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恒生銀行
HANG SENG BANK

(Stock code: 11)

RESULTS FOR 2016

- Operating profit excluding loan impairment charges and other credit risk provisions down 1% to HK$20,347m (HK$20,547m in 2015).
- Operating profit down 2% to HK$19,034m (HK$19,439m in 2015).
- Profit before tax down 37% to HK$19,090m (HK$30,488m in 2015). Excluding the gain on partial disposal of Industrial Bank[⧫] in 2015, profit before tax down 4%.
- Attributable profit down 41% to HK$16,212m (HK$27,494m in 2015). Excluding the gain on partial disposal of Industrial Bank[⧫] in 2015, attributable profit down 4%.
- Return on average ordinary shareholders' equity of 12.1% (20.7% in 2015). Excluding the gain on partial disposal of Industrial Bank[⧫] in 2015, return on average ordinary shareholders' equity of 12.6% for 2015.
- Earnings per share down 42% to HK$8.30 per share (HK$14.22 per share in 2015). Excluding the gain on partial disposal of Industrial Bank[⧫] in 2015, earnings per share down 4%.
- Fourth interim dividend of HK$2.80 per share; total dividends of HK$6.10 per share for 2016 (HK$5.70 per share in 2015, excluding the special interim dividend of HK$3.00 per share that was issued in 2015).
- Common Equity Tier 1 ('CET1') capital ratio of 16.6%, Tier 1 ('T1') capital ratio of 17.9% and Total capital ratio of 20.8% at 31 December 2016. (CET1 capital ratio of 17.7%, T1 capital ratio of 19.1% and Total capital ratio of 22.1% at 31 December 2015.)
- Cost efficiency ratio of 33.5% (33.8% in 2015).

[⧫]Partial disposal of shareholding in Industrial Bank Co., Ltd. ('Industrial Bank') in 2015

Reported results for 2015 include a HK$10,636m gain on partial disposal of the ordinary shares of Industrial Bank. Figures quoted as 'excluding the gain on partial disposal of Industrial Bank' have been adjusted for this item. Details of the computation are shown on page 55.

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 announcement 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 2016.

* Where possible, percentages in this section have been rounded to the neartest percentage point to facilitate easy reading. Percentage-based indicators remain at 1 to 2 decimal places as appropriate.

Comment by Raymond Ch'ien, Chairman

International uncertainties and economic deleveraging on the Mainland continued to present challenging operating conditions. Investor caution resulted in subdued investment market activity and soft demand for loans during the year.

Against this backdrop, Hang Seng Bank leveraged its competitive strengths to record respectable results for 2016 and strengthen its platform for achieving long-term growth.

Excluding the impact of the HK$10.6bn gain on the partial disposal of our holding in Industrial Bank in the first half of 2015, profit attributable to shareholders fell by 4% to HK$16,212m and earnings per share declined by 4% to HK$8.30. On a reported basis, attributable profit and earnings per share were down 41% and 42% respectively.

The Directors have declared a fourth interim dividend of HK$2.80 per share. This brings the total distribution for 2016 to HK$6.10 per share, compared with HK$5.70 per share in the previous year, excluding the HK$3.00 special dividend that was issued in 2015.

Economic Environment

Growth has been reported in advanced economies following steps by major central banks to act against economic and financial market risks. In the US, growth averaged 2.7% in the second half of 2016, up from 1.1% in the first half. Second-half growth in the eurozone was 1.8%, a small increase from 1.7% in the first half.

Economic growth on the Mainland was within the Central Government's target range last year, due in part to the success of policy measures designed to support economic stability and long-term economic transition. While full-year GDP growth for 2016 was 6.7%, its slowest rate in 26 years, growth in the fourth quarter accelerated for the first time in two years to 6.8%. We expect the Mainland economy to maintain a similar pace of annual expansion in 2017.

The US is on track to tighten monetary policy, but the gradual pace of interest rate rises suggests that its impact on Hong Kong should be moderate. While potential changes in international trade policies are clouding the outlook for Sino-US trade relations, growth in Hong Kong's domestic service sector has remained steady. Our forecast is for annual GDP growth in Hong Kong to rise to 1.8% in 2017 from an estimated 1.4% in 2016.

Uncertainties over global trade, the evolving credit conditions and economic adjustment on the Mainland will continue to create challenges for business. Supported by our strong market position, large client base and sustainable growth strategy, we will invest resources in enhancing efficiency, acting swiftly on new business opportunities and deepening customer relationships to increase value for shareholders.

Review by Rose Lee, Vice-Chairman and Chief Executive

In challenging operating conditions, Hang Seng Bank maintained good business momentum by recognising and responding swiftly to changes in the market and the evolving needs of customers.

We embraced the use of technology and data analytics to improve our understanding of and engagement with clients. Supported by enhancements to our physical network, digital platforms and all-weather portfolio of wealth-and-health offerings, we deepened customer relationships. This enabled us to deliver a more personalised service experience.

We invested in infrastructure and technology that support closer cross-border and cross-business connectivity in order to capitalise on new opportunities and position ourselves for growth. The Hang Seng China H-Share Index Fund was among the first batch of northbound funds offered to Mainland investors in February 2016 under the Mainland-Hong Kong Mutual Recognition of Funds initiative. In September, we established Hang Seng Qianhai Fund Management Company Limited, the first Mainland-domiciled, foreign-majority-owned joint venture fund management company under CEPA. In December, we launched Shenzhen-Hong Kong Stock Connect Northbound Trading services.

We achieved solid growth in net interest income and achieved increases in operating income and profit in Commercial Banking and Global Banking and Markets. Retail Banking and Wealth Management recorded continuous growth in net interest income. We deepened our customer segmentation strategy, resulting in increased numbers of Prestige and Preferred Banking customers. Subdued investment sentiment, particularly during the first half of 2016, compared with the buoyant investment environment in 2015 had a significant impact on wealth management income. With improved investment conditions in the second half of 2016 and our continuing drive to enrich our portfolio of wealth management products, we achieved sustainable growth in investment services revenue in the second half when compared with the first half of the year.

Net interest margin improved to 1.85% through effective assets and liabilities management despite narrowing spreads on customer lending. Our strong capital base and healthy liquidity position enabled us to respond rapidly to new business opportunities and changing regulatory requirements.

We upheld our prudent credit risk management principles to maintain satisfactory asset quality in our lending and investment portfolios.

Financial Performance

Operating profit excluding loan impairment charges declined by 1% to HK$20,347m. Operating profit was down 2% at HK$19,034m.

Excluding the impact of the HK$10.6bn gain on our partial disposal of our holding in Industrial Bank in the first half of 2015, underlying attributable profit and earnings per share both declined by 4% to HK$16,212m and HK$8.30 respectively. On the same basis, profit before tax was down 4% at HK$19,090m.

On a reported basis, attributable profit, earnings per share and profit before tax fell by 41%, 42% and 37% respectively, reflecting the impact of the Industrial Bank disposal gain.

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

Net interest income grew by 5% to HK$22,254m, driven mainly by the 4% rise in average interest-earning assets and successful efforts to enhance the deposit mix. Targeted client and deposit acquisition strategies helped support a 3% increase in average customer deposits. Average customer lending rose by 1%. Net interest margin improved by two basis points to 1.85%.

Non-interest income declined by 16% to HK$8,345m, due mainly to the impact of the subdued investment environment, particularly in the first half of the year.

Our cost efficiency ratio was 33.5%, compared with 33.8% in 2015.

At 31 December 2016, our common equity tier 1 capital ratio was 16.6% and our tier 1 capital ratio was 17.9%, compared with 17.7% and 19.1% respectively at the end of 2015. Our total capital ratio was 20.8%, compared with 22.1% a year earlier.

Recognising Challenges, Responding to Change

The uncertain global environment, economic deleveraging on the Mainland and strong competition in the banking sector will continue to create challenging operating conditions.

At the same time, the Mainland's commitment to open up its financial sector and strengthen regional and international economic ties, particularly as part of the 'One Belt, One Road' initiative, will drive demand for innovative financial services and generate new business opportunities.

Hong Kong is among the most competitive economies in the world. Its success as an international finance and trade hub and the primary gateway for cross-border business activities between the Mainland and the overseas markets is built on making the best of its competitive strengths. These include comprehensive financial and investor protection frameworks, openness to new opportunities and ideas, and the ability to rapidly adapt to new situations.

As Hong Kong's leading domestic bank, we will pursue our sustainable growth strategy by further leveraging our strong financial fundamentals, unique market positioning and service excellence culture. We will strengthen our competitive advantages that cannot be easily replicated.

We will continue to refine our customer segmentation strategy and strengthen client engagement by developing products and services that align with their evolving lifestyles and needs.

We will further enhance our industry sector knowledge and closely monitor market developments to support SME customers in a dynamic operating environment.

Investments in our digital platforms will be stepped up to create additional service 'touch-points' to deliver greater wealth management convenience and choice. This will deepen our relationships with existing clients and drive new customer acquisitions. We will also embrace smart use of technology to realise further efficiency gains.

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

The close integration of our well-developed cross-border infrastructure supports our strong market position for core banking services and provides an excellent framework for capitalising on new business opportunities.

We will continue to actively manage our capital and liquidity to ensure we remain well prepared to respond to changes in the regulatory landscape and market conditions.

In recognition of our role and responsibilities as a good corporate citizen, we actively support a variety of programmes that promote social and environmental well-being in our community, focusing particularly on youth development.

As we move forward in a rapidly evolving operating environment, I wish to recognise the invaluable contributions of my colleagues in working to achieve the strategic initiatives that will ensure we continue to deliver service excellence for customers and increase value for shareholders.

Results Summary

In challenging operating conditions, Hang Seng Bank Limited (‘the Bank’) and its subsidiaries (‘the Group’) returned solid results for 2016. **Operating profit excluding loan impairment charges and other credit risk provisions** was HK$20,347m, down 1% compared with 2015, due mainly to a reduction in wealth management income in the subdued investment environment, particularly as compared with the buoyant conditions in 2015. The decline in wealth management income was partially offset by robust growth in net interest income and efforts to contain operating expenses at a lower level than in 2015. **Operating profit** was HK$19,034m, down 2% compared with 2015, reflecting higher loan impairment charges. The HK$10,636m gain on the partial disposal of Industrial Bank in 2015 saw **profit attributable to shareholders** fall by 41% to HK$16,212m in 2016. Excluding this gain and after taking into account the property revaluation deficit compared with a revaluation surplus for 2015, attributable profit was down 4%.

