5,817
Total liabilities	1,192,448	1,124,797
Equity		
Share capital	9,658	9,658
Retained profits	105,363	88,064
Other equity instruments	6,981	6,981
Other reserves	19,979	34,490
Shareholders' funds	141,981	139,193
Total equity and liabilities	1,334,429	1,263,990

<i>Figures in HK\$m</i>	<i>Year ended 31 December</i>	
	<i>2015</i>	<i>2014</i>
Share capital		
At beginning of the year	9,658	9,559
Transfer from capital redemption reserve	—	99
	<u>9,658</u>	<u>9,658</u>
Retained profits		
At beginning of the year	88,064	82,885
Dividends to shareholders		
- dividends approved in respect of the previous year	(4,397)	(4,206)
- dividends declared in respect of the current year	(6,309)	(6,309)
Coupon paid to holder of AT1 capital instrument	(310)	—
Transfer	467	428
Total comprehensive income for the year	27,848	15,266
	<u>105,363</u>	<u>88,064</u>
Other equity instruments		
At beginning of the year	6,981	—
Other equity instrument issued	—	6,981
	<u>6,981</u>	<u>6,981</u>
Other reserves		
Premises revaluation reserve		
At beginning of the year	15,687	14,904
Transfer	(467)	(428)
Total comprehensive income for the year	1,557	1,211
	<u>16,777</u>	<u>15,687</u>
Available-for-sale investment reserve		
At beginning of the year	17,012	(1,618)
Total comprehensive income for the year	(15,073)	18,630
	<u>1,939</u>	<u>17,012</u>
Cash flow hedging reserve		
At beginning of the year	(11)	6
Total comprehensive income for the year	2	(17)
	<u>(9)</u>	<u>(11)</u>
Foreign exchange reserve		
At beginning of the year	1,140	1,295
Total comprehensive income for the year	(540)	(155)
	<u>600</u>	<u>1,140</u>
Other reserves		
At beginning of the year	662	747
Cost of share-based payment arrangements	10	14
Transfer of capital redemption reserve	—	(99)
	<u>672</u>	<u>662</u>

<i>Figures in HK\$m</i>	<i>Year ended 31 December</i>	
	<u>2015</u>	<u>2014</u>
Total equity		
At beginning of the year	139,193	107,778
Dividends to shareholders	(10,706)	(10,515)
Coupon paid to holder of AT1 capital instrument	(310)	—
Other equity instrument issued	—	6,981
Cost of share-based payment arrangements	10	14
Total comprehensive income for the year	13,794	34,935
	<u>141,981</u>	<u>139,193</u>

Net interest income

<i>Figures in HK\$m</i>	<i>2015</i>	<i>2014</i>
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	22,642	21,888
- trading assets and liabilities	(1,450)	(2,014)
- financial instruments designated at fair value	(27)	(3)
	21,165	19,871
Average interest-earning assets	1,156,534	1,047,154
Net interest spread	1.71 %	1.77 %
Net interest margin	1.83 %	1.90 %

Net interest income rose by HK\$1,294m, or 7%, to HK\$21,165m, driven mainly by the 10% increase in average interest-earning assets.

Average interest-earning assets increased by HK\$109bn, or 10%, compared with last year. The increase in average interest-earning assets reflected the bank's continued effort to strengthen its asset and liability management and maintained a sustained growth strategy to expand its average customer lending and deposits. Average customer lending increased by 8%, with notable growth in corporate and commercial and mortgage lending, while average financial investments increased by 20%.

Net interest margin narrowed by seven basis points to 1.83% whilst the net interest spread decreased by six basis points to 1.71%. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Lower balance sheet management income was recorded, reflecting lower reinvestment yield and limited opportunity for deployment of new and maturing proceeds as a result of the compression of the average interest spread on RMB assets due to the drop in RMB market interest rates. However, these were partly offset by improved customer deposit spreads from an increase in current account and low cost savings balances.

The contribution from net free funds fell by one basis point to 0.12%, reflecting the modest decrease in the average market interest rate.

Net interest income in the second half of 2015 grew by HK\$283m, or 3%, compared with the first-half, due mainly to a 4% increase in average interest earning assets 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 the wake of continued challenging market conditions.

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 Bank, as included in the HSBC Group accounts:

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Net interest income and expense reported as 'Net interest income'		
- Interest income	26,743	26,037
- Interest expense	(4,135)	(4,155)
- Net interest income	22,608	21,882
Net interest income and expense reported as 'Net trading income'	(1,450)	(2,014)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	7	3
Average interest-earning assets	1,116,125	1,013,705
Net interest spread	1.91 %	2.05 %
Net interest margin	2.03 %	2.16 %

Net fee income

Figures in HK\$m

	2015	2014
- Securities broking and related services	1,872	1,355
- Retail investment funds	1,763	1,681
- Insurance	472	466
- Account services	439	392
- Remittances	444	404
- Cards	2,386	2,196
- Credit facilities	420	403
- Trade services	491	521
- Other	337	294
Fee income	8,624	7,712
Fee expense	(1,586)	(1,463)
	<u>7,038</u>	<u>6,249</u>

Net fee income increased by HK\$789m, or 13%, to HK\$7,038m when compared with 2014.

Securities broking and related services income rose significantly by 38%, reflecting higher stock market turnover in Hong Kong and favourable investment market sentiment in the first half of 2015. Income from for retail investment funds and the related fee income also increased by 5%.

Account services and remittances fee income grew by 12% and 10% respectively, reflecting the group's strong transactional capabilities.

Card services income was 9% higher than 2014, supported by the 9% increase in cardholder spending, 6% increase in merchant acquiring business as well as a 2% increase in the number of cards in circulation.

Credit facilities fee income rose by 4%, due mainly to higher fees from increased corporate lending.

Trade-related service income was down by 6%, reflecting the decrease in average trade finance lending business.

Net trading income

<i>Figures in HK\$m</i>	2015	2014
- Foreign exchange	2,100	1,824
- Interest rate derivatives	(32)	1
- Debt securities	75	65
- Equities and other trading	(110)	63
Dealing profits	2,033	1,953
Net loss from hedging activities	(3)	(9)
	2,030	1,944

Net trading income increased by HK\$86m, or 4%, to HK\$2,030m when compared with 2014.

Foreign exchange income rose by HK\$276m, or 15%, contributed by increased customer flows and higher interest income from funding swaps[†] activities, partly offset by reduced demand for foreign exchange derivative products. Debt securities recorded a higher revaluation gain of HK\$10m, mainly reflecting the movement in market interest rates. The increases were offset in part by the revaluation loss on interest rate derivatives, as well as in equities and other trading reflecting the unfavourable movement of equity options trading in life insurance business investment portfolio.

[†] *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/(loss) from financial instruments designated at fair value

<i>Figures in HK\$m</i>	2015	2014
Net (loss)/income on assets designated at fair value which back insurance and investment contracts	(139)	1,204
Net change in fair value of other financial instruments designated at fair value	21	(3)
	(118)	1,201

Net income/(loss) from financial instruments designated at fair value recorded net loss of HK\$118m, compared with a net gain of HK\$1,201m for 2014, reflecting the fair value changes of assets held by the life insurance business due mainly to unfavourable equity market movements in 2015. To the extent that this fair value gain/(loss) 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

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Dividends	<u>142</u>	<u>1,210</u>
	<u>142</u>	<u>1,210</u>

Dividend income was HK\$142m compared with HK\$1,210m in 2014, mainly due to the partial disposal of the ordinary shares of Industrial Bank in 2015.

