

News Release

18 February 2020

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2019 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax up 1% to HK\$136,433m (2018: HK\$134,583m)
- Attributable profit up 3% to HK\$105,722m (2018: HK\$103,013m)
- Return on average ordinary shareholders' equity of 13.9% (2018: 14.8%)
- Total assets up 5% to HK\$8,662bn (2018: HK\$8,263bn)
- Common equity tier 1 ratio of 17.2%, total capital ratio of 21.0% (2018: 16.5% and 19.8%)
- Cost efficiency ratio of 42.6% (2018: 41.5%)

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.



Consolidated income statement by global business

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre ¹	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Year ended 31 Dec 2019						
Net interest income	68,374	42,807	25,140	2,956	(8,374)	130,903
Net fee income	18,647	9,960	9,977	2,839	82	41,505
Net income from financial instruments measured at fair value through profit or loss	16,038	2,699	17,409	1,095	13,217	50,458
Gains less losses from financial investments	20	—	—	—	618	638
Net insurance premium income/(expense)	56,222	4,380	—	—	(327)	60,275
Other operating income	13,793	434	828	119	584	15,758
Total operating income	173,094	60,280	53,354	7,009	5,800	299,537
Net insurance claims and benefits paid and movement in liabilities to policyholders	(75,628)	(4,528)	—	—	—	(80,156)
Net operating income before change in expected credit losses and other credit impairment charges	97,466	55,752	53,354	7,009	5,800	219,381
Change in expected credit losses and other credit impairment charges	(2,078)	(3,029)	(549)	1	(17)	(5,672)
Net operating income	95,388	52,723	52,805	7,010	5,783	213,709
Operating expenses	(41,756)	(19,212)	(23,319)	(4,013)	(5,194)	(93,494)
Operating profit	53,632	33,511	29,486	2,997	589	120,215
Share of profit in associates and joint ventures	346	—	—	—	15,872	16,218
Profit before tax	53,978	33,511	29,486	2,997	16,461	136,433
Balance sheet data at 31 Dec 2019						
Net loans and advances to customers	1,244,236	1,244,007	1,066,235	164,895	1,502	3,720,875
Customer accounts	2,903,203	1,344,590	983,682	197,654	3,295	5,432,424
Year ended 31 Dec 2018						
Net interest income	62,829	39,004	22,590	2,683	(643)	126,463
Net fee income	21,087	10,598	9,794	2,650	102	44,231
Net income/(expense) from financial instruments measured at fair value through profit or loss	(3,731)	2,694	18,283	800	7,919	25,965
Gains less losses from financial investments	109	(34)	104	—	322	501
Net insurance premium income/(expense)	57,301	3,441	—	—	(64)	60,678
Other operating income	5,851	508	737	110	3,264	10,470
Total operating income	143,446	56,211	51,508	6,243	10,900	268,308
Net insurance claims and benefits paid and movement in liabilities to policyholders	(54,539)	(3,300)	—	—	—	(57,839)
Net operating income before change in expected credit losses and other credit impairment charges	88,907	52,911	51,508	6,243	10,900	210,469
Change in expected credit losses and other credit impairment charges	(2,019)	(2,315)	(394)	(13)	21	(4,720)
Net operating income	86,888	50,596	51,114	6,230	10,921	205,749
Operating expenses	(38,946)	(17,878)	(21,807)	(3,479)	(5,314)	(87,424)
Operating profit	47,942	32,718	29,307	2,751	5,607	118,325
Share of profit in associates and joint ventures	247	—	—	—	16,011	16,258
Profit before tax	48,189	32,718	29,307	2,751	21,618	134,583
Balance sheet data at 31 Dec 2018						
Net loans and advances to customers	1,146,689	1,223,999	1,035,629	120,985	1,400	3,528,702
Customer accounts	2,750,104	1,306,775	949,812	196,413	4,562	5,207,666

¹ Includes inter-segment elimination.

Financial review

The commentary that follows compares the group's financial performance for the years ended 2019 with 2018.

Results Commentary

The group reported profit before tax of HK\$136,433m, an increase of HK\$1,850m, or 1%, driven by higher net insurance income, higher net interest income and higher income from financial instruments held for trading or managed on a fair value basis, partly offset by higher operating expenses.

Net interest income increased by HK\$4,440m, or 4%, with increases across all global businesses and mainly in Hong Kong, primarily from growth in loans and advances to customers, coupled with improved customer deposit spreads. Net interest income in India and Singapore also increased, driven by growth in loans and advances to customers. These were partly offset by decreases in mainland China, Australia and Taiwan due to higher funding costs to support business activities.

