News Release

21 February 2017

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2016 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax down 12% to HK$102,707m (HK$117,279m in 2015)
- Attributable profit down 12% to HK$78,646m (HK$89,533m in 2015)
- Return on average ordinary shareholders' equity of 13.0% (15.9% in 2015)
- Total assets up 9% to HK$7,549bn (HK$6,954bn at 31 December 2015)
- Common equity tier 1 ratio of 16.0%, total capital ratio of 19.0% (15.6% and 18.6% in 2015)
- Cost efficiency ratio of 44.5% (42.0% in 2015)

Reported results in 2015 included a gain of HK$10,636m on the partial disposal of our shareholding in Industrial Bank Co., Limited ('Industrial Bank').

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

HSBC

Comment by Stuart Gulliver, Chairman

Asia's economic growth stabilised during the second half of 2016, as export volumes and demand picked up, commodity prices improved and deflationary pressures eased, although overall levels of trade and demand remained relatively subdued. Mainland China's economy benefited from fiscal measures that underpinned steady growth, with strong infrastructure investment and recovery in the property market, while producer price increases helped to support corporate profits and maintain business confidence. Hong Kong's economy improved during the second half of 2016, largely due to strength in the property market, coupled with upturns in retail sales and tourist volumes. Domestic demand continued to be supported by a robust labour market and stable personal income growth. In ASEAN, Indonesia continued to show steady expansion, while the economies of Malaysia and Singapore both experienced slowing rates of growth. In India, market conditions are normalising as remonetisation takes place, and economic growth is returning to previous levels. Australia's economy benefited towards the end of the year from rising commodity prices and improving retail sales.

In this environment, The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax in 2016 of HK$102,707m, compared with HK$117,279m in 2015 which included a gain on partial disposal of Hang Seng Bank Limited's ('Hang Seng') shareholding in Industrial Bank of HK$10,636m. Excluding this gain, profit before tax in 2016 reduced by 4% compared with the prior year, while net operating income before loan impairment charges was 3% lower, principally due to a reduction in wealth management income from lower retail brokerage and unit trust income as the strong market conditions experienced in the first half of 2015 were not repeated. Costs also fell by 3% as we delivered cost savings while continuing to invest in growth initiatives and in regulatory and compliance programmes. The cost efficiency ratio for the year was 44.5%. Loan impairment charges of HK$5.6bn remained low in relation to average customer advances. Loan impairment charges were higher in Hong Kong, where the prior period included a release in Global Banking & Markets ('GB&M') which did not recur, while loan impairment charges reduced in Indonesia, mainly in Commercial Banking ('CMB').

Loans and advances to customers grew by 4%, excluding the impact of foreign exchange movements, with growth in all three major businesses. We grew term lending in GB&M and CMB, and continued to grow residential mortgages in Retail Banking and Wealth Management ('RBWM'). Customer deposits increased by 6%, principally in RBWM savings balances and Global Liquidity and Cash Management in GB&M and CMB, illustrating the depth of our customer relationships. At the end of December 2016, the advances-to-deposits ratio stood at 57.8%. Net interest margin reduced slightly compared with the prior year. Our capital position remained strong, with a common equity tier 1 ratio of 16.0% at the end of the year, up from 15.6% at the end of 2015.

We made significant progress on our strategy during 2016. In Hong Kong, we captured market share in key products including Global Trade and Receivables Finance, mutual funds, deposits and personal lending. In CMB, we grew lending despite slower conditions in global trade. In RBWM, we also achieved lending growth while maintaining profits, notwithstanding the reduction in wealth management revenues. Our strategy remains focused on capturing long-term opportunities in the development of Asia as the world's leading economic region. We continue to invest in growing our business in India, ASEAN and mainland China. During the year we moved forward with our investment in the Pearl River Delta ('PRD'), launching the credit cards business, gaining significant numbers of new RBWM and CMB customers, and growing both customer loans and revenues.

We also see significant opportunities in China's Belt and Road initiative to leverage our international network in the coming years. For example, during 2016, we participated in energy sector deals linking mainland China to Malaysia. Future progression of the Belt and Road initiative is likely to boost further international use of the renminbi and, as Asia's leading international bank, we are well placed to benefit from this. In 2016, we continued to strengthen our leadership position, consolidating our top market shares of the offshore renminbi bond and Qualified Foreign Institutional Investment Scheme custodian markets. In ASEAN, we completed the establishment of our locally incorporated subsidiary in

Singapore and continued with the integration of our business in Indonesia, which remains on track for completion in the first half of 2017. During 2016, we received a number of awards, including 'Asia's Best Investment Bank' and 'Asia's Best Bank for Financing' by *Euromoney*, and 'Best Foreign Bank' in mainland China, Malaysia, Sri Lanka and Vietnam by *FinanceAsia*. We consolidated our position as the leading international bank for renminbi services, and were named 'Best Overall Offshore RMB Products and Services Provider' by *Asiamoney* for the fifth successive year.

In RBWM, we maintained our leading market shares in cards, deposits and loans in Hong Kong, where we grew mortgage lending balances, with average loan-to-value ratios of 47% on new drawdowns and an estimated 29% on the portfolio as a whole. Following the launch of the credit cards business in the PRD, we are focused on using digital channels to expand our customer base in the region, and broaden the range of product offerings to include consumer finance in addition to deposit, wealth and residential mortgage products. We have also launched new credit card offerings in Malaysia, Taiwan and Indonesia. We continued to invest in our digital and automated platforms, launching Apple Pay in Hong Kong and Singapore, and Easy Pay in Hong Kong.

