

News Release

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THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2015 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax up 5% to HK\$117,279m (HK\$111,189m in 2014)
- Attributable profit up 4% to HK\$89,533m (HK\$86,428m in 2014)
- Return on average ordinary shareholders' equity of 15.9% (16.9% in 2014)
- Total assets up 1% to HK\$6,954bn (HK\$6,877bn at 31 December 2014)
- Common equity tier 1 ratio of 15.6%, total capital ratio of 18.6% (14.4% and 15.7% in 2014)
- Cost efficiency ratio of 42.0% (42.1% in 2014)

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'). Excluding this:

- Return on average ordinary shareholders' equity of 14.7%
- Cost efficiency ratio of 44.5%

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.

Comment by Stuart Gulliver, Chairman

Asia's economic growth moderated during 2015 despite lower oil prices and monetary easing, as investment and demand slowed across the region and export volumes weakened. Mainland China's economy cooled, mainly as a result of falling exports and slowing investment growth. These factors contributed to increasing deflationary pressures, although domestic consumption growth remained robust. Hong Kong's economy was resilient during 2015, boosted by low unemployment and real wage growth, although retail sales were affected by declines in inbound tourism, trade and logistics, and these trends are likely to persist in the current year. In ASEAN, growth has slowed as lower commodity prices have impacted exports, despite weaker exchange rates. India, however, has seen sustained economic growth, led by increased industrial production and the benefits of cheaper oil.

Against this mixed backdrop, The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax in 2015 of HK\$117,279m, 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 and the adverse foreign exchange impact, revenue was 3% higher than 2014 although profit before tax was 2% lower than 2014 driven by higher operating expenses and loan impairment charges. Operating expenses rose as staff costs increased due to inflation, and as we continued to invest in growth, regulatory programmes and compliance whilst achieving sustainable cost savings. The cost efficiency ratio for the year was 42.0%. Loan impairment charges of HK\$5bn were 3% higher than the prior year, but remained low in relation to both average loans and total income. Loan impairment charges were lower in Hong Kong and mainland China but increased in the Rest of Asia-Pacific, principally in Indonesia in Commercial Banking ('CMB').

Loans and advances to customers were broadly unchanged, excluding the impact of foreign exchange movements. We continued to grow residential mortgages and other personal advances in Retail Banking and Wealth Management ('RBWM') and commercial loans in CMB, although lending balances reduced in Global Banking and Markets ('GB&M') mainly as a result of repayments. Customer deposits increased by 4%, with inflows mainly in Hong Kong, both in RBWM and in CMB. At the end of December 2015, the loans to deposits ratio stood at 59.5%. The net interest margin decreased as spreads on both customer deposits and loans narrowed, and the yields on financial investments reduced. Our capital position remained strong, with a common equity tier 1 ratio of 15.6% at the end of December 2015, up from 14.4% at the end of the prior year.

Our strategy remains unchanged and focused on capturing the long-term opportunities in Asia's development as the world's leading economic region. Mainland China continues to be an engine of growth and a priority market for us. Building on our leading market position in Hong Kong, we are investing in expanding our business in the Pearl River Delta ('PRD'). We have commenced the establishment of a full scale RBWM presence, together with a significant broadening of our CMB client base in the PRD. As Asia's leading international bank, we are uniquely placed to benefit from the future growth in both Greater China and also in the ASEAN region, as trade and investment flows continue to increase, and from the wealth creation of the emerging middle class. The internationalisation of the renminbi is driving strong increases in financing, payments, custodian services and securities denominated in the currency, and we plan to build sustainably on our market shares in these areas. We also see significant opportunities in China's Belt and Road initiative over the coming years.

During 2015, we received a number of awards, including 'Best Bank', 'Best Bond House' and 'Best M&A House' by *FinanceAsia*; and 'Bank of the Year' by *IFR Asia*. We continued to be the leading

international bank for renminbi services, and were named ‘Best Overall Offshore RMB Products and Services Provider’ by *Asiamoney* for the fourth successive year.

In RBWM, we maintained our leading market share in mortgages in Hong Kong and grew mortgage lending balances, with average LTV ratios of 43% on new drawdowns and an estimated 29% on the portfolio as a whole. After strong revenue in insurance and wealth management in the first half of the year, the second half was more subdued as investor appetite reduced and market volumes fell. Nevertheless, the provision of wealth products remains a growth priority. During the year, a number of new mutual funds were successfully launched. In Hong Kong, we strengthened our Mandatory Provident Fund offering and introduced the HSBC Retirement Monitor to help individuals to plan for their retirement. We continued to invest in digital and automated platforms and were one of the first banks to offer e-Cheque services in Hong Kong during the year. In addition, we continued to invest in our branch network in mainland China, with HSBC and Hang Seng Bank combined now having a total of 254 outlets, of which 72 are in the PRD.

In CMB, we continued to expand the balance sheet and to identify opportunities to collaborate with GB&M in support of clients through a wide range of capital markets and advisory services. We also focused on growing with our customers and providing an increased share of their banking requirements. Exploring and developing renminbi internationalisation opportunities remained a priority, and we became one of the first foreign banks to set up a Free Trade Unit in the Shanghai Free Trade Zone (‘SFTZ’). We launched a number of innovative renminbi solutions in the areas of trade finance and Payments and Cash Management, including opening new outlets in mainland China.

In GB&M, we continued to support our clients through our broad and integrated range of products and maintained our leading positions in offshore renminbi bond issuance in Hong Kong, and in Hong Kong dollar bond issuance. We also continued to lead the market in onshore custodianship in the renminbi Qualified Foreign Institutional Investment Scheme. We secured a number of market first mandates, including the first two-way renminbi cross-border sweeping deal in Germany, as well as underwriting the first renminbi bond issued in Thailand. Approval was gained to be the first foreign bank to issue Panda bonds in mainland China’s interbank bond market, through a RMB1bn transaction. We held top position for merger and acquisition deals in Hong Kong by deal value for the year. Following the launch of the Hong Kong-Shanghai Stock Connect scheme in late 2014, we established a strong market share in equity trading through the scheme. In November 2015, we announced the establishment of a securities joint venture with Shenzhen Qianhai Financial Holdings, based in the Qianhai Special Economic Zone, and subject to approvals, the joint venture will be operational during the second half of this year, allowing us to engage in the full spectrum of the securities business in mainland China.

Lower global demand and reduced growth are continuing to result in sustained policy easing measures in a number of economies and expectations of further tightening in the US are moderating. In mainland China, we expect policy easing measures to stabilise GDP growth during 2016 and into 2017 at around 6.7%. Mainland China’s slower growth is contributing in the short-term to a bumpier financial environment, but mainland China will still be the largest contributor to global growth as it transitions to higher added value manufacturing and services and to a more consumption driven economy. We will continue to serve our retail and commercial customers’ needs as they grow and invest across the region, and particularly in the economic areas of Greater China and ASEAN. The celebration during 2015 of our 150th anniversary gave us the opportunity to recognise our staff and to contribute to our communities through our 150th anniversary charitable donations. We look forward to continuing to play a sustainable and useful role in the economies and communities in which we serve.

