20 February 2018

HANG SENG BANK LIMITED
2017 ANNUAL RESULTS - HIGHLIGHTS

- Operating profit up 24% to HK$23,547m (HK$19,034m in 2016).
- Profit before tax up 24% to HK$23,674m (HK$19,090m in 2016).
- Attributable profit up 23% to HK$20,018m (HK$16,212m in 2016).
- Operating profit excluding loan impairment charges and other credit risk provisions up 21% to HK$24,589m (HK$20,347m in 2016).
- Return on average ordinary shareholders' equity of 14.2% (12.1% in 2016).
- Earnings per share up 24% to HK$10.30 per share (HK$8.30 per share in 2016).
- Fourth interim dividend of HK$3.10 per share; total dividends of HK$6.70 per share for 2017 (HK$6.10 per share in 2016).
- Common equity tier 1 ('CET1') capital ratio of 16.5%, tier 1 ('T1') capital ratio of 17.7% and total capital ratio of 20.1% at 31 December 2017. (CET1 capital ratio of 16.6%, T1 capital ratio of 17.9% and total capital ratio of 20.8% at 31 December 2016.)
- Cost efficiency ratio of 30.5% (33.5% in 2016).

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

The financial information in this press release is based on the audited consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the year ended 31 December 2017.

Comment by Raymond Ch'ien, Chairman

The international economy regained its footing in 2017. The US and the eurozone recorded full-year growth rates of 2.3% and 2.5% respectively, compared with 1.5% and 1.8% in 2016.

Hang Seng leveraged its strong market position and growing technological capabilities to capitalise on improved customer appetite for investment and the active property sector in Hong Kong. Investments in our digital and mobile channels, as well as our physical outlets, created more opportunities for customer contact, supporting robust balance sheet growth.

Attributable profit grew by 23% to HK$20,018m and earnings per share increased by 24% to HK$10.30 per share.

Return on average ordinary shareholders' equity was 14.2%, compared with 12.1% in 2016. Return on average total assets was 1.4%, compared with 1.2% for the previous year.

The Directors have declared a fourth interim dividend of HK$3.10 per share. This brings the total distribution for 2017 to HK$6.70 per share, compared with HK$6.10 per share in 2016.

Economic Environment

Benefitting from the positive shift in the external environment, Hong Kong's economic growth averaged 4% in the first three quarters of 2017. Further US rate rises will put upward pressure on local interest rates, but given the current abundant liquidity in the domestic market, the impact is likely to be modest. We expect full-year GDP growth to slow slightly to 2.8% for 2018, due largely to the high base of comparison established last year.

Growth in mainland China picked up by 0.2 percentage points to 6.9% in 2017. Trade has rebounded on the back of the stronger global economy, but ongoing economic deleveraging on the domestic front has seen a slowdown in investment growth. With the mainland economy now settling into the 'new normal' era of development, we forecast full-year GDP growth of 6.6% for 2018.

The Fed's intention to continue gradually raising interest rates and the European Central Bank's move to begin scaling back quantitative easing indicate growing confidence that the global economy has returned to a more even keel. However, factors such as longer term shifts in international trade patterns and economic transition on the Mainland mean that operating conditions for our business will remain dynamic.

Since taking up her position in July, Hang Seng Vice-Chairman and Chief Executive Louisa Cheang has built on the good growth momentum established by her predecessor. Her vision and drive in continuing to strengthen the Bank's overall management capabilities will lead Hang Seng to new successes.

We will make further investments in strengthening customer relationships, enhancing efficiency and the ability to respond swiftly to new business opportunities and market developments. We will continue to take a proactive approach to achieving sustainable growth through service excellence to deliver value for shareholders.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

In today's fast-moving market environment, customers value a personalised banking experience that offers greater control and choice, and services that are convenient and easy to use. As an integral part of our customer-centric business strategy, we are delivering on these expectations through investments in technology, staff development and operational infrastructure.

Our progressive approach to enhancing customer engagement and addressing the changing face of banking and financial services led to a strong set of results for 2017. Operating profit grew by 24% to reach a record high of HK$23,547m, with healthy and balanced expansion in lending and deposits.

We deepened our understanding of the preferences and lifestyles of clients through effective use of data analytics. Supported by our customer segmentation strategy, we anticipated their evolving needs, leveraging our comprehensive portfolio of wealth-and-health offerings to provide products and services in a timely manner. Along with our trusted brand, this facilitated the acquisition of new customers and good growth in wealth management income.

To strengthen our engagement with customers where they live, work and play, we continued to modernise, diversify and digitise our distribution channels, launching innovative and inclusive solutions that enhance convenience and enrich our customer-centred service proposition. Initiatives such as biometric authentication and real-time transaction updates on mobile devices reflect our drive to make banking with Hang Seng a fast, secure and value-added experience. In December, we launched a mobile branch to serve public housing estates in remote areas of Hong Kong.

We consolidated our Hang Seng Bank (China) Limited operations by re-establishing our strategic priorities and portfolio on the Mainland. We also took steps to enhance our business agility and ensure we are better prepared to comply with future changes in the regulatory environment. Hang Seng China recorded balanced growth in loans and deposits and enhanced overall credit quality, but tighter lending margins had an adverse impact on the bottom line.

In line with our long-term commitment to the mainland market, we continued to invest in strengthening our service scope and distribution capabilities. In April, we launched our first public fund for mainland investors through Hang Seng Qianhai Fund Management Company Limited, our foreign-majority-owned joint venture fund management company.

We rolled out new initiatives to more effectively engage staff and improve their well-being. This is driving a stronger sense of empowerment and brand ownership among our people that will help us build closer relationships with customers and the local community.

Financial Performance

Attributable profit grew by 23% to HK$20,018m and earnings per share were up 24% at HK$10.30 per share. Profit before tax rose by 24% to HK$23,674m.

Operating profit excluding loan impairment charges grew by 21% to HK$24,589m.

Net operating income rose by 17% to HK$34,315m.

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

Net interest income was up 10% at HK$24,577m, reflecting the 6% increase in average interest-earning assets, an enhanced deposit mix and the improved net interest margin, which rose by 9 basis points to 1.94%.

Non-interest income grew by 29% to HK$10,780m. In the upbeat investment environment, we used our enhanced data analytics capabilities and diverse range of wealth-and-health products to provide customers with tailored wealth management solutions. Our securities broking business also performed strongly in the supportive market conditions. Wealth management income increased by 33% to HK$8,769m.

Our cost efficiency ratio was 30.5%, compared with 33.5% in 2016.

At 31 December 2017, our common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio were 16.5%, 17.7% and 20.1% respectively, compared with 16.6%, 17.9% and 20.8% at the end of 2016.

Engaging For Future Growth

The global economy regained momentum during 2017 and this has continued into the new year. At the same time, the impact of ongoing economic adjustment on the Mainland and potential future shifts in international trade policies may create new challenges for business.

Our forward-looking approach to business is driven by the desire to help our customers achieve their aspirations by providing financial services that are efficient, add value and are convenient to use. In line with our long-standing support of various successful community programmes for youth development, we are building a strong pipeline for future growth by serving customers of today better and increasing our appeal among younger generations as the customers of tomorrow.

Backed by our firm financial fundamentals, we will continue to leverage competitive advantages – including our trusted brand, extensive distribution and large base of customers – that are not easily replicated by our peers.

We will strengthen client engagement by extending our service reach, enhancing efficiency and supporting the development of customised wealth management solutions that address evolving customer needs and market complexities.

As Hong Kong's leading domestic bank, we will launch more fintech initiatives that align with our customer-centric business strategy to help drive in a new era of 'smart banking' in our city. In January this year, we rolled out Hong Kong's first AI virtual assistants for retail banking customers.

The sharper focus of our mainland business and our highly integrated cross-border infrastructure will serve us well in maintaining the growth momentum of our core banking services and capitalising on new opportunities created by major policy initiatives and financial liberalisation on the Mainland. Our Qianhai JV's second public fund was recently approved and will be launched in the coming months.

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

We will continue to improve staff engagement to ensure we provide the workplace environment, support and career development opportunities our people need to reach their potential, enjoy job satisfaction and become great ambassadors of our brand. I wish to express sincere thanks to all my colleagues for their contributions to achieving Hang Seng's strong 2017 results and advancing our strategy for sustainable growth as a progressive, customer-centred business.