Net fee income decreased by HK\$2,726m, or 6%, primarily in Retail Banking and Wealth Management ('RBWM'). The decrease was driven by Hong Kong from lower securities brokerage due to lower equity market turnover in 2019, lower income from funds under management and unit trusts, coupled with lower net fee income from credit cards due to higher rewards and bonus points expenses. To a lesser extent, net fee income also decreased in Commercial Banking ('CMB'), mainly in trade-related and remittance fees.

Net income from financial instruments measured at fair value through profit or loss increased by HK\$24,493m, or 94%. Net income from financial instruments held for trading or managed on a fair value basis increased by HK\$4,318m, or 13%, driven by Hong Kong, mainly from Rates and Credit trading, and mainland China from lower cost on structured deposits, coupled with higher Rates trading income.

Net income from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss increased by HK\$19,818m, mainly in Hong Kong driven by revaluation gains on the equity portfolio held to back insurance and investment contracts from the favourable equity market movements in 2019, as compared to revaluation losses in 2018. To the extent that these gains are attributable to policyholders, the gains are offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance premium income decreased slightly by HK\$403m, or 1%, driven by higher reinsurance ceded in 2019 in Hong Kong. Gross insurance premium (excluding the impact from reinsurance arrangements) increased by 10%, mainly in Hong Kong from higher renewal premiums and new business sales. These were largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income increased by HK\$5,288m, or 51%, driven by the favourable movement in the present value of in-force long-term insurance business ('PVIF'), primarily in Hong Kong. To the extent that these gains are attributable to policyholders, the gains are offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'. The impact from the favourable change in PVIF was partly offset by lower recoveries from fellow group companies due to a change in the cost recharge mechanism following the transfer of shared services and operations to the HSBC Global Service (Hong Kong) Limited ('ServCo') in 2019, with a corresponding decrease in 'operating expenses'.

Net insurance claims and benefits paid and movement in liabilities to policyholders increased by HK\$22,317m, or 39%, reflecting higher investment returns to policyholders due to the favourable equity market performance in 2019, coupled with higher premium income and the favourable movement in PVIF, partly offset by the major reinsurance arrangement in 2019.

Change in expected credit losses and other credit impairment charges increased by HK\$952m, or 20%, driven by CMB mainly in Hong Kong due to increased provisions to reflect the deterioration in the Hong Kong and global economic outlook, partly offset by lower specific charges.

Total operating expenses increased by HK\$6,070m, or 7%, with increases across all global businesses. The increase was driven by higher IT and staff costs to support growth initiatives, wage inflation and higher management charges from ServCo following the transfer of over 8,500 employees to ServCo during the year. Depreciation charges also increased due to a change in valuation base of certain properties from cost to fair value following the implementation of HKFRS 16. These increases were partly offset by the release of a customer remediation provision in Hong Kong, release of a provision in relation to a tax matter in Indonesia, and from a change in cost recharge mechanism from fellow group companies as mentioned above.

Share of profit in associates and joint ventures decreased by HK\$40m, driven by an unfavourable effect of foreign exchange translation. Excluding this impact, share of profit in associates and joint ventures increased by HK\$667m, mainly from Bank of Communications Co., Limited.

Consolidated income statement
for the year ended 31 December

	2019 HK\$m	2018 HK\$m
Net interest income	130,903	126,463
– interest income	191,322	170,065
– interest expense	(60,419)	(43,602)
Net fee income	41,505	44,231
– fee income	53,099	54,585
– fee expense	(11,594)	(10,354)
Net income from financial instruments held for trading or managed on a fair value basis	36,388	32,070
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	14,257	(5,561)
Changes in fair value of designated debts issued and related derivatives ¹	(305)	(327)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	118	(217)
Gains less losses from financial investments	638	501
Net insurance premium income	60,275	60,678
Other operating income	15,758	10,470
Total operating income	299,537	268,308
Net insurance claims and benefits paid and movement in liabilities to policyholders	(80,156)	(57,839)
Net operating income before change in expected credit losses and other credit impairment charges	219,381	210,469
Change in expected credit losses and other credit impairment charges	(5,672)	(4,720)
Net operating income	213,709	205,749
Employee compensation and benefits	(38,048)	(40,793)
General and administrative expenses	(44,769)	(39,989)
Depreciation and impairment of property, plant and equipment	(8,230)	(4,686)
Amortisation and impairment of intangible assets	(2,447)	(1,956)
Total operating expenses	(93,494)	(87,424)
Operating profit	120,215	118,325
Share of profit in associates and joint ventures	16,218	16,258
Profit before tax	136,433	134,583
Tax expense	(21,393)	(22,467)
Profit for the year	115,040	112,116
Attributable to:		
– ordinary shareholders of the parent company	104,200	102,132
– other equity holders	1,522	881
– non-controlling interests	9,318	9,103
Profit for the year	115,040	112,116

¹ The definition has been updated to include debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch, previously reported under 'Net income from financial instruments held for trading and managed on a fair value basis'. Comparatives have been re-presented to conform to current year's presentation.