Other operating income

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Rental income from investment properties	382	395
Movement in present value of in-force long-term insurance business	3,168	1,065
Others	<u>363</u>	<u>235</u>
	<u>3,913</u>	<u>1,695</u>

Other operating income rose by HK\$2,218m, or 131% compared with 2014, primarily due to the 197% increase in the movement in PVIF. During 2015, there was an update in the discount rate used for valuing insurance liabilities, resulting in an increase in PVIF. New business written throughout the year together with the unfavourable change in market conditions also contributed to the increase in PVIF.

Analysis of income from wealth management business

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Investment income:		
- retail investment funds	1,763	1,681
- structured investment products [†]	660	746
- securities broking and related services	1,829	1,322
- margin trading and others	100	102
	4,352	3,851
Insurance income:		
- life insurance	3,123	3,489
- general insurance and others	259	219
	3,382	3,708
Total	<u>7,734</u>	<u>7,559</u>

[†] *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 maintained growth momentum and grew by 2% when compared with last year. Investment income rose by 13%, mainly contributed by the 38% increase in securities broking and related services income and 5% increase in retail investment funds related income on the back of favourable investment sentiment in the first half of 2015. Insurance business income fell by 9% when compared with last year.

Analysis of insurance business income

Figures in HK\$m

	2015	2014
Life insurance:		
- net interest income and fee income	3,230	3,048
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	(152)	1,339
- net insurance premium income	9,845	10,779
- net insurance claims and benefits paid and movement in liabilities to policyholders	(12,968)	(12,742)
- movement in present value of in-force long-term insurance business	3,168	1,065
	3,123	3,489
General insurance and others	259	219
Total	3,382	3,708

Life insurance business income decreased by HK\$366m, or 10%, to HK\$3,123m.

Net interest income and fee income from the life insurance investment portfolio grew 6%, reflecting the increase in life insurance funds investment portfolio.

Investment returns on life insurance funds recorded a loss of HK\$152m compared with a gain of HK\$1,339m for 2014, reflecting the unfavourable equity market performance. 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.

Gross insurance premium income, before deducting the reinsurance premium, rose by 8%, as a result of increases in new business premium from sales of high net-worth and traditional whole life products, partly offset by lower new business premiums from deferred annuity products. Net insurance premium income, after deducting the reinsurance premium, fell by 9%, mainly due to increased reinsurance premium for new reinsurance arrangement for the in-force portfolio.

During 2015, there was an update to the discount rate used for valuing insurance liabilities, resulting in an increase in net insurance claims and benefits paid and movement in liabilities to policyholders, with a corresponding increase in PVIF.

The movement in PVIF increased by 197%, mainly attributable to the combined effect of the liability discount rate update, unfavourable change in market conditions and new business written throughout the year.

General insurance income increased by 18% as a result of higher distribution commission income.

Loan impairment charges

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Net charge for impairment of loans and advances to customers:		
Individually assessed impairment allowances:		
- new allowances	594	699
- releases	(50)	(131)
- recoveries	<u>(16)</u>	<u>(36)</u>
	528	532
Net charge for collectively assessed impairment allowances	<u>580</u>	<u>612</u>
Loan impairment charges	<u><u>1,108</u></u>	<u><u>1,144</u></u>

Loan impairment charges decreased by HK\$36m, or 3%, to HK\$1,108m. Overall credit quality remained relatively stable with gross impaired loans and advances as a percentage of gross loans and advances to customers standing at 0.40% at the end of 2015, compared with 0.32% at the end of 2014. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Individually assessed impairment charges maintained relatively stable at HK\$528m, mainly due to lower new impairment charges partly offset by lesser releases and recoveries from commercial banking customers.

Collectively assessed loan impairment charges decreased by HK\$32m, or 5%, to HK\$580m. Higher charges on credit card and personal loan portfolios were recorded as a result of the growth in loan portfolios. Impairment allowance for loans not individually identified as impaired recorded a net release compared with a net charge in 2014, mainly due to lower average historical loss rate.

Operating expenses

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Employee compensation and benefits:		
- salaries and other costs	4,448	4,155
- retirement benefit costs	445	461
	4,893	4,616
General and administrative expenses:		
- rental expenses	696	682
- other premises and equipment	1,201	1,112
- marketing and advertising expenses	902	829
- other operating expenses	1,723	1,432
	4,522	4,055
Depreciation of premises, plant and equipment	957	831
Amortisation of intangible assets	110	111
	10,482	9,613
Cost efficiency ratio	33.8%	31.8%
<i>Full-time equivalent staff numbers by region</i>	<u>2015</u>	<u>2014</u>
Hong Kong and others	8,306	8,278
Mainland	1,835	1,914
Total	10,141	10,192

Operating expenses increased by HK\$869m, or 9%, compared with 2014, reflecting the bank's continued investments in technology, services channels and branch network to deepen customer relationship and support business growth.

Employee compensation and benefits increased by HK\$277m, or 6%, mainly in staff salaries and other costs, reflecting the annual salary increment and higher performance-related remuneration. General and administrative expenses were up 12%, due mainly to the rise in IT and processing charges, premises maintenance and marketing expenditure. Depreciation charges were up 15%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation and branch renovation costs.

At 31 December 2015, the group's number of full-time equivalent staff was down by 51 compared with the end of 2014.

The bank continued to focus on enhancing operational efficiency while maintaining growth momentum. With the increase in operating expenses outpacing the growth in net operating income before loan impairment charges, the cost efficiency ratio rose by 2.0 percentage points, to 33.8% when compared with 2014. Excluding the dividends received from Industrial Bank for both years, the cost efficiency ratio rose by 0.8 percentage points.

Net gain on partial disposal of Industrial Bank Co., Ltd ('Industrial Bank') and impairment of investment in Industrial Bank

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Net gain on partial disposal of Industrial Bank	10,636	—
Impairment of investment in Industrial Bank	—	<u>(2,103)</u>
	<u>10,636</u>	<u>(2,103)</u>

The bank disposed of 9.99% shareholding of Industrial Bank and recorded a net gain of HK\$10,636m in 2015. Details of the transactions are shown on page 64.

Gains less losses from financial investments and fixed assets

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Net gains from disposal of available-for-sale equity securities	—	33
Net gains from disposal of available-for-sale debt securities	16	1
Gains less losses on disposal of loans and advances	—	3
Gains less losses on disposal of fixed assets	(10)	(8)
Impairment of investment in Yantai Bank	—	<u>(85)</u>
	<u>6</u>	<u>(56)</u>

Gains less losses from financial investments and fixed assets recorded a gain of HK\$6m in 2015 compared with a loss of HK\$56m in 2014, mainly due to an impairment loss of HK\$85m provided on the bank's investment in Yantai Bank in 2014.

Tax expense

Taxation in the consolidated income statement represents:

<i>Figures in HK\$m</i>	<u>2015</u>	<u>2014</u>
Current tax – provision for Hong Kong profits tax		
Tax for the year	2,892	2,808
Adjustment in respect of prior years	(56)	(100)
Current tax – taxation outside Hong Kong		
Tax for the year	50	151
Adjustment in respect of prior years	–	13
Deferred tax		
Origination and reversal of temporary differences	<u>108</u>	<u>46</u>
Total tax expense	<u>2,994</u>	<u>2,918</u>

The current tax provision is based on the estimated assessable profit for 2015, 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 2014). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share

The calculation of earnings per share in 2015 is based on earnings of HK\$27,494m (HK\$15,131m in 2014) after deducting the coupon paid on AT1 capital instrument of HK\$310m and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2014).