As we move forward alongside our clients, integrity, innovation and inclusion will remain central in our actions to achieve our strategic goals and deliver service excellence as a financial institution and good corporate citizen.

Results Summary

Leveraging its trusted brand and strong market position, Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') made good progress with its customer-centred strategy to achieve strong results for 2017. **Operating profit** grew by HK$4,513m, or 24% to HK$23,547m. **Operating profit excluding loan impairment charges and other credit risk provisions** was HK$24,589m, up 21% compared with 2016. **Profit before tax** increased by 24% to HK$23,674m. **Profit attributable to shareholders** rose by 23% to HK$20,018m.

Net interest income grew by HK$2,323m, or 10%, to HK$24,577m, reflecting the 6% increase in average interest-earning assets, an enhanced deposit mix and the improved net interest margin. The increase in average interest-earning assets was supported by the 9% rise in average customer lending, with notable growth in corporate and commercial lending and mortgage loans. Average customer deposits grew by 5%, reflecting successful steps to strengthen the deposits acquisition pipeline. Effective interest rate risk management drove an improvement in balance sheet management income. The average customer deposits spread widened as a result of the change in deposit mix, with increased contribution from low-cost savings and current account balances. The average loan spread on customer lending narrowed, most notably on corporate and commercial term loans. Net interest margin and net interest spread improved by 9 basis points to 1.94% and 1.85% respectively while contribution from net free funds was unchanged at 0.09%.

Net fee income increased by HK$816m, or 14%, to HK$6,755m, as the Bank continued to pursue a balanced growth strategy through service enhancements and diversification of revenue. The Group captured opportunities arising from improved investment sentiment and registered strong growth in fee income from securities-related services and retail investment funds, which increased by 42% and 20% respectively. The Group made effective use of its diversified business platform to sustain the good growth momentum in core number of business. Fee from account services and remittances rose by 10% and 12% respectively, underpinned by increased business volumes as a result of the Bank's initiatives to facilitate cross-border transactions by customers. Gross fee income from credit card business grew by 10%, with the Bank's effective marketing and premium customer base supporting increases in card spending and the number of cards in circulation. Our good progress in syndicated lending business led to an 18% increase in credit facilities fee income. Insurance commission, however, fell by 13%, reflecting the impact of the one-off distribution fees received from our exclusive partnership arrangement with Bupa in 2016.

Net trading income grew by HK$699m, or 41%, to HK$2,384m. Foreign exchange income was up HK$520m, or 33%, due mainly to the increase in customer activity. There was also a gain on cross-currency swaps supporting life insurance contracts compared with a loss in 2016.

Income from interest rate derivatives, debt securities, equities and other trading activities increased by HK$200m to reach HK$300m. Income from sales of the Bank's equity-linked structured products recorded higher income but the loss of equity-linked derivatives products in the life insurance business investment portfolio was higher as a result of the unfavourable fair value movement when compared with 2016. The favourable market interest rate movement also benefitted interest rate derivatives trading and debt securities income.

Net income from financial instruments designated at fair value increased by HK$1,700m to reach HK$1,773m, reflecting improved returns on financial assets supporting insurance contracts liabilities as a result of the upward trend in the equities market. 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 and movement in present value of in-force long-term insurance business ('PVIF').

Income from insurance business (included under 'net interest income', 'net fee income', 'net trading income', 'net income from financial instruments designated at fair value', 'gains less losses from financial investments', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and 'other' within 'other operating income', 'share of profits from associates', and after deducting 'net insurance claims and benefits paid and movement in liabilities to policyholders') increased by HK$1,275m, or 37%, to HK$4,731m. Net interest income and fee income from life insurance business grew by 2%, with the net inflow from new and renewed life insurance premiums resulting in a growth in the size of the life insurance funds investment portfolio. Investment returns on life insurance business recorded a gain of HK$1,761m, compared with a loss of HK$239m in the previous year, driven partly by gains on the equities portfolio as a result of the favourable movement of equities market. The improvement in investment returns also reflects a gain on cross-currency swaps supporting insurance business for 2017 compared with a loss in 2016. 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 and movement in present value of in-force long-term insurance business ('PVIF') under other operating income.

Net insurance premium income increased by 16%, reflecting the combined effects of higher sales of annuity and traditional whole life products and increased renewal business. The rise in insurance premiums was largely offset by a corresponding movement in net insurance claims and benefits paid and movement in liabilities to policyholders.

The movement in PVIF decreased by 59%, reflecting the net result of market conditions, the update in actuarial assumptions and new business written throughout the year. General insurance and other income dropped by 16%, reflecting the impact of the one-off distribution fees received from our exclusive partnership arrangement with Bupa in 2016.

Loan impairment charges and other credit risk provisions fell by HK$271m, or 21%, to HK$1,042m. Through active management of our loan portfolio, we enhanced overall credit quality. Gross impaired loans and advances fell by HK$1,265m, or 39%, to HK$1,970m against 2016 year-end, due mainly to loan repayment, write-offs and the disposal of certain corporate exposures. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.24% at the end of December 2017, compared with 0.42% at the end of June 2017 and 0.46% at the end of December 2016.

Individually assessed impairment charges fell by HK$96m, or 18%, to HK$443m. There was a reduction in new and additional impairment charges, due mainly to lower impairment charges for commercial banking customers in mainland China in 2017 although this was partly offset by higher impairment charge for commercial banking customers in Hong Kong.

Collectively assessed impairment charges decreased by HK$175m, or 23%, to HK$599m, due largely to the reductions in collectively assessed impairment charges on the credit card and personal loan portfolios. There was an increase in impairment charges for loans not individually identified as impaired, due mainly to higher loan growth for Hong Kong loan portfolios in 2017, partly offset by lower charges for mainland loan portfolios as a result of the improvement in the historical loss rate. The Group maintains a cautious outlook on the credit environment and will continue to proactively enhance asset quality by upholding a prudent approach in its efforts to grow the loan portfolio.

Operating expenses rose by HK$516m, or 5%, to HK$10,768m, reflecting the Bank's continued investment in new business platforms and service capabilities. Staff costs increased by 7%, due to the salary increment, higher performance-related pay expenses and increased staff numbers to support business expansion.

Depreciation charges were up 10%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation last year and an increase in depreciation on a bank property as a result of the change in property usage to support back-office functions.

General and administrative expenses increased by 2%, due mainly to higher processing charges and continued investment in information technology infrastructure. Marketing and advertising expenses were lower as, with effective from April 2016, certain expenditures in respect of credit card loyalty programmes are now presented in 'Fee expense' to more appropriately reflect the nature of this item.

With the increase in net operating income before loan impairment charges outpacing the growth in operating expenses, the cost efficiency ratio reduced by 3.0 percentage points to 30.5%.

Profit before tax increased by HK$4,584m, or 24%, to HK$23,674m after taking the following major items into account:

- a revaluation surplus of HK$141m compared with a revaluation deficit of HK$37m in 2016 in **net surplus/(deficit) on property revaluation**; and
- a loss of HK$14m compared with a profit of HK$93m in **share of profits/(losses) from associates**, mainly from a revaluation deficit on a property investment company.

Second half of 2017 compared with first half of 2017

Against the first half of 2017, the Group continued to make good progress and achieved growth in revenues to return solid results for the second half. Attributable profit in the second half grew by HK$342m, or 3%, compared with the first half, driven mainly by increases in net interest income and share of profits from associates as well as a reduction in loan impairment charges. These were partly offset by a reduction in non-interest income and an increase in operating expenses.

Net interest income grew by HK$949m, or 8%, due mainly to the 6% increase in average interest-earning assets, more calendar days in the second half and a stable net interest margin. Effective portfolio management and focused customer and deposit acquisition strategies drove increases in average customer loans and deposits in the second half. The net interest margin in the second half was unchanged from the first half of 2017 at 1.94%.

Non-interest income decreased by HK$906m, or 16%. There was an improvement in investment income, reflecting higher income from securities-related services, but this was more than offset by lower insurance income, due mainly to lower sales and the update of actuarial assumptions.

Operating expenses increased by 5%, due mainly to an increase in general and administrative expenses. Loan impairment charges dropped by 44%, reflecting lower individually and collectively assessed impairment charges. The Bank continued to uphold high standards of credit risk management and enhanced the overall credit quality.