In CMB, we grew loans and deposits, particularly towards the end of the year, in response to customer demand and as we focused on providing an increased share of our customers' banking requirements. Term lending increased in a number of markets and in Hong Kong, market share for trade finance also increased. We continue to collaborate with GB&M to leverage our network and provide financing to the supply chain of our global corporate customers. During the year, we launched Unified Payments Interface in India, a digital payments solution for corporates, and established a RMB2bn lending scheme to finance innovation initiatives of high-tech startups in the PRD. We are investing to adapt to new developments in world trade, both in goods and also in the rapidly growing trade in services, and are participating in the development of a blockchain Letter of Credit that will deliver trade services to our customers that are cheaper, faster, simpler and more secure.

In GB&M, we continued to build on our long-term relationships through our extensive global and local knowledge and provide a full range of services to corporate and institutional customers across Asia. We received widespread recognition for our Debt Capital Markets achievements through a number of key awards, including 'Asia Bond House of the Year' from *IFR*, and 'Best Bond House' from *FinanceAsia*. We secured a number of key mandates, including the first Panda bond issuance for a sovereign, by the Republic of Poland. Following the inclusion of renminbi in the International Monetary Fund's Special Drawing Rights ('SDR'), we participated in the first SDR denominated bond for the World Bank in mainland China. In Mergers and Acquisitions, we acted as advisor on a number of landmark cross-border deals in a range of industry sectors, including healthcare and power. We are committed to support the development of mainland China's capital markets, and continue to seek the necessary regulatory approvals for our Securities joint venture with Shenzen Qianhai Financial Holdings, based in the Qianhai Special Economic Zone. Once operational, this will allow us to engage in the full spectrum of the securities business in mainland China.

While the risks of protectionist measures and the possible impacts of a stronger US dollar on indebted nations have increased, Asia's economies are showing signs of improving economic performance. We expect mainland China to continue to generate steady annual GDP growth of 6.5% during 2017 and 2018. A significant proportion of Asia's trade in goods and services now takes place within the region, and our universal banking business model gives us the flexibility to continue to find regional growth opportunities even in a world of slower globalisation. China's Belt and Road initiative offers enormous business opportunities in connecting Asia's growing economies, through accelerating infrastructure and industrial development. With its unrivalled capital market, financial, logistics and project management skills, Hong Kong is well positioned to be the gateway city to support many of these initiatives. At the heart of our strategy is delivering value from our network to finance trade, investment and capital flows, and to help our personal customers to manage their growing wealth. We will continue to focus on helping our customers to meet their needs and to grow in a complex and challenging world.

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Global Private Banking HK$m	Corporate Centre[1] HK$m	Total HK$m
Year ended 31 December 2016						
Net interest income	43,632	26,945	17,367	1,444	7,520	96,908
Net fee income	17,949	10,355	9,502	1,278	218	39,302
Net trading income	1,377	2,450	17,168	1,007	2,062	24,064
Net income/(expense) from financial instruments designated at fair value	3,591	(276)	91	–	164	3,570
Gains less losses from financial investments	335	249	33	–	615	1,232
Dividend income	67	1	–	–	166	234
Net insurance premium income/(expense)	52,954	3,004	–	–	(46)	55,912
Other operating income	7,792	473	1,143	15	2,093	11,516
Total operating income	127,697	43,201	45,304	3,744	12,792	232,738
Net insurance claims and benefits paid and movement in liabilities to policyholders	(61,280)	(3,306)	–	–	–	(64,586)
Net operating income before loan impairment charges and other credit risk provisions	66,417	39,895	45,304	3,744	12,792	168,152
Loan impairment (charges)/ releases and other credit risk provisions	(2,133)	(2,469)	(874)	4	(82)	(5,554)
Net operating income	64,284	37,426	44,430	3,748	12,710	162,598
Operating expenses	(32,520)	(14,971)	(19,413)	(2,332)	(5,567)	(74,803)
Operating profit	31,764	22,455	25,017	1,416	7,143	87,795
Share of profit in associates and joint ventures	148	–	–	–	14,764	14,912
Profit before tax	31,912	22,455	25,017	1,416	21,907	102,707
Net loans and advances to customers	936,310	996,772	791,522	91,574	17,936	2,834,114
Customer accounts	2,537,128	1,286,368	857,583	192,163	26,762	4,900,004

	Retail Banking and Wealth Management HK$m	Commercial Banking HK$m	Global Banking & Markets HK$m	Global Private Banking HK$m	Corporate Centre[1] HK$m	Total HK$m
Year ended 31 December 2015 *(Re-presented)*						
Net interest income	40,373	26,389	17,684	1,356	8,575	94,377
Net fee income	22,191	11,450	10,174	1,658	186	45,659
Net trading income/(expense)	1,532	2,527	18,788	990	(221)	23,616
Net income/(expense) from financial instruments designated at fair value	(2,542)	(241)	51	–	172	(2,560)
Gains less losses from financial investments	333	116	26	–	11,136	11,611
Dividend income	12	–	4	–	194	210
Net insurance premium income/(expense)	49,161	3,456	–	–	(24)	52,593
Other operating income	5,421	604	1,119	33	3,262	10,439
Total operating income	116,481	44,301	47,846	4,037	23,280	235,945
Net insurance claims and benefits paid and movement in liabilities to policyholders	(48,684)	(3,746)	–	–	(1)	(52,431)
Net operating income before loan impairment charges and other credit risk provisions	67,797	40,555	47,846	4,037	23,279	183,514
Loan impairment (charges)/ releases and other credit risk provisions	(2,370)	(3,079)	385	(5)	(5)	(5,074)
Net operating income	65,427	37,476	48,231	4,032	23,274	178,440
Operating expenses	(33,448)	(15,229)	(20,434)	(2,438)	(5,442)	(76,991)
Operating profit	31,979	22,247	27,797	1,594	17,832	101,449
Share of profit in associates and joint ventures	177	–	–	–	15,653	15,830
Profit before tax	32,156	22,247	27,797	1,594	33,485	117,279
Net loans and advances to customers	913,038	979,438	751,518	101,873	16,423	2,762,290
Customer accounts	2,352,493	1,243,696	801,441	222,320	20,126	4,640,076

