Financial Review

Financial Performance

Income Statement

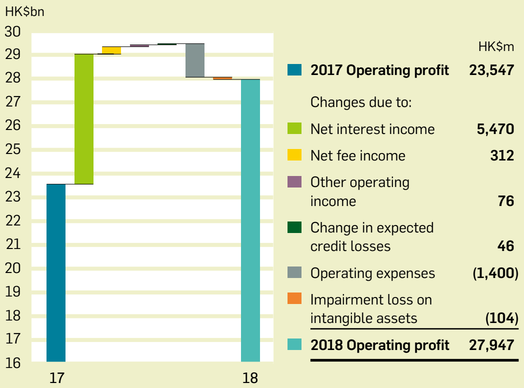
Summary of Financial Performance

Figures in HK$m	2018	2017
Total operating income	55,432	50,076
Operating expenses	12,168	10,768
Operating profit	27,947	23,547
Profit before tax	28,432	23,674
Profit attributable to shareholders	24,211	20,018
Earnings per share (in HK$)	12.48	10.30

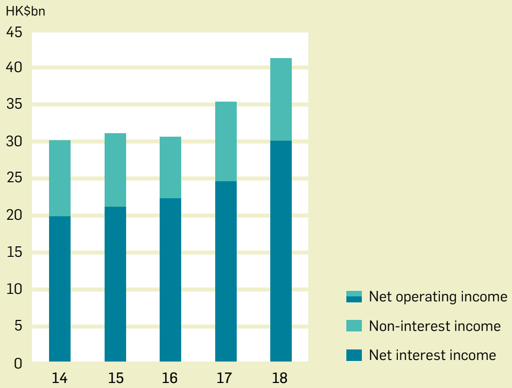
In challenging operating conditions, Hang Seng Bank Limited ("the Bank") and its subsidiaries ("the Group") maintained good business momentum and achieved strong results for 2018.

Profit attributable to shareholders grew by HK$4,193m, or 21%, to HK$24,211m. **Profit before tax** increased by HK$4,758m, or 20%, to HK$28,432m. **Operating profit** rose by HK$4,400m, or 19% to HK$27,947m. **Operating profit excluding change in expected credit losses and other credit impairment charges** increased by HK$4,354m, or 18% to HK$28,943m, with solid growth in both net interest income and non-interest income partly offset by higher operating expenses. All business lines achieved increases in revenue and profitability.

Operating Profit Analysis



Net Operating Income
(Before change in expected credit losses/ loan impairment charges)



Net interest income increased by HK$5,470m, or 22%, to HK$30,047m, reflecting an improved net interest margin and increased average interest-earning assets.

Figures in HK$m	2018	2017
Net interest income/(expense) arising from:		
– financial assets and liabilities that are not at fair value through profit and loss	31,585	25,924
– trading assets and liabilities	192	(1,314)
– financial instruments designated and otherwise mandatorily measured at fair value	(1,730)	(33)
	30,047	24,577
Average interest-earning assets	1,376,091	1,267,484
Net interest spread	2.03%	1.85%
Net interest margin	2.18%	1.94%

Average interest-earning assets rose by HK$109bn, or 9%, when compared with 2017. Average customer lending increased by 15%, with notable growth in corporate and commercial and mortgage lending. Average interbank placement and financial investments remained broadly in line with last year.

Net interest margin improved by 24 basis points to 2.18%, mainly due to wider customer deposit spreads and a change in asset portfolio mix as average customer lending grew. Treasury realised opportunities in the interbank market and proactively managed the interest rate risk to enhance the portfolios yield. Average loan spread on customer lending reduced, notably on corporate and commercial term lending.

Compared with the first half of 2018, net interest income in the second half of 2018 increased by HK$1,591m, or 11%, mainly supported by increase in average interest-earning assets and widening of net interest margin together with the effect of more calendar days in the second half of 2018. There was an improvement in deposit spreads following the rise in market interest rates in the second half, coupled with increased income from effective balance sheet management, partly offset by compressed lending spreads.