Consolidated balance sheet and key ratios

Assets

Total assets rose by HK$101bn, or 7%, to HK$1,478bn at 31 December 2017 compared with 2016-year end, reflecting good progress with the Group's strategy to enhance profitability through sustainable business growth.

Cash and sight balances at central banks decreased by HK$1.6bn, or 7%, to HK$22bn, mainly reflecting the redeployment of surplus funds to maximise returns.

Trading assets rose by HK$9bn, or 21%, to HK$54bn, reflecting increased Exchange Fund Bills and Notes, partly offset by the decreased balances in settlement accounts.

Customer loans and advances (net of impairment allowances) grew by HK$108bn, or 15%, to HK$807bn, compared with the end of 2016. Loans for use in Hong Kong increased by 16%. Lending to industrial, commercial and financial sectors grew by 19%, mainly reflecting increased lending to clients in the property development and investment, financial concerns and transportation as well as working capital financing for certain large corporate customers. Lending to individuals sector increased by 11% compared with the end of 2016. The Group maintained its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending growing by 8% and 24% respectively. Effective marketing campaigns and the Bank's good quality customer base drove an 8% increase in credit card advances and a 22% rise in other personal lending. With a focus on growing core trade business, the Bank recorded a 9% rise in trade finance lending. Loans and advances for use outside Hong Kong rose by 16%, reflecting an increase in mainland-related lending and loans granted by the Hong Kong office.

Financial investments decreased by HK$13bn, or 3%, to HK$385bn, reflecting redeployment to higher yielding lending assets.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$86bn, or 8%, to HK$1,115bn since 2016 year-end, with increased contribution from savings and current accounts. At 31 December 2017, the advances-to-deposits ratio was 72.3%, compared with 67.9% at 31 December 2016.

Liabilities and equity *(continued)*

Shareholders' equity increased by HK$11bn, or 8%, to HK$152bn compared with 2016 year-end. Retained profits grew by HK$8.4bn, or 8%, reflecting profit accumulation, net of dividend payments. The premises revaluation reserve increased by HK$1.4bn, or 8%, reflecting the upward trend in the commercial property market. The available-for-sale investment reserve increased by HK$0.7bn, or 48% compared with the end of previous year, due mainly to the fair value movement of the Group's equity investments. Other reserves rose by HK$0.9bn, or 173%, due largely to the appreciation of the renminbi.

Key ratios

Return on average total assets was 1.4% (1.2% for 2016). **Return on average ordinary shareholders' equity** was 14.2% (12.1% for 2016).

At 31 December 2017, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.5%, 17.7% and 20.1% respectively, compared with 16.6%, 17.9% and 20.8% at 2016 year-end. The reduction reflects the effects of an 8% rise in risk-weighted assets, partly offset by the net increase in the capital base due mainly to the profit accumulation net of repayment of a Tier 2 subordinated loan of US$300m.

Under the Banking (Liquidity) Rules, the liquidity position of the Group remained strong in 2017. The average **Liquidity Coverage Ratio ('LCR')** ranged from 209.5% to 267.7% for the quarters ended 31 March, 30 June, 30 September and 31 December 2017. The average LCR ranged from 253.6% to 284.0% for the corresponding quarters in 2016. The LCR at 31 December 2017 was 232.3% (229.3% at 31 December 2016).

Dividends

The Directors have declared a fourth interim dividend of HK$3.10 per share payable on 23 March 2018 to shareholders on the register as of 7 March 2018. Together with interim dividends for the first three quarters, the total distribution for 2017 will be HK$6.70 per share.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2017					
Net interest income	**13,667**	**7,030**	**3,953**	**(73)**	**24,577**
Net fee income	**4,444**	**1,820**	**290**	**201**	**6,755**
Net trading income	**412**	**507**	**1,457**	**8**	**2,384**
Net income from financial instruments designated at fair value	**1,763**	**5**	**5**	**–**	**1,773**
Gains less losses from financial investments	**30**	**–**	**18**	**–**	**48**
Dividend income	**24**	**–**	**–**	**164**	**188**
Net insurance premium income	**12,172**	**645**	**–**	**–**	**12,817**
Other operating income	**1,044**	**210**	**7**	**273**	**1,534**
Total operating income	**33,556**	**10,217**	**5,730**	**573**	**50,076**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,211)**	**(508)**	**–**	**–**	**(14,719)**
Net operating income before loan impairment charges and other credit risk provisions	**19,345**	**9,709**	**5,730**	**573**	**35,357**
Loan impairment charges and other credit risk provisions	**(490)**	**(544)**	**(8)**	–	**(1,042)**
Net operating income	**18,855**	**9,165**	**5,722**	**573**	**34,315**
Operating expenses ♦	**(6,384)**	**(2,816)**	**(967)**	**(601)**	**(10,768)**
Operating profit	**12,471**	**6,349**	**4,755**	**(28)**	**23,547**
Net surplus on property revaluation	–	–	–	**141**	**141**
Share of losses from associates	**(12)**	–	–	**(2)**	**(14)**
Profit before tax	**12,459**	**6,349**	**4,755**	**111**	**23,674**
Share of profit before tax	**52.6 %**	**26.8 %**	**20.1 %**	**0.5 %**	**100.0 %**
Operating profit excluding loan impairment charges and other credit risk provisions	**12,961**	**6,893**	**4,763**	**(28)**	**24,589**
♦ Depreciation/amortisation included in operating expenses	**(25)**	**(4)**	**(2)**	**(1,305)**	**(1,336)**
At 31 December 2017					
Total assets	**445,489**	**350,693**	**611,717**	**70,519**	**1,478,418**
Total liabilities	**860,396**	**288,476**	**156,806**	**20,661**	**1,326,339**
Interest in associates	**2,170**	–	–	–	**2,170**
Non-current assets acquired during the year	**148**	**11**	**1**	**561**	**721**

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2016 (restated)					
Net interest income	12,195	6,132	3,993	(66)	22,254
Net fee income	3,798	1,662	292	187	5,939
Net trading income/(loss)	(46)	251	1,394	86	1,685
Net income/(loss) from financial instruments designated at fair value	94	(6)	(4)	(11)	73
Gains less losses from financial investments	65	–	33	7	105
Dividend income	1	–	–	189	190
Net insurance premium income	10,458	601	–	–	11,059
Other operating income	2,348	185	7	288	2,828
Total operating income	28,913	8,825	5,715	680	44,133
Net insurance claims and benefits paid and movement in liabilities to policyholders	(13,049)	(485)	–	–	(13,534)
Net operating income before loan impairment charges and other credit risk provisions	15,864	8,340	5,715	680	30,599
Loan impairment (charges)/ releases and other credit risk provisions	(733)	(590)	10	–	(1,313)
Net operating income	15,131	7,750	5,725	680	29,286
Operating expenses ᵠ	(6,400)	(2,499)	(919)	(434)	(10,252)
Operating profit	8,731	5,251	4,806	246	19,034
Net deficit on property revaluation	–	–	–	(37)	(37)
Share of profits from associates	93	–	–	–	93
Profit before tax	8,824	5,251	4,806	209	19,090
Share of profit before tax	46.2%	27.5%	25.2%	1.1%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	9,464	5,841	4,796	246	20,347
ᵠ Depreciation/amortisation included in operating expenses	(28)	(5)	(2)	(1,184)	(1,219)
At 31 December 2016					
Total assets	411,949	305,914	586,740	72,639	1,377,242
Total liabilities	798,473	254,521	161,387	22,175	1,236,556
Interest in associates	2,273	–	–	1	2,274
Non-current assets acquired during the year	189	11	1	698	899

Retail Banking and Wealth Management ('RBWM') recorded a 37% year-on-year increase in operating profit excluding loan impairment charges to HK$12,961m. Operating profit increased by 43% to HK$12,471m and profit before tax rose by 41% to HK$12,459m.

Net interest income increased by 12% year-on-year to HK$13,667m. Leveraging our extensive network, quality services and trusted brand, we strengthened core banking relationships with customers, driving sustainable growth in the balance sheet. Deposits and loan balances rose by 8% and 9% year-on-year. Net interest income in mainland China grew by 13%, reflecting the success of our low-cost funding strategy.

We achieved a 55% increase in non-interest income to HK$5,678m. Supported by our comprehensive all-weather product portfolio and sophisticated customer analytics and segmentation strategy, we successfully grew wealth management business to record a 34% rise in the related income to HK$7,707m.