The Hongkong and Shanghai Banking Corporation Limited Results by Geographic Region

| Geographical regions | Hong Kong HK\$m | Rest of Asia- Pacific HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
|---|--------------------|-----------------------------------|---------------------------------------|----------------|
| Year ended 31 December 2015 | | | | |
| Net interest income | 52,660 | 41,717 | – | 94,377 |
| Net fee income | 32,320 | 13,339 | – | 45,659 |
| Net trading income | 13,681 | 9,935 | – | 23,616 |
| Net income/ (expense) from financial instruments designated at fair value | (3,220) | 660 | – | (2,560) |
| Gains less losses from financial investments | 11,290 | 321 | – | 11,611 |
| Dividend income | 192 | 18 | – | 210 |
| Net insurance premium income | 45,758 | 6,835 | – | 52,593 |
| Other operating income | 12,992 | 1,433 | (3,986) | 10,439 |
| Total operating income | 165,673 | 74,258 | (3,986) | 235,945 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (45,909) | (6,522) | – | (52,431) |
| Net operating income before loan impairment charges and other credit risk provisions | 119,764 | 67,736 | (3,986) | 183,514 |
| Loan impairment charges and other credit risk provisions | (1,199) | (3,875) | – | (5,074) |
| Net operating income | 118,565 | 63,861 | (3,986) | 178,440 |
| Operating expenses | (45,933) | (35,044) | 3,986 | (76,991) |
| Operating profit | 72,632 | 28,817 | – | 101,449 |
| Share of profit in associates and joint ventures | 240 | 15,590 | – | 15,830 |
| Profit before tax | 72,872 | 44,407 | – | 117,279 |
| Share of profit before tax | 62.1% | 37.9% | – | 100.0% |
| Cost efficiency ratio | 38.4% | 51.7% | – | 42.0% |
| Net loans and advances to customers | 1,675,864 | 1,086,426 | – | 2,762,290 |
| Customer accounts | 3,267,044 | 1,373,032 | – | 4,640,076 |

The Hongkong and Shanghai Banking Corporation Limited **Results by Geographic Region**
(continued)

| Geographical regions | Hong Kong HK\$m | Rest of Asia- Pacific HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
|---|--------------------|-----------------------------------|---------------------------------------|----------------|
| Year ended 31 December 2014 | | | | |
| Net interest income | 50,774 | 44,333 | 2 | 95,109 |
| Net fee income | 29,996 | 14,626 | – | 44,622 |
| Net trading income | 11,663 | 8,559 | (2) | 20,220 |
| Net income from financial instruments designated at fair value | 3,134 | 914 | – | 4,048 |
| Gains less losses from financial investments | 2,286 | 103 | – | 2,389 |
| Dividend income | 1,362 | 12 | – | 1,374 |
| Net insurance premium income | 50,226 | 7,081 | – | 57,307 |
| Other operating income | 10,872 | 1,693 | (4,063) | 8,502 |
| Total operating income | 160,313 | 77,321 | (4,063) | 233,571 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (52,916) | (7,266) | – | (60,182) |
| Net operating income before loan impairment charges and other credit risk provisions | 107,397 | 70,055 | (4,063) | 173,389 |
| Loan impairment charges and other credit risk provisions | (2,478) | (2,447) | – | (4,925) |
| Net operating income | 104,919 | 67,608 | (4,063) | 168,464 |
| Operating expenses | (42,270) | (34,743) | 4,063 | (72,950) |
| Operating profit | 62,649 | 32,865 | – | 95,514 |
| Share of profit in associates and joint ventures | 317 | 15,358 | – | 15,675 |
| Profit before tax | 62,966 | 48,223 | – | 111,189 |
| Share of profit before tax | 56.6% | 43.4% | – | 100.0% |
| Cost efficiency ratio | 39.4% | 49.6% | – | 42.1% |
| Net loans and advances to customers | 1,656,283 | 1,158,933 | – | 2,815,216 |
| Customer accounts | 3,018,009 | 1,461,983 | – | 4,479,992 |

Hong Kong

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2015 | | | | | | | |
| Net interest income/(expense) | 27,589 | 16,627 | 10,325 | 817 | (1,822) | (876) | 52,660 |
| Net fee income | 18,215 | 7,551 | 5,217 | 1,134 | 203 | – | 32,320 |
| Net trading income/(expense) | 1,036 | 1,263 | 10,387 | 738 | (619) | 876 | 13,681 |
| Net income/(expense) from financial instruments designated at fair value | (3,180) | (243) | 51 | – | 152 | – | (3,220) |
| Gains less losses from financial investments | 276 | 182 | 197 | – | 10,635 | – | 11,290 |
| Dividend income | 1 | – | 4 | – | 187 | – | 192 |
| Net insurance premium income | 41,057 | 4,721 | – | – | (20) | – | 45,758 |
| Other operating income | 4,675 | 905 | 718 | 9 | 8,532 | (1,847) | 12,992 |
| Total operating income | 89,669 | 31,006 | 26,899 | 2,698 | 17,248 | (1,847) | 165,673 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (40,683) | (5,226) | – | – | – | – | (45,909) |
| Net operating income before loan impairment charges and other credit risk provisions | 48,986 | 25,780 | 26,899 | 2,698 | 17,248 | (1,847) | 119,764 |
| Loan impairment (charges) /releases and other credit risk provisions | (1,311) | (206) | 322 | (4) | – | – | (1,199) |
| Net operating income | 47,675 | 25,574 | 27,221 | 2,694 | 17,248 | (1,847) | 118,565 |
| Operating expenses | (18,448) | (7,094) | (11,381) | (1,559) | (9,298) | 1,847 | (45,933) |
| Operating profit | 29,227 | 18,480 | 15,840 | 1,135 | 7,950 | – | 72,632 |
| Share of profit in associates and joint ventures | 236 | 1 | 3 | – | – | – | 240 |
| Profit before tax | 29,463 | 18,481 | 15,843 | 1,135 | 7,950 | – | 72,872 |
| Share of profit before tax | 25.0% | 15.8% | 13.5% | 1.0% | 6.8% | – | 62.1% |
| Net loans and advances to customers | 580,568 | 633,353 | 378,242 | 70,072 | 13,629 | – | 1,675,864 |
| Customer accounts | 1,894,829 | 918,940 | 308,027 | 144,175 | 1,073 | – | 3,267,044 |