Net interest income increased by HK$1,089m, or 5%, to HK$22,254m, underpinned by the 4% rise in average interest-earning assets. The growth in average interest-earning assets was mainly supported by the 3% increase in average customer deposits. Net interest margin improved by two basis points to 1.85%, while net interest spread widened by five basis points. Average loan spreads remained under pressure. Customer deposit spreads improved, with an increase in low-cost savings and current deposit accounts resulting in a more favourable deposit mix. Treasury’s active management of interest rate risk and efforts to enhance returns on the increased commercial surplus led to an increase in balance sheet management income.

Net fee income decreased by HK$1,099m, or 16%, to HK$5,939m, reflecting the decline in investment market activity, particularly in the first half of the year, which led to a reduction in wealth management income. Income from securities broking and retail investment fund sales fell by 37% and 11% respectively.

Insurance commission increased by 43%, reflecting higher distribution fees received from our exclusive partnership arrangement with Bupa due to the Group achieving its cumulative value contribution target as well as commission originating from life reinsurance business solutions. Credit card fee income rose by 5%, benefiting from increased cardholder spending and merchant-acquiring business in Hong Kong. Fees from account services and remittances increased by 6% and 8% respectively.

Net trading income decreased by HK$345m, or 17%, to HK$1,685m. Foreign exchange income was down by HK$536m, or 26%, as increased revenue from higher customer activity was more than offset by reduced demand for foreign-exchange-linked structured treasury products – particularly renminbi-linked structured products – and lower income from funding swaps. Income from interest rate derivatives, debt securities, equities and other trading activities recorded a gain of HK$100m compared with a loss of HK$67m in 2015, mainly reflecting the favourable fair value movement of equity-linked derivatives products in the life insurance business investment portfolio.

Income from insurance business (included under 'net interest income', 'net fee income', 'net trading income', 'net income/(loss) from financial instruments designated at fair value', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and 'other' within 'other operating income', 'share of profits from associates' and after deducting 'net insurance claims and benefits paid and movement in liabilities to policyholders') increased by HK$74m, or 2%, to HK$3,456m. Net interest income and fee income from life insurance business grew by 11%, as the size of the life insurance funds investment portfolio grew, reflecting a net inflow from new and renewal business. The investment return on life insurance business was, however, affected by unfavourable movements in the equities markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or present value of in-force long-term insurance business ('PVIF').

Net insurance premium income increased by 12% as a result of higher premiums received from successful sales initiatives for annuity and endowment products. The rise in insurance premiums resulted in a corresponding increase in net insurance claims and benefits paid and movement in liabilities to policyholders.

The movement in PVIF decreased by 30%, reflecting the net result of an unfavourable change in market conditions from discount rate updates and new business written throughout the year. General insurance income increased by 37%, with our efforts to further leverage our exclusive partnership arrangement with Bupa resulting in higher distribution commission.

Operating expenses decreased by HK$230m, or 2%, to HK$10,252m, reflecting careful cost control. Staff costs were down by 2%, due mainly to the annual salary increment being more than offset by lower performance-related pay expenses and lower headcount.

Depreciation charges were up 16%, reflecting higher depreciation charges on business premises following the upward commercial property revaluation last year and the increased depreciation on a bank property as a result of the change in property usage to support back-office functions. This was partly offset by the 7% decrease in general and administrative expenses.

The Group continued to focus on enhancing operational efficiency while maintaining growth momentum. The cost efficiency ratio was 30 basis points lower at 33.5% compared with 2015.

Loan impairment charges and other credit risk provisions increased by HK$205m, or 19%, to HK$1,313m, reflecting the more challenging credit environment. Gross impaired loans and advances increased by HK$498m, or 18%, to HK$3,235m against 2015 year-end, due mainly to certain corporate exposures on the Mainland. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.46% at the end of December 2016, compared with 0.55% at the end of June 2016 and 0.40% at the end of December 2015. Overall credit quality remained sound.

Individually assessed impairment charges were broadly unchanged, as the increase in new impairment charges were almost offset by higher release and recoveries from corporate and commercial customers during the year. Collectively assessed impairment charges increased by HK$194m, or 33%, to HK$774m, mainly reflecting the increase in the collectively assessed impairment charges on the credit card and personal loan portfolios. Impairment allowances for loans not individually identified as impaired recorded a net charge compared with a net release in 2015, mainly due to a higher net release for Hong Kong loan portfolios in 2015. The Group maintains a cautious outlook on the credit environment and will proactively enhance asset quality by maintaining a prudent approach in growing the loan portfolio.

Profit before tax decreased by HK$11,398m, or 37%, to HK$19,090m (down 4% after excluding the gain on the partial disposal of Industrial Bank in 2015) after taking the following major items into account:

- the gain on partial disposal of Industrial Bank of HK$10,636m in the first half of 2015;
- a revaluation deficit of HK$37m compared with a revaluation surplus of HK$261m in 2015 in **net surplus on property revaluation**; and
- a HK$59m decrease in **share of profits from associates**, mainly from a property investment company.

Second half of 2016 compared with first half of 2016

Against the first half of 2016, the Group continued to make good progress and achieved sustainable growth in revenues to return solid results for the second half. Attributable profit grew by HK$202m, or 3%, driven by increases in net interest income and net fee income and a reduction in loan impairment charges.

Net interest income grew by HK$248m, or 2%, due mainly to the increase in average interest-earning assets, more calendar days in the second half and a stable net interest margin despite continuous downward pressure in the challenging operating environment. Non-interest income decreased by HK$83m, or 2%. There was an improvement in investment income, with higher income from retail investment funds, cards, brokerage and structured investment products. These were more than offset by lower insurance income, reflecting an unfavourable change in market conditions from discount rate update.

Operating expenses increased by 6%, mainly reflecting an increase in general and administrative expenses that was partly offset by reduced staff costs. Loan impairment charges decreased by 18%, reflecting lower individually assessed impairment charges.

Consolidated balance sheet and key ratios

Assets

Total assets rose by HK$43bn, or 3%, to HK$1,377bn at 31 December 2016, on the back of the Group's strategy to enhance profitability through sustainable growth.

Cash and sight balances at central banks increased by HK$13bn, or 130%, to HK$23bn, mainly reflecting the increase in the commercial surplus placed with the Hong Kong Monetary Authority.

Trading assets rose by HK$4bn, or 10%, to HK$44bn, with the increase mainly comprised of exchange fund bills and notes.

Customer loans and advances (net of impairment allowances) grew by HK$10bn, or 1%, to HK$699bn, compared with the end of 2015 mainly reflecting subdued credit demand. Loans for use in Hong Kong increased by 7%, mainly in property development and investment, manufacturing, information technology and working capital financing for certain large corporate customers. Lending to individuals increased by 3% when compared with the end of 2015. The Group continued to maintain its market share for the mortgage business with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending growing by 2% and 8% respectively. Trade finance decreased by 8%, due mainly to the contraction in cross-border lending activity and slow market conditions. Loans and advances for use outside Hong Kong fell by 11%, reflecting de-risking activity as part of our robust credit risk management strategy as well as the more subdued market environment.

Financial investments increased by HK$26bn, or 7%, to HK$398bn, due mainly to the increased deployment of the commercial surplus in debt securities given the subdued demand for credit. Growth in life insurance business also contributed to the increase.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$32bn, or 3%, to HK$1,029bn since 2015 year-end, with increased contribution from savings and current deposit accounts. At 31 December 2016, the advances-to-deposits ratio was 67.9%, compared with 69.1% at 31 December 2015.

Shareholders' equity fell by HK$1bn, or 1%, to HK$141bn when compared with 2015 year-end. Retained profits and the premises revaluation reserve remained relatively stable. The available-for-sale investment reserve decreased by HK$0.5bn, or 26%, against the end of the previous year, mainly reflecting the fair value movement of the Group's investment in Industrial Bank and market interest rate movements. Other reserves fell by HK$1bn, or 61%, due mainly to the depreciation of the renminbi.

Key ratios

Return on average total assets was 1.2% (2.1% for 2015). **Return on average ordinary shareholders' equity** was 12.1% (20.7% for 2015). Excluding the financial impact of Industrial Bank disposal gain in 2015, return on average total assets was 1.2% (1.3% for 2015). On the same basis, return on average ordinary shareholders' equity was 12.1%, compared with 12.6% a year earlier.

At 31 December 2016, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.6%, 17.9% and 20.8% respectively, compared with 17.7%, 19.1% and 22.1% respectively at 2015 year-end. The reduction reflects the combined effects of a decrease in capital base mainly due to the payment of a special interim dividend for 2015 and a 3.7% rise in risk-weighted assets.

Under the Banking (Liquidity) Rules, the liquidity position of the Group remained strong in 2016 as the Group has deployed the commercial surplus in high quality liquid assets given the subdued demand for credit. The average **Liquidity Coverage Ratio ('LCR')** ranged from 253.6% to 284.0% for the quarters ended 31 December, 30 September, 30 June and 31 March 2016. The average LCR ranged from 167.4% to 237.2% for the corresponding quarters in 2015. The LCR at 31 December 2016 was 229.3% (208.1% at 31 December 2015).

Dividends

The Directors have declared a fourth interim dividend of HK$2.80 per share payable on 28 March 2017 to shareholders on the register as of 8 March 2017. Together with interim dividends for the first three quarters, the total distribution for 2016 will be HK$6.10 per share.