Investment services income grew by 27% benefitting in part from the positive investment market sentiment. We grew securities turnover and revenue by 58% and 39% respectively. Enrichments to our diverse range of investment funds and structured, fixed income and foreign currency products strengthened our ability to meet a wide variety of risk appetites and financial needs, driving a 21% increase in investment services revenue excluding securities-related income.

Insurance income increased by 41%. Along with our extensive distribution network, our tailored wealth-and-health propositions and enhanced product suite continued to drive new business growth. Life insurance new annualised premiums rose by 11%. Active portfolio management in the buoyant investment market conditions resulted in a better investment returns on insurance business.

Improved sentiment in the property market led to a higher transactions volume in 2017 compared with the previous year. We uplifted mortgage distribution capability in strategic locations to capture new business opportunities, resulting in an 8% year-on-year increase in mortgage balances in Hong Kong. Our new mortgage business continued to rank among the top three in Hong Kong, with a market share of 15% in terms of new mortgage registrations.

Unsecured lending remained a key revenue contributor. Effective marketing campaigns and deep understanding of our client base helped us achieve 8% growth in card receivables. The personal and tax loan portfolio grew by 13% in Hong Kong.

Our sophisticated customer segmentation strategy and enhanced analytics enabled us to build closer relationship with clients and strengthened our ability to provide needs-based financial products and services. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to drive solid business growth. We successfully expanded our Prestige Signature customer base by 24% year-on-year in Hong Kong.

We are committed to investing in new technology and upgrading our digital platform to better engage our customers by offering a safe, fast and convenient end-to-end digital banking experience. We extended online document submission to cover new products, enhanced straight-through online general insurance services and improved functionality of our digital platform. We launched biometric authentication – including Touch ID, Voice ID and Face ID – to make service activity conducted through our Personal Banking mobile app and Phone Banking channels easy, efficient and secure. The number of Personal e-Banking customers increased by 7% year-on-year in Hong Kong, and the proportion of active users accessing this service via mobile devices rose by 7 percentage points. Securities and travel insurance transactions conducted via digital channels increased by 30% and 11% respectively by count, and non-branch channels continued to account for 98% of securities transactions by count. Sited in high-traffic locations, our new foreign exchange ATMs offer the widest choice of foreign currencies available via automated banking channels in Hong Kong.

Commercial Banking ('CMB') recorded an 18% year-on-year increase in operating profit excluding loan impairment charges to HK$6,893m. Operating profit and profit before tax both increased by 21% to HK$6,349m.

Our continued focus on growing small and medium-sized enterprises ('SME') business and deepened engagement with commercial customers led to a good growth in the balance sheet, which drove a sustainable increase in revenue. Net interest income rose by 15% to HK$7,030m, supported by increases in customer loans and deposits of 15% and 14% respectively. We maintained good overall credit quality in 2017 and remain proactive in managing our credit risk.

We achieved a 21% increase in non-interest income to HK$2,679m. We enhanced our ability to provide customers with comprehensive transactional banking services that facilitate cash flow management. We launched a Virtual Account solution to help customers manage their daily cash receivables more efficiently by making their latest cash position visible immediately upon receipt of new funds. Our new Receivable Management System, which facilitates faster trading activity for securities firm customers, helped us capture new business in the active stock market environment. Fees from remittances and account-related services grew by 15%. Our close collaboration with Global Markets also drove a 20% increase in foreign exchange business. Benefitted from the favourable investment market sentiment, we leveraged our diverse product portfolio and time-to-market advantage to deepen our customer penetration rate and achieve a 43% rise in investment services income. Leveraging our broad range of insurance products, we grew insurance income by 14%.

We continued to enhance our digital banking platform to offer more efficient, secure and convenient banking services for customers on the move. We introduced Touch ID logon on Hang Seng HSBCnet Mobile App to provide a simpler and faster login experience for performing account enquiries. We also launched Trade Transaction Tracker that gives trade customers round-the-clock access to the real-time status of their trade transactions via the Hang Seng HSBCnet Mobile App. We continued to revamp our Business e-Banking platform to further enhance the online banking experience for customers.

Our strategy in growing SME business continued to yield solid growth, with a 28% increase in related operating profit excluding loan impairment charges. Our Sheung Shui Business Banking Centre was upgraded to provide customers with greater comfort and privacy when meeting with our relationship managers to discuss their financial needs. Our dedicated efforts to offer comprehensive and convenient services earned us the 'Best Bank for SMEs (Hong Kong)' award in the *Asiamoney* Best Bank Awards 2017.

Global Banking and Markets ('GBM') reported a year-on-year drop of 1% in both operating profit excluding loan impairment charges and profit before tax to HK$4,763m and HK$4,755m respectively.

Global Banking ('GB') reported a decline of 4% in operating profit excluding loan impairment charges to HK$1,783m. After a slow start in first half of 2017, loan demand picked up in the second half, supporting a 27% increase in lending for the year compared with the end of 2016. Net interest income in the second half year increased by 15% over first half, but lower margins on lending resulted in a 3% drop for the year. Non-interest income fell by 6% due to lower commission income from transactional banking activities. Current and savings account deposits increased by 34% and total deposits rose by 5% over last year-end.

Global Markets ('GM') reported a 1% year-on-year rise in both operating profit and profit before tax to HK$2,980m.

Net interest income rose by 1% to HK$2,015m. Effective interest rate risk management by the balance sheet management team, including taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards outweighed the adverse effects of the drop in surplus funds available for deployment throughout the year and limited opportunities for deploying new and maturing proceeds.

Non-interest income increased by 5% to HK$1,456m, driven by a 5% increase in trading income to HK$1,457m.

In the challenging interest rate environment, we focused on growing non-fund income. We achieved solid revenue growth, notably from foreign exchange and the increased cross-selling of GM products through close collaboration with RBWM, CMB and GB colleagues and our deep understanding of the needs of different customers.

Income from equity-linked structured products registered good growth. The favourable investment market sentiment and higher stock market turnover in Hong Kong drove a significant increase in customer demand for equity-related products.

Figures in HK$m	***Year ended 31 December 2017***	*2016*	*Variance (%)*
Interest income	**29,221**	26,493	10
Interest expense	**(4,644)**	(4,239)	(10)
Net interest income	**24,577**	22,254	10
Fee income	**9,209**	8,042	15
Fee expense	**(2,454)**	(2,103)	(17)
Net fee income	**6,755**	5,939	14
Net trading income	**2,384**	1,685	41
Net income from financial instruments designated at fair value	**1,773**	73	2,329
Gains less losses from financial investments	**48**	105	(54)
Dividend income	**188**	190	(1)
Net insurance premium income	**12,817**	11,059	16
Other operating income	**1,534**	2,828	(46)
Total operating income	**50,076**	44,133	13
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,719)**	(13,534)	(9)
Net operating income before loan impairment charges and other credit risk provisions	**35,357**	30,599	16
Loan impairment charges and other credit risk provisions	**(1,042)**	(1,313)	21
Net operating income	**34,315**	29,286	17
Employee compensation and benefits	**(5,122)**	(4,807)	(7)
General and administrative expenses	**(4,310)**	(4,226)	(2)
Depreciation of premises, plant and equipment	**(1,229)**	(1,114)	(10)
Amortisation of intangible assets	**(107)**	(105)	(2)
Operating expenses	**(10,768)**	(10,252)	(5)
Operating profit	**23,547**	19,034	24
Net surplus/(deficit) on property revaluation	**141**	(37)	n.a.
Share of profits/(losses) from associates	**(14)**	93	n.a.
Profit before tax	**23,674**	19,090	24
Tax expense	**(3,671)**	(2,886)	(27)
Profit for the year	**20,003**	16,204	23
Attributable to:			
Shareholders of the company	**20,018**	16,212	23
Non-controlling interests	**(15)**	(8)	(88)
Earnings per share – basic and diluted (in HK$)	**10.30**	8.30	24