[1] *Includes inter-segment elimination*

Change in reportable segment

The group's chief operating decision-maker, the Executive Committee ('EXCO'), regularly reviews operating activities on a number of bases, including by global business and by geographical region. In prior years, the group's operating segments were organised by geographical region, Hong Kong and Rest of Asia-Pacific. During 2016, several factors, including a clear shift in the focus of information to global businesses received by EXCO, have caused a change in the way business performance is assessed and allocation of resources is prioritised. Accordingly, the segmental reporting has been changed to global businesses. Details on the change in reportable segment are set out in note 37 'Segmental analysis' of the *Annual Report and Accounts 2016*.

During the year, management made the decision to realign certain functions to a Corporate Centre. These include balance sheet management, certain interests in associates and joint ventures, as well as results of our financing operations and central support costs with associated recoveries. The group has also conducted a number of internal reviews during the year to align customer requirements to those global businesses best suited to service their respective needs, resulting in the transfer of a portfolio of customers from CMB to GB&M. Comparative figures have been re-presented to conform to current year presentation.

Results Commentary

The group reported profit before tax of HK$102,707m, a decrease of 12% compared with 2015, mainly reflecting the non-recurrence of the gain on partial disposal of Hang Seng's shareholding in Industrial Bank of HK$10,636m in 2015. Excluding this gain, profit before tax decreased by HK$3,936m, or 4%, mainly driven by lower net fee income from wealth management as the strong equity market performance in the first half of 2015 was not repeated in 2016.

Net interest income increased by HK$2,531m, or 3%, compared with 2015, mainly in Hong Kong driven by growth in financial investments from increased commercial surplus and insurance fund size, coupled with improved deposit spreads. This was partly offset by lower net interest income in mainland China due to successive rate cuts by the Central Bank throughout 2015.

Net fee income decreased by HK$6,537m, or 14%, compared with 2015, mainly in Hong Kong from lower securities broking income, unit trust and global custody fees, as the strong market performance in the first half of 2015 was not repeated in 2016. Net fee income also decreased in Singapore and mainland China from lower unit trust fees and lower trade-related fees.

Net trading income increased by HK$448m, or 2%, driven by mainland China from lower revaluation losses and interest expense on structured deposits, and in India from higher Rates trading income. These increases were partly offset by lower trading income in Hong Kong from equities trading, coupled with lower foreign exchange income, partly offset by higher Rates trading income.

Net income from financial instruments designated at fair value increased by HK$6,130m, driven by revaluation gains on the equity portfolio held by the insurance business in Hong Kong in 2016, compared with revaluation losses in 2015. To the extent that revaluation is attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Gains less losses from financial investments decreased by HK$10,379m, mainly reflecting the non-recurrence of the gain on partial disposal of Hang Seng's shareholding in Industrial Bank.

Other operating income increased by HK$1,077m, or 10%, mainly driven by the movement in the present value of in-force insurance business as a result of a favourable interest rate assumption update. This was partly offset by the non-recurrence of a gain from the 150th anniversary banknotes issuance in 2015 (fully offset by a corresponding decrease in operating expenses), coupled with lower revaluation gains on investment properties in Hong Kong.

Loan impairment charges and other credit risk provisions increased by HK$480m, or 9%, mainly due to an increase in individually assessed impairment charges in Hong Kong, mainly in GB&M due to the non-recurrence of an impairment release in 2015, and higher charges in CMB. Increases were also noted to a lesser extent in Singapore and mainland China, partly offset by a decrease in Indonesia, mainly in CMB. These were partly offset by lower collectively assessed impairment charges.

Total operating expenses decreased by HK$2,188m, or 3%, mainly due to lower staff costs, and also from the non-recurrence of charitable donations and other expenses in relation to the 150th anniversary banknotes issuance in 2015, partly offset by higher professional and consultancy expenses on regulatory and compliance programmes, Global Standards and transformation initiatives, coupled with higher IT-related costs and rental expenses.

Share of profit in associates and joint ventures decreased by HK$918m, or 6%, mainly from the impact of foreign exchange translation.

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Interest income	**122,564**	124,060
Interest expense	**(25,656)**	(29,683)
Net interest income	**96,908**	94,377
Fee income	**47,139**	51,926
Fee expense	**(7,837)**	(6,267)
Net fee income	**39,302**	45,659
Net trading income	**24,064**	23,616
Net income/(expense) from financial instruments designated at fair value	**3,570**	(2,560)
Gains less losses from financial investments	**1,232**	11,611
Dividend income	**234**	210
Net insurance premium income	**55,912**	52,593
Other operating income	**11,516**	10,439
Total operating income	**232,738**	235,945
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(64,586)**	(52,431)
Net operating income before loan impairment charges and other credit risk provisions	**168,152**	183,514
Loan impairment charges and other credit risk provisions	**(5,554)**	(5,074)
Net operating income	**162,598**	178,440
Employee compensation and benefits	**(38,896)**	(41,126)
General and administrative expenses	**(29,917)**	(29,883)
Depreciation of property, plant and equipment	**(4,493)**	(4,380)
Amortisation and impairment of intangible assets	**(1,497)**	(1,602)
Total operating expenses	**(74,803)**	(76,991)
Operating profit	**87,795**	101,449
Share of profit in associates and joint ventures	**14,912**	15,830
Profit before tax	**102,707**	117,279
Tax expense	**(17,912)**	(17,296)
Profit for the year	**84,795**	99,983
Profit attributable to shareholders of the parent company	**78,646**	89,533
Profit attributable to non-controlling interests	**6,149**	10,450