Figures in HK$m	*Retail Banking and Wealth Management*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2016					
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 (loss)/income	**(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 instruments	**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 ♦	**(6,357)**	**(2,471)**	**(909)**	**(515)**	**(10,252)**
Operating profit	**8,774**	**5,279**	**4,816**	**165**	**19,034**
Net deficit on property revaluation	**–**	**–**	**–**	**(37)**	**(37)**
Share of profits from associates	**93**	**–**	**–**	**–**	**93**
Profit before tax	**8,867**	**5,279**	**4,816**	**128**	**19,090**
Share of profit before tax	**46.4 %**	**27.7 %**	**25.2 %**	**0.7 %**	**100.0 %**
Operating profit excluding loan impairment charges and other credit risk provisions	**9,507**	**5,869**	**4,806**	**165**	**20,347**
♦ 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	**2,274**	**–**	**–**	**–**	**2,274**
Non-current assets acquired during the year	**189**	**11**	**1**	**698**	**899**

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Year ended 31 December 2015					
Net interest income	11,281	5,929	3,498	457	21,165
Net fee income	4,864	1,672	320	182	7,038
Net trading income/(loss)	72	410	1,576	(28)	2,030
Net (loss)/income from financial instruments designated at fair value	(132)	(8)	–	22	(118)
Gains less losses from financial instruments	11	–	5	–	16
Dividend income	1	–	–	141	142
Net insurance premium income	9,366	479	–	–	9,845
Other operating income	3,459	127	17	300	3,903
Total operating income	28,922	8,609	5,416	1,074	44,021
Net insurance claims and benefits paid and movement in liabilities to policyholders	(12,575)	(393)	–	–	(12,968)
Net operating income before loan impairment charges and other credit risk provisions	16,347	8,216	5,416	1,074	31,053
Loan impairment (charges)/ releases and other credit risk provisions	(620)	(524)	36	–	(1,108)
Net operating income	15,727	7,692	5,452	1,074	29,945
Operating expenses ᶲ	(6,623)	(2,481)	(946)	(432)	(10,482)
Impairment loss on intangible assets	(5)	–	–	(19)	(24)
Operating profit	9,099	5,211	4,506	623	19,439
Net gain on partial disposal of Industrial Bank	–	–	–	10,636	10,636
Net surplus on property revaluation	–	–	–	261	261
Share of profits from associates	151	1	–	–	152
Profit before tax	9,250	5,212	4,506	11,520	30,488
Share of profit before tax	30.3%	17.1%	14.8%	37.8%	100.0%
Share of profit before tax (excluding the gain on partial disposal of Industrial Bank)	46.6%	26.3%	22.7%	4.4%	100.0%
Operating profit excluding loan impairment charges and other credit risk provisions	9,719	5,735	4,470	623	20,547
ᶲ Depreciation/amortisation included in operating expenses	(57)	(27)	(6)	(977)	(1,067)
At 31 December 2015					
Total assets	392,667	302,086	571,178	68,498	1,334,429
Total liabilities	753,208	253,626	167,178	18,436	1,192,448
Interest in associates	2,261	14	–	–	2,275
Non-current assets acquired during the year	1,090	43	4	355	1,492

Retail Banking and Wealth Management ('RBWM') recorded a 2% year-on-year decline in operating profit excluding loan impairment charges to HK$9,507m. Operating profit and profit before tax both decreased 4% year-on-year to HK$8,774m and HK$8,867m respectively. This mainly reflects the impact of the downturn in global investment sentiment on wealth management business in early 2016 compared with the high level of investment market activity in 2015.

In the uncertain economic environment, we made good use of our extensive network and trusted brand to achieve solid balance sheet growth. Together with improved returns from fixed income investments in our insurance investment portfolio, net interest income increased by 8% year-on-year to HK$12,195m. Customer deposits grew by 6% and the lending portfolio expanded by 2% year-on-year. On the Mainland, strategic management of our high-cost funding helped drive a 12% increase in net interest income.

Non-interest income declined by 28% year-on-year to HK$3,669m, largely reflecting 13% decline in wealth management business income to HK$5,741m and a change in the way we present expenses related to the credit card loyalty programme which was previously recorded under operating expenses.

Unsecured lending continued to be a solid revenue driver. With effective marketing campaigns and a good quality credit card customer base, we achieved an above market average year-on-year increase in card spending in Hong Kong. With the gradual rise in the market bankruptcy rate in the first half of 2016, we struck a good balance between business growth and risk exposure for our personal loan business. The size of the personal loan portfolio in Hong Kong remained the same as a year earlier.

The property market was volatile in 2016. Transaction volume was low during the first half of 2016 but improved in the second half. We sustained our top-three position for new mortgage business in Hong Kong, with a market share of 15% in terms of new mortgage registrations. Mortgage balances grew by 1% year-on-year in Hong Kong. Supported by effective segmentation strategy and a well-established relationship with developers, mortgages on the Mainland grew 11% year-on-year.

The unfavourable global investment market conditions in early 2016 had an adverse impact on investment income, which dropped by 23% year-on-year. However, greater market uptake in the second half of 2016 drove a 17% improvement in investment income compared with the first half. In line with the slowdown in equities markets transactions against the high base in 2015, our securities turnover and revenue declined by 49% and 43% respectively. Excluding securities, other investment product revenue dropped by 6%, supported by our all-weather product portfolio. The Hang Seng China H-Share Index Fund was among the first batch of northbound funds to be offered to retail investors on the Mainland under the Mainland-Hong Kong Mutual Recognition of Funds initiative. We established the first foreign-majority-owned joint venture fund management company on the Mainland under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). We also launched Shenzhen-Hong Kong Stock Connect Northbound Trading services.

Insurance income declined by 2% year-on-year. Despite the unfavourable movement in equities markets, which affected investment returns on insurance business, growth in the size of the life insurance funds investment portfolio – reflecting a net inflow from new and renewal business – drove an 11% rise in net interest income and fee income from life insurance business. We continued to strengthen our ability to provide tailored wealth-and-health solutions by broadening our insurance product range. New annualised premiums grew 13% year-on-year, driven in part by our strong distribution network.

Good customer analytics enabled us to improve client segmentation and needs-based selling. We leveraged our high-value proposition and tailored products and services within our Prestige Banking customer base to achieve a 41% year-on-year increase in premium clients in Hong Kong.

We continued to invest in new technology and enhance our digital capabilities to provide more convenient and faster banking services that meet the needs of our increasingly mobile and tech-savvy customers. We launched Hang Seng Easy Pay, a person-to-person (P2P) fund transfer service, and introduced Apple Pay and Android Pay services to offer customers easy and secure payment solutions. We also enhanced our digital platforms to tailor information and promotional offers to better engage with our customers.

Commercial Banking ('CMB') business gained momentum in the second half of 2016 and achieved a 2% year-on-year growth in operating profit excluding loan impairment charges to HK$5,869m for the year. Operating profit and profit before tax were both up 1% at HK$5,279m.

Despite the difficult economic conditions, net interest income increased by 3%, underpinned by good growth in average current and savings deposits. Customer advances grew by 1% amid more intense competition and softer loan demand in Hong Kong.

Non-interest income declined by 3%, mainly reflecting a reduction in income from renminbi-related business due to market volatility. Fluctuations in the renminbi exchange rate reduced customer demand for hedging solutions, leading to a 77% drop in structured foreign exchange income. Leveraging our strong distribution capabilities, we narrowed the drop in non-interest income by achieving 36% growth in insurance income, a 33% rise in income from vanilla foreign exchange business and a 14% increase in remittance income. Compared to the first half of 2016, non-interest income increased by 8% in the second half of the year.

Our strategy for further strengthening our small and medium-sized enterprises ('SME') business has led to an 8% growth from related revenue. We continued to acquire new Mainland customers, which accounted for 61% of newly acquired customers in 2016. The growth in the customer base helped drive satisfactory growth of 9% in SME deposits. Leveraging our effective sales distribution and efficient service channels, we grew income from insurance distribution and from remittances and account-related fees by 30% and 13% respectively. We continued to upgrade our network to provide a better customer experience and integrated services for our SME customers. Our Hankow Road Business Banking Centre was opened in July 2016 with a more spacious environment that is closer to our retail branch in the area for better synergy in driving cross-business referrals.

We invested in technology to enhance our corporate digital banking services to serve customers in a more efficient and timely manner. The launch of a new Business Banking Mobile App, as well as HSBCnet mobile, has made it easier and more convenient for our clients to manage their accounts in a secure and reliable manner even when they are on the move.

We stepped up efforts to enhance our transaction banking services and capabilities to provide swift and efficient solutions for customers. We are one of the foreign banks on the Mainland to become a direct member of China's Cross-border Interbank Payment System (CIPS), a centralised clearing platform for cross-border renminbi transactions. Our membership of CIPS enables customers to benefit from a more efficient renminbi cross-border payment system that includes better payment cut-off times. We are the first bank in Hong Kong to launch 'Pay Smart', a joint initiative with MasterCard, which is a virtual credit card solution that can help customers manage their expenses more effectively. We launched Global Liquidity Engine in 2016 to facilitate customers' cross-border liquidity management. The introduction of a new supply chain finance solution is helping trade customers to strengthen relationships with their key suppliers by enabling the former to make early payments at a competitive discount rate.

Our efforts to assist customers have brought us industry recognition. We received the 'Outstanding Import & Export Industry Partner Award' from The Hong Kong Chinese Importers' & Exporters' Association and were named 'Hong Kong Domestic Trade Finance Bank of the Year' by *Asian Banking & Finance*. We also received the 'Best in Treasury and Working Capital – SMEs, Hong Kong' award in *The Asset* Triple A Treasury, Trade and Risk Management Awards 2016 and 'The Best Payment Bank in Hong Kong' award in *The Asian Banker* Transaction Banking Awards 2016.

Our capacity to connect commercial customers to business opportunities in Greater China has been strengthened following our approval to open free-trade accounts for commercial customers.

We remained vigilant in managing asset quality, adopting a proactive approach to credit risk management that enabled us to uphold good overall credit quality.

Global Banking and Markets ('GBM') reported year-on-year growth of 8% in operating profit excluding loan impairment charges to HK$4,806m and a 7% rise in operating profit and profit before tax to HK$4,816m.