Consolidated statement of comprehensive income

for the year ended 31 December

	2019 HK\$m	2018 HK\$m
Profit for the year	115,040	112,116
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	1,674	826
– fair value gains	2,782	908
– fair value (gains)/losses transferred to the income statement	(606)	142
– expected credit recoveries/(losses) recognised in the income statement	23	(9)
– income taxes	(525)	(215)
Cash flow hedges	5	131
– fair value gains	681	1,264
– fair value gains reclassified to the income statement	(673)	(1,125)
– income taxes	(3)	(8)
Share of other comprehensive income/(expense) of associates and joint ventures	167	(146)
Exchange differences	(3,606)	(18,098)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	3,673	8,826
– fair value gains	4,426	10,626
– income taxes	(753)	(1,800)
Equity instruments designated at fair value through other comprehensive income	2,854	(581)
– fair value gains/(losses)	2,859	(576)
– income taxes	(5)	(5)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(2,060)	(199)
– before income taxes	(2,467)	(241)
– income taxes	407	42
Remeasurement of defined benefit asset/liability	192	(910)
– before income taxes	245	(1,091)
– income taxes	(53)	181
Other comprehensive income/(expense) for the year, net of tax	2,899	(10,151)
Total comprehensive income for the year	117,939	101,965
Attributable to:		
– ordinary shareholders of the parent company	106,187	91,915
– other equity holders	1,522	881
– non-controlling interests	10,230	9,169
Total comprehensive income for the year	117,939	101,965

Consolidated balance sheet

at 31 December

	2019 HK\$m	2018 HK\$m
Assets		
Cash and balances at central banks	202,746	205,660
Items in the course of collection from other banks	21,140	25,380
Hong Kong Government certificates of indebtedness	298,944	280,854
Trading assets	622,761	558,838
Derivatives	280,642	292,869
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	153,511	132,859
Reverse repurchase agreements – non-trading	422,333	406,327
Loans and advances to banks	328,905	338,151
Loans and advances to customers	3,720,875	3,528,702
Financial investments	1,900,298	1,871,026
Amounts due from Group companies	87,632	70,455
Interests in associates and joint ventures	151,917	142,885
Goodwill and intangible assets	81,643	65,104
Property, plant and equipment	137,930	112,080
Deferred tax assets	2,179	2,315
Prepayments, accrued income and other assets	248,258	229,949
Total assets	8,661,714	8,263,454
Liabilities		
Hong Kong currency notes in circulation	298,944	280,854
Items in the course of transmission to other banks	25,576	33,806
Repurchase agreements – non-trading	106,396	70,279
Deposits by banks	179,819	164,664
Customer accounts	5,432,424	5,207,666
Trading liabilities	87,532	81,194
Derivatives	292,231	295,553
Financial liabilities designated at fair value	160,291	161,143
Debt securities in issue	106,933	58,236
Retirement benefit liabilities	2,595	3,369
Amounts due to Group companies	311,111	396,487
Accruals and deferred income, other liabilities and provisions	203,252	196,665
Liabilities under insurance contracts	528,760	468,589
Current tax liabilities	12,614	3,337
Deferred tax liabilities	29,889	24,513
Subordinated liabilities	4,066	4,081
Preference shares	–	98
Total liabilities	7,782,433	7,450,534
Equity		
Share capital	172,335	172,335
Other equity instruments	44,615	35,879
Other reserves	133,099	114,949
Retained earnings	464,629	429,595
Total shareholders' equity	814,678	752,758
Non-controlling interests	64,603	60,162
Total equity	879,281	812,920
Total liabilities and equity	8,661,714	8,263,454