Dividends per share

	<u>2015</u>		<u>2014</u>	
	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>
(a) Dividends to ordinary shareholders				
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	2.40	4,588	2.30	4,397
Special interim dividend	3.00	5,736	–	–
	<u>8.70</u>	<u>16,633</u>	<u>5.60</u>	<u>10,706</u>
(b) Distribution to holder of AT1 capital instrument classified as equity				
Coupon paid on AT1 capital instrument		<u>310</u>		<u>–</u>

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 2015, there was a change in the reportable segment information reported internally to the group's most senior executive management for the purposes of resources allocation and performance assessment. The change has taken into account of the increasingly integrated nature of our Hong Kong and mainland business. Previously, mainland China was presented as a separate segment. From 1 January 2015, mainland China was integrated within the three global businesses. To align with the internal reporting information, the group has presented the following four reportable segments. Corresponding amounts have been restated to ensure information is provided on a basis consistent with the revised segment information.

- **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;
- **Other** mainly represents management of shareholders' funds and investments in premises, investment properties, equity shares and subordinated debt funding.

Segmental analysis (continued)

(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 is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 12.

<i>Figures in HK\$m</i>	<i>Retail Banking and Wealth Management</i>	<i>Commercial Banking</i>	<i>Global Banking and Markets</i>	<i>Other</i>	<i>Total</i>
<i>Year ended 31 December 2015</i>					
Profit before tax	<u>9,250</u>	<u>5,212</u>	<u>4,506</u>	<u>11,520</u>	<u>30,488</u>
Share of profit before tax	<u>30.3 %</u>	<u>17.1 %</u>	<u>14.8 %</u>	<u>37.8 %</u>	<u>100.0 %</u>
Share of profit before tax (excluding Industrial Bank- related items)	<u>46.9 %</u>	<u>26.4 %</u>	<u>22.8 %</u>	<u>3.9 %</u>	<u>100.0 %</u>
<i>Year ended 31 December 2014 (restated)</i>					
Profit/(loss) before tax	<u>8,625</u>	<u>4,827</u>	<u>4,692</u>	<u>(95)</u>	<u>18,049</u>
Share of profit/(loss) before tax	<u>47.8 %</u>	<u>26.7 %</u>	<u>26.0 %</u>	<u>(0.5 %)</u>	<u>100.0 %</u>
Share of profit before tax (excluding Industrial Bank- related items)	<u>45.5 %</u>	<u>25.5 %</u>	<u>24.7 %</u>	<u>4.3 %</u>	<u>100.0 %</u>

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. Consolidation adjustments made in preparing the group's financial statements upon consolidation are included in the 'Inter-segment elimination'.

<i>Figures in HK\$m</i>	<i>Hong Kong</i>	<i>Mainland China</i>	<i>Others</i>	<i>Inter- segment elimination</i>	<i>Total</i>
<i>Year ended 31 December 2015</i>					
Income and expense					
Total operating income	<u>41,801</u>	<u>2,057</u>	<u>249</u>	<u>(92)</u>	<u>44,015</u>
Profit before tax	<u>30,224</u>	<u>101</u>	<u>163</u>	<u>—</u>	<u>30,488</u>
<i>At 31 December 2015</i>					
Total assets	<u>1,244,606</u>	<u>113,718</u>	<u>19,260</u>	<u>(43,155)</u>	<u>1,334,429</u>
Total liabilities	<u>1,105,668</u>	<u>101,806</u>	<u>18,655</u>	<u>(33,681)</u>	<u>1,192,448</u>
Equity	<u>138,938</u>	<u>11,912</u>	<u>605</u>	<u>(9,474)</u>	<u>141,981</u>
Share capital	<u>9,658</u>	<u>10,093</u>	<u>—</u>	<u>(10,093)</u>	<u>9,658</u>
Interest in associates	<u>2,272</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>2,275</u>
Non-current assets [†]	<u>47,414</u>	<u>1,046</u>	<u>22</u>	<u>—</u>	<u>48,482</u>
Contingent liabilities and commitments	<u>334,682</u>	<u>38,545</u>	<u>5,645</u>	<u>—</u>	<u>378,872</u>
<i>Year ended 31 December 2014</i>					
Income and expense					
Total operating income	<u>40,698</u>	<u>2,109</u>	<u>213</u>	<u>(71)</u>	<u>42,949</u>
Profit before tax	<u>17,814</u>	<u>104</u>	<u>131</u>	<u>—</u>	<u>18,049</u>
<i>At 31 December 2014</i>					
Total assets	<u>1,165,918</u>	<u>127,948</u>	<u>14,636</u>	<u>(44,512)</u>	<u>1,263,990</u>
Total liabilities	<u>1,029,796</u>	<u>117,726</u>	<u>14,170</u>	<u>(36,895)</u>	<u>1,124,797</u>
Equity	<u>136,122</u>	<u>10,222</u>	<u>466</u>	<u>(7,617)</u>	<u>139,193</u>
Share capital	<u>9,658</u>	<u>8,700</u>	<u>12</u>	<u>(8,712)</u>	<u>9,658</u>
Interest in associates	<u>2,198</u>	<u>20</u>	<u>—</u>	<u>—</u>	<u>2,218</u>
Non-current assets [†]	<u>41,571</u>	<u>1,108</u>	<u>4</u>	<u>—</u>	<u>42,683</u>
Contingent liabilities and commitments	<u>292,781</u>	<u>41,691</u>	<u>4,491</u>	<u>—</u>	<u>338,963</u>

[†] 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 2015									
Assets									
Cash and sight balances at central banks	10,118	—	—	—	—	—	—	—	10,118
Placings with and advances to banks	15,443	54,166	49,749	2,433	—	2,199	—	—	123,990
Trading assets	—	—	—	—	—	—	40,373	—	40,373
Financial assets designated at fair value	—	1,074	2	—	9	51	—	6,767	7,903
Derivative financial instruments	—	—	133	122	228	9	11,103	—	11,595
Reverse repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
Loans and advances to customers	12,676	53,121	56,340	132,745	238,447	195,617	—	—	688,946
Financial investments	—	35,717	86,204	108,187	87,225	50,274	—	4,665	372,272
Interest in associates	—	—	—	—	—	—	—	2,275	2,275
Investment properties	—	—	—	—	—	—	—	10,075	10,075
Premises, plant and equipment	—	—	—	—	—	—	—	26,186	26,186
Intangible assets	—	—	—	—	—	—	—	12,221	12,221
Other assets	9,850	5,714	4,032	2,200	5,762	199	—	718	28,475
	<u>48,087</u>	<u>149,792</u>	<u>196,460</u>	<u>245,687</u>	<u>331,671</u>	<u>248,349</u>	<u>51,476</u>	<u>62,907</u>	<u>1,334,429</u>
Liabilities									
Current, savings and other deposit accounts	704,866	130,724	85,748	36,786	1,104	—	—	—	959,228
Repurchase agreements – non-trading	—	2,315	—	—	—	—	—	—	2,315
Deposits from banks	6,654	12,103	23	—	—	—	—	—	18,780
Trading liabilities	—	—	—	—	—	—	62,917	—	62,917
Financial liabilities designated at fair value	2	—	—	—	3,491	501	—	—	3,994
Derivative financial instruments	—	5	21	64	469	33	9,396	—	9,988
Certificates of deposit and other debt securities in issue	—	—	—	—	5,191	—	—	—	5,191
Other liabilities	6,569	5,866	4,790	1,618	92	3	—	1,953	20,891
Liabilities under insurance contracts	—	—	—	—	—	—	—	101,817	101,817
Current tax liabilities	—	—	—	185	—	—	—	—	185
Deferred tax liabilities	—	—	—	—	—	—	—	4,817	4,817
Subordinated liabilities	—	—	—	—	—	2,325	—	—	2,325
	<u>718,091</u>	<u>151,013</u>	<u>90,582</u>	<u>38,653</u>	<u>10,347</u>	<u>2,862</u>	<u>72,313</u>	<u>108,587</u>	<u>1,192,448</u>