Global Banking ('GB') recorded a 1% year-on-year growth in net operating income to HK$2,339m. Net interest income increased by 5% to HK$1,989m, while non-interest income fell by 12% due to lower credit card merchant income and a decline in loan commission income. Apart from offering loan facilities to customers, we supported their debt capital market activities by distributing their new bond issuances to the Group's wealth management clients. Supported by favourable growth in general insurance sales and securities brokerage, wealth management income grew by 16% over the previous year. With stable asset quality, operating profit excluding loan impairment charges grew by 3%.

Global Markets ('GM') reported an 11% year-on-year rise in both operating profit and profit before tax to HK$2,939m.

We achieved a 24% increase in net interest income to HK$2,004m, driven mainly by higher returns resulting from effective balance sheet management. We closely monitored market movements throughout the year and managed the interest rate risk to achieve yield enhancement.

Non-interest income fell by 10% to HK$1,382m, due primarily to the 12% drop in trading income. Reduced customer demand for foreign exchange structured products was partly offset by an increase in income from vanilla foreign exchange products resulting from increasing foreign exchange market volatility in the second half of 2016.

Under the challenging and low interest rate environment, we focused on growing non-fund income. Leveraging the Bank’s strong relationships with customers, we collaborated closely with RBWM, CMB and GB to increase cross-selling of GM products.

In response to further liberalisation in renminbi-related business, we strived to provide timely market information and products to meet customer needs in the volatile foreign exchange market.

In response to the announcement of the People’s Bank of China at the end of 2015 regarding the introduction of qualified foreign players, we submitted an application for China Interbank Foreign Exchange Market membership to China Foreign Exchange Trade System (‘CFETS’) in the first half of 2016. In July, CFETS officially approved the Bank’s application, and we are able to conduct foreign exchange transactions through CFETS directly for renminbi purchases and sales business.

Figures in HK$m	***Year ended 31 December*** ***2016***	*2015*	*Variance* *(%)*
Interest income	**26,493**	27,063	(2)
Interest expense	**(4,239)**	(5,898)	28
Net interest income	**22,254**	21,165	5
Fee income	**8,042**	8,624	(7)
Fee expense	**(2,103)**	(1,586)	(33)
Net fee income	**5,939**	7,038	(16)
Net trading income	**1,685**	2,030	(17)
Net income/(loss) from financial instruments designated at fair value	**73**	(118)	162
Gains less losses from financial investments	**105**	16	556
Dividend income	**190**	142	34
Net insurance premium income	**11,059**	9,845	12
Other operating income	**2,828**	3,903	(28)
Total operating income	**44,133**	44,021	–
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(13,534)**	(12,968)	(4)
Net operating income before loan impairment charges and other credit risk provision	**30,599**	31,053	(1)
Loan impairment charges and other credit risk provisions	**(1,313)**	(1,108)	(19)
Net operating income	**29,286**	29,945	(2)
Employee compensation and benefits	**(4,807)**	(4,893)	2
General and administrative expenses	**(4,226)**	(4,522)	7
Depreciation of premises, plant and equipment	**(1,114)**	(957)	(16)
Amortisation of intangible assets	**(105)**	(110)	5
Operating expenses	**(10,252)**	(10,482)	2
Impairment loss on intangible assets	–	(24)	–
Operating profit	**19,034**	19,439	(2)
Net gain on partial disposal of Industrial Bank	–	10,636	–
Net (deficit) / surplus on property revaluation	**(37)**	261	(114)
Share of profits from associates	**93**	152	(39)
Profit before tax	**19,090**	30,488	(37)
Tax expense	**(2,886)**	(2,994)	4
Profit for the year	**16,204**	27,494	(41)
Attributable to:			
Shareholders of the company	**16,212**	27,494	(41)
Non-controlling interests	**(8)**	–	–
Earnings per share – basic and diluted (in HK$)	**8.30**	14.22	(42)

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 30.

Figures in HK$m	***Year ended 31 December*** ***2016***	*2015*
Profit for the year	**16,204**	27,494
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	**(549)**	(416)
-- on equity shares	**(127)**	183
- fair value changes transferred to income statement:		
-- on hedged items	**398**	91
-- on disposal	**(105)**	(14,759)
- share of changes in equity of associates:		
-- fair value changes	**–**	(5)
- deferred taxes	**57**	19
- exchange difference and other	**(179)**	(186)
Cash flow hedging reserve:		
- fair value changes taken to equity	**781**	191
- fair value changes transferred to income statement	**(924)**	(188)
- deferred taxes	**24**	(1)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(762)**	(540)
Items that will not be reclassified subsequently to the income statement:		
Premises:		
- unrealised surplus on revaluation of premises	**853**	1,878
- deferred taxes	**(144)**	(314)
- exchange difference	**(11)**	(7)
Defined benefit plans:		
- actuarial gains on defined benefit plans	**127**	422
- deferred taxes	**(21)**	(70)
Others	**–**	2
Other comprehensive income for the year, net of tax	**(582)**	(13,700)
Total comprehensive income for the year	**15,622**	13,794
Total comprehensive income for the year attributable to:		
- shareholders of the company	**15,630**	13,794
- non-controlling interests	**(8)**	–
	15,622	13,794

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*	*Variance (%)*
ASSETS			
Cash and sight balances at central banks	**23,299**	10,118	130
Placings with and advances to banks	**103,460**	123,990	(17)
Trading assets	**44,427**	40,373	10
Financial assets designated at fair value	**8,523**	7,903	8
Derivative financial instruments	**16,695**	11,595	44
Loans and advances to customers	**698,992**	688,946	1
Financial investments	**398,137**	372,272	7
Interests in associates	**2,274**	2,275	–
Investment properties	**9,960**	10,075	(1)
Premises, plant and equipment	**26,772**	26,186	2
Intangible assets	**14,443**	12,221	18
Other assets	**30,260**	28,475	6
Total assets	**1,377,242**	1,334,429	3
LIABILITIES AND EQUITY			
Liabilities			
Current, savings and other deposit accounts	**989,539**	959,228	3
Repurchase agreements – non-trading	**1,805**	2,315	(22)
Deposits from banks	**14,075**	18,780	(25)
Trading liabilities	**68,124**	62,917	8
Financial liabilities designated at fair value	**3,991**	3,994	–
Derivative financial instruments	**13,303**	9,988	33
Certificates of deposit and other debt securities in issue	**5,116**	5,191	(1)
Other liabilities	**24,765**	20,891	19
Liabilities under insurance contracts	**108,326**	101,817	6
Current tax liabilities	**25**	185	(86)
Deferred tax liabilities	**5,160**	4,817	7
Subordinated liabilities	**2,327**	2,325	–
Total liabilities	**1,236,556**	1,192,448	4
Equity			
Share capital	**9,658**	9,658	–
Retained profits	**105,204**	105,363	–
Other equity instruments	**6,981**	6,981	–
Other reserves	**18,783**	19,979	(6)
Total shareholders' equity	**140,626**	141,981	(1)
Non-controlling interests	**60**	–	–
Total equity	**140,686**	141,981	(1)
Total equity and liabilities	**1,377,242**	1,334,429	3

For the year ended 31 December 2016

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 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**
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–	–	–
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**

For the year ended 31 December 2015

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 2015	9,658	6,981	88,064	15,687	17,012	(11)	1,140	662	139,193	–	139,193
Profit for the year	–	–	27,494	–	–	–	–	–	27,494	–	27,494
Other comprehensive income (net of tax)	–	–	354	1,557	(15,073)	2	(540)	–	(13,700)	–	(13,700)
Available-for-sale investments	–	–	–	–	(15,068)	–	–	–	(15,068)	–	(15,068)
Cash flow hedges	–	–	–	–	–	2	–	–	2	–	2
Property revaluation	–	–	–	1,557	–	–	–	–	1,557	–	1,557
Actuarial gains on defined benefit plans	–	–	352	–	–	–	–	–	352	–	352
Share of other comprehensive income of associates	–	–	–	–	(5)	–	–	–	(5)	–	(5)
Exchange differences and others	–	–	2	–	–	–	(540)	–	(538)	–	(538)
Total comprehensive income for the year	–	–	27,848	1,557	(15,073)	2	(540)	–	13,794	–	13,794
Dividends paid	–	–	(10,706)	–	–	–	–	–	(10,706)	–	(10,706)
Coupon paid to holder of AT1 capital instrument	–	–	(310)	–	–	–	–	–	(310)	–	(310)
Movement in respect of share-based payment arrangements	–	–	–	–	–	–	–	10	10	–	10
Others	–	–	–	–	–	–	–	–	–	–	–
Transfers	–	–	467	(467)	–	–	–	–	–	–	–
At 31 December 2015	9,658	6,981	105,363	16,777	1,939	(9)	600	672	141,981	–	141,981

Net interest income

Figures in HK$m	***2016***	*2015*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**23,124**	22,642
- trading assets and liabilities	**(845)**	(1,450)
- financial instruments designated at fair value	**(25)**	(27)
	22,254	21,165
Average interest-earning assets	**1,201,207**	1,156,534
Net interest spread	**1.76%**	1.71%
Net interest margin	**1.85%**	1.83%

Net interest income increased by HK$1,089m, or 5%, to HK$22,254m, driven mainly by the 4% increase in average interest-earning assets.

Average interest-earning assets increased by HK$45bn, or 4%, when compared with last year. Average customer lending increased by 1%, mainly affected by subdued loan demand together with the decrease in cross-border funding activities. Average financial investments increased by 23% partly offset by the 31% fall in interbank placement.

Net interest margin improved by two basis points to 1.85% whilst the net interest spread increased by five basis points to 1.76%. Average loan spread on customer lending reduced, notably on corporate and commercial term lending. Treasury's active management of interest rate risk and active efforts to enhance returns on the commercial surplus led to an increase in balance sheet management income. Customer deposits spread also widened as a result of the change in deposit mix, with increased contribution from low cost savings accounts and current deposit accounts balance. Contribution from net free funds fell by three basis points to 0.09%.

Net interest income in the second half of 2016 increased by HK$248m, or 2%, compared with the first half, mainly supported by steady increase in average interest-earning assets and more calendar days in the second half. Net interest margin increased by one basis point.