Consolidated statement of changes in equity

for the year ended 31 December

	Other reserves										
	Share capital	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ¹	Total shareholders' equity	Non-controlling interests	Total equity
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 31 Dec 2018	172,335	35,879	429,595	57,914	2,953	(99)	(24,649)	78,830	752,758	60,162	812,920
Impact on transition to HKFRS 16	–	–	–	13,483	–	–	–	–	13,483	–	13,483
At 1 Jan 2019	172,335	35,879	429,595	71,397	2,953	(99)	(24,649)	78,830	766,241	60,162	826,403
Profit for the year	–	–	105,722	–	–	–	–	–	105,722	9,318	115,040
Other comprehensive income/(expense) (net of tax)	–	–	(1,949)	3,395	4,006	(5)	(3,469)	9	1,987	912	2,899
– debt instruments at fair value through other comprehensive income	–	–	–	–	1,676	–	–	–	1,676	(2)	1,674
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	2,169	–	–	–	2,169	685	2,854
– cash flow hedges	–	–	–	–	–	(5)	–	–	(5)	10	5
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	(2,058)	–	–	–	–	–	(2,058)	(2)	(2,060)
– property revaluation	–	–	–	3,395	–	–	–	–	3,395	278	3,673
– remeasurement of defined benefit asset/liability	–	–	112	–	–	–	–	–	112	80	192
– share of other comprehensive income/(expense) of associates and joint ventures	–	–	(3)	–	161	–	–	9	167	–	167
– exchange differences	–	–	–	–	–	–	(3,469)	–	(3,469)	(137)	(3,606)
Total comprehensive income/(expense) for the year	–	–	103,773	3,395	4,006	(5)	(3,469)	9	107,709	10,230	117,939
Other equity instruments issued ²	–	44,615	–	–	–	–	–	–	44,615	–	44,615
Other equity instruments repaid ²	–	(35,879)	–	–	–	–	–	–	(35,879)	–	(35,879)
Dividends paid ³	–	–	(68,369)	–	–	–	–	–	(68,369)	(5,646)	(74,015)
Movement in respect of share-based payment arrangements	–	–	(42)	–	–	–	–	249	207	2	209
Transfers and other movements ⁴	–	–	(328)	(2,779)	–	–	–	3,261	154	(145)	9
At 31 Dec 2019	172,335	44,615	464,629	72,013	6,959	(104)	(28,118)	82,349	814,678	64,603	879,281

Consolidated statement of changes in equity (continued)
for the year ended 31 December

	Other reserves								Total share-holders' equity	Non-controlling interests	Total equity
	Share capital	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve ⁷	Cash flow hedge reserve	Foreign exchange reserve	Other ¹			
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 31 Dec 2017 ⁷	151,360	14,737	406,966	58,381	6,825	(197)	(6,948)	65,356	696,480	56,506	752,986
Impact on transition to HKFRS 9	—	—	(7,478)	—	(4,512)	—	—	—	(11,990)	(323)	(12,313)
At 1 Jan 2018	151,360	14,737	399,488	58,381	2,313	(197)	(6,948)	65,356	684,490	56,183	740,673
Profit for the year	—	—	103,013	—	—	—	—	—	103,013	9,103	112,116
Other comprehensive income/ (expense) (net of tax)	—	—	(890)	8,050	228	98	(17,701)	(2)	(10,217)	66	(10,151)
– debt instruments at fair value through other comprehensive income	—	—	—	—	734	—	—	—	734	92	826
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(367)	—	—	—	(367)	(214)	(581)
– cash flow hedges	—	—	—	—	—	98	—	—	98	33	131
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(197)	—	—	—	—	—	(197)	(2)	(199)
– property revaluation	—	—	—	8,050	—	—	—	—	8,050	776	8,826
– remeasurement of defined benefit asset/liability	—	—	(688)	—	—	—	—	—	(688)	(222)	(910)
– share of other comprehensive expense of associates and joint ventures	—	—	(5)	—	(139)	—	—	(2)	(146)	—	(146)
– exchange differences	—	—	—	—	—	—	(17,701)	—	(17,701)	(397)	(18,098)
Total comprehensive income/ (expense) for the year	—	—	102,123	8,050	228	98	(17,701)	(2)	92,796	9,169	101,965
Other equity instruments issued ²	—	21,142	—	—	—	—	—	—	21,142	—	21,142
Dividends paid ³	—	—	(47,440)	—	—	—	—	—	(47,440)	(5,068)	(52,508)
Movement in respect of share-based payment arrangements	—	—	(234)	—	—	—	—	246	12	10	22
Transfers and other movements ^{4,5,6}	20,975	—	(24,342)	(8,517)	412	—	—	13,230	1,758	(132)	1,626
At 31 Dec 2018	172,335	35,879	429,595	57,914	2,953	(99)	(24,649)	78,830	752,758	60,162	812,920