Hong Kong

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2014 | | | | | | | |
| Net interest income/(expense) | 25,464 | 15,367 | 11,896 | 782 | (2,287) | (448) | 50,774 |
| Net fee income | 16,443 | 7,568 | 4,816 | 1,017 | 152 | – | 29,996 |
| Net trading income/(expense) | 937 | 1,429 | 8,086 | 810 | (47) | 448 | 11,663 |
| Net income/(expense) from financial instruments designated at fair value | 3,290 | (65) | (19) | – | (72) | – | 3,134 |
| Gains less losses from financial investments | 3 | 33 | 1,111 | – | 1,139 | – | 2,286 |
| Dividend income | 1 | – | 6 | – | 1,355 | – | 1,362 |
| Net insurance premium income | 46,159 | 4,067 | – | – | – | – | 50,226 |
| Other operating income | 3,277 | 331 | 572 | 10 | 8,616 | (1,934) | 10,872 |
| Total operating income | 95,574 | 28,730 | 26,468 | 2,619 | 8,856 | (1,934) | 160,313 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (48,870) | (4,046) | – | – | – | – | (52,916) |
| Net operating income before loan impairment charges and other credit risk provisions | 46,704 | 24,684 | 26,468 | 2,619 | 8,856 | (1,934) | 107,397 |
| Loan impairment (charges) /releases and other credit risk provisions | (1,149) | (684) | (652) | 7 | – | – | (2,478) |
| Net operating income | 45,555 | 24,000 | 25,816 | 2,626 | 8,856 | (1,934) | 104,919 |
| Operating expenses | (16,969) | (6,445) | (11,016) | (1,361) | (8,413) | 1,934 | (42,270) |
| Operating profit | 28,586 | 17,555 | 14,800 | 1,265 | 443 | – | 62,649 |
| Share of profit in associates and joint ventures | 311 | 2 | 4 | – | – | – | 317 |
| Profit before tax | 28,897 | 17,557 | 14,804 | 1,265 | 443 | – | 62,966 |
| Share of profit before tax | 26.0% | 15.8% | 13.3% | 1.1% | 0.4% | – | 56.6% |
| Net loans and advances to customers | 544,216 | 622,871 | 408,490 | 66,700 | 14,006 | – | 1,656,283 |
| Customer accounts | 1,729,544 | 823,729 | 314,625 | 146,918 | 3,193 | – | 3,018,009 |

Rest of Asia-Pacific

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2015 | | | | | | | |
| Net interest income | 12,196 | 11,383 | 15,878 | 539 | 1,151 | 570 | 41,717 |
| Net fee income/(expense) | 4,349 | 3,816 | 4,748 | 524 | (98) | – | 13,339 |
| Net trading income | 528 | 1,379 | 7,919 | 253 | 426 | (570) | 9,935 |
| Net income/(expense) from financial instruments designated at fair value | 629 | 11 | 25 | – | (5) | – | 660 |
| Gains less losses from financial investments | (6) | (3) | 236 | – | 94 | – | 321 |
| Dividend income | 11 | – | – | – | 7 | – | 18 |
| Net insurance premium income | 5,511 | 1,328 | – | – | – | (4) | 6,835 |
| Other operating income | 428 | 249 | 471 | 23 | 965 | (703) | 1,433 |
| Total operating income | 23,646 | 18,163 | 29,277 | 1,339 | 2,540 | (707) | 74,258 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (5,260) | (1,261) | – | – | – | (1) | (6,522) |
| Net operating income before loan impairment charges and other credit risk provisions | 18,386 | 16,902 | 29,277 | 1,339 | 2,540 | (708) | 67,736 |
| Loan impairment (charges)/ releases and other credit risk provisions | (1,060) | (2,881) | 72 | (1) | (5) | – | (3,875) |
| Net operating income | 17,326 | 14,021 | 29,349 | 1,338 | 2,535 | (708) | 63,861 |
| Operating expenses | (14,856) | (8,565) | (9,780) | (885) | (1,666) | 708 | (35,044) |
| Operating profit | 2,470 | 5,456 | 19,569 | 453 | 869 | – | 28,817 |
| Share of profit in associates and joint ventures | 2,029 | 11,223 | 2,338 | – | – | – | 15,590 |
| Profit before tax | 4,499 | 16,679 | 21,907 | 453 | 869 | – | 44,407 |
| Share of profit before tax | 3.9% | 14.2% | 18.6% | 0.4% | 0.8% | – | 37.9% |
| Net loans and advances to customers | 332,470 | 378,369 | 342,653 | 31,801 | 1,133 | – | 1,086,426 |
| Customer accounts | 457,664 | 361,428 | 475,323 | 78,145 | 472 | – | 1,373,032 |

Rest of Asia-Pacific

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2014 | | | | | | | |
| Net interest income | 13,331 | 11,299 | 15,909 | 590 | 2,053 | 1,151 | 44,333 |
| Net fee income/(expense) | 4,949 | 4,286 | 5,075 | 417 | (101) | – | 14,626 |
| Net trading income/(expense) | 635 | 1,466 | 7,384 | 288 | (63) | (1,151) | 8,559 |
| Net income/(expense) from financial instruments designated at fair value | 920 | 15 | 5 | – | (26) | – | 914 |
| Gains less losses from financial investments | 5 | 5 | 79 | – | 14 | – | 103 |
| Dividend income | 5 | 1 | – | – | 6 | – | 12 |
| Net insurance premium income | 4,981 | 2,115 | – | – | 1 | (16) | 7,081 |
| Other operating income | 724 | 404 | 489 | 3 | 775 | (702) | 1,693 |
| Total operating income | 25,550 | 19,591 | 28,941 | 1,298 | 2,659 | (718) | 77,321 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (5,246) | (2,032) | – | – | – | 12 | (7,266) |
| Net operating income before loan impairment charges and other credit risk provisions | 20,304 | 17,559 | 28,941 | 1,298 | 2,659 | (706) | 70,055 |
| Loan impairment (charges)/ releases and other credit risk provisions | (1,319) | (1,080) | (50) | 1 | 1 | – | (2,447) |
| Net operating income | 18,985 | 16,479 | 28,891 | 1,299 | 2,660 | (706) | 67,608 |
| Operating expenses | (15,326) | (8,271) | (9,629) | (885) | (1,338) | 706 | (34,743) |
| Operating profit | 3,659 | 8,208 | 19,262 | 414 | 1,322 | – | 32,865 |
| Share of profit in associates and joint ventures | 2,042 | 11,019 | 2,295 | – | 2 | – | 15,358 |
| Profit before tax | 5,701 | 19,227 | 21,557 | 414 | 1,324 | – | 48,223 |
| Share of profit before tax | 5.1% | 17.3% | 19.4% | 0.4% | 1.2% | – | 43.4% |
| Net loans and advances to customers | 352,771 | 404,933 | 366,607 | 33,310 | 1,312 | – | 1,158,933 |
| Customer accounts | 494,015 | 383,245 | 499,684 | 84,592 | 447 | – | 1,461,983 |