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	***2016***	*2015*
Net interest income and expense reported as ‘Net interest income’		
- Interest income	**26,193**	26,743
- Interest expense	**(3,110)**	(4,135)
- Net interest income	**23,083**	22,608
Net interest income and expense reported as ‘Net trading income’	**(845)**	(1,450)
Net interest income and expense reported as ‘Net income from financial instruments designated at fair value’	**16**	7
Average interest-earning assets	**1,155,824**	1,116,125
Net interest spread	**1.92%**	1.91%
Net interest margin	**2.00%**	2.03%

Net fee income

Figures in HK$m	***2016***	*2015*
- Securities broking and related services	**1,175**	1,872
- Retail investment funds	**1,573**	1,763
- Insurance	**674**	472
- Account services	**464**	439
- Remittances	**481**	444
- Cards	**2,503**	2,386
- Credit facilities	**394**	420
- Trade services	**416**	491
- Other	**362**	337
Fee income	**8,042**	8,624
Fee expense	**(2,103)**	(1,586)
	5,939	7,038

In 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. This accounted for the majority of the increase in fee expense during the year.

Net trading income

Figures in HK$m	***2016***	*2015*
- Foreign exchange[ф]	**1,564**	2,100
- Interest rate derivatives	**(38)**	(32)
- Debt securities	**5**	75
- Equities and other trading	**133**	(110)
Dealing profits	**1,664**	2,033
Net gain/(loss) from hedging activities	**21**	(3)
	1,685	2,030

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

Net income/(loss) from financial instruments designated at fair value

Figures in HK$m	***2016***	*2015*
Net income/(loss) on assets designated at fair value which back insurance and investment contracts	**89**	(139)
Net change in fair value of other financial instruments designated at fair value	**(16)**	21
	73	(118)

Gains less losses from financial investments

Figures in HK$m	***2016***	*2015*
Net gains from disposal of available-for-sale equity securities	**7**	–
Net gains from disposal of available-for-sale debt securities	**98**	16
Net gains from disposal of loans and advances	**–**	–
	105	16

Other operating income

Figures in HK$m	***2016***	*2015*
Rental income from investment properties	**362**	382
Movement in present value of in-force long-term insurance business	**2,233**	3,168
Gains less losses on disposal of fixed assets	**(13)**	(10)
Others	**246**	363
	2,828	3,903

Analysis of income from wealth management business

Figures in HK$m	***2016***	*2015*
Investment income:		
- retail investment funds	**1,458**	1,645
- structured investment products[ǂ]	**454**	684
- securities broking and related services	**1,143**	1,829
- margin trading and others	**103**	100
	3,158	4,258
Insurance income:		
- life insurance	**3,101**	3,123
- general insurance and others	**355**	259
	3,456	3,382
Total	**6,614**	7,640

[ǂ] *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.*

In challenging operating conditions, wealth management business income fell by HK$1,026m, or 13%, to HK$6,614m. Investment income fell by 26%, notably in retail investment funds, structured investment products and securities broking and related services in the subdued investment environment, particularly as compared with the buoyant conditions in 2015. Insurance business income grew by 2%, benefiting from the increase in general insurance business income.

Analysis of insurance business income

Figures in HK$m	***2016***	*2015*
Life insurance:		
- net interest income and fee income	**3,582**	3,230
- investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**(239)**	(152)
- net insurance premium income	**11,059**	9,845
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(13,534)**	(12,968)
- movement in present value of in-force long-term insurance business	**2,233**	3,168
	3,101	3,123
General insurance and others	**355**	259
Total	**3,456**	3,382

Loan impairment charges and other credit risk provisions

Figures in HK$m	***2016***	*2015*
Net charge for impairment of loans and advances to customers:		
Individually assessed impairment charges:		
- new charges	**662**	594
- releases	**(43)**	(50)
- recoveries	**(80)**	(16)
	539	528
Collectively assessed impairment charges	**774**	580
Loan impairment charges and other credit risk provisions	**1,313**	1,108

Operating expenses

Figures in HK$m	***2016***	*2015*
Employee compensation and benefits:		
- salaries and other costs	**4,394**	4,448
- retirement benefit costs	**413**	445
	4,807	4,893
General and administrative expenses:		
- rental expenses	**664**	696
- other premises and equipment	**1,235**	1,201
- marketing and advertising expenses	**499**	902
- other operating expenses	**1,828**	1,723
	4,226	4,522
Depreciation of premises, plant and equipment	**1,114**	957
Amortisation of intangible assets	**105**	110
	10,252	10,482
Cost efficiency ratio	**33.5%**	33.8%

Full-time equivalent staff numbers by region	***2016***	*2015*
Hong Kong and others	**7,977**	8,306
Mainland	**1,731**	1,835
Total	**9,708**	10,141

Net gain on partial disposal of Industrial Bank Co., Ltd ('Industrial Bank')

Figures in HK$m	***2016***	*2015*
Net gain on partial disposal of Industrial Bank	–	10,636
	–	10,636

The Bank disposed of 9.99% shareholding of Industrial Bank and recorded a net gain of HK$10,636m in 2015. Details of the transactions are shown on page 55.

Tax expense

Taxation in the consolidated income statement represents:

Figures in HK$m	***2016***	*2015*
Current tax – provision for Hong Kong profits tax		
Tax for the year	**2,653**	2,892
Adjustment in respect of prior years	**(25)**	(56)
Current tax – taxation outside Hong Kong		
Tax for the year	**52**	50
Adjustment in respect of prior years	**(1)**	–
Deferred tax		
Origination and reversal of temporary differences	**207**	108
Total tax expense	**2,886**	2,994

The current tax provision is based on the estimated assessable profit for 2016, and is determined for the Bank and its subsidiaries operating in Hong Kong by using the Hong Kong profits tax rate of 16.5% (the same as in 2015). 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$15,866m in 2016 (HK$27,184m in 2015) which is after the deduction of the coupon paid on AT1 capital instrument of HK$346m in 2016 (HK$310m in 2015) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2015).

Dividends per share

	2016		*2015*	
	HK$ per share	***HK$m***	*HK$ per share*	*HK$m*
(a) Dividends to ordinary shareholders				
First interim	**1.10**	**2,103**	1.10	2,103
Second interim	**1.10**	**2,103**	1.10	2,103
Third interim	**1.10**	**2,103**	1.10	2,103
Fourth interim	**2.80**	**5,353**	2.40	4,588
	6.10	**11,662**	5.70	10,897
Special interim dividend	–	–	3.00	5,736
	6.10	**11,662**	8.70	16,633

	2016	2015
(b) Distribution to holder of AT1 capital instrument classified as equity	***HK$m***	*HK$m*
Coupon paid on AT1 capital instrument	**346**	310

Segmental analysis

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

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

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

Figures in HK$m	***Retail Banking and Wealth Management***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Year ended 31 December 2016					
Profit before tax	**8,867**	**5,279**	**4,816**	**128**	**19,090**
Share of profit before tax	**46.4 %**	**27.7 %**	**25.2 %**	**0.7 %**	**100.0 %**
Year ended 31 December 2015					
Profit before tax	9,250	5,212	4,506	11,520	30,488
Share of profit before tax	30.3%	17.1%	14.8%	37.8%	100.0%
Share of profit before tax (excluding the gain on partial disposal of Industrial Bank)	46.6%	26.3%	22.7%	4.4%	100.0%

Segmental analysis *(continued)*

(b) Geographic information

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. 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 2016					
Income and expense					
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**
Year ended 31 December 2015					
Income and expense					
Total operating income	41,806	2,058	249	(92)	44,021
Profit before tax	30,224	101	163	–	30,488
At 31 December 2015					
Total assets	1,244,606	113,718	19,260	(43,155)	1,334,429
Total liabilities	1,105,668	101,806	18,655	(33,681)	1,192,448
Equity	138,938	11,912	605	(9,474)	141,981
Share capital	9,658	10,093	–	(10,093)	9,658
Interest in associates	2,272	3	–	–	2,275
Non-current assets⌖	47,414	1,046	22	–	48,482
Contingent liabilities and commitments	334,682	38,545	5,645	–	378,872

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

Analysis of assets and liabilities by remaining maturity

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

Figures in HK$m	*Repayable on demand*	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
At 31 December 2016									
Assets									
Cash and sight balances at central banks	**23,299**	–	–	–	–	–	–	–	**23,299**
Placings with and advances to banks	**11,497**	**32,358**	**55,459**	**1,855**	**1,277**	**1,014**	–	–	**103,460**
Trading assets	–	–	–	–	–	–	**44,427**	–	**44,427**
Financial assets designated at fair value	–	–	–	–	**15**	**354**	–	**8,154**	**8,523**
Derivative financial instruments	–	**1**	**60**	**645**	**1,130**	**12**	**14,847**	–	**16,695**
Loans and advances to customers	**14,372**	**62,153**	**51,881**	**125,415**	**244,106**	**201,065**	–	–	**698,992**
Financial investments	–	**37,522**	**102,800**	**87,371**	**113,347**	**52,796**	–	**4,301**	**398,137**
	49,168	**132,034**	**210,200**	**215,286**	**359,875**	**255,241**	**59,274**	**12,455**	**1,293,533**
Interest in associates									**2,274**
Investment properties									**9,960**
Premises, plant and equipment									**26,772**
Intangible assets									**14,443**
Other assets									**30,260**
									1,377,242
Liabilities									
Current, savings and other deposit accounts	**790,304**	**82,681**	**77,259**	**37,648**	**1,647**	–	–	–	**989,539**
Repurchase agreements – non-trading	–	**1,805**	–	–	–	–	–	–	**1,805**
Deposits from banks	**1,477**	**11,481**	**1,117**	–	–	–	–	–	**14,075**
Trading liabilities	–	–	–	–	–	–	**68,124**	–	**68,124**
Financial liabilities designated at fair value	**3**	–	–	**3,002**	**482**	**504**	–	–	**3,991**
Derivative financial instruments	–	–	**13**	**142**	**426**	**2**	**12,720**	–	**13,303**
Certificates of deposit and other debt securities in issue	–	–	–	**5,116**	–	–	–	–	**5,116**
Subordinated liabilities	–	–	–	–	–	**2,327**	–	–	**2,327**
	791,784	**95,967**	**78,389**	**45,908**	**2,555**	**2,833**	**80,844**	–	**1,098,280**
Other liabilities									**24,765**
Liabilities under insurance contracts									**108,326**
Current tax liabilities									**25**
Deferred tax liabilities									**5,160**
									1,236,556