- ¹ The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.
- ² In 2019, there were US\$1,100m additional tier 1 capital instruments issued (2018: HK\$2,700m). In addition, US\$4,600m of additional tier 1 capital instruments were repaid and reissued in 2019 with no actual cash movement (2018: nil).
- ³ Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.
- ⁴ The movements include transfers from retained earnings to other reserves in associates according to local regulatory requirements, and from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.
- ⁵ Ordinary share capital includes preference shares which have been redeemed or bought back via a payment out of distributable profits in previous years. In 2018, the Bank redeemed HK\$20,975m of preference shares and made a transfer from retained earnings to share capital.
- ⁶ The movement from property revaluation reserve to other reserves in 2018 included HK\$7,169m relating to transfer of properties to a fellow subsidiary as part of the Recovery and Resolution Plan as set out in the Report of the Directors in the Annual Report and Accounts 2019.
- ⁷ The balance at 31 December 2017 represents the HKAS 39 Available-for-sale fair value reserve as at 31 December 2017.

1 Net interest income

	2019 HK\$m	2018 HK\$m
Net interest income	130,903	126,463
Average interest-earning assets	6,464,424	6,151,920
	%	%
Net interest spread	1.87	1.93
Contribution from net free funds	0.15	0.13
Net interest margin	2.02	2.06

Net interest income ('NII') increased by HK\$4,440m, or 4%, with increases across all global businesses and mainly in Hong Kong, primarily from growth in loans and advances to customers, coupled with improved customer deposit spreads. NII in India and Singapore also increased, driven by growth in loans and advances to customers. These were partly offset by decreases in mainland China, Australia and Taiwan due to higher funding costs to support business activities.

Average interest-earning assets increased by HK\$313bn, or 5%, driven by Hong Kong primarily due to an increase in loans and advances to customers, notably in corporate term lending and mortgages. To a lesser extent, increases were also noted in Singapore, Australia and India, mainly from growth in loans and advances to customers.

Net interest margin decreased by four basis points, driven by mainland China, Australia and Taiwan, partly offset by an increase in Hong Kong.

At the Bank's operations in Hong Kong, the net interest margin increased by one basis point, mainly from improved customer deposit spreads and higher reinvestment yields on financial investments which benefited from higher market interest rates compared to the prior year, coupled with the change in asset portfolio mix due to growth in customer lending. These increases were partly offset by compressed lending spreads in mortgages and corporate lending.

At Hang Seng Bank, the net interest margin decreased by three basis points, mainly from compressed lending spreads and from financial liabilities raised to meet the 'Total Loss Absorbing Capacity' regulatory requirement. These were partly offset by improved customer deposit spreads, higher reinvestment yields on financial investments, coupled with higher contribution from net free funds as market interest rates increased.

In mainland China, the decrease in net interest margin was driven by higher cost of funds from increased funding to support business growth, coupled with lower reinvestment yields from financial investments due to ample liquidity in the market.

In Australia and Taiwan, net interest margin decreased mainly due to higher cost of funds following increases in market interest rates in the prior year.

2 Net fee income

	2019 HK\$m	2018 HK\$m
Account services	2,538	2,808
Funds under management	7,215	7,506
Cards	8,567	8,414
Credit facilities	3,293	3,180
Broking income	3,560	4,679
Imports/exports	3,280	3,632
Unit trusts	7,150	7,107
Underwriting	1,555	1,112
Remittances	2,883	3,138
Global custody	3,742	3,866
Insurance agency commission	1,735	1,741
Other	7,581	7,402
Fee income	53,099	54,585
Fee expense	(11,594)	(10,354)
Net fee income	41,505	44,231

3 Net income from financial instruments measured at fair value through profit or loss

	2019 HK\$m	2018 HK\$m
Net income/(expense) arising on:		
Net trading activities	42,813	32,583
Other instruments managed on a fair value basis	(6,425)	(513)
Net income from financial instruments held for trading or managed on a fair value basis	36,388	32,070
Financial assets held to meet liabilities under insurance and investment contracts	16,245	(6,104)
Liabilities to customers under investment contracts	(1,988)	543
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	14,257	(5,561)
Changes in fair value of designated debts issued and related derivatives ¹	(305)	(327)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	118	(217)
Year ended 31 Dec	50,458	25,965

¹ The definition has been updated to include debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch, previously reported as 'Net trading activities' under 'Net income from financial instruments held for trading and managed on a fair value basis'. Comparatives have been re-presented to conform to current year's presentation.