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2015 | | | | | | | |
| Net interest income/(expense) | 39,785 | 28,010 | 26,147 | 1,356 | (615) | (306) | 94,377 |
| Net fee income | 22,556 | 11,366 | 9,972 | 1,658 | 107 | – | 45,659 |
| Net trading income/(expense) | 1,564 | 2,642 | 18,306 | 991 | (193) | 306 | 23,616 |
| Net income/(expense) from financial instruments designated at fair value | (2,551) | (232) | 76 | – | 147 | – | (2,560) |
| Gains less losses from financial investments | 270 | 179 | 433 | – | 10,729 | – | 11,611 |
| Dividend income | 12 | – | 4 | – | 194 | – | 210 |
| Net insurance premium income | 46,568 | 6,049 | – | – | (20) | (4) | 52,593 |
| Other operating income | 5,103 | 1,154 | 1,119 | 32 | 9,405 | (6,374) | 10,439 |
| Total operating income | 113,307 | 49,168 | 56,057 | 4,037 | 19,754 | (6,378) | 235,945 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (45,943) | (6,487) | – | – | – | (1) | (52,431) |
| Net operating income before loan impairment charges and other credit risk provisions | 67,364 | 42,681 | 56,057 | 4,037 | 19,754 | (6,379) | 183,514 |
| Loan impairment (charges)/ releases and other credit risk provisions | (2,371) | (3,087) | 394 | (5) | (5) | – | (5,074) |
| Net operating income | 64,993 | 39,594 | 56,451 | 4,032 | 19,749 | (6,379) | 178,440 |
| Operating expenses | (33,304) | (15,659) | (21,091) | (2,444) | (10,872) | 6,379 | (76,991) |
| Operating profit | 31,689 | 23,935 | 35,360 | 1,588 | 8,877 | – | 101,449 |
| Share of profit in associates and joint ventures | 2,265 | 11,224 | 2,341 | – | – | – | 15,830 |
| Profit before tax | 33,954 | 35,159 | 37,701 | 1,588 | 8,877 | – | 117,279 |
| Share of profit before tax | 28.9% | 30.0% | 32.1% | 1.4% | 7.6% | – | 100.0% |
| Net loans and advances to customers | 913,038 | 1,011,722 | 720,895 | 101,873 | 14,762 | – | 2,762,290 |
| Customer accounts | 2,352,493 | 1,280,368 | 783,350 | 222,320 | 1,545 | – | 4,640,076 |

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|---|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2014 | | | | | | | |
| Net interest income/(expense) | 38,795 | 26,666 | 27,794 | 1,372 | (221) | 703 | 95,109 |
| Net fee income | 21,392 | 11,854 | 9,891 | 1,434 | 51 | – | 44,622 |
| Net trading income/(expense) | 1,572 | 2,895 | 15,470 | 1,098 | (112) | (703) | 20,220 |
| Net income/(expense) from financial instruments designated at fair value | 4,210 | (50) | (14) | – | (98) | – | 4,048 |
| Gains less losses from financial investments | 8 | 38 | 1,190 | – | 1,153 | – | 2,389 |
| Dividend income | 6 | 1 | 6 | – | 1,361 | – | 1,374 |
| Net insurance premium income | 51,140 | 6,182 | – | – | 1 | (16) | 57,307 |
| Other operating income | 4,001 | 735 | 973 | 13 | 9,320 | (6,540) | 8,502 |
| Total operating income | 121,124 | 48,321 | 55,310 | 3,917 | 11,455 | (6,556) | 233,571 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (54,116) | (6,078) | – | – | – | 12 | (60,182) |
| Net operating income before loan impairment charges and other credit risk provisions | 67,008 | 42,243 | 55,310 | 3,917 | 11,455 | (6,544) | 173,389 |
| Loan impairment (charges)/ releases and other credit risk provisions | (2,468) | (1,764) | (702) | 8 | 1 | – | (4,925) |
| Net operating income | 64,540 | 40,479 | 54,608 | 3,925 | 11,456 | (6,544) | 168,464 |
| Operating expenses | (32,295) | (14,716) | (20,558) | (2,246) | (9,679) | 6,544 | (72,950) |
| Operating profit | 32,245 | 25,763 | 34,050 | 1,679 | 1,777 | – | 95,514 |
| Share of profit in associates and joint ventures | 2,353 | 11,021 | 2,299 | – | 2 | – | 15,675 |
| Profit before tax | 34,598 | 36,784 | 36,349 | 1,679 | 1,779 | – | 111,189 |
| Share of profit before tax | 31.1% | 33.1% | 32.7% | 1.5% | 1.6% | – | 100.0% |
| Net loans and advances to customers | 896,987 | 1,027,804 | 775,097 | 100,010 | 15,318 | – | 2,815,216 |
| Customer accounts | 2,223,559 | 1,206,974 | 814,309 | 231,510 | 3,640 | – | 4,479,992 |

Hong Kong reported pre-tax profits of HK\$72,872m compared with HK\$62,966m in 2014, an increase of 16%, mainly reflecting the gain on the partial disposal of Hang Seng's shareholding in Industrial Bank of HK\$10,636m in 2015.

Revenue increased by HK\$12,367m, or 12%, mainly reflecting the gain on the partial disposal of Industrial Bank mentioned above, coupled with revenue growth across all global businesses. Revenue in 2015 also included a gain from the 150th anniversary banknotes issuance, which was fully offset by a corresponding increase in operating expenses related to this issuance. These increases were partly offset by lower dividend income from Industrial Bank following the partial disposal, and the non-recurrence of various one-offs in 2014, namely the gains from disposal of our shareholding in Bank of Shanghai of HK\$3,320m and our interest in private equity funds of HK\$961m, and an impairment charge against our investment in Industrial Bank of HK\$2,103m.

Revenue in RBWM increased by 5% compared with 2014, driven by higher net interest income from growth in average lending and deposit balances. Net fee income also increased from higher securities brokerage driven by higher stock market turnover in the first half of 2015. These increases were partly offset by lower insurance income, mainly reflecting the unfavourable equity market performance in the second half of the year.

Revenue in CMB increased by 4%, mainly due to higher net interest income from average balance sheet growth, coupled with wider spreads on customer deposits and trade-related lending.

Revenue in GB&M increased by 2%, mainly from higher trading income in Equities and from increased client flows in Foreign Exchange ('FX'), coupled with higher Capital Financing income. These increases were partly offset by lower revenue in Balance Sheet Management ('BSM').

Loan impairment charges were lower by HK\$1,279m compared with 2014, mainly in GB&M due to an individually assessed impairment charge in 2014, followed by a partial release in 2015.

Operating expenses rose by HK\$3,663m or 9% compared with 2014, mainly due to higher staff costs from wage inflation and increased average headcount to support business growth, coupled with higher investment in regulatory programmes and compliance. The increase also included charitable donations and other expenses in relation to the 150th anniversary banknotes issuance.

Rest of Asia-Pacific reported pre-tax profits of HK\$44,407m compared with HK\$48,223m in 2014, a decrease of 8%. The decrease in pre-tax profits was largely due to an unfavourable impact from foreign exchange. Excluding this impact, pre-tax profits dropped by 3%, mainly due to higher operating expenses and higher loan impairment charges, partly offset by increased revenue.

Excluding the unfavourable impact from foreign exchange, revenue increased by 4% compared with 2014, with growth reported by most countries across the region.

In mainland China, revenue increased by 4%, notably in GB&M from higher Securities Services income due to strong average deposit growth. Income from FX and Rates also increased, partly offset by lower net interest income in Payments and Cash Management from deposit spread compression, and in BSM following successive interest rate cuts.

Elsewhere in Asia, excluding the impact from foreign exchange, revenue increased in Malaysia driven by higher revenue in GB&M. In Singapore, revenue increased mainly from higher net interest income, benefiting from wider deposit spreads. Revenue in India and Indonesia also increased, mainly due to higher net interest income from growth in customer lending and deposits, while Indonesia also benefited from improved lending spreads. These increases were partly offset by lower revenue in Taiwan.

Loan impairment charges increased by HK\$1,428m compared with 2014, driven by Indonesia and to a lesser extent India, Australia and Singapore, partly offset by lower impairment charges in mainland China and Vietnam.