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading and income arising from financial instruments designated at fair value through profit and loss as "Net income from financial instruments measured at fair value" (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng Bank, as included in the HSBC Group accounts:

Figures in HK$m	2018	2017
Net interest income and expense reported as "Net interest income"		
– Interest income	36,711	28,745
– Interest expense	(5,158)	(2,865)
– Net interest income	31,553	25,880
Net interest income and expense reported as "Net income from financial instruments measured at fair value"	(1,506)	(1,303)
Average interest-earning assets	1,328,533	1,223,050
Net interest spread	2.24%	2.04%
Net interest margin	2.37%	2.12%

Net fee income grew by HK$312m, or 5%, to HK$7,067m, with the Group's strong performance in the first half partly offset by the downturn in investment activity in the second half of the year. Income from stockbroking and related services rose by 2% year on year. Gross fee income from credit card business increased by 10%, supported by the rise in cardholder spending and merchant acquiring volume. Credit facilities fee income grew by 30%, due mainly to higher fees from corporate lending. Enhanced cross-border commercial payment capabilities resulted in a 10% increase in remittance-related fees. Fees from insurance-related business, account services and trade services rose by 13%, 8% and 6% respectively. The less favourable investment environment in the second half resulted in an 11% year-on-year decline in retail investment fund sales.

Net income from financial instruments measured at fair value decreased by HK$2,452m, or 59%, to HK$1,705m.

The Bank has considered market practices for the presentation of certain financial liabilities that contain both deposit and derivative components. It was determined that a change in accounting policy and presentation with respect to "Trading liabilities – structured deposits and structured debt securities in issue" was appropriate to better align with the presentation of similar financial instruments by industry peers and, thereby, provide more comparative information to the market about the effect of these financial liabilities on the Bank's financial position and performance. This change in accounting policy and presentation took effect on 1 January 2018. Accordingly, rather than classifying "Trading liabilities – structured deposits and structured debt securities in issue" as held for trading, such financial liabilities are now designated as at fair value through profit or loss since they are managed and their performance is evaluated on a fair-value basis. Further information is set out in the "Additional information" section of the press release and the "Accounting policies" section of the Group's 2018 Annual Report.

Net income from assets and liabilities of insurance business measured at fair value recorded a loss of HK$437m compared with a gain of HK$1,768m in 2017. Investment returns on financial assets supporting insurance contract liabilities were adversely affected by unfavourable movements in the equity markets. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or movement in present value of in-force long-term insurance business ("PVIF").

Net trading income and net income from financial instruments designated at fair value together declined by HK$246m, or 10%, to HK$2,143m. Foreign exchange income increased steadily but was more than offset by the loss on equity-linked derivatives due to unfavourable equity market movements. Income from foreign exchange derivatives was also down compared with a year earlier.

Analysis of income from wealth management business

Figures in HK$m	**2018**	2017 *(restated)*
Investment services income[#]:		
– retail investment funds	**1,670**	1,765
– structured investment products	**561**	582
– securities broking and related services	**1,665**	1,638
– margin trading and others	**89**	92
	3,985	4,077
Insurance income:		
– life insurance:		
– net interest income and fee income	**3,777**	3,573
– investment returns on life insurance funds (including share of associate's profit and surplus on property revaluation backing insurance contracts)	**(605)**	1,761
– net insurance premium income	**14,530**	12,817
– net insurance claims and benefits paid and movement in liabilities to policyholders	**(14,217)**	(14,719)
– movement in present value of in-force long-term insurance business	**1,324**	910
	4,809	4,342
– general insurance and others	**269**	298
	5,078	4,640
Total	**9,063**	8,717

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

The Group's diverse range of products and swift response to the changing market generated a 4% increase in wealth management income amidst uncertain market conditions.

Despite subdued investor sentiment and global economic uncertainties in the second half of 2018, the Group maintained wealth management business flows, recording a 2% decline in investment services income. The increase in securities broking and related service income was more than offset by the decrease in retail investment funds income.

Insurance business income increased by 9%, reflecting new and renewal premiums, but being offset by the unfavourable investment returns on life insurance funds.

For life insurance, net interest income and fee income from life insurance business rose by 6%. Investment returns on life insurance business recorded a loss of HK$605m compared with a gain of HK$1,761m in 2017, reflecting the less favourable movements in the equity markets in the second half of 2018. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in net insurance claims and benefits paid and movement in liabilities to policyholders or movement in PVIF under other operating income.