	Year ended 31 December 2016 HK$m	Year ended 31 December 2015 HK$m
Profit for the year	**84,795**	99,983
Other comprehensive income/(expense)		
Items that will subsequently be reclassified to the income statement when specific conditions are met:		
Available-for-sale investments:		
– fair value changes taken to equity	**(430)**	(2,430)
– fair value changes transferred to the income statement on disposal	**(1,226)**	(15,637)
– amounts transferred to the income statement on impairment	**2**	8
– fair value changes transferred to the income statement on hedged items	**2,296**	37
– income taxes	**(143)**	354
Cash flow hedges:		
– fair value changes taken to equity	**1,354**	1,662
– fair value changes transferred to the income statement	**(2,295)**	(1,433)
– income taxes	**139**	(97)
Share of other comprehensive income of associates and joint ventures	**1,266**	460
Exchange differences	**(15,241)**	(19,188)
Items that will not subsequently be reclassified to the income statement:		
Property revaluation:		
– fair value changes taken to equity	**3,825**	6,601
– income taxes	**(678)**	(1,101)
Remeasurement of defined benefit:		
– before income taxes	**1,016**	(662)
– income taxes	**(183)**	105
Other comprehensive expense for the year, net of tax	**(10,298)**	(31,321)
Total comprehensive income for the year, net of tax	**74,497**	68,662
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**68,577**	63,447
– non-controlling interests	**5,920**	5,215
	74,497	68,662

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
ASSETS		
Cash and sight balances at central banks	**213,783**	151,103
Items in the course of collection from other banks	**21,401**	25,020
Hong Kong Government certificates of indebtedness	**242,194**	220,184
Trading assets	**371,634**	302,626
Derivatives	**479,807**	380,955
Financial assets designated at fair value	**106,016**	99,095
Reverse repurchase agreements – non-trading	**271,567**	212,779
Placings with and advances to banks	**463,211**	421,221
Loans and advances to customers	**2,834,114**	2,762,290
Financial investments	**1,835,351**	1,716,046
Amounts due from Group companies	**242,773**	244,396
Interests in associates and joint ventures	**125,792**	122,438
Goodwill and intangible assets	**56,936**	49,568
Property, plant and equipment	**111,640**	110,064
Deferred tax assets	**1,503**	1,836
Prepayments, accrued income and other assets	**171,230**	134,062
Total assets	**7,548,952**	6,953,683
LIABILITIES		
Hong Kong currency notes in circulation	**242,194**	220,184
Items in the course of transmission to other banks	**37,753**	30,753
Repurchase agreements – non-trading	**27,810**	16,158
Deposits by banks	**192,479**	148,294
Customer accounts	**4,900,004**	4,640,076
Trading liabilities	**188,470**	191,851
Derivatives	**462,458**	369,419
Financial liabilities designated at fair value	**51,116**	50,770
Debt securities in issue	**25,235**	40,859
Retirement benefit liabilities	**3,867**	5,809
Amounts due to Group companies	**198,038**	110,073
Accruals and deferred income, other liabilities and provisions	**99,487**	86,920
Liabilities under insurance contracts	**386,170**	340,820
Current tax liabilities	**1,619**	2,456
Deferred tax liabilities	**21,401**	18,799
Subordinated liabilities	**4,836**	8,003
Preference shares	**26,879**	36,553
Total liabilities	**6,869,816**	6,317,797
EQUITY		
Share capital	**114,359**	96,052
Other equity instruments	**14,737**	14,737
Other reserves	**85,886**	93,031
Retained profits	**413,024**	380,381
Total shareholders' equity	**628,006**	584,201
Non-controlling interests	**51,130**	51,685
Total equity	**679,136**	635,886
Total equity and liabilities	**7,548,952**	6,953,683

Consolidated Statement of Changes in Equity

	2016										
				Other reserves							
	Share capital HK$m	Other equity instruments HK$m	Retained profits HK$m	Property revaluation reserve HK$m	Available-for-sale investment reserve HK$m	Cash flow hedge reserve HK$m	Foreign exchange reserve HK$m	Other[1] HK$m	Total share-holders' equity HK$m	Non-controlling interests HK$m	Total equity HK$m
At 1 January	**96,052**	**14,737**	**380,381**	**52,099**	**4,880**	**(35)**	**(16,991)**	**53,078**	**584,201**	**51,685**	**635,886**
Profit for the year	**–**	**–**	**78,646**	**–**	**–**	**–**	**–**	**–**	**78,646**	**6,149**	**84,795**
Other comprehensive income/ (expense) (net of tax)	**–**	**–**	**542**	**3,123**	**1,309**	**(758)**	**(14,870)**	**585**	**(10,069)**	**(229)**	**(10,298)**
Available-for-sale investments	**–**	**–**	**–**	**–**	**622**	**–**	**–**	**–**	**622**	**(123)**	**499**
Cash flow hedges	**–**	**–**	**–**	**–**	**–**	**(758)**	**–**	**–**	**(758)**	**(44)**	**(802)**
Property revaluation	**–**	**–**	**(245)**	**3,123**	**–**	**–**	**–**	**–**	**2,878**	**269**	**3,147**
Actuarial gains on defined benefit plans	**–**	**–**	**793**	**–**	**–**	**–**	**–**	**–**	**793**	**40**	**833**
Share of other comprehensive income/(expense) of associates and joint ventures	**–**	**–**	**(6)**	**–**	**687**	**–**	**–**	**585**	**1,266**	**–**	**1,266**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**(14,870)**	**–**	**(14,870)**	**(371)**	**(15,241)**
Total comprehensive income/ (expense) for the year	**–**	**–**	**79,188**	**3,123**	**1,309**	**(758)**	**(14,870)**	**585**	**68,577**	**5,920**	**74,497**
Shares issued	**18,307**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,307**	**–**	**18,307**
Dividends paid[2]	**–**	**–**	**(43,296)**	**–**	**–**	**–**	**–**	**–**	**(43,296)**	**(6,297)**	**(49,593)**
Movement in respect of share-based payment arrangements	**–**	**–**	**235**	**–**	**–**	**–**	**–**	**(258)**	**(23)**	**(3)**	**(26)**
Transfers and other movements[3]	**–**	**–**	**(3,484)**	**(1,459)**	**–**	**–**	**–**	**5,183**	**240**	**(175)**	**65**
At 31 December	**114,359**	**14,737**	**413,024**	**53,763**	**6,189**	**(793)**	**(31,861)**	**58,588**	**628,006**	**51,130**	**679,136**