Analysis of assets and liabilities by remaining maturity (continued)

Figures in HK\$m

At 31 December 2014

	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
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
	<u>54,388</u>	<u>147,060</u>	<u>174,198</u>	<u>220,739</u>	<u>288,573</u>	<u>229,526</u>	<u>48,711</u>	<u>100,795</u>	<u>1,263,990</u>
Liabilities									
Current, savings and other deposit accounts	630,301	124,457	94,150	44,590	3,023	—	—	—	896,521
Repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
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 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
	<u>640,807</u>	<u>133,236</u>	<u>98,260</u>	<u>56,551</u>	<u>11,741</u>	<u>6,464</u>	<u>78,501</u>	<u>99,237</u>	<u>1,124,797</u>

Cash and sight balances at central banks

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Cash in hand	5,259	5,016
Sight balances at central banks	4,859	6,295
	<u>10,118</u>	<u>11,311</u>

Placings with and advances to banks

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Balances with banks	13,446	15,972
Placings with and advances to banks maturing within one month	56,163	72,605
Placings with and advances to banks maturing after one month but less than one year	52,182	55,042
Placings with and advances to banks maturing after one year	2,199	2,112
	<u>123,990</u>	<u>145,731</u>

Trading assets

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Treasury bills	21,405	24,228
Other debt securities	16,675	13,499
Debt securities	38,080	37,727
Investment funds	21	40
Total trading securities	38,101	37,767
Other [‡]	2,272	4,056
Total trading assets	40,373	41,823
Debt securities:		
- listed in Hong Kong	13,134	9,829
- listed outside Hong Kong	893	424
	14,027	10,253
- unlisted	24,053	27,474
	38,080	37,727
Investment funds:		
- listed in Hong Kong	21	40
Total trading securities	38,101	37,767
Debt securities:		
Issued by public bodies:		
- central governments and central banks	35,386	34,481
- other public sector entities	—	—
	35,386	34,481
Issued by other bodies:		
- banks	768	598
- corporate entities	1,926	2,648
	2,694	3,246
	38,080	37,727
Investment funds:		
Issued by corporate entities	21	40
Total trading securities	38,101	37,767

[‡] This represents the amount receivable from counterparties on trading transactions not yet settled.

Financial assets designated at fair value

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Treasury bills	1,070	—
Debt securities	66	75
Equity shares	1,838	6,799
Investment funds	4,929	4,238
	<u>7,903</u>	<u>11,112</u>
Debt securities:		
- listed in Hong Kong	17	20
- listed outside Hong Kong	49	55
	<u>66</u>	<u>75</u>
- unlisted	1,070	—
	<u>1,136</u>	<u>75</u>
Equity shares:		
- listed in Hong Kong	1,407	1,958
- listed outside Hong Kong	388	4,735
	<u>1,795</u>	<u>6,693</u>
- unlisted	43	106
	<u>1,838</u>	<u>6,799</u>
Investment funds:		
- listed in Hong Kong	239	1,504
- listed outside Hong Kong	43	332
	<u>282</u>	<u>1,836</u>
- unlisted	4,647	2,402
	<u>4,929</u>	<u>4,238</u>
	<u>7,903</u>	<u>11,112</u>
Debt securities:		
Issued by public bodies:		
- central governments and central banks	1,070	—
- other public sector entities	1	1
	<u>1,071</u>	<u>1</u>
Issued by other bodies:		
- banks	6	14
- corporate entities	59	60
	<u>65</u>	<u>74</u>
	<u>1,136</u>	<u>75</u>
Equity shares:		
Issued by banks	423	1,069
Issued by public sector entities	6	9
Issued by corporate entities	1,409	5,721
	<u>1,838</u>	<u>6,799</u>
Investment funds:		
Issued by corporate entities	4,929	4,238
	<u>7,903</u>	<u>11,112</u>

Loans and advances to customers

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Gross loans and advances to customers	690,561	660,269
Less:		
Loan impairment allowances:		
- individually assessed	(807)	(999)
- collectively assessed	(808)	(839)
	<u>688,946</u>	<u>658,431</u>

Loan impairment allowances against loans and advances to customers

<i>Figures in HK\$m</i>	<i>Individually assessed</i>	<i>Collectively assessed</i>	<i>Total</i>
At 1 January 2015	999	839	1,838
Amounts written off	(676)	(674)	(1,350)
Recoveries of loans and advances written off in previous years	16	76	92
New impairment allowances charged to income statement	594	712	1,306
Impairment allowances released to income statement	(66)	(132)	(198)
Unwinding of discount of loan impairment allowances recognised as 'interest income'	(36)	(5)	(41)
Exchange difference	(24)	(8)	(32)
At 31 December 2015	<u>807</u>	<u>808</u>	<u>1,615</u>

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

	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
	%	%
Loan impairment allowances:		
- individually assessed	0.12	0.15
- collectively assessed	0.12	0.13
Total loan impairment allowances	<u>0.24</u>	<u>0.28</u>

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.24% at 31 December 2015 compared with 0.28% at the end of 2014. Individually assessed allowances as a percentage of gross loans and advances decreased by three basis points to 0.12%, compared with last year end. Collectively assessed allowances as a percentage of gross loans and advances remained relatively stable and lowered by one basis point compared with 0.13% at the end of 2014. Overall credit quality remained stable.

Impaired loans and advances to customers and allowances

<i>Figures in HK\$m</i>	<u><i>At 31 December 2015</i></u>	<u><i>At 31 December 2014</i></u>
Gross impaired loans and advances	2,737	2,115
Individually assessed allowances	<u>(807)</u>	<u>(999)</u>
	<u>1,930</u>	<u>1,116</u>
Individually assessed allowances as a percentage of gross impaired loans and advances	<u>29.5%</u>	<u>47.2%</u>
Gross impaired loans and advances as a percentage of gross loans and advances to customers	<u>0.40%</u>	<u>0.32%</u>

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\$622m, or 29%, to HK\$2,737m compared with the year end of 2014, due to the downgrade of certain commercial banking customers in Hong Kong and mainland China. Gross impaired loans and advances as a percentage of gross loans and advances to customers increased to 0.40% at 31 December 2015, compared with 0.32% at the year end of 2014. The group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

<i>Figures in HK\$m</i>	<u><i>At 31 December 2015</i></u>	<u><i>At 31 December 2014</i></u>
Gross individually assessed impaired loans and advances	2,505	1,963
Individually assessed allowances	<u>(807)</u>	<u>(999)</u>
	<u>1,698</u>	<u>964</u>
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	<u>0.36%</u>	<u>0.30%</u>
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	<u>1,651</u>	<u>637</u>

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:

	<i>At 31 December</i>		<i>At 31 December</i>	
	2015		2014	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
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	696	0.1	449	0.1
- more than six months but not more than one year	543	0.1	98	—
- more than one year	912	0.1	558	0.1
	2,151	0.3	1,105	0.2

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\$1,046m, or 95%, to HK\$2,151m compared with the year-end, due to the downgrade of certain commercial banking customers. Overdue loans and advances as a percentage of gross loans and advances to customers rose by 10 basis points to 0.3% at 31 December 2015.