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

Figures in HK$m	***Year ended 31 December*** ***2017***	*2016*
Profit for the year	**20,003**	16,204
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	**(101)**	(549)
-- on equity shares	**396**	(127)
- fair value changes transferred to income statement:		
-- on hedged items	**230**	398
-- on disposal	**(48)**	(105)
- deferred taxes	**7**	57
- exchange difference and other	**198**	(179)
Cash flow hedging reserve:		
- fair value changes taken to equity	**(1,914)**	781
- fair value changes transferred to income statement	**1,949**	(924)
- deferred taxes	**(6)**	24
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**868**	(762)
Items that will not be reclassified subsequently to the income statement:		
Change in fair value of financial liabilities designated at fair value arising from changes in own credit risk[1]	**(4)**	–
Premises:		
- unrealised surplus on revaluation of premises	**2,285**	853
- deferred taxes	**(381)**	(144)
- exchange difference	**16**	(11)
- other	**3**	–
Defined benefit plans:		
- actuarial gains on defined benefit plans	**564**	127
- deferred taxes	**(93)**	(21)
Other comprehensive income for the year, net of tax	**3,969**	(582)
Total comprehensive income for the year	**23,972**	15,622
Total comprehensive income for the year attributable to:		
- shareholders of the company	**23,987**	15,630
- non-controlling interests	**(15)**	(8)
	23,972	15,622

[1] *On 1 January 2017, the Group adopted the requirements of Hong Kong Financial Reporting Standard ('HKFRS') 9 relating to the presentation of gains and losses on financial liabilities designated at fair value. As a result, the effect of changes in fair value of those liabilities arising from changes in own credit risk is presented in other comprehensive income. As permitted by the transitional requirements of HKFRS9, comparatives have not been restated.*

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**21,718**	23,299	(7)
Placings with and advances to banks	**103,113**	103,460	–
Trading assets	**53,704**	44,427	21
Financial assets designated at fair value	**9,313**	8,523	9
Derivative financial instruments	**10,836**	16,695	(35)
Loans and advances to customers	**806,573**	698,992	15
Financial investments	**385,261**	398,137	(3)
Interest in associates	**2,170**	2,274	(5)
Investment properties	**10,166**	9,960	2
Premises, plant and equipment	**28,499**	26,772	6
Intangible assets	**15,354**	14,443	6
Other assets	**31,711**	30,260	5
Total assets	**1,478,418**	1,377,242	7
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**1,074,837**	989,539	9
Repurchase agreements – non-trading	**2,389**	1,805	32
Deposits from banks	**3,676**	14,075	(74)
Trading liabilities	**88,270**	68,124	30
Financial liabilities designated at fair value	**1,047**	3,991	(74)
Derivative financial instruments	**11,169**	13,303	(16)
Certificates of deposit and other debt securities in issue	**600**	5,116	(88)
Other liabilities	**22,222**	24,765	(10)
Liabilities under insurance contracts	**115,545**	108,326	7
Current tax liabilities	**568**	25	2,172
Deferred tax liabilities	**6,016**	5,160	17
Subordinated liabilities	**-**	2,327	(100)
Total liabilities	**1,326,339**	1,236,556	7
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**113,646**	105,204	8
Other equity instruments	**6,981**	6,981	–
Other reserves	**21,745**	18,783	16
Total shareholders' equity	**152,030**	140,626	8
Non-controlling interests	**49**	60	(18)
Total equity	**152,079**	140,686	8
Total equity and liabilities	**1,478,418**	1,377,242	7

For the year ended 31 December 2017

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

[1] *On 1 January 2017, the Group adopted the requirements of HKFRS9 relating to the presentation of gains and losses on financial liabilities designated at fair value. As a result, the effect of changes in fair value of those liabilities arising from changes in own credit risk is presented in other reserve. As permitted by the transitional requirements of HKFRS9, comparatives have not been restated.*

For the year ended 31 December 2016

				Other Reserves							
Figures in HK$m	Share capital	Other equity instruments	Retained profits	Premises revaluation reserve	Available-for-sale investment reserve	Cash flow hedge reserve	Foreign exchange reserve	Others	Total share-holders' equity	Non-controlling interests	Total equity
At 1 January 2016	9,658	6,981	105,363	16,777	1,939	(9)	600	672	141,981	–	141,981
Profit for the year	–	–	16,212	–	–	–	–	–	16,212	(8)	16,204
Other comprehensive income (net of tax)	–	–	106	698	(505)	(119)	(762)	–	(582)	–	(582)
Available-for-sale investments	–	–	–	–	(505)	–	–	–	(505)	–	(505)
Cash flow hedges	–	–	–	–	–	(119)	–	–	(119)	–	(119)
Property revaluation	–	–	–	698	–	–	–	–	698	–	698
Actuarial gains on defined benefit plans	–	–	106	–	–	–	–	–	106	–	106
Exchange differences and others	–	–	–	–	–	–	(762)	–	(762)	–	(762)
Total comprehensive income for the year	–	–	16,318	698	(505)	(119)	(762)	–	15,630	(8)	15,622
Dividends paid	–	–	(16,633)	–	–	–	–	–	(16,633)	–	(16,633)
Coupon paid to holder of AT1 capital instrument	–	–	(346)	–	–	–	–	–	(346)	–	(346)
Movement in respect of share-based payment arrangements	–	–	9	–	–	–	–	(15)	(6)	–	(6)
Others	–	–	–	–	–	–	–	–	–	68	68
Transfers	–	–	493	(493)	–	–	–	–	–	–	–
At 31 December 2016	9,658	6,981	105,204	16,982	1,434	(128)	(162)	657	140,626	60	140,686

Net interest income

Figures in HK$m	***2017***	*2016*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**25,924**	23,124
- trading assets and liabilities	**(1,314)**	(845)
- financial instruments designated at fair value	**(33)**	(25)
	24,577	22,254
Average interest-earning assets	**1,267,484**	1,201,207
Net interest spread	**1.85%**	1.76%
Net interest margin	**1.94%**	1.85%

Net interest income increased by HK$2,323m, or 10%, to HK$24,577m, driven by the increase in both the average interest-earning assets and net interest margin.

Average interest-earning assets increased by HK$66bn, or 6%, when compared with last year. The increase in the average balance of customer deposits as well as net free funds led to an increase in the average customer lending.

Net interest margin and net interest spread increased by nine basis points to 1.94% and 1.85% respectively as the Group optimise the asset and liability structure. Customer deposits spread was widened as a result of the enhanced deposit mix, with increased contribution from low-cost savings and current account balances. Effective interest rate risk management drove an improvement in balance sheet management income. These were partly offset by compressed customer lending spread, notably on corporate and commercial term lending. Contribution from net free funds was unchanged at 0.09%.

Net interest income in the second half of 2017 increased by HK$949m, or 8%, when compared with the first half, mainly supported by 6% increase in average interest-earning assets and more calendar days in the second half. Net interest margin maintained at 1.94% for both first and second halves of 2017.

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:

Figures in HK$m	***2017***	*2016*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**28,745**	26,193
- Interest expense	**(2,865)**	(3,110)
- Net interest income	**25,880**	23,083
Net interest income and expense reported as 'Net trading income'	**(1,314)**	(845)
Net interest income and expense reported as 'Net income from financial instruments designated at fair value'	**11**	16
Average interest-earning assets	**1,223,050**	1,155,824
Net interest spread	**2.04%**	1.92%
Net interest margin	**2.12%**	2.00%

Net fee income

Figures in HK$m	***2017***	*2016*
- Securities broking and related services	**1,673**	1,175
- Retail investment funds	**1,894**	1,573
- Insurance	**586**	674
- Account services	**511**	464
- Remittances	**540**	481
- Cards	**2,742**	2,503
- Credit facilities	**463**	394
- Trade services	**421**	416
- Other	**379**	362
Fee income	**9,209**	8,042
Fee expense	**(2,454)**	(2,103)
	6,755	5,939

With effect from April 2016, certain expenditure in respect of credit card loyalty programmes previously presented in 'General and administrative expenses' is presented in 'Fee expense' to more appropriately reflect the nature of the item.

Net trading income

Figures in HK$m	***2017***	*2016*
- Foreign exchange	**2,084**	1,564
- Interest rate derivatives	**40**	(38)
- Debt securities	**82**	5
- Equities and other trading	**178**	133
Dealing profits	**2,384**	1,664
Net gain from hedging activities	–	21
	2,384	1,685

Net income from financial instruments designated at fair value

Figures in HK$m	***2017***	*2016*
Net income on assets designated at fair value which back insurance and investment contracts	**1,768**	89
Net change in fair value of other financial instruments designated at fair value	**5**	(16)
	1,773	73

Net income from financial instruments designated at fair value increased by HK$1,700m to reach HK$1,773m, reflecting improved returns on financial assets supporting insurance contracts liabilities as a result of the upward trend in equities market. 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 and movement in present value of in-force long-term insurance business ('PVIF') under other operating income.