	2015										
				Other reserves							
	Share capital HK$m	Other equity instruments HK$m	Retained profits HK$m	Property revaluation reserve HK$m	Available-for-sale investment reserve HK$m	Cash flow hedge reserve HK$m	Foreign exchange reserve HK$m	Other[1] HK$m	Total share-holders' equity HK$m	Non-controlling interests HK$m	Total equity HK$m
At 1 January	96,052	14,737	339,061	48,481	16,537	(166)	1,872	41,261	557,835	50,511	608,346
Profit for the year	–	–	89,533	–	–	–	–	–	89,533	10,450	99,983
Other comprehensive income/ (expense) (net of tax)	–	–	(929)	5,146	(11,657)	131	(18,863)	86	(26,086)	(5,235)	(31,321)
Available-for-sale investments	–	–	–	–	(12,032)	–	–	–	(12,032)	(5,636)	(17,668)
Cash flow hedges	–	–	–	–	–	131	–	–	131	1	132
Property revaluation	–	–	(238)	5,146	–	–	–	–	4,908	592	5,500
Actuarial losses on defined benefit plans	–	–	(690)	–	–	–	–	–	(690)	133	(557)
Share of other comprehensive income/(expense) of associates and joint ventures	–	–	(1)	–	375	–	–	86	460	–	460
Exchange differences	–	–	–	–	–	–	(18,863)	–	(18,863)	(325)	(19,188)
Total comprehensive income/ (expense) for the year	–	–	88,604	5,146	(11,657)	131	(18,863)	86	63,447	5,215	68,662
Dividends paid[2]	–	–	(37,405)	–	–	–	–	–	(37,405)	(4,053)	(41,458)
Movement in respect of share-based payment arrangements	–	–	7	–	–	–	–	345	352	4	356
Transfers and other movements[3]	–	–	(9,886)	(1,528)	–	–	–	11,386	(28)	8	(20)
At 31 December	96,052	14,737	380,381	52,099	4,880	(35)	(16,991)	53,078	584,201	51,685	635,886

1 *The other reserves mainly comprise the share-based payment reserve account, purchase premium arising from transfer of business within the HSBC Group and other non-distributable reserves. The share-based payment reserve account is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.*
2 *Including distributions paid on perpetual subordinated loans classified as equity under HKFRSs.*
3 *The movement from retained profits to other reserves includes the relevant transfers in associates according to local regulatory requirements.*

1. Net interest income

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Net interest income	**96,908**	94,377
Average interest-earning assets	**5,527,461**	5,311,284
Net interest margin	**1.75%**	1.78%
Net interest spread	**1.67%**	1.67%

Net interest income ('NII') increased by HK$2,531m compared with 2015. Excluding the impact from foreign exchange translation, NII rose by HK$3,879m, or 4%, mainly in Hong Kong driven by growth in financial investments from increased commercial surplus and insurance fund size, coupled with improved deposit spreads. This was partly offset by lower NII in mainland China due to successive rate cuts by the Central Bank throughout 2015.

Average interest-earning assets increased by HK$216bn, or 4%, compared with 2015, driven by Hong Kong mainly due to an increase in financial investments from the deployment of increased commercial surplus.

Net interest margin decreased by three basis points compared with 2015, mainly from mainland China, partly offset by an increase in Hong Kong.

In **Hong Kong,** the net interest margin for the Bank increased by three basis points, mainly due to improved customer deposit spreads, although the impact was partly offset by a change in portfolio mix as commercial surplus continued to increase, which was deployed in relatively lower yielding financial investments.

At **Hang Seng Bank,** the net interest margin decreased by three basis points, mainly from compressed customer lending spreads, notably in term lending, partly offset by improved customer deposit spreads.

In mainland China, the net interest margin decreased from compressed customer lending spreads and lower reinvestment yields in Balance Sheet Management, coupled with lower contribution from net free funds. To a lesser extent, decreases in the net interest margin were also noted in Australia and India, although these were partly offset by an increase in Singapore.