4 Other operating income

	2019 HK\$m	2018 HK\$m
Movement in present value of in-force insurance business	12,546	4,629
Gains on investment properties	154	639
Losses on disposal of property, plant and equipment and assets held for sale	(2)	(69)
Gains/(losses) on disposal of subsidiaries, associates and business portfolios	(14)	38
Rental income from investment properties	423	416
Dividend income	161	164
Other	2,490	4,653
Year ended 31 Dec	15,758	10,470

In 2019, the group transferred shared services and operations to a separate service company, HSBC Global Services (Hong Kong) Limited ('ServCo'), a fellow subsidiary which provides functional support services to the group. As a result of the transfer, costs incurred relating to services provided to fellow group companies are reflected in the financial statements of ServCo instead of the group, and so are recoveries on these costs. This resulted in lower other operating income as well as lower operating expenses for the group.

5 Insurance business

Results of insurance manufacturing operations and insurance distribution income earned by the group's bank channels

	2019 HK\$m	2018 HK\$m
Insurance manufacturing operations¹		
Net interest income	14,634	13,650
Net fee expense	(4,424)	(3,162)
Net income/(expense) from financial instruments measured at fair value	13,633	(6,279)
Net insurance premium income	60,577	60,713
Change in present value of in-force long-term insurance business	12,546	4,629
Other operating income	267	529
Total operating income	97,233	70,080
Net insurance claims and benefits paid and movement in liabilities to policyholders	(80,156)	(57,839)
Net operating income before change in expected credit losses and other credit impairment charges	17,077	12,241
Change in expected credit losses and other credit impairment charges	(113)	1
Net operating income	16,964	12,242
Total operating expenses	(2,095)	(2,217)
Operating profit	14,869	10,025
Share of profit in associates and joint ventures	346	246
Profit before tax	15,215	10,271
Annualised new business premiums of insurance manufacturing operations	22,395	21,804
Distribution income earned by the group's bank channels	5,800	5,726

¹ The results presented for insurance manufacturing operations are shown before elimination of intercompany transactions with the group's non-insurance operations.

Profit before tax from the insurance manufacturing operations increased by HK\$4,944m, or 48%, driven by the favourable equity market performance in 2019 (compared with adverse equity markets in 2018), together with growth in the value of new business.

Net interest income increased by 7% from growth in invested funds, reflecting net new business and renewal premium inflows on life insurance contracts.

Net income from financial instruments measured at fair value increased significantly, driven by revaluation gains on the equity portfolio held to support insurance and investment contracts, as compared to revaluation losses in 2018.

Net insurance premium income decreased slightly, driven by higher reinsurance ceded in 2019 in Hong Kong. Gross insurance premium income (excluding the impact from reinsurance arrangements) increased by 10%, mainly in Hong Kong from higher renewal premiums and new business sales.

The higher movement in the present value of in-force long-term insurance business was driven by Hong Kong, mainly from the offsetting of the effect of interest rate changes on the valuation of the liabilities under insurance contracts, actuarial assumption and methodology updates, and from higher value of new business written in 2019.

To the extent that the above gains or losses are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Annualised new business premiums ('ANP') is a measure of new insurance premium generation by the business. It is calculated as the sum of 100% of annualised first year regular premiums and 10% of single premiums, before reinsurance ceded. Growth in ANP during the period reflected new business growth in all insurance manufacturing markets, principally Hong Kong.

6 Change in expected credit losses and other credit impairment charges

	2019 HK\$m	2018 HK\$m
Loans and advances to banks and customers	5,420	4,611
– new allowances net of allowance releases	6,283	5,551
– recoveries of amounts previously written off	(863)	(940)
Loan commitments and guarantees	95	123
Other financial assets	157	(14)
Year ended 31 Dec	5,672	4,720

Change in expected credit losses as a percentage of average gross customer advances was 0.15% for 2019 (2018: 0.13%).

7 Employee compensation and benefits

	2019 HK\$m	2018 HK\$m
Wages and salaries	34,674	36,972
Social security costs	1,264	1,249
Post-employment benefits	2,110	2,572
Year ended 31 Dec	38,048	40,793

In 2019, over 8,500 employees performing shared services and operations in Hong Kong were transferred from the group to ServCo as part of recovery and resolution planning to provide services to the group. The transfer resulted in a decrease in 'employee compensation and benefits' and an increase in 'general and administrative expenses', reflecting the management charge for the services provided which included a mark-up on the expenses incurred. Excluding the impact from the employee transfers, employee compensation and benefits increased, mainly from wage inflation and increased headcount, primarily in Hong Kong, mainland China and Singapore.