Net insurance premium income increased by 13%, reflecting higher new premiums attributable to the success of our total-solution retirement planning propositions covering a wide range of retirement and protection products as well as an increase in renewal premiums. This growth was partly offset by the increase in reinsurance premiums arising from tactical reinsurance arrangements executed in 2018. Excluding reinsurance premiums, gross insurance premium income rose by 19%.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by 3%. Despite the increase in new and renewal business written, the net decrease was mainly due to regular review of discount rate reflecting the higher prevalent interest rate. This would have an offsetting impact in reduction of PVIF and overall financial impact should not be significant.

The 45% rise in movement in PVIF reflects the combined effect of several factors. Higher new business sales and a positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders as mentioned above were the major increase drivers. These were partially offset by the reduction of PVIF arising from the revision of the discount rate on insurance contract liabilities.

Income from general insurance and others decreased by 10%, reflecting lower MPF business distribution.

Change in expected credit losses and other credit impairment charges/loan impairment charges and other credit risk provisions was HK$996m, compared with HK$1,042m in 2017.

Figures in HK$m	2018	2017
Change in expected credit losses/ Loan impairment charges		
New allowances net of allowance releases	1,139	1,141
Recoveries of amounts previously written off	(143)	(99)
	996	1,042
Impairment allowances/(releases) of available-for-sale debt securities	N/A	–
Change in expected credit losses and other credit impairment charges/ Loan impairment charges and other credit risk provisions	996	1,042
Attributable to:		
– loans and advances to banks and customers	1,023	1,042
– other financial assets	(2)	–
– loan and other credit related commitments and guarantees	(25)	–
Change in expected credit losses and other credit impairment charges/ Loan impairment charges and other credit risk provisions	996	1,042

Under Hong Kong Financial Reporting Standard 9 ("HKFRS 9") *"Financial Instruments"*, the recognition and measurement of expected credit losses ("ECL") is different to that required under Hong Kong Accounting Standard 39 ("HKAS 39") *"Financial Instruments: Recognition and Measurement"*. The change in expected credit losses relating to financial assets under HKFRS 9 is more forward-looking and recorded in the income statement under "Change in expected credit losses and other credit impairment charges". As relevant figures in the prior period have not been restated, changes in impairment of financial assets in the comparative period have been reported in accordance with HKAS 39 under "Loan impairment charges and other credit risk provisions" and are therefore not necessarily comparable to the change in ECL recorded for the current period.

Although the Group has not restated prior year figures, comparisons are made to the balances of gross impaired loans and advances, ECL and gross loans and advances to customers as at 1 January 2018. Gross impaired loans and advances decreased by HK$14m, or 1%, to HK$2,160m when compared with 1 January 2018 using HKFRS 9. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 0.25% at the end of 31 December 2018, compared with 0.27% at 1 January 2018 using HKFRS 9. Overall credit quality remained robust and we remain alert to and monitor portfolio indicators for early signs of weakness.

Change in expected credit losses and other credit impairment charges recorded a charge of HK$996m for 2018. Retail Banking and Wealth Management ("RBWM") recorded an ECL charge of HK$371m, mainly in credit card and personal loan portfolios. ECL for the Commercial Banking ("CMB") and Global Banking and Markets business segments collectively recorded a net charge of HK$625m. Additional ECL arising from the downgrading of several CMB customers was partly offset by the decrease in ECL resulting from the updating of macroeconomic forecasts in expected credit losses assessment models.

Loan impairment charges and other credit risk provisions were HK$1,042m for 2017. Individually assessed impairment charges were HK$443m, with the adverse impact of the downgrading of several CMB customers partly offset by a release in impairment charges. Collectively assessed impairment charges were HK$599m, with credit card and personal loan portfolios accounting for HK$510m and the remaining related to collectively assessed impairment charges for loans not individually identified as impaired.

HKFRS 9 requires the recognition of impairment earlier in the lifecycle of a financial asset, taking forward-looking information into consideration. As a result, measurement involves more complex judgement with impairment likely to be more volatile as the economic outlook changes. The Bank's senior management will continue to closely monitor market developments and shifts in the economic environment in its management and assessment of the credit performance of financial assets.