2. Net fee income

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Account services	**3,063**	2,976
Funds under management[1]	**5,771**	6,215
Cards	**7,063**	7,072
Credit facilities	**2,825**	3,219
Broking income	**3,131**	5,583
Imports/exports	**3,771**	4,340
Unit trusts	**5,855**	6,598
Underwriting	**1,188**	1,214
Remittances	**3,324**	3,438
Global custody	**3,450**	3,744
Insurance agency commission	**1,746**	1,482
Other	**5,952**	6,045
Fee income	**47,139**	51,926
Fee expense	**(7,837)**	(6,267)
	39,302	45,659

[1] Includes Mandatory Provident Fund

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

3. Net trading income

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Dealing profits	**18,195**	17,523
Net interest income on trading activities	**3,718**	4,439
Dividend income from trading securities	**2,074**	1,674
Net gain/(loss) from hedging activities	**77**	(20)
	24,064	23,616

4. Gains less losses from financial investments

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Gain on partial disposal of investment in Industrial Bank	–	10,636
Gains on disposal of other available-for-sale securities	**1,234**	983
Impairment of available-for-sale equity investments	**(2)**	(8)
	1,232	11,611

5. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Gain on 150th anniversary banknotes issuance	**–**	693
Movement in present value of in-force insurance business	**7,306**	4,689
Gains on investment properties	**36**	480
Gains/(losses) on disposal of property, plant and equipment, and assets held for sale	**(57)**	134
Gain on disposal of subsidiaries, associates and business portfolios	**1**	23
Rental income from investment properties	**400**	404
Other	**3,830**	4,016
	11,516	10,439

6. Insurance income

Included in net operating income are the following revenues earned by the insurance business:

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Net interest income	**11,543**	10,486
Net fee income	**2,044**	1,941
Net trading loss	**(1,126)**	(656)
Net income/(expense) from financial instruments designated at fair value	**3,315**	(2,783)
Net insurance premium income	**55,912**	52,593
Movement in present value of in-force business	**7,306**	4,689
Other operating income	**771**	760
	79,765	67,030
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(64,586)**	(52,431)
Net operating income	**15,179**	14,599

Net interest income increased by 10% from growth in insurance fund size, reflecting net inflows from new and renewal of life insurance premiums.

Net trading loss increased due to higher revaluation losses on cross currency swaps supporting non-linked insurance contracts in Hong Kong.

Net income from financial instruments designated at fair value increased, driven by Hong Kong, with revaluation gains on the equity portfolio in 2016 compared with revaluation losses in 2015. To the extent that revaluation is attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance premium income increased, mainly in Hong Kong, driven by an increase in new business sales. The movement in present value of in-force business increased by HK$2,617m, mainly in Hong Kong as a result of a favourable interest rate assumption update. These increases were partly offset by a corresponding increase in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

7. Loan impairment charges and other credit risk provisions

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Individually assessed impairment charges:		
New charges	**5,224**	4,011
Releases	**(1,567)**	(1,390)
Recoveries	**(277)**	(305)
	3,380	2,316
Collectively assessed impairment charges	**2,065**	2,656
Other credit risk provisions	**109**	102
Loan impairment charges and other credit risk provisions	**5,554**	5,074

Loan impairment charges as a percentage of average gross customer advances remained low at 0.20% for 2016 (2015: 0.18%).

8. Employee compensation and benefits

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Wages and salaries	**35,376**	37,846
Social security costs	**1,022**	1,080
Retirement benefit costs	**2,498**	2,200
	38,896	41,126

Employee compensation and benefits decreased by HK$2,230m, reflecting lower performance-related pay and lower headcount, partly offset by the impact from wage inflation.

9. General and administrative expenses

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Premises and equipment		
– Rental expenses	**3,665**	3,542
– Other premises and equipment expenses	**4,107**	4,032
	7,772	7,574
Marketing and advertising expenses	**2,909**	3,900
Other administrative expenses	**19,236**	18,409
	29,917	29,883

In 2016, certain expenditure in respect of credit card loyalty programmes previously presented in 'Marketing and advertising expenses' is presented in 'Fee expense' to more appropriately reflect the nature of the expenditure. This accounted for the majority of the decrease in marketing and advertising expenses during the year.

10. Associates and joint ventures

At 31 December 2016, an impairment review on the group's investment in Bank of Communications Co., Ltd ('BoCom') was carried out and it was concluded that the investment was not impaired at the end of the year based on our value in use calculation (see note on 'Associates and Joint Ventures' in the Annual Report and Accounts 2016 for further details). In future periods, the value in use may increase or decrease depending on the impact of changes to model inputs. It is expected that the carrying amount will increase in 2017 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, the group would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

11. Tax expense

The tax expense in the consolidated income statement comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
	HK$m	HK$m
Current income tax		
– Hong Kong taxation	**8,493**	9,871
– Overseas taxation	**7,261**	8,295
Deferred taxation	**2,158**	(870)
	17,912	17,296
Effective tax rate	**17.4%**	14.7%

The low effective tax rate in 2015 was mainly due to the non-taxable gain from the partial disposal of the group's investment in Industrial Bank.

12. Dividends

Dividends to ordinary shareholders of the parent company

	Year ended 31 December 2016		Year ended 31 December 2015	
	HK$ per share	**HK$m**	HK$ per share	HK$m
Ordinary dividends paid				
– fourth interim dividend in respect of the previous financial year, approved and paid during the year	**0.44**	**17,065**	0.37	14,250
– first interim dividend paid	**0.20**	**8,500**	0.20	7,500
– second interim dividend paid	**0.19**	**8,500**	0.20	7,500
– third interim dividend paid	**0.19**	**8,500**	0.20	7,500
	1.02	**42,565**	0.97	36,750

The Directors have declared a fourth interim dividend in respect of the financial year ending 31 December 2016 of HK$25,438m (HK$0.56 per ordinary share).