Operating expenses increased by HK\$301m, or 1% compared with 2014. Excluding the impact from foreign exchange, operating expenses increased by 9%, mainly from higher staff costs due to termination benefits in India, and from wage inflation across the region. Other administrative expenses also increased from higher usage of Global Services Centres, coupled with increased investment in regulatory programmes and compliance.

Share of profits in associates and joint ventures rose by HK\$232m, mainly from a higher share of profits from Bank of Communications Co., Limited.

The Hongkong and Shanghai Banking Corporation Limited Consolidated Income Statement

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|-----------------------------------|-----------------------------------|
| | HK\$m | HK\$m |
| Interest income | 124,060 | 126,782 |
| Interest expense | <u>(29,683)</u> | <u>(31,673)</u> |
| Net interest income | 94,377 | 95,109 |
| Fee income | 51,926 | 50,662 |
| Fee expense | <u>(6,267)</u> | <u>(6,040)</u> |
| Net fee income | 45,659 | 44,622 |
| Net trading income | 23,616 | 20,220 |
| Net income/(expense) from financial instruments designated at fair value | (2,560) | 4,048 |
| Gains less losses from financial investments | 11,611 | 2,389 |
| Dividend income | 210 | 1,374 |
| Net insurance premium income | 52,593 | 57,307 |
| Other operating income | <u>10,439</u> | <u>8,502</u> |
| Total operating income | 235,945 | 233,571 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | <u>(52,431)</u> | <u>(60,182)</u> |
| Net operating income before loan impairment charges and other credit risk provisions | 183,514 | 173,389 |
| Loan impairment charges and other credit risk provisions | <u>(5,074)</u> | <u>(4,925)</u> |
| Net operating income | 178,440 | 168,464 |
| Employee compensation and benefits | (41,126) | (38,894) |
| General and administrative expenses | (29,883) | (28,278) |
| Depreciation of property, plant and equipment | (4,380) | (4,107) |
| Amortisation and impairment of intangible assets | <u>(1,602)</u> | <u>(1,671)</u> |
| Total operating expenses | (76,991) | (72,950) |
| Operating profit | 101,449 | 95,514 |
| Share of profit in associates and joint ventures | <u>15,830</u> | <u>15,675</u> |
| Profit before tax | 117,279 | 111,189 |
| Tax expense | <u>(17,296)</u> | <u>(19,012)</u> |
| Profit for the year | <u>99,983</u> | <u>92,177</u> |
| | | |
| Profit attributable to shareholders of the parent company | 89,533 | 86,428 |
| Profit attributable to non-controlling interests | 10,450 | 5,749 |

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|-----------------------------------|-----------------------------------|
| | HK\$m | HK\$m |
| Profit for the year | 99,983 | 92,177 |
| 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 | (2,430) | 24,365 |
| – fair value changes transferred to the income statement on disposal | (15,637) | (4,632) |
| – amounts transferred to the income statement on impairment | 8 | 2,140 |
| – fair value changes transferred to the income statement on hedged items | 37 | (311) |
| – income taxes | 354 | (1,378) |
| Cash flow hedges: | | |
| – fair value changes taken to equity | 1,662 | 3,870 |
| – fair value changes transferred to the income statement | (1,433) | (4,429) |
| – income taxes | (97) | 189 |
| Share of other comprehensive income of associates and joint ventures | 460 | 326 |
| Exchange differences | (19,188) | (8,033) |
| Items that will not subsequently be reclassified to the income statement: | | |
| Property revaluation: | | |
| – fair value changes taken to equity | 6,601 | 4,510 |
| – income taxes | (1,101) | (731) |
| Remeasurement of defined benefit: | | |
| – before income taxes | (662) | (704) |
| – income taxes | 105 | 41 |
| Other comprehensive income/(expense) for the year, net of tax | (31,321) | 15,223 |
| Total comprehensive income for the year, net of tax | 68,662 | 107,400 |
| Total comprehensive income for the year attributable to: | | |
| – shareholders of the parent company | 63,447 | 94,181 |
| – non-controlling interests | 5,215 | 13,219 |
| | 68,662 | 107,400 |

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|--|------------------------------------|------------------------------------|
| ASSETS | | |
| Cash and sight balances at central banks | 151,103 | 156,475 |
| Items in the course of collection from other banks | 25,020 | 21,122 |
| Hong Kong Government certificates of indebtedness | 220,184 | 214,654 |
| Trading assets | 302,626 | 407,026 |
| Derivatives | 380,955 | 389,934 |
| Financial assets designated at fair value | 99,095 | 98,195 |
| Reverse repurchase agreements – non-trading | 212,779 | 218,901 |
| Placings with and advances to banks | 421,221 | 488,313 |
| Loans and advances to customers | 2,762,290 | 2,815,216 |
| Financial investments | 1,716,046 | 1,456,493 |
| Amounts due from Group companies | 244,396 | 191,694 |
| Interests in associates and joint ventures | 122,438 | 116,654 |
| Goodwill and intangible assets | 49,568 | 45,078 |
| Property, plant and equipment | 110,064 | 104,679 |
| Deferred tax assets | 1,836 | 1,436 |
| Other assets | 134,062 | 150,876 |
| Total assets | 6,953,683 | 6,876,746 |
| LIABILITIES | | |
| Hong Kong currency notes in circulation | 220,184 | 214,654 |
| Items in the course of transmission to other banks | 30,753 | 31,331 |
| Repurchase agreements – non-trading | 16,158 | 28,379 |
| Deposits by banks | 148,294 | 226,713 |
| Customer accounts | 4,640,076 | 4,479,992 |
| Trading liabilities | 191,851 | 215,812 |
| Derivatives | 369,419 | 367,128 |
| Financial liabilities designated at fair value | 50,770 | 48,834 |
| Debt securities in issue | 40,859 | 45,297 |
| Retirement benefit liabilities | 5,809 | 5,606 |
| Amounts due to Group companies | 110,073 | 135,814 |
| Other liabilities and provisions | 86,920 | 87,731 |
| Liabilities under insurance contracts | 340,820 | 310,182 |
| Current tax liabilities | 2,456 | 2,927 |
| Deferred tax liabilities | 18,799 | 18,586 |
| Subordinated liabilities | 8,003 | 12,832 |
| Preference shares | 36,553 | 36,582 |
| Total liabilities | 6,317,797 | 6,268,400 |
| EQUITY | | |
| Share capital | 96,052 | 96,052 |
| Other equity instruments | 14,737 | 14,737 |
| Other reserves | 93,031 | 107,985 |
| Retained profits | 380,381 | 339,061 |
| Total shareholders' equity | 584,201 | 557,835 |
| Non-controlling interests | 51,685 | 50,511 |
| Total equity | 635,886 | 608,346 |
| Total equity and liabilities | 6,953,683 | 6,876,746 |