Expected credit losses/loan impairment allowances as a percentage of gross loans and advances to customers are as follow:

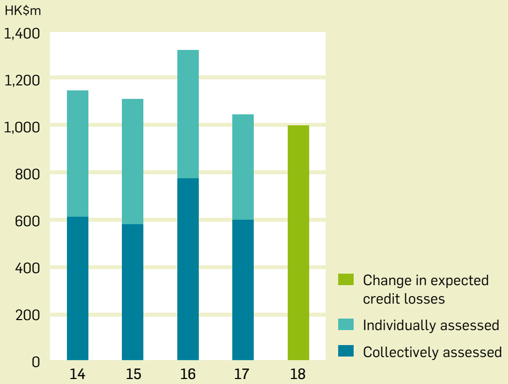
	At 31 December 2018	At 31 December 2017
Expected credit losses/loan impairment allowances as a percentage of gross loans and advances to customers	**0.31%**	0.20%

Expected credit losses at 1 January 2018 to reflect the adoption of HKFRS 9 from that date was HK$2,540m and the corresponding ratio of expected credit losses as a percentage of gross loans and advances to customers was 0.31%.

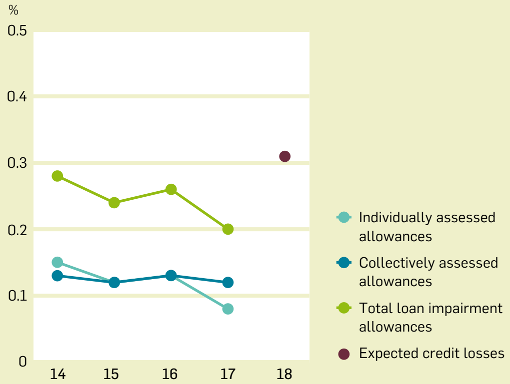
Figures in HK$m	**At 31 December 2018**	At 31 December 2017
Gross impaired loans and advances	**2,160**	1,970
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.25%**	0.24%

Gross impaired loans and advances at 1 January 2018 to reflect the adoption of HKFRS 9 from that date was HK$2,174m and the corresponding ratio of gross impaired loans and advances as a percentage of gross loans and advances to customers was 0.27%.

Change in Expected Credit Losses/ Loan Impairment Charges



Expected Credit Losses/ Loan Impairment Allowances as a percentage of Gross Loans and Advances to Customers



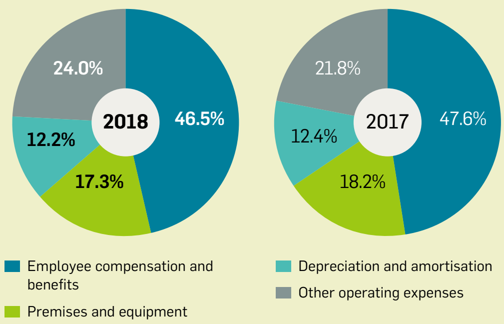
Operating expenses increased by HK$1,400m, or 13%, to HK$12,168m, due mainly to the Bank's continued investment in technology, people and services enhancement, as well as increased professional and consultancy expenses on initiatives to support business growth and investment in regulatory compliance and transformation programmes.

Staff costs were up 10%, reflecting the salary increment, higher performance-related pay expenses and an increase in headcount.

Depreciation charges increased by 11%, due mainly to higher depreciation charges on business premises following the upward commercial property revaluation in 2017. General and administrative expenses rose by 17%, reflecting increases in marketing and advertising expenses, processing charges, professional and consultancy fees, and continued investment in technology, regulatory compliance and transformation programmes.

The rise in costs was outpaced by the 17% growth in net operating income before change in expected credit losses and other credit impairment charges. With positive jaws of 3.6 percentage points, our cost efficiency ratio improved by 1.0 percentage point compared with 2017 to 29.5%. The Group continues to focus on enhancing operational efficiency while maintaining growth momentum.