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

Figures in HK$m	*Repayable on demand*	*One month or less but not on demand*	*Over one month but within three months*	*Over three months but within one year*	*Over one year but within five years*	*Over five years*	*Trading*	*No contractual maturity*	*Total*
At 31 December 2015									
Assets									
Cash and sight balances at central banks	10,118	–	–	–	–	–	–	–	10,118
Placings with and advances to banks	15,443	54,166	49,749	2,433	–	2,199	–	–	123,990
Trading assets	–	–	–	–	–	–	40,373	–	40,373
Financial assets designated at fair value	–	1,074	2	–	9	51	–	6,767	7,903
Derivative financial instruments	–	–	133	122	228	9	11,103	–	11,595
Loans and advances to customers	12,676	53,121	56,340	132,745	238,447	195,617	–	–	688,946
Financial investments	–	35,717	86,204	108,187	87,225	50,274	–	4,665	372,272
	38,237	144,078	192,428	243,487	325,909	248,150	51,476	11,432	1,255,197
Interest in associates									2,275
Investment properties									10,075
Premises, plant and equipment									26,186
Intangible assets									12,221
Other assets									28,475
									1,334,429
Liabilities									
Current, savings and other deposit accounts	704,866	130,724	85,748	36,786	1,104	–	–	–	959,228
Repurchase agreements – non-trading	–	2,315	–	–	–	–	–	–	2,315
Deposits from banks	6,654	12,103	23	–	–	–	–	–	18,780
Trading liabilities	–	–	–	–	–	–	62,917	–	62,917
Financial liabilities designated at fair value	2	–	–	–	3,491	501	–	–	3,994
Derivative financial instruments	–	5	21	64	469	33	9,396	–	9,988
Certificates of deposit and other debt securities in issue	–	–	–	–	5,191	–	–	–	5,191
Subordinated liabilities	–	–	–	–	–	2,325	–	–	2,325
	711,522	145,147	85,792	36,850	10,255	2,859	72,313	–	1,064,738
Other liabilities									20,891
Liabilities under insurance contracts									101,817
Current tax liabilities									185
Deferred tax liabilities									4,817
									1,192,448

Cash and sight balances at central banks

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Cash in hand	**7,618**	5,259
Sight balances at central banks	**15,681**	4,859
	23,299	10,118

Placings with and advances to banks

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Balances with banks	**7,456**	13,446
Placings with and advances to banks maturing within one month	**36,399**	56,163
Placings with and advances to banks maturing after one month but less than one year	**57,314**	52,182
Placings with and advances to banks maturing after one year	**2,291**	2,199
	103,460	123,990

Trading assets

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Treasury bills	**27,733**	21,405
Other debt securities	**10,880**	16,675
Debt securities	**38,613**	38,080
Investment funds	**16**	21
Total trading securities	**38,629**	38,101
Other[ǂ]	**5,798**	2,272
Total trading assets	**44,427**	40,373
Debt securities:		
- listed	**10,880**	14,027
- unlisted	**27,733**	24,053
	38,613	38,080
Investment funds:		
- listed	**16**	21
Total trading securities	**38,629**	38,101
Debt securities:		
Issued by public bodies:		
- central governments and central banks	**38,569**	35,386
- other public sector entities	–	–
	38,569	35,386
Issued by other bodies:		
- banks	**44**	768
- corporate entities	–	1,926
	44	2,694
	38,613	38,080
Investment funds:		
Issued by corporate entities	**16**	21
Total trading securities	**38,629**	38,101

[ǂ] *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 2016***	*At 31 December 2015*
Treasury bills	**–**	1,070
Other debt securities	**369**	66
Equity shares	**4,648**	1,838
Investment funds	**3,506**	4,929
	8,523	7,903
Debt securities:		
- listed	**24**	66
- unlisted	**345**	1,070
	369	1,136
Equity shares:		
- listed	**4,469**	1,795
- unlisted	**179**	43
	4,648	1,838
Investment funds:		
- listed	**873**	282
- unlisted	**2,633**	4,647
	3,506	4,929
	8,523	7,903
Debt securities:		
Issued by public bodies:		
- central governments and central banks	**–**	1,070
- other public sector entities	**1**	1
	1	1,071
Issued by other bodies:		
- banks	**158**	6
- corporate entities	**210**	59
	368	65
	369	1,136
Equity shares:		
Issued by banks	**671**	423
Issued by public sector entities	**91**	6
Issued by corporate entities	**3,886**	1,409
	4,648	1,838
Investment funds:		
Issued by corporate entities	**3,506**	4,929
	8,523	7,903

Loans and advances to customers

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Gross loans and advances to customers	**700,851**	690,561
Less:		
Loan impairment allowances:		
- individually assessed	**(923)**	(807)
- collectively assessed	**(936)**	(808)
	698,992	688,946

Loan impairment allowances against loans and advances to customers

Figures in HK$m	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January 2016	**807**	**808**	**1,615**
Amounts written off	**(430)**	**(698)**	**(1,128)**
Recoveries of loans and advances written off in previous years	**80**	**74**	**154**
New impairment allowances charged to income statement	**662**	**848**	**1,510**
Impairment allowances released to income statement	**(123)**	**(74)**	**(197)**
Unwinding of discount of loan impairment allowances recognised as 'interest income'	**(55)**	**(5)**	**(60)**
Exchange difference	**(18)**	**(17)**	**(35)**
At 31 December 2016	**923**	**936**	**1,859**

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

	At 31 December 2016	*At 31 December 2015*
	%	%
Loan impairment allowances:		
- individually assessed	**0.13**	0.12
- collectively assessed	**0.13**	0.12
Total loan impairment allowances	**0.26**	0.24

Total loan impairment allowances as a percentage of gross loans and advances to customers were 0.26% at 31 December 2016 compared with 0.24% at the end of 2015. Both individually assessed allowances as a percentage of gross loans and advances and collectively assessed allowances as a percentage of gross loans and advances increased by one basis point to 0.13%, reflecting the more challenging credit environment in mainland China. Overall credit quality remained stable.

Impaired loans and advances to customers and allowances

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Gross impaired loans and advances	**3,235**	2,737
Individually assessed allowances	**(923)**	(807)
	2,312	1,930
Individually assessed allowances as a percentage of gross impaired loans and advances	**28.5%**	29.5%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.46%**	0.40%

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

Gross impaired loans and advances increased by HK$498m, or 18%, to HK$3,235m compared with last year-end, due to the downgrade of a few 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 0.46% at 31 December 2016, compared with 0.55% at the end of June 2016 and 0.40% at the year-end of 2015. 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 2016***	*At 31 December 2015*
Gross individually assessed impaired loans and advances	**2,968**	2,505
Individually assessed allowances	**(923)**	(807)
	2,045	1,698
Gross individually assessed impaired loans and advances as a percentage of gross loans and advances to customers	**0.42%**	0.36%
Amount of collateral which has been taken into account in respect of individually assessed impaired loans and advances to customers	**1,701**	1,651

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 2016		*At 31 December 2015*	
	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	**438**	**0.06**	696	0.10
- more than six months but not more than one year	**580**	**0.08**	543	0.08
- more than one year	**1,336**	**0.19**	912	0.13
	2,354	**0.33**	2,151	0.31

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

Overdue loans and advances increased by HK$203m, or 9%, to HK$2,354m compared with last year-end, due mainly to the downgrade of a few corporate and commercial customers. Overdue loans and advances as a percentage of gross loans and advances to customers rose by 2 basis points to 0.33% at 31 December 2016.

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 2016		*At 31 December 2015*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**458**	**0.07**	140	0.02

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

Rescheduled loans and advances stood at HK$458m at 31 December 2016, an increase of HK$318m or 227% compared with last year-end mainly due to certain Mainland corporate customers.

Segmental analysis of loans and advances to customers by geographical area

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

Figures in HK$m	***At 31 December 2016***				
	Gross loans and advances	***Individually impaired loans and advances***	***Overdue loans and advances***	***Individually assessed allowances***	***Collectively assessed allowances***
Hong Kong	**595,733**	**2,027**	**1,885**	**536**	**707**
Mainland China	**75,037**	**924**	**462**	**380**	**170**
Others	**30,081**	**17**	**7**	**7**	**59**
	700,851	**2,968**	**2,354**	**923**	**936**

Figures in HK$m	*At 31 December 2015*				
	Gross loans and advances	*Individually impaired loans and advances*	*Overdue loans and advances*	*Individually assessed allowances*	*Collectively assessed allowances*
Hong Kong	567,668	1,667	1,539	414	605
Mainland China	97,131	829	611	392	171
Others	25,762	9	1	1	32
	690,561	2,505	2,151	807	808

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 2016***	*At 31 December 2015*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**51,935**	43,951
Property investment	**119,553**	108,840
Financial concerns	**5,049**	5,556
Stockbrokers	**141**	32
Wholesale and retail trade	**26,880**	27,272
Manufacturing	**23,079**	21,478
Transport and transport equipment	**9,302**	9,608
Recreational activities	**48**	114
Information technology	**6,624**	3,821
Other	**46,523**	42,307
	289,134	262,979
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,808**	16,446
Loans and advances for the purchase of other residential properties	**161,165**	158,275
Credit card loans and advances	**27,019**	25,982
Other	**20,385**	19,737
	226,377	220,440
Total gross loans and advances for use in Hong Kong	**515,511**	483,419
Trade finance	**43,235**	46,885
Gross loans and advances for use outside Hong Kong	**142,105**	160,257
Gross loans and advances to customers	**700,851**	690,561

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

Gross loans and advances to customers increased by HK$10bn, or 1%, to HK$701bn when compared with last year-end as credit demand remained weak amid challenging operating conditions and contraction in cross-border funding activities.