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:

	<i>At 31 December</i>		<i>At 31 December</i>	
	2015		2014	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Rescheduled loans and advances to customers	140	—	90	—

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 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\$140m at 31 December 2015, an increase of HK\$50m or 56% compared with the year-end mainly due to the downgrade of a commercial banking customer.

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. From 1 January 2015, 'Mainland China' is presented as a separate line as the balances under mainland China have exceeded 10% of the total loans and advances. Previously, 'Mainland China' and 'Others' were grouped under 'Rest of Asia Pacific'. Comparative figures for 2014 have been restated to conform with current year's presentation.

*Figures in HK\$m**At 31 December 2015*

	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	567,668	1,667	1,539	414	605
Mainland China	97,131	829	611	392	171
Others	25,762	9	1	1	32
	<u>690,561</u>	<u>2,505</u>	<u>2,151</u>	<u>807</u>	<u>808</u>

*Figures in HK\$m**At 31 December 2014 (restated)*

	<i>Gross loans and advances</i>	<i>Individually impaired loans and advances</i>	<i>Overdue loans and advances</i>	<i>Individually assessed allowances</i>	<i>Collectively assessed allowances</i>
Hong Kong	543,757	1,124	842	506	692
Mainland China	92,510	830	257	490	123
Others	24,002	9	6	3	24
	<u>660,269</u>	<u>1,963</u>	<u>1,105</u>	<u>999</u>	<u>839</u>

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:

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	43,951	41,676
Property investment	108,840	112,589
Financial concerns	5,556	5,499
Stockbrokers	32	531
Wholesale and retail trade	27,272	27,550
Manufacturing	21,478	21,501
Transport and transport equipment	9,608	7,530
Recreational activities	114	125
Information technology	3,821	2,935
Other	42,307	34,279
	262,979	254,215
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	16,446	15,710
Loans and advances for the purchase of other residential properties	158,275	143,541
Credit card loans and advances	25,982	24,175
Other	19,737	17,039
	220,440	200,465
Total gross loans and advances for use in Hong Kong	483,419	454,680
Trade finance	46,885	41,537
Gross loans and advances for use outside Hong Kong	160,257	164,052
Gross loans and advances to customers	690,561	660,269

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

Gross loans and advances to customers grew by HK\$30bn, or 5%, to HK\$691bn compared with the end of 2014.

Loans and advances for use in Hong Kong rose by 6%. Lending to the industrial, commercial and financial sectors grew by 3%. Lending to property development increased by 5% while lending to property investment fell by 3%. Lending to wholesale and retail trade remained broadly flat notwithstanding the weak performance in retail sales industry. Lending to manufacturing sector maintained relatively stable, due to loan repayment. The increase in lending to transport and transport equipment mainly reflecting new drawdown. Growth in lending to 'Other' was attributable to working capital financing for certain large corporate customers.

Lending to individuals increased by 10% compared with the year-end. The bank was able to maintain its market share for the mortgage business and grew its residential mortgage lending by 10% compared with the end of 2014. With effective marketing campaigns, credit card advances increased by 7%, supported by a 9% increase in cardholder spending and a 2% increase in the number of cards in circulation. Other loans to individuals grew by 16%, reflecting the success of the bank in expanding its consumer finance business.

Trade finance increased by 13% against the year-end as a result of the group's strategic repositioning to focus on core trade business.

Loans and advances for use outside Hong Kong fell by 2% compared with the end of 2014, mainly attributable to the repayment of loans granted by Hong Kong Office. Lending by Hang Seng China increased by 3% to HK\$67bn, mainly in mortgage lending reflecting our prudent risk management strategy in the light of the more challenging credit environment.

Financial investments

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Available-for-sale at fair value:		
- debt securities	285,808	205,747
- equity shares	4,633	44,039
- investment funds	9	10
Held-to-maturity debt securities at amortised cost	81,822	68,236
	<u>372,272</u>	<u>318,032</u>
Fair value of held-to-maturity debt securities	<u>84,571</u>	<u>70,829</u>
Treasury bills	152,014	107,503
Certificates of deposit	12,053	12,089
Other debt securities	203,563	154,391
Debt securities	367,630	273,983
Equity shares	4,633	44,039
Investment funds	9	10
	<u>372,272</u>	<u>318,032</u>
Debt securities:		
- listed in Hong Kong	19,138	12,574
- listed outside Hong Kong	127,989	66,786
	147,127	79,360
- unlisted	220,503	194,623
	<u>367,630</u>	<u>273,983</u>
Equity shares:		
- listed in Hong Kong	66	69
- listed outside Hong Kong	3,406	42,736
	3,472	42,805
- unlisted	1,161	1,234
	<u>4,633</u>	<u>44,039</u>
Investment funds:		
- unlisted	9	10
	<u>372,272</u>	<u>318,032</u>
Fair value of listed financial investments	<u>151,051</u>	<u>122,963</u>
Debt securities:		
Issued by public bodies:		
- central governments and central banks	223,589	156,879
- other public sector entities	25,959	19,636
	249,548	176,515
Issued by other bodies:		
- banks	75,840	63,682
- corporate entities	42,242	33,786
	118,082	97,468
	<u>367,630</u>	<u>273,983</u>
Equity shares:		
Issued by banks	4,096	43,556
Issued by corporate entities	537	483
	<u>4,633</u>	<u>44,039</u>
Investment funds:		
Issued by corporate entities	9	10
	<u>372,272</u>	<u>318,032</u>

Financial investments (continued)

Debt securities by rating agency designation

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
AA- to AAA	277,556	203,647
A- to A+	79,526	61,098
B+ to BBB+	8,136	6,670
Unrated	2,412	2,568
	<u>367,630</u>	<u>273,983</u>

Financial investments include treasury bills, certificates of deposit, other debt securities, equity shares and investment funds 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 grew by HK\$54bn, or 17%, compared with the year-end. Debt securities investments increased by HK\$94bn. Equity shares decreased by HK\$39bn, reflecting the bank's partial disposal of shareholding in Industrial Bank during 2015.

At 31 December 2015, about 99% of the group's holdings of debt securities were assigned investment grade ratings by rating agencies. The group did not hold any investments in structured investment vehicles, nor 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:

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Amounts due from:		
Placings with and advances to banks	23,753	29,571
Derivative financial instruments	1,292	443
Reverse repurchase agreements – non-trading	–	1,296
Loans and advances to customers	–	300
Other assets	37	27
	<u>25,082</u>	<u>31,637</u>
Amounts due to:		
Current, savings and other deposit accounts	1,468	1,440
Deposits from banks	10,231	3,811
Derivative financial instruments	3,171	2,224
Certificates of deposit and other debt securities in issue	4,000	6,493
Subordinated liabilities	2,325	5,817
Other liabilities	496	379
	<u>21,691</u>	<u>20,164</u>

During 2014, the bank issued perpetual capital instrument of HK\$6,981m that was included in the group's capital base as Basel III compliant additional tier 1 capital ('AT1') under the Banking (Capital) Rules to its immediate holding company reported under 'other equity instruments'. The balance of the AT1 capital instrument at 31 December 2015 remained unchanged at HK\$6,981m.