Operating Expenses



Full-time equivalent staff numbers by region

	At 31 December 2018	At 31 December 2017
Hong Kong and others	8,611	8,215
Mainland	1,741	1,765
Total	10,352	9,980

Profit before tax increased by HK$4,758m, or 20%, to HK$28,432m after taking into account the following major items:

- a HK$137m increase in **net surplus on property revaluation**; and
- a gain of HK$207m compared with a loss of HK$14m in 2017 in **share of profits/(losses) from associates**, mainly reflecting the revaluation surplus of a property investment company in 2018 compared with a revaluation loss in 2017.

Second half of 2018 compared with first half of 2018

Hang Seng recorded good results in the first half of 2018, supported by a buoyant investment environment. However, the slowdown of the global economy and less favourable investment environment posted significant challenges in the second half, leading to a 9.0% drop in attributable profit when compared with the first half of the year.

Net interest income increased by HK$1,591m, or 11%, benefiting from the increase in average interest-earning assets and improvement in the net interest margin as well as more calendar days in the second half of 2018. There was an improvement in deposit spreads following rises in Hong Kong dollar and US dollar interest rates, coupled with increased income from effective balance sheet management. However, the impact of these supportive developments was partly offset by increased competitive pressure on lending margins.

The worldwide economic slowdown and increased volatility in global financial markets adversely affected the Bank's wealth management income in the second half. Non-interest income was down 26% when compared with first half. With the changing risk appetites of investors, investment funds income decreased by 43% in the second half. The slowdown in equity market transactions in the second half against the high base established in the first half, resulted in a 38% decline in income from stockbroking and related services. Insurance income was down by 21%, attributable to lower sales alongside the volatile equity markets in the second half. We have enriched our wealth management product portfolios to mitigate the effect of the market conditions.

Operating expenses rose by HK$724m, or 13%, in the second half compared with the first half, due mainly to higher investment in IT-related costs to support business growth as well as investment in regulatory compliance and transformation programmes.

ECL charge increased by HK$520m, reflecting higher impairment charges for CMB due to the downgrading of several CMB customers. The Group maintains a cautious outlook on the credit environment and will uphold its prudent approach to growing the loan portfolio and take proactive steps to enhance asset quality.

Segmental Analysis

The table below sets out the profit before tax contributed by the business segments for the years stated.

Figures in HK$m	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Other	Total
Year ended 31 December 2018					
Profit/(loss) before tax	14,557	8,575	5,320	(20)	28,432
Share of profit/(loss) before tax	51.2%	30.2%	18.7%	(0.1)%	100.0%
Year ended 31 December 2017 *(restated)*					
Profit before tax	12,353	6,342	4,755	224	23,674
Share of profit before tax	52.2%	26.8%	20.1%	0.9%	100.0%

Retail Banking and Wealth Management ("RBWM") recorded an 18% increase in profit before tax to HK$14,557m. Operating profit increased by 16% to HK$14,353m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 15% to HK$14,724m.

Net interest income increased by 21% year on year to HK$16,515m. Leveraging our extensive network, and enhanced core banking relationships with customers, we achieved strong growth in deposit and loan balances of 9% and 10% respectively compared with 2017 year-end.

Non-interest income dropped by 1% to HK$5,600m, reflecting the adverse impact of the more volatile investment markets in the second half of 2018. Despite the increasingly unfavourable market conditions, we achieved a 3% year-on-year increase in wealth management business by leveraging our all-weather portfolio of investment and insurance products.

To mitigate the effects of a slower property market in 2018, we continued to uplift our mortgage distribution capabilities in strategic segments and identify new business opportunities. This resulted an 11% increase in mortgage balances in Hong Kong compared with 2017 year-end. Our new mortgage business continued to rank among the top three in Hong Kong.

Effective marketing campaigns and our deeper understanding of our client base through enhanced analytics enabled us to grow card spending by 9% year on year. The personal and tax loan portfolio increased by 12% in Hong Kong.

With growing volatility in global financial markets in 2018, our diverse range of product offerings enabled us to maintain investment services income in line with the previous year. We grew securities turnover and revenue by 1% and 3% respectively compared with 2017. Investment services revenue excluding securities-related income dropped by 5%.

Life insurance annualised new premiums grew by 25% year on year. Leveraging our extensive distribution network, we offered customers greater peace of mind for retirement with our all-round planning and protection solutions. With sales of annuity products driving new business growth, we continued to enrich our suite of insurance offerings, including with the launch of a new whole-life insurance product. Insurance income increased by 8% compared with 2017.