Gains less losses from financial investments

Figures in HK$m	***2017***	*2016*
Net gains from disposal of available-for-sale equity securities	**–**	7
Net gains from disposal of available-for-sale debt securities	**48**	98
	48	105

Other operating income

Figures in HK$m	***2017***	*2016*
Rental income from investment properties	**363**	362
Movement in present value of in-force long-term insurance business	**910**	2,233
Net losses from disposal of fixed assets	**(10)**	(13)
Others	**271**	246
	1,534	2,828

Analysis of income from wealth management business

Figures in HK$m	***2017***	*2016*
Investment services income[ᵠ]:		
- retail investment funds	**1,765**	1,458
- structured investment products[ᵠ]	**543**	454
- securities broking and related services	**1,638**	1,143
- margin trading and others	**92**	103
	4,038	3,158
Insurance income:		
- life insurance:		
- net interest income and fee income	**3,664**	3,582
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**1,761**	(239)
- net insurance premium income	**12,817**	11,059
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,719)**	(13,534)
- movement in present value of in-force long-term insurance business	**910**	2,233
	4,433	3,101
- general insurance and others	**298**	355
Total	**8,769**	6,614

ᵠ *Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net trading income.*

Wealth management business income increased strongly by HK$2,155m, or 33%, to HK$8,769m, reflecting our success in capturing opportunities created by the upturn in investment sentiment among customers. In the more active equities market, investment income grew by 28% to HK$4,038m, notably in retail investment funds and securities broking and related services. Insurance business income grew by 37% to HK$4,731m, reflecting strong returns from life insurance investment portfolio in the favourable market conditions.

Loan impairment charges and other credit risk provisions

Figures in HK$m	***2017***	*2016*
Net charge for impairment of loans and advances to customers:		
Individually assessed impairment charges:		
- new charges	**542**	662
- releases	**(56)**	(43)
- recoveries	**(43)**	(80)
	443	539
Collectively assessed impairment charges	**599**	774
	1,042	1,313

Operating expenses

Figures in HK$m	***2017***	*2016*
Employee compensation and benefits:		
- salaries and other costs	**4,720**	4,394
- retirement benefit costs	**402**	413
	5,122	4,807
General and administrative expenses:		
- rental expenses	**614**	664
- other premises and equipment	**1,345**	1,235
- marketing and advertising expenses	**426**	499
- other operating expenses	**1,925**	1,828
	4,310	4,226
Depreciation of premises, plant and equipment	**1,229**	1,114
Amortisation of intangible assets	**107**	105
	10,768	10,252
Cost efficiency ratio	**30.5%**	33.5%

Full-time equivalent staff numbers by region	***At 31 December 2017***	*At 31 December 2016*
Hong Kong and others	**8,215**	7,977
Mainland	**1,765**	1,731
Total	**9,980**	9,708

Tax expense

Taxation in the consolidated income statement represents:

Figures in HK$m	***2017***	*2016*
Current tax – provision for Hong Kong profits tax		
Tax for the year	**3,208**	2,653
Adjustment in respect of prior years	**70**	(25)
Current tax – taxation outside Hong Kong		
Tax for the year	**49**	52
Adjustment in respect of prior years	**(3)**	(1)
Deferred tax		
Origination and reversal of temporary differences	**347**	207
Total tax expense	**3,671**	2,886

The current tax provision is based on the estimated assessable profit for 2017, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2016). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$19,693m in 2017 (HK$15,866m in 2016) which is after the deduction of the coupon paid on AT1 capital instrument and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2016).

Dividends per share

	2017		*2016*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
(a) Dividends to ordinary shareholders				
First interim	**1.20**	**2,294**	1.10	2,103
Second interim	**1.20**	**2,294**	1.10	2,103
Third interim	**1.20**	**2,294**	1.10	2,103
Fourth interim	**3.10**	**5,927**	2.80	5,353
	6.70	**12,809**	6.10	11,662

	2017	2016
(b) Distribution to holder of AT1 capital instrument classified as equity	***HK$m***	*HK$m*
Coupon paid on AT1 capital instrument	**389**	346

Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS8') requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the internal reporting information, the Group has presented the following four reportable segments.

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

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 with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 13.

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Year ended 31 December 2017					
Profit before tax	**12,459**	**6,349**	**4,755**	**111**	**23,674**
Share of profit before tax	**52.6 %**	**26.8 %**	**20.1 %**	**0.5 %**	**100.0 %**
Year ended 31 December 2016 (restated)					
Profit before tax	8,824	5,251	4,806	209	19,090
Share of profit before tax	46.2 %	27.5 %	25.2 %	1.1 %	100.0 %

Segmental analysis *(continued)*

(b) Information by geographic region

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

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-segment elimination***	***Total***
Year ended 31 December 2017					
Total operating income	**47,940**	**1,917**	**286**	**(67)**	**50,076**
Profit before tax	**23,242**	**241**	**191**	**–**	**23,674**
At 31 December 2017					
Total assets	**1,385,176**	**121,941**	**20,944**	**(49,643)**	**1,478,418**
Total liabilities	**1,236,896**	**109,542**	**20,019**	**(40,118)**	**1,326,339**
Equity	**148,280**	**12,399**	**925**	**(9,525)**	**152,079**
Share capital	**9,658**	**10,396**	**–**	**(10,396)**	**9,658**
Interest in associates	**2,170**	**–**	**–**	**–**	**2,170**
Non-current assets[⌖]	**52,832**	**1,173**	**14**	**–**	**54,019**
Contingent liabilities and commitments	**388,347**	**59,573**	**5,549**	**–**	**453,469**
Year ended 31 December 2016					
Total operating income	41,849	2,097	266	(79)	44,133
Profit before tax	18,640	277	173	–	19,090
At 31 December 2016					
Total assets	1,292,392	102,552	20,063	(37,765)	1,377,242
Total liabilities	1,154,324	91,171	19,301	(28,240)	1,236,556
Equity	138,068	11,381	762	(9,525)	140,686
Share capital	9,658	9,669	–	(9,669)	9,658
Interest in associates	2,273	1	–	–	2,274
Non-current assets[⌖]	50,170	987	18	–	51,175
Contingent liabilities and commitments	351,252	43,156	5,752	–	400,160

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

Cash and sight balances at central banks

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Cash in hand	**7,409**	7,618
Sight balances at central banks	**14,309**	15,681
	21,718	23,299

Placings with and advances to banks

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Balances with banks	**5,182**	7,456
Placings with and advances to banks maturing within one month	**56,795**	36,399
Placings with and advances to banks maturing after one month but less than one year	**38,750**	57,314
Placings with and advances to banks maturing after one year	**2,386**	2,291
	103,113	103,460

Trading assets

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Treasury bills	**33,066**	27,733
Other debt securities	**18,509**	10,880
Debt securities	**51,575**	38,613
Investment funds	**24**	16
Total trading securities	**51,599**	38,629
Other⌖	**2,105**	5,798
Total trading assets	**53,704**	44,427

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

Financial assets designated at fair value

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Treasury bills	**400**	–
Other debt securities	**392**	369
Equity shares	**5,486**	4,648
Investment funds	**3,035**	3,506
	9,313	8,523

Loans and advances to customers

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Gross loans and advances to customers	**808,170**	700,851
Less:		
Loan impairment allowances:		
- individually assessed	**(602)**	(923)
- collectively assessed	**(995)**	(936)
	806,573	698,992

Loan impairment allowances against loans and advances to customers

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

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

	At 31 December 2017	*At 31 December 2016*
	%	%
Loan impairment allowances:		
- individually assessed	**0.08**	0.13
- collectively assessed	**0.12**	0.13
Total loan impairment allowances	**0.20**	0.26

Total loan impairment allowances as a percentage of gross loans and advances to customers was 0.20% at 31 December 2017 compared with 0.26% at the end of 2016. Individually assessed allowances as a percentage of gross loans and advances decreased by five basis points to 0.08% due mainly to the write off and disposal of certain corporate exposures. Collectively assessed allowances as a percentage of gross loans and advances down by one basis point to 0.12%.