Interest in associates

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Share of net assets	<u>2,275</u>	<u>2,218</u>
	<u>2,275</u>	<u>2,218</u>

Intangible assets

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Present value of in-force long-term insurance business	11,431	8,263
Internally developed/ acquired software	461	461
Goodwill	<u>329</u>	<u>329</u>
	<u>12,221</u>	<u>9,053</u>

Other assets

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Items in the course of collection from other banks	6,922	5,182
Bullion	3,536	3,681
Prepayments and accrued income	3,717	3,820
Acceptances and endorsements	5,724	5,715
Reinsurers' share of liabilities under insurance contracts	5,782	2,776
Other accounts	<u>2,794</u>	<u>2,758</u>
	<u>28,475</u>	<u>23,932</u>

Current, savings and other deposit accounts

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Current, savings and other deposit accounts:		
- as stated in consolidated balance sheet	959,228	896,521
- structured deposits reported as trading liabilities	27,440	40,380
	986,668	936,901
By type:		
- demand and current accounts	86,644	76,807
- savings accounts	615,135	550,765
- time and other deposits	284,889	309,329
	986,668	936,901

Certificates of deposit and other debt securities in issue

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Certificates of deposit and other debt securities in issue:		
- as stated in consolidated balance sheet	5,191	12,402
- certificates of deposit in issue designated at fair value	3,491	2,994
- other structured debt securities in issue reported as trading liabilities	2,351	4,223
	11,033	19,619
By type:		
- certificates of deposit in issue	7,491	14,150
- other debt securities in issue	3,542	5,469
	11,033	19,619

Customer deposits, including current, savings and other deposits accounts, certificates of deposit and other debt securities in issue increased by HK\$41bn, or 4% to HK\$998bn compared with the end of 2014. Structured deposits, certificates of deposit and other debt securities in issue decreased due to the redemption of certificates of deposit.

At 31 December 2015, the advances-to-deposits ratio was 69.1%, compared with 68.8% at 31 December 2014.

Trading liabilities

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Other structured debt securities in issue	2,351	4,223
Structured deposits	27,440	40,380
Short positions in securities and others	33,126	27,984
	<u>62,917</u>	<u>72,587</u>

Trading liabilities decreased by HK\$10bn, or 13% to HK\$63bn, mainly reflecting the decrease in structured deposits.

Other liabilities

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Items in the course of transmission to other banks	7,586	7,508
Accruals	3,531	3,859
Acceptances and endorsements	5,724	5,715
Retirement benefit liabilities	1,013	1,615
Other	3,037	2,607
	<u>20,891</u>	<u>21,304</u>

Subordinated liabilities

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Nominal value	Description	
Amounts owed to HSBC Group undertakings		
US\$450m	Floating rate subordinated loan due July 2021 [†]	—
		3,490
US\$300m	Floating rate subordinated loan due July 2022	2,325
		<u>2,325</u>
		<u>5,817</u>
Representing:		
- measured at amortised cost		<u>2,325</u>
		<u>5,817</u>

[†] The bank exercised its option to redeem the subordinated loan at par of US\$450m.

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

Shareholders' funds

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Share capital	9,658	9,658
Retained profits	105,363	88,064
Other equity instruments	6,981	6,981
Premises revaluation reserve	16,777	15,687
Cash flow hedging reserve	(9)	(11)
Available-for-sale investment reserve		
- on debt securities	23	261
- on equity securities	1,916	16,751
Other reserves	1,272	1,802
Total reserves	<u>132,323</u>	<u>129,535</u>
Shareholders' funds	<u>141,981</u>	<u>139,193</u>
Return on average ordinary shareholders' equity	<u>20.7%</u>	<u>13.4%</u>

Shareholders' funds grew by HK\$3bn to HK\$142bn at 31 December 2015. Retained profits rose by HK\$17bn, mainly reflecting the growth in current year attributable profit, including the gain on partial disposal of Industrial Bank, after the appropriation of interim dividends paid during the year. The premises revaluation reserve increased by HK\$1bn, reflecting an increase in fair value of the group's premises.

The available-for-sale investment reserve for equity securities decreased by HK\$15bn compared with 2014 year end, reflecting the partial disposal of the bank's investment in Industrial Bank during the year.

The return on average ordinary shareholders' equity was 20.7%, compared with 13.4% for 2014. Excluding the financial impact of Industrial Bank-related items in both years, the return on average ordinary shareholders' equity was 13.8%, compared with 14.3% for 2014.

There was no purchase, sale or redemption by the bank, or any of its subsidiaries, of the bank's listed securities during 2015.

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 2015, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$6,610m (31 December 2014: HK\$6,229m).

There are no relevant capital shortfalls in any of the group's subsidiaries at 31 December 2015 (31 December 2014: nil) which are not included in its consolidation group for regulatory purposes.

The Banking (Capital) (Amendment) Rules 2014 came into effect on 1 January 2015 to implement the Basel III capital buffer requirements in Hong Kong. The changes include the phasing-in from 2016 to 2019 of the Capital Conservation Buffer ('CCB') which is designed to ensure banks build up capital outside periods of stress of 2.5% of risk-weighted assets, the Countercyclical Capital Buffer ('CCyB') which is set on an individual country basis and is built up during periods of excess credit growth to protect against future losses, and the Higher Loss Absorbency ('HLA') requirements for Domestic Systemically Important Banks ('D-SIB'). On 27 January 2015 and 14 January 2016, the HKMA announced a CCyB for Hong Kong of 0.625% and 1.25% of risk-weighted assets from 1 January 2016 and 1 January 2017 respectively under the phase-in arrangements of Basel III, equivalent to 2.5% once fully phased in. On 16 March 2015 and 31 December 2015, the HKMA announced its designation of the bank as a D-SIB in Hong Kong and required the bank to establish 0.375% and 0.75% of risk-weighted assets for HLA from 1 January 2016 and 1 January 2017 respectively under the phase-in arrangement, equivalent to 1.5% on full implementation.

During the year, the group has complied with all of the externally imposed capital requirements by the HKMA.

Capital management (continued)

(a) Capital base

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	120,963	120,407
- Shareholders' equity per balance sheet	141,981	139,193
- AT1 perpetual capital instrument	(6,981)	(6,981)
- Unconsolidated subsidiaries	(14,037)	(11,805)
Regulatory deductions to CET1 capital	(30,687)	(47,201)
- Cash flow hedging reserve	(11)	-
- Changes in own credit risk on fair valued liabilities	(6)	(4)
- Property revaluation reserves ¹	(23,135)	(21,784)
- Regulatory reserve	(6,610)	(6,229)
- Intangible assets	(421)	(417)
- Defined benefit pension fund assets	(35)	(35)
- Deferred tax assets net of deferred tax liabilities	(115)	(80)
- Valuation adjustments	(354)	(325)
- Significant capital investments in unconsolidated financial sector entities	-	(8,436)
- Excess AT1 deductions	-	(9,891)
Total CET1 Capital	90,276	73,206
AT1 Capital		
Total AT1 capital before regulatory deductions	6,981	6,981
- Perpetual capital instrument	6,981	6,981
Regulatory deductions to AT1 capital	-	(6,981)
- Significant capital investments in unconsolidated financial sector entities	-	(16,872)
- Excess AT1 deductions	-	9,891
Total AT1 Capital	6,981	-
Total Tier 1 ('T1') Capital	97,257	73,206
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	15,746	17,733
- Term subordinated debt	2,325	5,117
- Property revaluation reserves ¹	10,411	9,803
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	3,010	2,813
Regulatory deductions to T2 capital	(315)	(17,187)
- Significant capital investments in unconsolidated financial sector entities	(315)	(17,187)
Total T2 Capital	15,431	546
Total Capital	112,688	73,752

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

Capital management (continued)**(b) Risk-weighted assets by risk type**

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Credit risk	446,753	418,880
Market risk	13,698	5,749
Operational risk	49,023	45,538
Total	<u>509,474</u>	<u>470,167</u>

(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:

	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
CET1 capital ratio	17.7 %	15.6 %
T1 capital ratio	19.1 %	15.6 %
Total capital ratio	22.1 %	15.7 %

The Basel III rules set out the minimum capital requirements, to be phased in sequentially from 1 January 2013 and become fully effective on 1 January 2019. On a pro-forma basis that takes no account of, for example, any future profits or management action and any change in the current regulations or their application before full implementation, the group's capital ratios at Basel III end point are the same as above. Given the pro-forma Basel III end point basis position is a mechanical application of the current rules to the capital base as at 31 December 2015, it is not a projection.