Distributions on other equity instruments

	Year ended 31 December 2016 HK$m	Year ended 31 December 2015 HK$m
Floating rate perpetual subordinated loans (interest rate at one year US dollar LIBOR plus 3.84%)	**731**	655

13. Analysis of loans and advances to customers

The following analysis of loans and advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries.

At 31 December 2016	**Hong Kong HK$m**	**Rest of Asia-Pacific HK$m**	**Total HK$m**
Residential mortgages	**492,989**	**267,619**	**760,608**
Credit card advances	**58,289**	**22,665**	**80,954**
Other personal	**132,171**	**70,947**	**203,118**
Total personal	**683,449**	**361,231**	**1,044,680**
Commercial, industrial and international trade	**428,035**	**384,227**	**812,262**
Commercial real estate	**198,579**	**55,786**	**254,365**
Other property-related lending	**221,919**	**69,911**	**291,830**
Government	**20,230**	**2,405**	**22,635**
Other commercial	**136,729**	**132,944**	**269,673**
Total corporate and commercial	**1,005,492**	**645,273**	**1,650,765**
Non-bank financial institutions	**103,311**	**45,611**	**148,922**
Settlement accounts	**1,337**	**1,102**	**2,439**
Total financial	**104,648**	**46,713**	**151,361**
Gross loans and advances to customers	**1,793,589**	**1,053,217**	**2,846,806**
Individually assessed impairment allowances	**(2,960)**	**(5,099)**	**(8,059)**
Collectively assessed impairment allowances	**(1,959)**	**(2,674)**	**(4,633)**
Net loans and advances to customers	**1,788,670**	**1,045,444**	**2,834,114**

At 31 December 2015			
Residential mortgages	472,324	260,901	733,225
Credit card advances	56,791	22,180	78,971
Other personal	132,234	84,092	216,326
Total personal	661,349	367,173	1,028,522
Commercial, industrial and international trade	419,589	405,594	825,183
Commercial real estate	186,463	64,420	250,883
Other property-related lending	207,448	65,412	272,860
Government	6,292	2,484	8,776
Other commercial	133,718	145,632	279,350
Total corporate and commercial	953,510	683,542	1,637,052
Non-bank financial institutions	64,050	42,414	106,464
Settlement accounts	1,099	682	1,781
Total financial	65,149	43,096	108,245
Gross loans and advances to customers	1,680,008	1,093,811	2,773,819
Individually assessed impairment allowances	(2,165)	(4,875)	(7,040)
Collectively assessed impairment allowances	(1,979)	(2,510)	(4,489)
Net loans and advances to customers	1,675,864	1,086,426	2,762,290

Allowances as a percentage of gross loans and advances to customers:	**At 31 December 2016**	At 31 December 2015
– Individually assessed	**0.28%**	0.25%
– Collectively assessed	**0.16%**	0.16%
Total allowances	**0.44%**	0.41%

13. Analysis of loans and advances to customers *(continued)*

Gross loans and advances to customers in Hong Kong increased by HK$114bn, or 7%, largely from increases in corporate and commercial lending of HK$52bn and lending to non-bank financial institutions of HK$39bn due to higher demand, coupled with growth in residential mortgage lending of HK$21bn.

In the Rest of Asia-Pacific, gross loans and advances to customers decreased by HK$41bn, or 4%, including unfavourable foreign exchange translation effects of HK$28bn. Excluding this impact, the underlying decrease of HK$13bn was mainly from a decrease in corporate and commercial lending of HK$21bn, mainly in mainland China and Malaysia, partly offset by an increase in residential mortgages of HK$12bn from business growth, mainly in mainland China and Australia.

14. Movement in impairment allowances against loans and advances to customers

	Individually assessed allowances HK$m	**Collectively assessed allowances HK$m**	**Total HK$m**
2016			
At 1 January	**7,040**	**4,489**	**11,529**
Amounts written off	**(2,334)**	**(2,694)**	**(5,028)**
Recoveries of loans and advances written off in previous years	**277**	**881**	**1,158**
Net charge to income statement	**3,380**	**2,065**	**5,445**
Unwinding of discount of loan impairment	**(310)**	**(58)**	**(368)**
Exchange and other adjustments	**6**	**(50)**	**(44)**
At 31 December	**8,059**	**4,633**	**12,692**
2015			
At 1 January	6,299	4,221	10,520
Amounts written off	(1,505)	(3,109)	(4,614)
Recoveries of loans and advances written off in previous years	305	978	1,283
Net charge to income statement	2,316	2,656	4,972
Unwinding of discount of loan impairment	(210)	(67)	(277)
Exchange and other adjustments	(165)	(190)	(355)
At 31 December	7,040	4,489	11,529

15. Prepayments, accrued income and other assets

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
Prepayments and accrued income	**21,505**	21,186
Bullion	**69,894**	47,105
Acceptances and endorsements	**32,290**	31,480
Reinsurers' share of liabilities under insurance contracts	**11,368**	8,543
Current tax assets	**3,537**	1,013
Other accounts	**32,636**	24,735
	171,230	134,062

16. Customer accounts

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
Current accounts	**991,562**	949,169
Savings accounts	**2,946,379**	2,645,151
Other deposit accounts	**962,063**	1,045,756
	4,900,004	4,640,076

The group's advances-to-deposits ratio was 57.8% at 31 December 2016 (2015: 59.5%).

17. Accruals and deferred income, other liabilities and provisions

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
Accruals and deferred income	**24,409**	25,425
Acceptances and endorsements	**32,290**	31,480
Share-based payment liability to HSBC Holdings plc	**1,945**	1,769
Other liabilities	**39,676**	27,043
Provisions for liabilities and charges	**1,167**	1,203
	99,487	86,920

18. Contingent liabilities and commitments

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
Contingent liabilities	**259,559**	257,932
Commitments	**2,287,617**	2,131,992
	2,547,176	2,389,924

19. Capital adequacy

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

The basis of consolidation for the calculation of capital ratios for regulatory purposes is different from that for accounting purposes. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies and the capital invested by the group in these subsidiaries is deducted from regulatory capital, subject to certain thresholds.