Loans and advances for use in Hong Kong rose by 7%. Lending to the industrial, commercial and financial sectors grew by 10%. Lending to property development and investment grew strongly by 18% and 10% respectively to keep stride with the buoyant property market. Financial concerns and transport and transport equipment lendings fell by 9% and 3% respectively, due mainly to loans repayment. Wholesale and retail trade lending down by 1% on the back of lackluster retail sales performance. Manufacturing and information technology lendings increased by 7% and 73% respectively, reflecting new loan drawdown. Growth in lending to 'Other' was attributable to working capital financing for certain large corporate customers.

Lending to individuals grew by 3% as compared with last year-end. The Group maintained the market share for mortgage business and grew its residential mortgage when compared with last year-end. Sustained consumer spending saw credit card advances grew by 4%. Other loans to individuals grew by 3%.

Trade finance fell by 8% against last year-end due mainly to the contraction in cross-border lending activities and slow market conditions.

Loans and advances for use outside Hong Kong fell by 11% compared with the end of 2015, reflecting de-risking activities as part of our robust credit risk management strategy as well as the more subdued market conditions.

Financial investments

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Available-for-sale at fair value:		
- debt securities	**306,936**	285,808
- equity shares	**4,301**	4,633
- investment funds	**–**	9
Held-to-maturity debt securities at amortised cost	**86,900**	81,822
	398,137	372,272
Fair value of held-to-maturity debt securities	**87,375**	84,571
Treasury bills	**180,951**	152,014
Certificates of deposit	**9,210**	12,053
Other debt securities	**203,675**	203,563
Debt securities	**393,836**	367,630
Equity shares	**4,301**	4,633
Investment funds	**–**	9
	398,137	372,272
Debt securities:		
- listed	**149,736**	147,127
- unlisted	**244,100**	220,503
	393,836	367,630
Equity shares:		
- listed	**3,079**	3,472
- unlisted	**1,222**	1,161
	4,301	4,633
Investment funds:		
- unlisted	**–**	9
	398,137	372,272
Fair value of listed financial investments	**153,000**	151,051
Debt securities:		
Issued by public bodies:		
- central governments and central banks	**235,440**	223,589
- other public sector entities	**28,318**	25,959
	263,758	249,548
Issued by other bodies:		
- banks	**83,534**	75,840
- corporate entities	**46,544**	42,242
	130,078	118,082
	393,836	367,630
Equity shares:		
Issued by banks	**3,657**	4,096
Issued by corporate entities	**644**	537
	4,301	4,633
Investment funds:		
Issued by corporate entities	**–**	9
	398,137	372,272

Financial investments *(continued)*

Debt securities by rating agency designation

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
AA- to AAA	**301,293**	277,556
A- to A+	**83,023**	79,526
B+ to BBB+	**7,449**	8,136
Unrated	**2,071**	2,412
	393,836	367,630

Financial investments include treasury bills, certificates of deposit, other debt securities, equity shares and investment funds intended to be held for an indefinite period of time. Available-for-sale financial investments may be sold in response to needs for liquidity or changes in the market environment, and are carried at fair value with the gains and losses from changes in fair value recognised through equity reserves. Held-to-maturity debt securities are stated at amortised cost. Where debt securities have been purchased at premiums or discounts, the carrying value of the securities are adjusted to reflect the effective interest rate of the debt securities taking into account such premiums and discounts.

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

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

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Amounts due from:		
Placings with and advances to banks	**18,625**	23,753
Derivative financial instruments	**2,574**	1,292
Loans and advances to customers	–	–
Other assets	**306**	37
	21,505	25,082
Amounts due to:		
Current, savings and other deposit accounts	**1,432**	1,468
Deposits from banks	**7,785**	10,231
Repurchase agreements – non-trading	**766**	–
Derivative financial instruments	**3,167**	3,171
Certificates of deposit and other debt securities in issue	**4,000**	4,000
Subordinated liabilities	**2,327**	2,325
Other liabilities	**675**	496
	20,152	21,691

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'. The balance of the AT1 capital instrument was HK$6,981m at 31 December 2016 (unchanged from 2015).

Intangible assets

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Present value of in-force long-term insurance business	**13,664**	11,431
Internally developed/ acquired software	**450**	461
Goodwill	**329**	329
	14,443	12,221

Other assets

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Items in the course of collection from other banks	**6,354**	6,922
Bullion	**4,440**	3,536
Prepayments and accrued income	**3,378**	3,717
Acceptances and endorsements	**5,292**	5,724
Reinsurers' share of liabilities under insurance contracts	**7,395**	5,782
Other accounts	**3,401**	2,794
	30,260	28,475

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Current, savings and other deposit accounts:		
- as stated in consolidated balance sheet	**989,539**	959,228
- structured deposits reported as trading liabilities	**26,090**	27,440
	1,015,629	986,668
By type:		
- demand and current accounts	**99,051**	86,644
- savings accounts	**686,371**	615,135
- time and other deposits	**230,207**	284,889
	1,015,629	986,668

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Certificates of deposit and other debt securities in issue:		
- as stated in consolidated balance sheet	**5,116**	5,191
- certificates of deposit in issue designated at fair value	**3,484**	3,491
- other structured debt securities in issue reported as trading liabilities	**5,026**	2,351
	13,626	11,033
By type:		
- certificates of deposit in issue	**7,484**	7,491
- other debt securities in issue	**6,142**	3,542
	13,626	11,033

Trading liabilities

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Other structured debt securities in issue	**5,026**	2,351
Structured deposits	**26,090**	27,440
Short positions in securities and others	**37,008**	33,126
	68,124	62,917

Trading liabilities rose by HK$5bn, or 8%, to HK$68bn 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.

Other liabilities

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Items in the course of transmission to other banks	**11,276**	7,586
Accruals	**3,201**	3,531
Acceptances and endorsements	**5,292**	5,724
Retirement benefit liabilities	**626**	1,013
Other	**4,370**	3,037
	24,765	20,891

Subordinated liabilities

Figures in HK$m		***At 31 December 2016***	*At 31 December 2015*
Nominal value	Description		
Amounts owed to HSBC Group undertakings			
US$300m	Floating rate subordinated loan due July 2022	**2,327**	2,325
		2,327	2,325
Representing:			
- measured at amortised cost		**2,327**	2,325

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

Shareholders' equity

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Share capital	**9,658**	9,658
Retained profits	**105,204**	105,363
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**16,982**	16,777
Cash flow hedging reserve	**(128)**	(9)
Available-for-sale investment reserve		
- on debt securities	**(144)**	23
- on equity securities	**1,578**	1,916
Other reserves	**495**	1,272
Total reserves	**130,968**	132,323
Total shareholders' equity	**140,626**	141,981
Return on average ordinary shareholders' equity	**12.1%**	20.7%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2016.

Capital management

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

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

The Bank and its subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2016, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK$5,945m (31 December 2015: HK$6,610m).

There are no relevant capital shortfalls in any of the Group's subsidiaries at 31 December 2016 (31 December 2015: nil) which are not included in its consolidation group for regulatory purposes.

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

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**117,870**	120,963
- Shareholders' equity per balance sheet	**140,626**	141,981
- Additional Tier 1 ('AT1') perpetual capital instrument	**(6,981)**	(6,981)
- Unconsolidated subsidiaries	**(15,775)**	(14,037)
Non-controlling interests	–	–
- Non-controlling interests per balance sheet	**60**	–
- Non-controlling interests in unconsolidated subsidiaries	**(60)**	–
Regulatory deductions to CET1 capital	**(30,103)**	(30,687)
- Cash flow hedging reserve	**48**	(11)
- Changes in own credit risk on fair valued liabilities	**(14)**	(6)
- Property revaluation reserves[1]	**(23,304)**	(23,135)
- Regulatory reserve	**(5,945)**	(6,610)
- Intangible assets	**(407)**	(421)
- Defined benefit pension fund assets	**(37)**	(35)
- Deferred tax assets net of deferred tax liabilities	**(158)**	(115)
- Valuation adjustments	**(286)**	(354)
Total CET1 Capital	**87,767**	90,276
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	**94,748**	97,257
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**16,009**	15,746
- Term subordinated debt	**2,327**	2,325
- Property revaluation reserves[1]	**10,487**	10,411
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**3,195**	3,010
Regulatory deductions to T2 capital	**(915)**	(315)
- Significant capital investments in unconsolidated financial sector entities	**(915)**	(315)
Total T2 Capital	**15,094**	15,431
Total Capital	**109,842**	112,688

[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 2016***	*At 31 December 2015*
Credit risk	**470,043**	446,753
Market risk	**7,354**	13,698
Operational risk	**50,871**	49,023
Total	**528,268**	509,474

(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 2016	*At 31 December 2015*
CET1 capital ratio	**16.6 %**	17.7 %
T1 capital ratio	**17.9 %**	19.1 %
Total capital ratio	**20.8 %**	22.1 %

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 2016. 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 2016, it is not a projection.

In addition, the capital ratios of all tiers as of 31 December 2016 would be reduced by approximately 1% after the prospective fourth interim dividend payment for 2016. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2016	*Pro-forma At 31 December 2015*
CET1 capital ratio	**15.6 %**	15.7 %
T1 capital ratio	**16.9 %**	17.1 %
Total capital ratio	**19.8 %**	20.1 %

Capital management *(continued)*

(d) Capital buffers (as a percentage of risk-weighted assets)

With effect from 1 January 2016, the following capital buffers are phased-in and the applicable ratios to the Group on a consolidated basis are as follows:

	At 31 December 2016
Capital conservation buffer ratio	**0.625 %**
Countercyclical capital buffer ratio (‘CCyB’)	**0.543 %**
Higher loss absorbency ratio (‘HLA’)	**0.375 %**
Total	**1.543 %**

On 14 January 2016 and 27 January 2017, the HKMA announced the CCyB for Hong Kong of 1.25% and 1.875% of risk-weighted assets from 1 January 2017 and 1 January 2018 respectively. The increase follows the Basel III phase-in arrangement for the CCyB. On 31 December 2015 and 30 December 2016, the HKMA confirmed the designation of the Bank as a Domestic Systemically Important Bank and required the Bank to establish 0.75% and 1.125% of risk-weighted assets for HLA from 1 January 2017 and 1 January 2018 respectively under the phase-in arrangement, equivalent to 1.5% on full implementation.