| | 2015 | | | | | | | | | | |
|---|------------------------|---|--|--|---|---|--|-----------------------------|--|---|--------------------------|
| | Share capital HK\$m | Other equity instruments ⁶ HK\$m | Retained profits and proposed dividend HK\$m | Other reserves | | | | | Total share- holders' equity HK\$m | Non- controlling interests HK\$m | Total equity HK\$m |
| | | | | Property revaluation reserve ¹ HK\$m | Available- for-sale investment reserve ² HK\$m | Cash flow hedge reserve ³ HK\$m | Foreign exchange reserve ⁴ HK\$m | Other ⁵ 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 (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 of associates and joint ventures | – | – | (1) | – | 375 | – | – | 86 | 460 | – | 460 |
| Exchange differences | – | – | – | – | – | – | (18,863) | – | (18,863) | (325) | (19,188) |
| Total comprehensive income for the year | – | – | 88,604 | 5,146 | (11,657) | 131 | (18,863) | 86 | 63,447 | 5,215 | 68,662 |
| Dividends paid ⁷ | – | – | (37,405) | – | – | – | – | – | (37,405) | (4,053) | (41,458) |
| Movement in respect of share-based payment arrangements | – | – | 7 | – | – | – | – | 345 | 352 | 4 | 356 |
| Other movements | – | – | (4) | (14) | – | – | – | (10) | (28) | 8 | (20) |
| Transfers ⁸ | – | – | (9,882) | (1,514) | – | – | – | 11,396 | – | – | – |
| At 31 December | 96,052 | 14,737 | 380,381 | 52,099 | 4,880 | (35) | (16,991) | 53,078 | 584,201 | 51,685 | 635,886 |

For footnotes, see page 19.

| | 2014 | | | | | | | | | | |
|--|------------------------|--|---|--|---|---|--|-------------------------------------|------------------------------------|-----------------------|-----------------------------|
| | Share capital HK\$m | Other equity instruments ⁶ HK\$m | Retained profits and proposed dividend HK\$m | Other reserves | | | | Total shareholders' equity HK\$m | Non-controlling interests HK\$m | Total equity HK\$m | |
| | | | | Property revaluation reserve ¹ HK\$m | Available-for-sale investment reserve ² HK\$m | Cash flow hedge reserve ³ HK\$m | Foreign exchange reserve ⁴ HK\$m | | | | Other ⁵ HK\$m |
| At 1 January | 85,319 | – | 305,926 | 46,336 | 3,280 | 197 | 9,619 | 30,132 | 480,809 | 41,415 | 522,224 |
| Profit for the year | – | – | 86,428 | – | – | – | – | – | 86,428 | 5,749 | 92,177 |
| Other comprehensive income (net of tax) | – | – | (930) | 3,540 | 13,255 | (363) | (7,747) | (2) | 7,753 | 7,470 | 15,223 |
| Available-for-sale investments | – | – | – | – | 12,932 | – | – | – | 12,932 | 7,252 | 20,184 |
| Cash flow hedges | – | – | – | – | – | (363) | – | – | (363) | (7) | (370) |
| Property revaluation | – | – | (220) | 3,540 | – | – | – | – | 3,320 | 459 | 3,779 |
| Actuarial losses on defined benefit plans | – | – | (715) | – | – | – | – | – | (715) | 52 | (663) |
| Share of other comprehensive income of associates and joint ventures | – | – | 5 | – | 323 | – | – | (2) | 326 | – | 326 |
| Exchange differences | – | – | – | – | – | – | (7,747) | – | (7,747) | (286) | (8,033) |
| Total comprehensive income for the year | – | – | 85,498 | 3,540 | 13,255 | (363) | (7,747) | (2) | 94,181 | 13,219 | 107,400 |
| Shares issued | 10,733 | – | – | – | – | – | – | – | 10,733 | – | 10,733 |
| Other equity instruments issued ⁶ | – | 14,737 | – | – | – | – | – | – | 14,737 | – | 14,737 |
| Dividends paid | – | – | (42,750) | – | – | – | – | – | (42,750) | (3,981) | (46,731) |
| Movement in respect of share-based payment arrangements | – | – | (141) | – | – | – | – | 261 | 120 | 5 | 125 |
| Other movements | – | – | 6 | – | (1) | – | – | – | 5 | (147) | (142) |
| Transfers ⁸ | – | – | (9,478) | (1,395) | 3 | – | – | 10,870 | – | – | – |
| At 31 December | 96,052 | 14,737 | 339,061 | 48,481 | 16,537 | (166) | 1,872 | 41,261 | 557,835 | 50,511 | 608,346 |

For footnotes, see page 19.

- 1 *The property revaluation reserve represents the difference between the fair value of the property and its depreciated cost.*
- 2 *The available-for-sale investment reserve includes the cumulative net change in the fair value of available-for-sale investments other than impairments which have been recognised in the income statement.*
- 3 *The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.*
- 4 *The foreign exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investments in foreign operations.*
- 5 *The other reserves mainly comprise of 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 options granted to employees of the group directly by HSBC Holdings plc.*
- 6 *During 2014, the Bank issued new capital instruments that are included in the group's capital base as Basel III-compliant additional tier 1 capital under the Banking (Capital) Rules.*
- 7 *Including distributions paid on perpetual subordinated loans classified as equity under HKFRSs.*
- 8 *The movement from Retained profits to Other reserves mainly includes the relevant transfers in an associate according to local regulatory requirements.*

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|--|--|--|
| Operating activities | | |
| Cash generated from operations | 168,508 | 61,780 |
| Interest received on financial investments | 15,201 | 14,891 |
| Dividends received on financial investments | 212 | 1,466 |
| Dividends received from associates | 4,990 | 4,765 |
| Taxation paid | (17,020) | (17,546) |
| Net cash inflow from operating activities | 171,891 | 65,356 |
| Investing activities | | |
| Purchase of financial investments | (579,361) | (403,722) |
| Proceeds from sale or redemption of financial investments | 462,793 | 385,353 |
| Purchase of property, plant and equipment | (3,687) | (2,864) |
| Proceeds from sale of property, plant and equipment and assets held for sale | 355 | 180 |
| Purchase of other intangible assets | (1,796) | (1,546) |
| Net cash inflow from the sale of interests in business portfolios | 5,092 | 2,882 |
| Net cash outflow from investing activities | (116,604) | (19,717) |
| Net cash inflow before financing activities | 55,287 | 45,639 |
| Financing activities | | |
| Issue of ordinary share capital | – | 10,733 |
| Issue of other equity instruments | – | 14,737 |
| Issue of subordinated liabilities | 1,395 | 12,409 |
| Redemption of preference shares | – | (10,733) |
| Repayment of subordinated liabilities | (7,704) | (6,010) |
| Ordinary dividends paid | (36,750) | (42,750) |
| Dividends paid on perpetual subordinated loans | (655) | – |
| Dividends paid to non-controlling interests | (4,053) | (3,981) |
| Interest paid on preference shares | (864) | (1,108) |
| Interest paid on subordinated liabilities | (1,004) | (1,056) |
| Net cash outflow from financing activities | (49,635) | (27,759) |
| Increase in cash and cash equivalents | 5,652 | 17,880 |

1. Net interest income

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---------------------------------|--|--|
| Net interest income | 94,377 | 95,109 |
| Average interest-earning assets | 5,311,284 | 4,977,727 |
| Net interest margin | 1.78% | 1.91% |
| Net interest spread | 1.67% | 1.79% |

Net interest income ('NII') decreased by HK\$732m compared with 2014 due to an unfavourable foreign exchange impact. Excluding the impact from foreign exchange, NII rose by HK\$2,410m, or 3%, mainly from balance sheet growth, although this was partly offset by a reduction in net interest margin in most countries across the region, coupled with lower BSM revenue in Hong Kong and mainland China.