Strengthened analytics, powered by machine learning, and our sophisticated customer segmentation strategy helped us deepen client relationships and our ability to provide needs-based financial products and services. In the Prestige Banking segment, we leveraged our high-value proposition and premium wealth management solutions to drive new business. We grew our Prestige Signature customer base by 25% year on year in Hong Kong. In mainland China, the Prestige customer base grew by 3% compared with a year earlier.

We continued to invest in fintech and the building of a robust infrastructure to provide safe, fast and convenient end-to-end digital banking services and increase customer engagement. Following our introduction of Hong Kong's first retail banking artificial intelligence ("AI") chatbots – "HARO" and "DORI" – in early 2018, we further enhanced HARO's capabilities to assist customers with managing their personal finances in a simpler way, including making peer-to-peer payment transfers through personal e-banking accounts. Leveraging Hong Kong's Faster Payment System, our new digital payment platform for customers delivers greater convenience and flexibility for fund transfer. We continued to uplift the mobile banking and e-banking user experience to provide customers with smarter, easier and more relevant banking services. The number of personal e-banking customers increased by 8% year on year in Hong Kong, and the number of active mobile users increased by 35%.

Commercial Banking ("CMB") recorded a 35% increase in both profit before tax and operating profit to HK$8,575m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 33% to HK$9,177m.

Net interest income increased by 33% to HK$9,331m, with balanced growth in average customer loans and average customer deposits, which rose by 16% and 11% respectively. Our industry sector expertise supported a solid year-on-year expansion in syndicated lending.

Supported by improved analytics for assessing customer needs and our commitment to service enhancement through digital transformation, we successfully identified new business opportunities among SME customers. The expansion of lending led to a 33% increase in credit facilities fees. Insurance income and remittance fees rose by 24% and 16% respectively. This business growth drove a 14% increase in non-interest income to HK$3,051m.

We continue to strengthen our capabilities in transactional banking. The launch of eTradeConnect, a blockchain-based trade finance platform developed in collaboration with the Hong Kong Monetary Authority and our industry peers, aims to enhance efficiency and reduce risk by digitalising trade documents and automating the trade finance process. Hang Seng One Collect, our new all-in-one payment collection service, enables merchants to accept a wide range of digital payment methods – including contactless mobile and QR code payments – through one integrated point-of-sale (POS) terminal.

In line with the Bank's values as a good corporate citizen and to support the sustainability objectives of our customers, we launched our Green Financing Promotion Scheme, which offers customers incentives for the acquisition of environmental friendly equipment.

Our investments in digital services enabled customers to track market trends more closely and enjoy easy access to information and assistance. Our AI chatbot and live chat online messaging service provide 24/7 banking services support. Customers can also enjoy instant mobile updates via our WeChat Account and the convenience of initiating the account-opening process online. On the Mainland, we launched our mobile banking app and Mobile Collection – a new digital payments service that allows customers to collect electronic payments through a broad range of channels online or at point of sales terminals – in 2018.

We also upgraded our physical commercial banking outlets to enhance the customer experience. We expanded our business banking centre in Kwun Tong to capture the growth in business opportunities in and around the Kowloon East commercial hub.

The credit environment remained challenging. We upheld good asset quality by adopting proactive credit risk management and improved our overall return on risk assets.

Our continuing commitment to service excellence in 2018 was recognised with "Hong Kong Domestic Trade Finance Bank of the Year" and "Hong Kong Domestic Technology & Operations Bank of the Year" awards from Asian Banking & Finance. We also received the "Outstanding Import & Export Industry Partner Award" from The Hong Kong Chinese Importers & Exporters Association.

Global Banking and Markets ("GBM") reported a 12% rise in both profit before tax and operating profit to HK$5,320m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 12% to HK$5,343m.

Global Banking ("GB") recorded a 19% increase in both profit before tax and operating profit to HK$2,110m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 20% to HK$2,135m.

Net interest income grew by 20% to HK$2,318m, reflecting an increase in loans-related income resulting from enhancements to the lending portfolio mix and growth in the loans balance.

Non-interest income remained broadly steady. Fee income from credit facilities increased by 16% on the back of solid lending growth. In competitive operating conditions, fees from merchant card products declined by 26%.