(d) Capital instruments

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

<i>Figures in HK\$m</i>	<i>Amount recognised in regulatory capital</i>	
	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
CET1 capital instruments		
Ordinary shares:		
1,911,842,736 issued and fully paid ordinary shares	9,658	9,658
AT1 capital instruments		
Perpetual capital instrument (nominal value: US\$900m)	6,981	6,981
T2 capital instruments		
Subordinated loan due 2021 (nominal value: US\$450m)	—	2,790
Subordinated loan due 2022 (nominal value: US\$300m)	2,325	2,327

Capital management (continued)**(e) Leverage ratio**

The Leverage Ratio ('LR') was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. The ratio is a volume-based measure calculated as Basel III T1 capital divided by exposure measure representing total on and off balance sheet exposures. In accordance with the Basel III framework, there will be a parallel run period for the LR from 2013 to 2017. The group is required under section 45A(6) of the Banking (Disclosure) Rules ('BDR') to disclose its LR calculated on a consolidated basis effective from 31 March 2015. Comparative figures are not required as this is the first year of disclosure.

	<u>At 31 December 2015</u>
Leverage ratio	7.8%
<i>Figures in HK\$m</i>	
T1 capital	97,257
Exposure measure	1,248,642

(f) Additional information

To comply with the 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.
- A detailed breakdown of leverage ratio including the exposure measure and a summary comparison table using the standard templates as specified by the HKMA.

Liquidity information

The Banking (Liquidity) Rules ('BLR'), effective on 1 January 2015, signified the implementation of Liquidity Coverage Ratio ('LCR') for category 1 Institution under Basel III liquidity standards in Hong Kong. The liquidity information disclosures reported for the quarters ended 31 December, 30 September, 30 June and 31 March 2015 under Basel III are therefore not directly comparable with the disclosures reported for the year ended 31 December 2014.

The group is required under rule 11(1) of the BLR to calculate its LCR on a consolidated basis. During the year of 2015, the group is required to maintain an LCR of not less than 60%, increasing to not less than 100% by January 2019. The average LCR for the reportable period is as follows:-

	<i>Quarter ended 31 December 2015</i>	<i>Quarter ended 30 September 2015</i>	<i>Quarter ended 30 June 2015</i>	<i>Quarter ended 31 March 2015</i>
Average Liquidity Coverage Ratio	<u>195.0%</u>	<u>237.2%</u>	<u>221.6%</u>	<u>167.4%</u>

The liquidity position of the group remained strong in 2015. The average LCR ranged from 167.4% to 237.2% for the reportable quarters. The increase in average LCR for the second and third quarters mainly reflecting the increase in high quality liquid assets as a result of redeployment of the sale proceeds from the partial disposal of the bank's investment in Industrial Bank.

To comply with the Banking (Disclosure) Rules, the details of liquidity information can be found in the Regulatory Disclosures section of our website www.hangseng.com.

The average liquidity ratio, for the year ended 31 December 2014, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance is as follows:

Average liquidity ratio of the bank and its subsidiaries designated by the HKMA	<u>2014</u> <u>34.7 %</u>
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Contingent liabilities, commitments and derivatives

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>	<i>At 31 December 2014</i>
Direct credit substitutes	7,558	4,541
Transaction-related contingencies	3,336	2,474
Trade-related contingencies	11,217	13,355
Forward asset purchases	—	85
Commitments that are unconditionally cancellable without prior notice	323,270	280,000
Commitments which have an original maturity of not more than one year	2,642	4,286
Commitments which have an original maturity of more than one year	22,126	26,029
Contract amounts	370,149	330,770
Risk-weighted amounts	36,227	31,464

The table above gives the nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a consolidated basis as specified by the HKMA under the requirement of section 3C(1) of the Banking (Capital) Rules.

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amounts</i>	<i>Risk- weighted amounts</i>	<i>Fair value</i>
<i>At 31 December 2015</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	556,913	1,365	1,858
Other exchange rate contracts	146,297	5,496	3,084
	<u>703,210</u>	<u>6,861</u>	<u>4,942</u>
Interest rate contracts:			
Interest rate swaps	268,924	263	32
Other interest rate contracts	948	—	—
	<u>269,872</u>	<u>263</u>	<u>32</u>
Other derivative contracts	<u>15,581</u>	<u>418</u>	<u>248</u>
	<i>Contract amounts</i>	<i>Risk- weighted amounts</i>	<i>Fair value</i>
<i>Figures in HK\$m</i>			
<i>At 31 December 2014</i>			
Exchange rate contracts:			
Spot and forward foreign exchange	556,036	1,525	1,530
Other exchange rate contracts	132,135	5,473	2,599
	<u>688,171</u>	<u>6,998</u>	<u>4,129</u>
Interest rate contracts:			
Interest rate swaps	228,436	405	204
Other interest rate contracts	2,130	—	1
	<u>230,566</u>	<u>405</u>	<u>205</u>
Other derivative contracts	<u>7,661</u>	<u>394</u>	<u>157</u>

The above table is compiled in accordance with the 'Capital Adequacy Ratio' return submitted to the HKMA. This return is prepared using a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

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 which is prepared on the group's basis of consolidation for accounting purposes. Therefore, the contract amounts are different from those disclosed under the Banking (Capital) Rules.

<i>Figures in HK\$m</i>	<i>At 31 December 2015</i>			<i>At 31 December 2014</i>		
	<i>Trading</i>	<i>Designated at fair value</i>	<i>Hedging</i>	<i>Trading</i>	<i>Designated at fair value</i>	<i>Hedging</i>
Contract amounts:						
Interest rate contracts	213,414	3,500	57,640	191,497	3,000	41,153
Exchange rate contracts	819,332	—	15,359	867,294	—	4,332
Other derivative contracts	23,901	—	—	16,428	—	—
	<u>1,056,647</u>	<u>3,500</u>	<u>72,999</u>	<u>1,075,219</u>	<u>3,000</u>	<u>45,485</u>
Derivative assets:						
Interest rate contracts	875	20	84	760	—	42
Exchange rate contracts	9,875	—	388	5,878	—	491
Other derivative contracts	353	—	—	250	—	—
	<u>11,103</u>	<u>20</u>	<u>472</u>	<u>6,888</u>	<u>—</u>	<u>533</u>
Derivative liabilities:						
Interest rate contracts	867	—	429	640	1	538
Exchange rate contracts	8,273	—	163	5,044	—	10
Other derivative contracts	256	—	—	229	—	—
	<u>9,396</u>	<u>—</u>	<u>592</u>	<u>5,913</u>	<u>1</u>	<u>548</u>

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. 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 2015 ('2015 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 22 February 2016.

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.

The accounting policies and methods of computation adopted by the group for this news release are consistent with those described on pages 152 to 171 of the 2014 accounts.

There were no new accounting standards applied during the year ended 31 December 2015.

During 2015, the group adopted a number of amendments to accounting standards which had an insignificant effect on the consolidated financial statements.

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

In accordance with the requirements of Part 9 'Accounts and Audit' of the new Hong Kong Companies Ordinance (Cap. 622) which came into operation during the financial year, there are changes to presentation and disclosure of certain information in the group's consolidated financial statements.