	At 31 December 2016	At 31 December 2015
	%	%
Capital ratios		
Common equity tier 1 (CET1) capital ratio	**16.0**	15.6
Tier 1 capital ratio	**17.2**	16.6
Total capital ratio	**19.0**	18.6
Risk-weighted assets by risk type	**HK$m**	HK$m
Credit risk	**2,027,690**	1,942,430
Counterparty credit risk	**171,150**	176,764
Market risk	**90,454**	101,551
Operational risk	**299,295**	298,662
	2,588,589	2,519,407

19. Capital adequacy *(continued)*

The following table sets out the composition of the group's capital base under Basel III at 31 December 2016. The position at 31 December 2016 benefits from transitional arrangements, which will be phased out.

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
Common equity tier 1 ('CET1') capital		
Shareholders' equity	**551,776**	514,078
Shareholders' equity per balance sheet	**628,006**	584,201
Revaluation reserve capitalisation issue	**(1,454)**	(1,454)
Other equity instruments	**(14,737)**	(14,737)
Unconsolidated subsidiaries	**(60,039)**	(53,932)
Non-controlling interests	**22,676**	22,352
Non-controlling interests per balance sheet	**51,130**	51,685
Non-controlling interests in unconsolidated subsidiaries	**(6,442)**	(5,717)
Surplus non-controlling interests disallowed in CET1	**(22,012)**	(23,616)
Regulatory deductions to CET1 capital	**(160,144)**	(142,611)
Valuation adjustments	**(2,020)**	(1,845)
Goodwill and intangible assets	**(14,029)**	(14,032)
Deferred tax assets net of deferred tax liabilities	**(1,566)**	(1,863)
Cash flow hedging reserve	**222**	(51)
Changes in own credit risk on fair valued liabilities	**(1,195)**	(940)
Defined benefit pension fund assets	**(62)**	(40)
Significant capital investments in unconsolidated financial sector entities	**(57,395)**	(39,524)
Property revaluation reserves[1]	**(58,168)**	(56,497)
Regulatory reserve	**(25,931)**	(27,819)
Total CET1 capital	**414,308**	393,819
Additional tier 1 ('AT1') capital		
Total AT1 capital before regulatory deductions	**47,897**	50,826
Perpetual subordinated loans	**14,737**	14,737
Perpetual non-cumulative preference shares	**25,228**	25,213
Allowable non-controlling interests in AT1 capital	**7,932**	10,876
Regulatory deductions to AT1 capital	**(17,333)**	(25,887)
Significant capital investments in unconsolidated financial sector entities	**(17,333)**	(25,887)
Total AT1 capital	**30,564**	24,939
Total tier 1 capital	**444,872**	418,758
Tier 2 capital		
Total tier 2 capital before regulatory deductions	**67,536**	79,164
Perpetual cumulative preference shares	**1,551**	3,100
Cumulative term preference shares	**–**	8,138
Perpetual subordinated debt	**3,102**	6,204
Term subordinated debt	**21,472**	21,603
Property revaluation reserves[1]	**26,830**	26,079
Impairment allowances and regulatory reserve eligible for inclusion in tier 2 capital	**14,581**	14,040
Regulatory deductions to tier 2 capital	**(21,106)**	(29,059)
Significant capital investments in unconsolidated financial sector entities	**(21,106)**	(29,059)
Total tier 2 capital	**46,430**	50,105
Total capital	**491,302**	468,863

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

19. Capital adequacy *(continued)*

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out, based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the balance sheet at 31 December 2016; it is not a projection. On this pro-forma basis, the group's CET1 ratio is 14.7% (2015: 13.6%), which is above the Basel III minimum requirement plus expected regulatory capital buffer requirements.

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

	At 31 December 2016 HK$m	At 31 December 2015 HK$m
CET1 capital on a transitional basis	**414,308**	393,819
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	**(34,666)**	(51,774)
CET1 capital end point basis	**379,642**	342,045
AT1 capital on a transitional basis	**30,564**	24,939
Grandfathered instruments:		
Perpetual non-cumulative preference shares	**(25,228)**	(25,213)
Transitional provisions:		
Allowable non-controlling interests in AT1 capital	**(6,534)**	(9,494)
Significant capital investments in unconsolidated financial sector entities	**17,333**	25,887
AT1 capital end point basis	**16,135**	16,119
Tier 2 capital on a transitional basis	**46,430**	50,105
Grandfathered instruments:		
Perpetual cumulative preference shares	**(1,551)**	(3,100)
Cumulative term preference shares	**–**	(8,138)
Perpetual subordinated debt	**(3,102)**	(6,204)
Term subordinated debt	**(1,462)**	(1,607)
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	**17,333**	25,887
Tier 2 capital end point basis	**57,648**	56,943

20. Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those described in the *Annual Report and Accounts 2016.* A number of amendments to Hong Kong Financial Reporting Standards became effective in 2016 and none has a material impact on the group.

21. Statutory accounts

The information in this document is not audited and does not constitute the Bank's statutory accounts.

Certain financial information in this document is extracted from the financial statements for the year ended 31 December 2016, which were approved by the Board of Directors on 21 February 2017 and 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 Annual Report and Accounts for the year ended 31 December 2016, which include the financial statements, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and will be made available on our website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

22. Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc, which is incorporated in England.

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