Impaired loans and advances to customers and allowances

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Gross impaired loans and advances	**1,970**	3,235
Individually assessed allowances	**(602)**	(923)
	1,368	2,312
Individually assessed allowances as a percentage of gross impaired loans and advances	**30.6%**	28.5%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.24%**	0.46%

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 decreased by HK$1,265m, or 39%, to HK$1,970m compared with last year-end, due mainly to the repayment, write off and disposal of certain corporate and commercial customers in Hong Kong and mainland China. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.24% at 31 December 2017, compared with 0.42% at the end of June 2017 and 0.46% at the year-end of 2016. The Group maintains a cautious outlook on the credit environment and continues to focus on maintaining high level of asset quality.

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Gross individually assessed impaired loans and advances	**1,718**	2,968
Individually assessed allowances	**(602)**	(923)
	1,116	2,045
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.21%**	0.42%
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**958**	1,701

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

Overdue loans and advances to customers

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

	At 31 December 2017		*At 31 December 2016*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**162**	**0.02**	438	0.06
- more than six months but not more than one year	**253**	**0.03**	580	0.08
- more than one year	**1,226**	**0.15**	1,336	0.19
	1,641	**0.20**	2,354	0.33

Overdue loans and advances decreased by HK$713m, or 30%, to HK$1,641m compared with last year-end, due mainly to the repayment, write off and disposal of certain corporate and commercial customers exposures. Overdue loans and advances as a percentage of gross loans and advances to customers fell by 13 basis points to 0.20% at 31 December 2017.

Rescheduled loans and advances to customers

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

	At 31 December 2017		*At 31 December 2016*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**118**	**0.01**	458	0.07

Rescheduled loans and advances stood at HK$118m at 31 December 2017, a decrease of HK$340m or 74% compared with last year-end, mainly related to the disposal of certain corporate exposures during the year.

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA') is as follows:

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**62,715**	51,935
Property investment	**136,214**	119,553
Financial concerns	**8,757**	5,049
Stockbrokers	**150**	141
Wholesale and retail trade	**27,523**	26,880
Manufacturing	**23,548**	23,079
Transport and transport equipment	**14,153**	9,302
Recreational activities	**191**	48
Information technology	**7,027**	6,624
Other	**65,039**	46,523
	345,317	289,134
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**22,046**	17,808
Loans and advances for the purchase of other residential properties	**174,068**	161,165
Credit card loans and advances	**29,229**	27,019
Other	**24,888**	20,385
	250,231	226,377
Total gross loans and advances for use in Hong Kong	**595,548**	515,511
Trade finance	**47,125**	43,235
Gross loans and advances for use outside Hong Kong	**165,497**	142,105
Gross loans and advances to customers	**808,170**	700,851

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

At 31 December 2017, gross loans and advances to customers increased strongly by HK$107bn, or 15%, to HK$808bn when compared with last year-end.

Loans and advances for use in Hong Kong rose by 16%. Lending to the industrial, commercial and financial sectors grew by 19%. Lending to property development and investment remained active, increasing by 21% and 14% respectively under the buoyant property market. Financial concerns grew by 73%. The Bank's continued efforts to support local business saw lendings to both wholesale and retail trade and manufacturing sectors up by 2% respectively. Lending to transport and transport equipment and information technology sectors grew by 52% and 6% respectively. Underpinned by a deep understanding of our customers' business, we extended new working capital financing to certain large corporate customers, driving a strong increase of 40% in lending to 'Other' sector.

Lending to individuals grew by 11% compared with last year-end. We strengthened our mortgage sales capabilities in strategic areas to capture new business opportunities and grew our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending by 8% and 24% respectively. Sustained consumer spending saw credit card advances grew by 8% whilst other personal lending grew by 22%.

With a focus on growing core trade business, the Bank recorded a 9% rise in trade finance lending.

Loans and advances for use outside Hong Kong rose by 16% compared with the end of 2016, reflecting an increase in mainland-related lending and loans granted by the Hong Kong office.

Financial investments

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Available-for-sale at fair value:		
- debt securities	**283,993**	306,936
- equity shares	**4,942**	4,301
- investment funds	**1,269**	–
Held-to-maturity debt securities at amortised cost	**95,057**	86,900
	385,261	398,137
Fair value of held-to-maturity debt securities	**97,614**	87,375
Treasury bills	**154,292**	180,951
Certificates of deposit	**12,140**	9,210
Other debt securities	**212,618**	203,675
Debt securities	**379,050**	393,836
Equity shares	**4,942**	4,301
Investment funds	**1,269**	–
	385,261	398,137

Debt securities by rating agency designation

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
AA- to AAA	**238,008**	301,293
A- to A+	**126,346**	83,023
B+ to BBB+	**10,316**	7,449
Unrated	**4,380**	2,071
	379,050	393,836

Intangible assets

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Present value of in-force long-term insurance business	**14,574**	13,664
Internally developed/acquired software	**451**	450
Goodwill	**329**	329
	15,354	14,443

Other assets

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Items in the course of collection from other banks	**6,464**	6,354
Bullion	**4,127**	4,440
Prepayments and accrued income	**3,773**	3,378
Acceptances and endorsements	**5,108**	5,292
Reinsurers' share of liabilities under insurance contracts	**8,232**	7,395
Other accounts	**4,007**	3,401
	31,711	30,260

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Current, savings and other deposit accounts:		
- as stated in consolidated balance sheet	**1,074,837**	989,539
- structured deposits reported as trading liabilities	**36,507**	26,090
	1,111,344	1,015,629
By type:		
- demand and current accounts	**117,525**	99,051
- savings accounts	**757,828**	686,371
- time and other deposits	**235,991**	230,207
	1,111,344	1,015,629

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Certificates of deposit and other debt securities in issue:		
- as stated in consolidated balance sheet	**600**	5,116
- certificates of deposit in issue designated at fair value	**493**	3,484
- other structured debt securities in issue reported as trading liabilities	**2,929**	5,026
	4,022	13,626
By type:		
- certificates of deposit in issue	**1,093**	7,484
- other debt securities in issue	**2,929**	6,142
	4,022	13,626

Trading liabilities

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Other structured debt securities in issue	**2,929**	5,026
Structured deposits	**36,507**	26,090
Short positions in securities and others	**48,834**	37,008
	88,270	68,124

Trading liabilities rose by HK$20bn, or 30%, to HK$88bn when compared with last year-end, mainly due to the increase in short positions in securities and others related to Exchange Fund Bills and Notes and the increase in structured deposits.

Other liabilities

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Items in the course of transmission to other banks	**8,987**	11,276
Accruals	**3,511**	3,201
Acceptances and endorsements	**5,108**	5,292
Retirement benefit liabilities	**89**	626
Other	**4,527**	4,370
	22,222	24,765

Subordinated liabilities

Figures in HK$m		***At 31 December 2017***	*At 31 December 2016*
Nominal value	Description		
Amounts owed to HSBC Group undertakings			
US$300m	Floating rate subordinated loan due July 2022 ⌖	–	2,327
		–	2,327
Representing:			
- measured at amortised cost		–	2,327

⌖ *The Bank exercised its option in 2017 to redeem the subordinated loan at par of US$300m.*

Shareholders' equity

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Share capital	**9,658**	9,658
Retained profits	**113,646**	105,204
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**18,379**	16,982
Cash flow hedging reserve	**(99)**	(128)
Available-for-sale investment reserve		
- on debt securities	**(90)**	(144)
- on equity securities	**2,206**	1,578
Other reserves	**1,349**	495
Total reserves	**142,372**	130,968
Total shareholders' equity	**152,030**	140,626
Return on average ordinary shareholders' equity	**14.2%**	12.1%

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2017.