Global Markets ("GM") reported an 8% increase in both profit before tax and operating profit to HK$3,210m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 8% to HK$3,208m.

Net interest income increased by 12% to HK$2,248m. Our balance sheet management team identified good opportunities for achieving enhanced yields under its diverse investment strategy. In addition, our interest rate management team proactively managed its fixed-income portfolio, resulting in strong growth in interest income.

Non-interest income increased by 5% to HK$1,530m. Increase in non-fund income from sales and trading activities outweighed the less favourable returns on balance sheet management-related funding swap activities. Strong collaboration with the RBWM, CMB and GB teams supported effective cross-selling of GM products to a diverse range of customers.

Supported by stronger customer demand for interest rate products and active management of interest rate risk, we recorded significant growth in interest rate-related income.

The active stock market in Hong Kong in the first half of the year supported an 8% year-on-year rise in income from equity-linked products.

Balance Sheet Analysis

Assets

Total assets increased by HK$93bn, or 6%, to HK$1,571bn compared with end of 2017, with the Group maintaining good business momentum by continuing to execute its strategy for enhancing profitability through sustainable growth.

Cash and sight balances at central banks decreased by HK$5bn, or 24%, to HK$16bn, due mainly to the decrease in the commercial surplus placed with the Hong Kong Monetary Authority ("HKMA"). Placings with banks fell by HK$24bn, or 23%, to HK$79bn, and trading assets dropped by HK$7bn, or 12%, to HK$47bn, reflecting redeployment of these assets to customer loans and advances and financial investments.

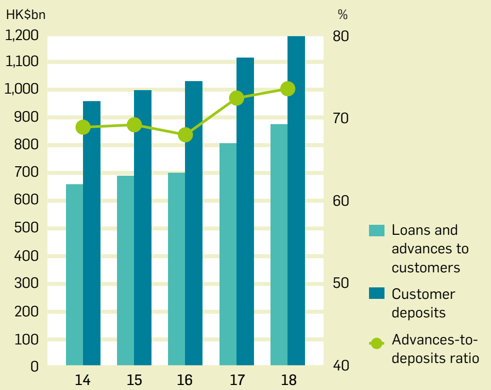
Net customer loans and advances (net of ECL allowances) grew by HK$68bn, or 8%, to HK$874bn compared with the end of 2017. Gross loans for use in Hong Kong increased by 11% to HK$663bn. Lending to industrial, commercial and financial sectors grew by 11%, with increased lending across a diverse range of industries, including property development and investment, wholesale and retail trade sectors and working capital financing for large conglomerate customers. Lending to individuals increased by 12%. Amid a slowdown in the property market in the second half of 2018, the Group maintained its market share for mortgage business, with residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending recording satisfactory growth of 12% and 16% respectively compared with the previous year-end. Credit card advances grew by 2%. Other loans to personal customers grew by 22%. Trade finance lending fell by 23%. Loans and advances for use outside Hong Kong increased by 8%, due mainly to lending by our Hong Kong operation.

Financial investments increased by HK$43bn, or 11%, to HK$429bn, reflecting the partial redeployment of the commercial surplus in debt securities for yield enhancement and the increase in the insurance financial instruments portfolio.

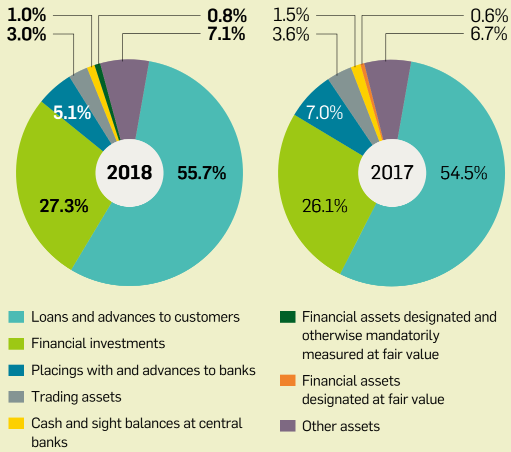
Assets Deployment

Figures in HK$m	2018	%	2017	%
Cash and sight balances at central banks	16,421	1.0	21,718	1.5
Placings with and advances to banks	79,400	5.1	103,113	7.0
Trading assets	47,164	3.0	53,704	3.6
Financial assets designated and otherwise mandatorily measured at fair value	13,070	0.8	N/A	N/A
Financial assets designated at fair value	N/A	N/A	9,313	0.6
Loans and advances to customers	874,456	55.7	806,573	54.5
Financial investments	428,532	27.3	385,261	26.1
Other assets	112,254	7.1	98,736	6.7
Total assets	1,571,297	100.0	1,478,418	100.0
Return on average total assets		1.6%		1.4%