Additional information (continued)

3. Major transaction – Partial disposal of the bank’s shareholding in Industrial Bank

On 10 February 2015, the bank entered into a placing agreement with Goldman Sachs Gao Hua Securities Company Limited to sell 5% (representing 952,616,838 ordinary shares) of its shareholding of the ordinary shares of Industrial Bank Co., Ltd. (‘Industrial Bank’), at a price of RMB13.36 per share (approximately HK\$16.58 per share). The disposal price represented 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.

On 12 May 2015, the bank entered into another placing agreement with Goldman Sachs Gao Hua Securities Company Limited and UBS Securities Co. Limited to sell 4.99% (representing 950,700,000 ordinary shares) of the ordinary shares of Industrial Bank, at a price of RMB17.68 per share (approximately HK\$22.08 per share). The price per share represented a discount of approximately 5.96% to the closing price of Industrial Bank’s shares on the Shanghai Stock Exchange on the date of entry into the placing agreement. This transaction, together with the previous transaction in February 2015 mentioned above, raised approximately RMB30bn (approximately HK\$37bn) for the bank, before expenses.

The net gain on the sale of the shares on the two transactions mentioned above was HK\$10.6bn, representing the difference between the consideration and the carrying value of such shares at 31 December 2014 in the bank’s and the group’s financial statements, together with the reclassification of the related cumulative foreign exchange and revaluation reserve less the tax effect and expenses of the transactions. Following completion of the two transactions, the bank’s remaining shareholding in Industrial Bank represents approximately 0.88% of the ordinary shares of Industrial Bank.

Since there are significant financial implications as a result of the recognition of the gain on partial disposal in the income statement of 2015, the key financial results and performance metrics are not directly comparable with 2014. For comparison, we have prepared the following key financial results and performance metrics by excluding the financial impact of Industrial Bank-related items in both years.

Figures in HK\$m	Year ended 31 December 2015			Year ended 31 December 2014			Change	
	As reported	IB adjustment [†]	Adjusted	As reported	IB adjustment [†]	Adjusted	As reported	Adjusted
Net interest income	21,165	—	21,165	19,871	—	19,871	7%	7%
Non-interest income	9,882	(119) ^{††}	9,763	10,336	(1,190) ^{††}	9,146	(4%)	7%
Net operating income before loan impairment charges	31,047	(119)	30,928	30,207	(1,190)	29,017	3%	7%
Operating profit	19,433	(119)	19,314	19,450	(1,190)	18,260	0%	6%
Net gain on partial disposal of IB	10,636	(10,636)	—	—	—	—	n.a.	n.a.
Impairment of investment in IB	—	—	—	(2,103)	2,103	—	n.a.	n.a.
Profit before tax	30,488	(10,755)	19,733	18,049	913	18,962	69%	4%
Tax expense	(2,994)	12 ^{††}	(2,982)	(2,918)	119 ^{††}	(2,799)	3%	7%
Attributable profit	27,494	(10,743)	16,751	15,131	1,032	16,163	82%	4%

[†] IB adjustment refer to the net gain on partial disposal of the investment in IB in 2015, the impairment of investment in IB in 2014 and dividends from investment in IB in both years.

^{††} Represented the gross dividend of HK\$119m (2014: HK\$1,190m) received from IB reported under ‘non-interest income’ and related tax charges of HK\$12m (2014: HK\$119m) reported under ‘tax expense’.

Additional information (continued)

3. Major transaction – Partial disposal of the Bank’s shareholding in Industrial Bank
(continued)

	Year ended 31 December 2015			Year ended 31 December 2014			Change [#]	
	As reported	IB adjustment [†]	Adjusted	As reported	IB adjustment [†]	Adjusted	As reported	Adjusted
Earnings per share (HK\$)	14.22	(5.62)	8.60	7.91	0.54	8.45	80%	2%
Return on average ordinary shareholders’ equity (%)	20.7	(6.9)	13.8	13.4	0.9	14.3	7.3pp	(0.5pp)
Return on average total assets (%)	2.1	(0.8)	1.3	1.3	0.0	1.3	0.8pp	0.0pp

[†] IB adjustment refers to the net gain on partial disposal of the investment in IB in 2015, the impairment of investment in IB in 2014 and dividends from investment in IB in both years.

[#] Change in ‘pp’ represents change in percentage points.

4. Comparative figures

Certain comparative figures have been restated to conform with current year’s presentation.

5. Property revaluation

The group’s premises and investment properties were revalued at 30 November 2015 and updated for any material changes at 31 December 2015 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\$1,878m was credited to the premises revaluation reserve. The related deferred tax provision for group premises was HK\$314m. Revaluation gains of HK\$261m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

Additional information (continued)

6. 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 certain 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 2015, the Chinese renminbi ('RMB') 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.

<i>Figures in HK\$m</i>	<u>US\$</u>	<u>RMB</u>	<u>Other foreign currencies</u>	<u>Total foreign currencies</u>
<i>At 31 December 2015</i>				
Non-structural position				
Spot assets	204,267	148,933	137,573	490,773
Spot liabilities	(169,779)	(128,759)	(66,796)	(365,334)
Forward purchases	320,566	153,574	35,151	509,291
Forward sales	(355,062)	(170,630)	(106,024)	(631,716)
Net options position	<u>212</u>	<u>(328)</u>	<u>121</u>	<u>5</u>
Net long non-structural position	<u>204</u>	<u>2,790</u>	<u>25</u>	<u>3,019</u>
Structural position	<u>—</u>	<u>15,238</u>	<u>816</u>	<u>16,054</u>

Additional information (continued)

6. Foreign currency positions (continued)

<i>Figures in HK\$m</i>	<u>US\$</u>	<u>RMB</u>	<u>Other foreign currencies</u>	<u>Total foreign currencies</u>
<i>At 31 December 2014</i>				
Non-structural position				
Spot assets	188,559	163,709	83,596	435,864
Spot liabilities	(157,303)	(159,501)	(64,874)	(381,678)
Forward purchases	325,133	147,597	69,666	542,396
Forward sales	(347,341)	(151,149)	(88,460)	(586,950)
Net options position	<u>205</u>	<u>(276)</u>	<u>74</u>	<u>3</u>
Net long non-structural position	<u>9,253</u>	<u>380</u>	<u>2</u>	<u>9,635</u>
Structural position	<u>—</u>	<u>52,993</u>	<u>669</u>	<u>53,662</u>

7. Ultimate holding company

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

8. Register of shareholders

The register of shareholders of the bank will be closed on Wednesday, 9 March 2016, during which no transfer of shares can be registered. To qualify for the fourth interim dividend and the special interim dividend for 2015, 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, 8 March 2016. The fourth interim dividend and the special interim dividend will be payable on Tuesday, 29 March 2016 to shareholders whose names appear on the register of shareholders of the bank on Wednesday, 9 March 2016. Shares of the bank will be traded ex-dividend as from Monday, 7 March 2016.

Additional information (continued)**9. 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 fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2015. To ensure that it is in line with international and local corporate governance best practices, the bank will constantly review and enhance its corporate governance framework.

The Audit Committee of the bank has reviewed the results of the bank for the year ended 31 December 2015.

10. Board of Directors

At 22 February 2016, 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, Mr Patrick K W Chan, Dr Henry K S Cheng*, Ms L Y Chiang*, Mr Andrew H C Fung, Dr Fred Zulu 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

11. News release

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

The 2015 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 2015 Annual Report will be sent to shareholders in late-March 2016.

Media enquiries to:

Walter Cheung

Telephone: (852) 2198 4020

Ruby Chan

Telephone: (852) 2198 4236