Capital management

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

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

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

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**126,241**	117,870
- Shareholders' equity per consolidated balance sheet	**152,030**	140,626
- Additional Tier 1 ('AT1') perpetual capital instrument	**(6,981)**	(6,981)
- Unconsolidated subsidiaries	**(18,808)**	(15,775)
Non-controlling interests	**–**	–
- Non-controlling interests per consolidated balance sheet	**49**	60
- Non-controlling interests in unconsolidated subsidiaries	**(49)**	(60)
Regulatory deductions to CET1 capital	**(31,783)**	(30,103)
- Cash flow hedging reserve	**41**	48
- Changes in own credit risk on fair valued liabilities	**(5)**	(14)
- Property revaluation reserves[1]	**(24,842)**	(23,304)
- Regulatory reserve	**(6,018)**	(5,945)
- Intangible assets	**(408)**	(407)
- Defined benefit pension fund assets	**(45)**	(37)
- Deferred tax assets net of deferred tax liabilities	**(211)**	(158)
- Valuation adjustments	**(295)**	(286)
Total CET1 Capital	**94,458**	87,767
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**6,981**	6,981
- Perpetual capital instrument	**6,981**	6,981
Total AT1 Capital	**6,981**	6,981
Total Tier 1 ('T1') Capital	**101,439**	94,748
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**14,723**	16,009
- Term subordinated debt	**–**	2,327
- Property revaluation reserves[1]	**11,179**	10,487
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,544**	3,195
Regulatory deductions to T2 capital	**(915)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(915)
Total T2 Capital	**13,808**	15,094
Total Capital	**115,247**	109,842

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Credit risk	**512,720**	470,043
Market risk	**7,208**	7,354
Operational risk	**52,795**	50,871
Total	**572,723**	528,268

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

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

	At 31 December 2017	*At 31 December 2016*
CET1 capital ratio	**16.5 %**	16.6 %
T1 capital ratio	**17.7 %**	17.9 %
Total capital ratio	**20.1 %**	20.8 %

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 as at 31 December 2017. 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 2017, it is not a projection.

In addition, the capital ratios of all tiers as of 31 December 2017 would be reduced by approximately 1% after the prospective fourth interim dividend payment for 2017. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2017	*Pro-forma At 31 December 2016*
CET1 capital ratio	**15.5 %**	15.6 %
T1 capital ratio	**16.7 %**	16.9 %
Total capital ratio	**19.1 %**	19.8 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rule ('BLR') to calculate its LCR on a consolidated basis. During the year of 2017, the Group is required to maintain an LCR of not less than 80%, increasing to not less than 100% by January 2019. The average LCR for the reportable periods are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2017	**209.5%**	**242.3%**	**256.7%**	**267.7%**
- 2016	253.6%	284.0%	257.1%	257.1%

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 31 December 2017***	*At 31 December 2016*
Contingent liabilities and financial guarantee contracts		
- Guarantee and irrevocable letters of credit pledged as collateral security	**15,267**	17,925
- Other contingent liabilities	**61**	91
	15,328	18,016
Commitments		
- Documentary credits and short-term trade-related transactions	**3,188**	2,110
- Forward asset purchases and forward forward deposits placed	**983**	788
- Undrawn formal standby facilities, credit lines and other commitments to lend	**433,970**	379,246
	438,141	382,144

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.

	At 31 December 2017			*At 31 December 2016*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**379,937**	**500**	**66,565**	247,284	3,500	59,637
Exchange rate contracts	**808,696**	**–**	**22,531**	857,540	–	27,151
Other derivative contracts	**42,591**	**–**	**–**	29,480	–	–
	1,231,224	**500**	**89,096**	1,134,304	3,500	86,788
Derivative assets:						
Interest rate contracts	**1,327**	**–**	**452**	1,387	1	336
Exchange rate contracts	**7,893**	**–**	**375**	13,102	–	1,511
Other derivative contracts	**789**	**–**	**–**	358	–	–
	10,009	**–**	**827**	14,847	1	1,847
Derivative liabilities:						
Interest rate contracts	**1,386**	**4**	**234**	1,479	8	394
Exchange rate contracts	**8,284**	**–**	**926**	10,983	–	181
Other derivative contracts	**335**	**–**	**–**	258	–	–
	10,005	**4**	**1,160**	12,720	8	575

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

1. Statutory financial statements and accounting policies

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

Certain financial information in this press release is extracted from the statutory financial statements for the year ended 31 December 2017 (‘2017 accounts’) which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those financial statements in their report dated 20 February 2018. The auditor’s report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 143 to 156 of the 2016 statutory financial statements except for the Group has adopted the requirements of Hong Kong Financial Reporting Standard (‘HKFRS’) 9 ‘Financial Instruments’ relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effect of changes in fair value of those liabilities arising from changes in own credit risk is presented in other comprehensive income with the remaining effect presented in profit or loss. As permitted by the transitional requirements of HKFRS9, comparatives have not been restated. The adoption increased profit after tax by HK$4m with the opposite effect on other comprehensive income and no effect on net assets. There were no other new standards applied in 2017. However, during 2017, the Group adopted a number of amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

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2. Future accounting development

The Hong Kong Institute of Certified Public Accountants (‘HKICPA’) has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the financial statements, except the requirements of HKFRS9 ‘Financial Instruments’ relating to the presentation of gains and losses on financial liabilities designated at fair value, which was adopted from 1 January 2017. Key changes of new standards are summarised as follows:

<u>HKFRS9 ‘Financial Instruments’</u>

In September 2014, the HKICPA issued the HKFRS9 ‘Financial Instruments’, which is the comprehensive standard to replace Hong Kong Accounting Standard (‘HKAS’) 39 ‘Financial Instruments: Recognition and Measurement’, and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (i.e. the entity’s business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (‘FVOCI’) or fair value through profit or loss (‘FVPL’). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with HKAS39.

2. Future accounting development *(continued)*

Impairment
The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under HKAS39, and the resulting impairment charge will tend to be more volatile. HKFRS9 will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with HKAS39.

Hedge accounting
The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, HKFRS9 includes an accounting policy choice to remain with HKAS39 hedge accounting.

Transition impact
With the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017, the requirements of HKFRS9 'Financial Instruments' will be adopted from 1 January 2018. HKFRS9 includes an accounting policy choice to continue with HKAS39 hedge accounting, which the Group has exercised, although it will implement the revised hedge accounting disclosures required by the related amendments to HKFRS7 'Financial Instruments: Disclosures'. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. The Group does not intend to restate comparatives.

2. Future accounting development *(continued)*

The adoption of HKFRS9 is expected to reduce net assets at 1 January 2018 by HK$854m, with classification and measurement changes increasing net assets by HK$46m and additional impairment reducing net assets by HK$1,078m, and the resulting changes to deferred tax increasing net assets by HK$178m. There is no material impact on the Group's capital resources.

HKFRS15 'Revenue from Contracts with Customers'

In July 2014, the HKICPA issued HKFRS15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. HKFRS15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Group will adopt the standard on its mandatory effective date, and the standard will be applied on a retrospective basis, recognising the cumulative effect, if any, of initially applying the standard as an adjustment to the opening balance of retained earnings.

The Group has assessed the impact of HKFRS15 and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS16 'Leases'

In May 2016, the HKICPA issued HKFRS16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. HKFRS16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under HKAS17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in HKAS17.

The Group is currently assessing the impact of HKFRS16 and it is not practicable to quantify the effect as at the date of the publication of these financial statements.

HKFRS17 'Insurance Contracts'

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

3. Comparative figures

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

4. Ultimate holding company

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

5. Register of shareholders

The register of shareholders of the Bank will be closed on Wednesday, 7 March 2018, during which no transfer of shares can be registered. In order to qualify for the fourth interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 6 March 2018. The fourth interim dividend will be payable on Friday, 23 March 2018, to shareholders whose names appear on the register of shareholders of the Bank on Wednesday, 7 March 2018. Shares of the Bank will be traded ex-dividend as from Monday, 5 March 2018.

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6. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' (CG-1) under the Supervisory Policy Manual ('SPM') issued by the HKMA. HKMA issued a revised SPM CG-1 in October 2017 for implementation by 1 January 2018. The Bank has reviewed its governance practices and revised its governance policies so as to bring the Bank in full compliance with the requirements under the revised SPM CG-1.

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 2017. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2017.

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7. Board of Directors

At 20 February 2018, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Dr Henry K S Cheng*, Ms L Y Chiang*, Dr Fred Zuliu Hu*, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

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

8. Press release and Annual report

This press release is published on the website of the Bank (www.hangseng.com) on the date of issue of this press release. The 2017 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank in late March 2018. Printed copies of the 2017 Annual Report will be sent to shareholders before the end of March 2018.

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9. Other financial information

To comply with the Banking (Disclosure) Rules, the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Banking (Disclosure) Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Banking Disclosure Statement together with the Annual Report will be available in late March 2018.

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