8 General and administrative expenses

	2019 HK\$m	2018 HK\$m
Premises and equipment	3,246	8,208
– rental expenses	794	4,134
– other premises and equipment expenses	2,452	4,074
Marketing and advertising expenses	2,815	2,940
Other administrative expenses	38,708	28,841
Year ended 31 Dec	44,769	39,989

General and administrative expenses increased by HK\$4,780m, or 12%, largely due to the management charge on services and operations provided by ServCo as mentioned above, coupled with higher spend to support growth initiatives. These increases were partly offset by lower rental expenses on premises and equipment following the implementation of HKFRS 16 'Leases' (with a corresponding increase in the amortisation charge on the right-of-use assets), the partial release of provision for customer remediation made in the prior year in Hong Kong, release of a provision in relation to a tax matter in Indonesia made in the prior year, and from a change in the cost recharge mechanism from fellow group companies as mentioned under note 4 'Other operating income'.

9 Depreciation and impairment of property, plant and equipment

	2019 HK\$m	2018 HK\$m
Owned property, plant and equipment	5,620	4,686
Other right-of-use assets ¹	2,610	N/A
Year ended 31 Dec	8,230	4,686

¹ The impact on right-of-use assets has been recognised from 1 January 2019 following the adoption of HKFRS 16. Comparatives have not been restated.

Depreciation charges on property, plant and equipment increased by HK\$3,544m, or 76%, driven by the amortisation charge on the right-of-use assets, and from a change in the valuation base of certain properties which were previously reported as operating leases and held at cost, now reclassified to 'Property, plant and equipment' and measured at fair value following the implementation of HKFRS 16.

10 Associates and joint ventures

At 31 December 2019, 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 based on our value-in-use calculation (see note 14 'Associates and Joint Ventures' in the *Annual Report and Accounts 2019* for further details). As discussed in that note, in future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, impairment would be recognised. 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. An impairment review would continue to be performed at each subsequent reporting period, with the carrying amount and income adjusted accordingly.

11 Dividends

Dividends to shareholders of the parent company

	2019		2018	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.47	21,958	0.36	16,559
In respect of current year:				
– first interim dividend paid	0.32	14,963	0.22	10,000
– second interim dividend paid	0.32	14,963	0.22	10,000
– third interim dividend paid	0.32	14,963	0.22	10,000
Total	1.43	66,847	1.02	46,559
Distributions on other equity instruments		1,522		881
Dividends to shareholders		68,369		47,440

The Directors have declared a fourth interim dividend in respect of the financial year ended 31 December 2019 of HK\$0.58 per ordinary share (HK\$27,026m) (2018: HK\$0.47 per ordinary share (HK\$21,958m)).

Total coupons on capital securities classified as equity

	2019 HK\$m	2018 HK\$m
US\$1,900m Floating rate perpetual subordinated loans (interest rate at one year US dollar LIBOR plus 3.84%) ¹	497	881
US\$1,400m Floating rate perpetual subordinated loans (interest rate at three months US dollar LIBOR plus 3.51%) ¹	373	—
US\$600m Floating rate perpetual subordinated loan (interest rate at three months US dollar LIBOR plus 3.62%) ¹	178	—
US\$700m Floating rate perpetual subordinated loan (interest rate at three months US dollar LIBOR plus 4.98%) ¹	214	—
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.51%) ²	150	—
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.03%) ²	110	—
Total	1,522	881

¹ These subordinated loans were early repaid in the first half of 2019 and distributions were made on repayment.

² These subordinated loans were issued in May and June 2019.

12 Loans and advances to customers

	2019 HK\$m	2018 HK\$m
Gross loans and advances to customers	3,738,269	3,545,258
Expected credit loss allowances	(17,394)	(16,556)
At 31 Dec	3,720,875	3,528,702

The following table provides an analysis of gross loans and advances to customers by industry sector based on the Statistical Classification of economic activities in the European Community ('NACE').

Analysis of gross loans and advances to customers

	2019 HK\$m	2018 HK\$m
Residential mortgages	1,027,087	937,666
Credit card advances	94,582	93,200
Other personal	281,087	236,133
Total personal	1,402,756	1,266,999
Real estate	666,380	626,120
Wholesale and retail trade	418,669	433,734
Manufacturing	418,822	424,813
Transportation and storage	86,912	95,773
Other	494,416	484,186
Total corporate and commercial	2,085,199	2,064,626
Non-bank financial institutions	250,314	213,633
At 31 Dec	3,738,269	3,545,258
By geography¹		
Hong Kong	2,399,867	2,282,909
Rest of Asia Pacific	1,338,402	1,262,349

1 The geographical information shown above is classified by the location of the principal operations of the subsidiary or the branch responsible for advancing the funds.