Average interest-earning assets increased by HK\$334bn, or 7%, compared with 2014. Excluding the impact from foreign exchange, average financial investments increased by 16%, while customer lending grew by 6%, notably in term lending and mortgages.

Net interest margin decreased by 13 basis points compared with 2014, driven by compressed spreads on both customer deposits and lending, coupled with lower yields on financial investments.

In **Hong Kong**, the net interest margin for the Bank decreased by nine basis points, mainly due to compressed spreads on term lending and lower reinvestment yields in BSM, although the decrease was partly offset by improved spreads on trade-related lending and corporate customer deposits.

At **Hang Seng Bank**, the net interest margin decreased by 13 basis points, mainly due to compressed spreads on customer lending and lower reinvestment yields in BSM, partly offset by improved customer deposit spreads.

In the **Rest of Asia-Pacific**, the net interest margin also decreased in most countries in the region, notably in mainland China due to lower reinvestment yields in BSM and compressed customer deposit spreads, in Australia from compressed customer deposit spreads, and in Malaysia from narrower customer lending spreads.

2. Net fee income

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|------------------------|--|--|
| Brokerage | 9,327 | 7,697 |
| Cards | 7,072 | 7,082 |
| Unit trusts | 6,598 | 6,531 |
| Import/export | 4,340 | 4,968 |
| Funds under management | 4,461 | 4,193 |
| Remittances | 3,438 | 3,508 |
| Credit facilities | 3,219 | 2,997 |
| Account services | 2,976 | 2,925 |
| Underwriting | 1,214 | 1,949 |
| Insurance | 1,482 | 1,400 |
| Other | 7,799 | 7,412 |
| Fee income | <u>51,926</u> | <u>50,662</u> |
| Fee expense | <u>(6,267)</u> | <u>(6,040)</u> |
| | <u>45,659</u> | <u>44,622</u> |

3. Net trading income

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---|--|--|
| Dealing profits | 17,523 | 13,674 |
| Net interest income on trading assets and liabilities | 4,439 | 5,168 |
| Dividend income from trading securities | 1,674 | 1,384 |
| Net loss from hedging activities | (20) | (6) |
| | <u>23,616</u> | <u>20,220</u> |

4. Gains less losses from financial investments

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---|--|--|
| Gain on partial disposal of investment in Industrial Bank | 10,636 | – |
| Gain on sale of investment in Bank of Shanghai | – | 3,320 |
| Gains on disposal of other available-for-sale securities | 983 | 1,288 |
| Impairment of available-for-sale equity investments | (8) | (2,219) |
| | <u>11,611</u> | <u>2,389</u> |

2014 included an impairment charge of HK\$2,103m on our investment in Industrial Bank.

5. Other operating income

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---|--|--|
| Gain on 150 th anniversary banknotes issuance | 693 | – |
| Movement in present value of in-force insurance business | 4,689 | 3,581 |
| Gains on investment properties | 480 | 670 |
| Gain on disposal of property, plant and equipment, and assets held for sale | 134 | 61 |
| Gain on disposal of subsidiaries, associates and business portfolios | 23 | 104 |
| Rental income from investment properties | 404 | 422 |
| Loss on reclassification of Techcom Bank | – | (251) |
| Other | 4,016 | 3,915 |
| | 10,439 | 8,502 |

In 2015, the Bank issued commemorative banknotes to celebrate its 150th anniversary, recognising a gain on banknotes issuance. There was a corresponding increase in operating expenses, reflecting charitable donations and other expenses in relation to the banknotes issuance.

6. Insurance income

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

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---|--|--|
| Net interest income | 10,486 | 9,439 |
| Net fee income | 1,941 | 2,083 |
| Net trading loss | (656) | (512) |
| Net income/(loss) from financial instruments designated at fair value | (2,783) | 4,159 |
| Net insurance premium income | 52,593 | 57,307 |
| Movement in present value of in-force business | 4,689 | 3,581 |
| Other operating income | 760 | 173 |
| | 67,030 | 76,230 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (52,431) | (60,182) |
| Total insurance income | 14,599 | 16,048 |

Net interest income increased by 11% from growth in the debt securities portfolio, reflecting net inflows from new and renewal life insurance premiums.

A net loss from financial instruments designated at fair value was recorded in 2015, reflecting the unfavourable equity market performance in the second half of 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 decreased by 8%, mainly in Hong Kong due to a change in sales mix, with a corresponding decrease in ‘Net insurance claims and benefits paid and movement in liabilities to policyholders’.

6. Insurance income (continued)

The movement in present value of in-force business increased by HK\$1,108m, mainly due to a favourable interest rate assumption update in Hong Kong in 2015, with a corresponding increase in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'. The increase was partly offset by a decrease in the value of new business as a result of the change in sales mix.

Other operating income was higher largely due to a gain on disposal of available-for-sale securities, which resulted in a corresponding increase in 'Net insurance claims and benefits paid and movements in liabilities to policyholders'.

7. Loan impairment charges and other credit risk provisions

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|--|--|--|
| Individually assessed impairment charges: | | |
| New charges | 4,011 | 4,202 |
| Releases | (1,390) | (1,420) |
| Recoveries | (305) | (156) |
| | <u>2,316</u> | <u>2,626</u> |
| Collectively assessed impairment charges | 2,656 | 2,272 |
| Other credit risk provisions | 102 | 27 |
| Loan impairment charges and other credit risk provisions | <u>5,074</u> | <u>4,925</u> |

8. Employee compensation and benefits

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|--|--|--|
| Wages and salaries | 37,846 | 35,476 |
| Social security costs | 1,080 | 1,046 |
| Retirement benefit costs | 2,200 | 2,372 |
| | <u>41,126</u> | <u>38,894</u> |
| Staff numbers by region – year end full-time equivalent | | |
| Hong Kong | 29,356 | 29,368 |
| Rest of Asia-Pacific | 38,196 | 38,926 |
| Total | <u>67,552</u> | <u>68,294</u> |

Employee compensation and benefits increased by HK\$2,232m, reflecting wage inflation and higher termination benefits, coupled with higher average headcount to support business growth and regulatory programmes and compliance.

9. General and administrative expenses

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|--|--|--|
| Premises and equipment | | |
| – Rental expenses | 3,525 | 3,546 |
| – Amortisation of prepaid operating lease payments | 17 | 18 |
| – Other premises and equipment expenses | <u>4,032</u> | <u>4,143</u> |
| | 7,574 | 7,707 |
| Marketing and advertising expenses | 3,900 | 3,983 |
| Other administrative expenses | <u>18,409</u> | <u>16,588</u> |
| | <u>29,883</u> | <u>28,278</u> |

Other administrative expenses increased by HK\$1,821m mainly due to increased investment in regulatory programmes and compliance, and also included charitable donations and other expenses in relation to the 150th anniversary banknotes issuance.