(e) Capital instruments

The following is a summary of the Group’s CET1, AT1 and T2 capital instruments issued by the Bank:

	Amount recognised in regulatory capital	
Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
CET1 capital instruments		
Ordinary shares:		
1,911,842,736 issued and fully paid ordinary shares	**9,658**	9,658
AT1 capital instruments		
Perpetual capital instrument (nominal value: US$900m)	**6,981**	6,981
T2 capital instruments		
Subordinated loan due 2022 (nominal value: US$300m)	**2,327**	2,325

(f) Leverage ratio

The Leverage Ratio (‘LR’) was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements. The ratio is a volume-based measure calculated as Basel III T1 capital divided by exposure measure representing total on and off balance sheet exposures.

Capital management *(continued)*

(f) Leverage ratio *(continued)*

In accordance with the Basel III framework, there will be a parallel run period for the LR from 2013 to 2017. The Group is required under section 45A(6) of the Banking (Disclosure) Rules ('BDR') to disclose its LR calculated on a consolidated basis.

	At 31 December 2016	*At 31 December 2015*
Leverage ratio	**7.4 %**	7.8 %
Figures in HK$m		
T1 capital	**94,748**	97,257
Exposure measure	**1,288,039**	1,248,642

The decrease in LR during the year is mainly due to the combined effect of an increase in exposure and a decrease in T1 capital, mainly attributed to the payment of special interim dividend for 2015 and partly offset by the profit retained in 2016.

(g) Additional information

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

- A description of the main features and the full terms and conditions of the Group's capital instruments.
- A detailed breakdown of the Group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.
- A detailed breakdown of leverage ratio including the exposure measure and a summary comparison table using the standard templates as specified by the HKMA.
- Geographical breakdown of risk-weighted assets in relation to private sector credit exposures and the applicable countercyclical capital buffer ratio for each jurisdiction using the standard template as specified by the HKMA.

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 2016, the Group is required to maintain an LCR of not less than 70%, 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*
- 2016	**253.6%**	**284.0%**	**257.1%**	**257.1%**
- 2015	195.0%	237.2%	221.6%	167.4%

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

Contingent liabilities, commitments and derivatives

Figures in HK$m	***At 31 December 2016***	*At 31 December 2015*
Contract amounts		
Direct credit substitutes	**8,099**	7,558
Transaction-related contingencies	**5,186**	3,336
Trade-related contingencies	**12,044**	11,217
Forward asset purchases	**–**	–
Commitments that are unconditionally cancellable without prior notice	**328,737**	323,270
Commitments which have an original maturity of not more than one year	**4,426**	2,642
Commitments which have an original maturity of more than one year	**32,178**	22,126
	390,670	370,149
Risk-weighted amounts	**43,045**	36,227

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

Figures in HK$m	***Contract amounts***	***Risk-weighted amounts***	***Fair value***
At 31 December 2016			
Exchange rate contracts:			
Foreign exchange	**615,675**	**1,802**	**1,220**
Other exchange rate contracts	**150,949**	**2,091**	**4,970**
	766,624	**3,893**	**6,190**
Interest rate contracts:			
Interest rate swaps	**302,850**	**265**	**133**
Other interest rate contracts	**842**	**–**	**–**
	303,692	**265**	**133**
Other derivative contracts	**20,702**	**374**	**312**

Contingent liabilities, commitments and derivatives *(continued)*

Figures in HK$m	*Contract amounts*	*Risk-weighted amounts*	*Fair value*
At 31 December 2015			
Exchange rate contracts:			
Foreign exchange	556,913	1,365	1,858
Other exchange rate contracts	146,297	5,496	3,084
	703,210	6,861	4,942
Interest rate contracts:			
Interest rate swaps	268,924	263	32
Other interest rate contracts	948	–	–
	269,872	263	32
Other derivative contracts	15,581	418	248

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

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 2016			*At 31 December 2015*		
Figures in HK$m	***Trading***	***Designated at fair value***	***Hedging***	*Trading*	*Designated at fair value*	*Hedging*
Contract amounts:						
Interest rate contracts	**247,284**	**3,500**	**59,637**	213,414	3,500	57,640
Exchange rate contracts	**857,540**	–	**27,151**	819,332	–	15,359
Other derivative contracts	**29,480**	–	–	23,901	–	–
	1,134,304	**3,500**	**86,788**	1,056,647	3,500	72,999
Derivative assets:						
Interest rate contracts	**1,387**	**1**	**336**	875	20	84
Exchange rate contracts	**13,102**	–	**1,511**	9,875	–	388
Other derivative contracts	**358**	–	–	353	–	–
	14,847	**1**	**1,847**	11,103	20	472
Derivative liabilities:						
Interest rate contracts	**1,479**	**8**	**394**	867	–	429
Exchange rate contracts	**10,983**	–	**181**	8,273	–	163
Other derivative contracts	**258**	–	–	256	–	–
	12,720	**8**	**575**	9,396	–	592

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 announcement does not constitute statutory accounts.

Certain financial information in this announcement is extracted from the statutory accounts for the year ended 31 December 2016 ('2016 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 21 February 2017. 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).

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

The accounting policies and methods of computation adopted by the Group for this announcement are consistent with those described on pages 143 to 159 of the 2015 accounts. There were no new standards applied during the year ended 31 December 2016. During 2016, the Group adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

2. Comparative figures

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

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

During 2015, the Bank has sold 9.99% (representing 1,903,316,838 ordinary shares) of the ordinary shares of Industrial Bank Co., Ltd. ('Industrial Bank'), and recognised a gain of HK$10,636m for 2015.

Since there are significant financial implications as a result of the recognition of the gain on partial disposal in the consolidated income statement for 2015, the key financial results and performance metrics for 2016 are not directly comparable. For comparison, we have prepared the following key financial results and performance metrics by excluding the partial disposal gain in 2015.

	As reported			*Excluding the gain on partial disposal of Industrial Bank in 2015*	
Figures in HK$m	***Year ended 2016***	*Year ended 2015*	*Variance against 2015*ǂ	*Year ended 2015*	*Variance against 2015*ǂ
Attributable profit	**16,212**	27,494	-41%	16,858	-4%
Profit before tax	**19,090**	30,488	-37%	19,852	-4%
Return on average ordinary shareholders' equity (%)	**12.1**	20.7	-8.6pp	12.6	-0.5pp
Return on average total assets (%)	**1.2**	2.1	-0.9pp	1.3	-0.1pp
Earnings per share (HK$)	**8.30**	14.22	-42%	8.66	-4%

ǂ *Change in 'pp' represents change in percentage points.*

4. Property revaluation

The Group's premises and investment properties were revalued at 30 November 2016 and updated for any material changes at 31 December 2016 by DTZ Cushman & Wakefield Limited. The valuation was carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 'Fair Value Measurement' and takes into account the highest and best use of the property from the perspective of market participants. The highest and best use takes into account the use of the property that is physically possible, legally permissible and financially feasible as described in HKFRS 13. The net revaluation surplus for Group premises amounted to HK$853m was credited to the premises revaluation reserve. The related deferred tax provision for Group premises was HK$144m. Revaluation deficit of HK$37m on investment properties (excluding the revaluation gain on properties backing insurance contracts) were recognised through the income statement.

5. Foreign currency positions

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

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

At 31 December 2016, the US dollar ('USD') was the currency in which the Group had non-structural foreign currency positions that was not less than 10% of the total net position in all foreign currencies. The Group also had a Chinese renminbi ('RMB') structural foreign currency position, which was not less than 10% of the total net structural position in all foreign currencies.

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

Figures in HK$m	***US$***	***RMB***	***Other foreign currencies***	***Total foreign currencies***
At 31 December 2016				
Non-structural position				
Spot assets	**172,791**	**112,264**	**138,224**	**423,279**
Spot liabilities	**(165,525)**	**(104,710)**	**(72,484)**	**(342,719)**
Forward purchases	**387,152**	**221,220**	**21,951**	**630,323**
Forward sales	**(392,160)**	**(228,723)**	**(87,438)**	**(708,321)**
Net options position	**260**	**(79)**	**(232)**	**(51)**
Net long non-structural position	**2,518**	**(28)**	**21**	**2,511**
Structural position	**—**	**14,169**	**967**	**15,136**

5. Foreign currency positions *(continued)*

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

6. Ultimate holding company

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

7. Register of shareholders

The register of shareholders of the Bank will be closed on Wednesday, 8 March 2017, 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, 7 March 2017. The fourth interim dividend will be payable on Tuesday, 28 March 2017, to shareholders whose names appear on the register of shareholders of the Bank on Wednesday, 8 March 2017. Shares of the Bank will be traded ex-dividend as from Monday, 6 March 2017.

8. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Listing Rules') throughout the year of 2016. The Bank also constantly reviews and enhances its corporate governance framework 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 2016.

9. Board of Directors

At 21 February 2017, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan*, Mr Nixon L S Chan#, Mr Patrick K W Chan, Dr Henry K S Cheng*, Ms L Y Chiang*, Mr Andrew H C Fung, Dr Fred Zuliu Hu*, Ms Irene Y L Lee*, Ms Sarah C Legg#, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Richard Y S Tang*, Mr Peter T S Wong# and Mr Michael W K Wu*.

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

10. Announcement

This announcement and the 2016 Annual Report are available from the website of Hong Kong Exchanges and Clearing Limited and the Bank's website www.hangseng.com on Tuesday, 21 February 2017. Printed copies of the 2016 Annual Report will be despatched in late-March 2017.

By Order of the Board

C C Li
Secretary

Hong Kong, 21 February 2017

恒生銀行有限公司
HANG SENG BANK LIMITED
Incorporated in Hong Kong with limited liability
Registered Office and Head Office: 83 Des Voeux Road Central, Hong Kong