Gross loans and advances to customers increased by HK\$193bn, or 5%, including unfavourable foreign currency translation effects of HK\$5bn. Excluding this impact, the underlying increase of HK\$198bn was driven by an increase in residential mortgages of HK\$91bn, mainly in Hong Kong and Australia, coupled with an increase in other personal lending of HK\$44bn, mainly in Hong Kong and Singapore. Non-bank financial institution lending also increased by HK\$38bn, mainly in Hong Kong.

13 Financial investments

	2019 HK\$m	2018 HK\$m
Financial investments measured at fair value through other comprehensive income	1,465,998	1,503,625
– treasury and other eligible bills	606,738	660,871
– debt securities	850,623	836,896
– equity shares	8,637	5,858
Debt instruments measured at amortised cost	434,300	367,401
– treasury and other eligible bills	5,049	3,624
– debt securities	429,251	363,777
At 31 Dec	1,900,298	1,871,026

14 Customer accounts

Customer accounts by country/territory

	2019 HK\$m	2018 HK\$m
Hong Kong	3,894,175	3,797,807
Mainland China	376,390	358,026
Singapore	378,303	331,479
Australia	180,637	161,726
India	116,330	111,297
Malaysia	113,907	108,899
Taiwan	114,250	106,537
Indonesia	36,861	29,843
Other	221,571	202,052
At 31 Dec	5,432,424	5,207,666

15 Contingent liabilities, contractual commitments and guarantees

	2019 HK\$m	2018 HK\$m
Guarantees and contingent liabilities	318,770	295,645
Commitments	2,750,332	2,563,208
At 31 Dec	3,069,102	2,858,853

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. The amount of commitments shown above reflects, where relevant, the expected level of take-up of pre-approved facilities. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

16 Capital overview

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base on a consolidated basis, in accordance with the Banking (Capital) Rules.

Capital ratios

	2019 %	2018 %
Common equity tier 1 ('CET1') capital ratio	17.2	16.5
Tier 1 capital ratio	18.8	17.8
Total capital ratio	21.0	19.8

Total regulatory capital and RWAs

	2019 HK\$m	2018 HK\$m
Common equity tier 1 capital	491,641	463,774
Additional tier 1 capital	45,819	37,729
Tier 2 capital	61,474	55,677
Total regulatory capital	598,934	557,180
RWAs	2,851,380	2,813,912

17 Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those set out in note 1 on the Consolidated Financial Statements in the *Annual Report and Accounts 2019*.

Standards adopted during the year ended 31 December 2019

HKFRS 16 'Leases'

The group has adopted the requirements of HKFRS 16 'Leases' from 1 January 2019. The group adopted the requirements of HKFRS 16 retrospectively, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. In relation to the operating leases that were under HKAS 17 'Leases', the adoption of the standard increased assets by HK\$9.2bn reported under 'Property, plant and equipment' and increased lease liabilities by the same amount reported under 'Accruals and deferred income, other liabilities and provisions' with no effect on net assets or retained earnings.

In addition, as a consequence of HKFRS 16, properties previously reported under 'Prepayments, accrued income and other assets' as operating leases and held at cost were reclassified to 'Property, plant and equipment' and measured at fair value. The implementation increased 'Property, plant and equipment' by HK\$16.3bn and increased deferred tax liabilities by HK\$2.7bn, with the net impact taken to the 'Property Revaluation Reserve'.

The overall impact of the above is to increase 'Property, plant and equipment' by HK\$25.5bn, increase 'Accruals and deferred income, other liabilities and provisions' by HK\$9.2bn, increase 'Deferred tax liabilities' by HK\$2.7bn, increase 'Property Revaluation Reserve' by HK\$13.5bn and decrease 'Prepayments, accrued income and other assets' by HK\$136m.

Interest Rate Benchmark Reform: Amendments to HKFRS 9 and HKAS 39 'Financial Instruments'

Amendments to HKFRS 9 and HKAS 39 were issued in November 2019 that modify the specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These amendments apply from 1 January 2020 with early adoption permitted. The group has adopted the amendments that apply to HKAS 39 from 1 January 2019 and has made the additional disclosures as required by the amendments.