Loans and Advances to Customers and Customer Deposits



Assets Deployment



Loans and Advances to Customers

Gross loans and advances to customers increased by HK$69.0bn, or 9%, to HK$877.1bn compared with the end of 2017.

Loans and advances for use in Hong Kong rose by 11%. Lending to industrial, commercial and financial sectors grew by 11%. Lending to property development and property investment sectors remained active, both increased by 7% despite property market sentiment slowdown in second half of 2018. The Bank's continued efforts to support local business saw lending to wholesale and retail trade sector grow by 13%. Lending to information technology sector increased by 24% while lending to transport and transport equipment fell by 8%. Lending to "Other" sector grew by 30%, due mainly to the granting of certain new working capital financing facilities to large conglomerate customers.

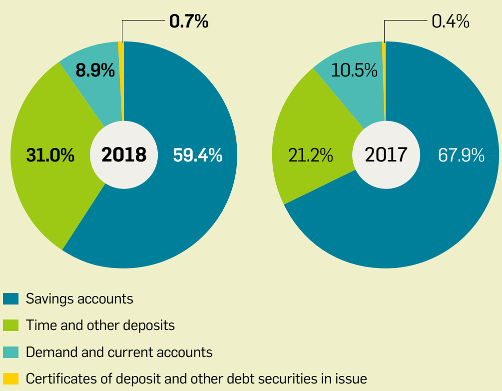
Lending to individuals increased by 12%. We grew our residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme mortgages lending by 12% and 16% respectively, and maintained our top-three market position in terms of new mortgage business in Hong Kong. Credit card advances grew by 2% and other loans to personal customers grew by 22% when compared with last year-end.

Loans and advances for use outside Hong Kong increased by 8%, mainly reflecting lending by our Hong Kong operation to finance the work capital, property development and investment of large conglomerate customers for loan use in mainland China.

Customer Deposits

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$76bn, or 7%, to HK$1,191bn against end of 2017. Growth in time deposits was partly offset by the decrease in current and savings account deposits. At 31 December 2018, the advances-to-deposits ratio was 73.4%, compared with 72.3% at 31 December 2017.

Customer Deposits



Shareholders' equity

Figures in HK$m	At 31 December 2018	At 31 December 2017
Share capital	**9,658**	9,658
Retained profits	**123,350**	113,646
Other equity instruments	**6,981**	6,981
Premises revaluation reserve	**19,822**	18,379
Cash flow hedge reserve	**(11)**	(99)
Available-for-sale investment reserve		
– on debt securities	**N/A**	(90)
– on equity securities	**N/A**	2,206
Financial assets at fair value through other comprehensive income reserve	**1,570**	N/A
Other reserves	**712**	1,349
Total reserves	**152,424**	142,372
Total shareholders' equity	**162,082**	152,030
Return on average ordinary shareholders' equity	**16.0%**	14.2%

At 31 December 2018, shareholders' equity increased by HK$10bn, or 7%, to HK$162bn compared with 2017 year-end. Retained profits grew by HK$10bn, or 9%, resulting from the 2018 attributable profit after the appropriation of 2018 interim dividends paid during the year. The premises revaluation reserve increased by HK$1.4bn, or 8%, reflecting the upward trend in the commercial property market. Financial assets at fair value through other comprehensive income reserve/available-for-sale investment reserve decreased by HK$0.5bn, or 26%, due mainly to the fair-value movement of the Group's investments in financial assets measured at fair value through other comprehensive income. Other reserves (including foreign exchange reserve) decreased by HK$0.6bn, or 47%, due mainly to a decline in the foreign exchange reserve with the depreciation of the renminbi.

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2018.

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