10. Associates and joint ventures

At 31 December 2015, we performed an impairment review of our investment in Bank of Communications Co., Ltd and concluded that it was not impaired at the year end, based on our value in use calculation (see note on ‘Associates and Joint Ventures’ in the *Annual Report and Accounts 2015* for further details).

11. Tax expense

The tax expense in the consolidated income statement comprises:

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|----------------------|--|--|
| Current income tax | | |
| – Hong Kong taxation | 9,871 | 8,862 |
| – Overseas taxation | 8,295 | 8,696 |
| Deferred taxation | <u>(870)</u> | <u>1,454</u> |
| | <u>17,296</u> | <u>19,012</u> |
| Effective tax rate | 14.7% | 17.1% |

The lower effective tax rate in 2015 was largely due to the non-taxable gain from the partial disposal of investment in Industrial Bank in 2015.

12. Dividends

Dividends to ordinary shareholders of the parent company

| | Year ended 31 December 2015 | | Year ended 31 December 2014 | |
|--|--------------------------------|---------------|--------------------------------|---------------|
| | 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 | 0.37 | 14,250 | 0.44 | 15,000 |
| – first interim dividend paid | 0.20 | 7,500 | 0.27 | 9,250 |
| – second interim dividend paid | 0.20 | 7,500 | 0.24 | 9,250 |
| – third interim dividend paid | 0.20 | 7,500 | 0.24 | 9,250 |
| | 0.97 | 36,750 | 1.19 | 42,750 |

The Directors have declared a fourth interim dividend in respect of the financial year ending 31 December 2015 of HK\$17,065m (HK\$0.44 per ordinary share).

Distributions on other equity instruments

| | Year ended 31 December 2015 HK\$m | Year ended 31 December 2014 HK\$m |
|---|--|--|
| Floating rate perpetual subordinated loans (interest rate at one year US dollar LIBOR plus 3.84%.) | 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.

| | Hong Kong HK\$m | Rest of Asia-Pacific HK\$m | Total HK\$m |
|--|------------------------------------|------------------------------------|------------------|
| 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 |
| At 31 December 2014 | | | |
| Residential mortgages | 439,451 | 283,042 | 722,493 |
| Credit card advances | 54,943 | 24,863 | 79,806 |
| Other personal | 122,613 | 79,670 | 202,283 |
| Total personal | 617,007 | 387,575 | 1,004,582 |
| Commercial, industrial and international trade | 416,759 | 440,967 | 857,726 |
| Commercial real estate | 201,103 | 75,631 | 276,734 |
| Other property-related lending | 203,850 | 62,810 | 266,660 |
| Government | 6,613 | 2,654 | 9,267 |
| Other commercial | 150,314 | 151,930 | 302,244 |
| Total corporate and commercial | 978,639 | 733,992 | 1,712,631 |
| Non-bank financial institutions | 61,264 | 42,747 | 104,011 |
| Settlement accounts | 3,887 | 625 | 4,512 |
| Total financial | 65,151 | 43,372 | 108,523 |
| Gross loans and advances to customers | 1,660,797 | 1,164,939 | 2,825,736 |
| Individually assessed impairment allowances | (2,411) | (3,888) | (6,299) |
| Collectively assessed impairment allowances | (2,103) | (2,118) | (4,221) |
| Net loans and advances to customers | 1,656,283 | 1,158,933 | 2,815,216 |
| Allowances as a percentage of gross loans and advances to customers: | | | |
| | At 31 December 2015 | At 31 December 2014 | |
| - Individually assessed | 0.25% | 0.22% | |
| - Collectively assessed | 0.16% | 0.15% | |
| Total allowances | 0.41% | 0.37% | |

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

Gross loans and advances to customers in Hong Kong increased by HK\$19bn, or 1% during 2015, largely from growth in residential mortgage lending of HK\$33bn and other personal lending of HK\$10bn, partly offset by a decrease of HK\$25bn in Corporate and commercial lending.

In the Rest of Asia-Pacific, gross loans and advances to customers decreased by HK\$71bn, or 6%, due to an unfavourable foreign exchange impact of HK\$85bn. Excluding the impact from foreign exchange, gross customer advances increased by HK\$14bn, mainly in residential mortgages from business growth 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 |
|--|---|---|----------------|
| At 1 January 2015 | 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 2015 | <u>7,040</u> | <u>4,489</u> | <u>11,529</u> |

15. Overdue and rescheduled loans and advances to customers

The geographical information shown below has been classified by the location of the principal operations of the subsidiary or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

| | Hong Kong | | Rest of Asia-Pacific | | Total | |
|---|--------------|----------------|----------------------|----------------|---------------|----------------|
| | HK\$m | % ¹ | HK\$m | % ¹ | HK\$m | % ¹ |
| At 31 December 2015 | | | | | | |
| Gross amounts which have been overdue with respect to either principal or interest for: | | | | | | |
| – more than three months but less than six months | 1,081 | 0.1 | 1,712 | 0.2 | 2,793 | 0.1 |
| – more than six months but less than one year | 1,698 | 0.1 | 1,268 | 0.1 | 2,966 | 0.1 |
| – more than one year | 2,344 | 0.1 | 2,951 | 0.3 | 5,295 | 0.2 |
| | 5,123 | 0.3 | 5,931 | 0.6 | 11,054 | 0.4 |
| Individually assessed impairment allowances made in respect of amounts overdue | (1,609) | | (3,355) | | (4,964) | |
| Fair value of collateral held in respect of amounts overdue | 1,643 | | 1,820 | | 3,463 | |
| Rescheduled loans and advances to customers | 409 | 0.0 | 3,134 | 0.3 | 3,543 | 0.1 |
| At 31 December 2014 | | | | | | |
| Gross amounts which have been overdue with respect to either principal or interest for: | | | | | | |
| – more than three months but less than six months | 624 | 0.0 | 2,023 | 0.2 | 2,647 | 0.1 |
| – more than six months but less than one year | 452 | 0.0 | 764 | 0.1 | 1,216 | 0.0 |
| – more than one year | 2,024 | 0.1 | 2,185 | 0.2 | 4,209 | 0.2 |
| | 3,100 | 0.1 | 4,972 | 0.5 | 8,072 | 0.3 |
| Individually assessed impairment allowances made in respect of amounts overdue | (1,235) | | (2,265) | | (3,500) | |
| Fair value of collateral held in respect of amounts overdue | 1,144 | | 1,805 | | 2,949 | |
| Rescheduled loans and advances to customers | 431 | 0.0 | 2,298 | 0.2 | 2,729 | 0.1 |

¹ Percentages shown as a proportion of gross loans and advances to customers.

16. Other assets

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|--------------------------------|------------------------------------|------------------------------------|
| Current taxation recoverable | 1,013 | 2,418 |
| Assets held for sale | 159 | 148 |
| Prepayments and accrued income | 3,881 | 3,821 |
| Accrued interest receivable | 17,305 | 18,370 |
| Acceptances and endorsements | 31,480 | 31,200 |
| Bullion | 47,105 | 59,401 |
| Other | 33,119 | 35,518 |
| | 134,062 | 150,876 |

17. Customer accounts

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|------------------------|------------------------------------|------------------------------------|
| Current accounts | 949,169 | 919,343 |
| Savings accounts | 2,645,151 | 2,379,651 |
| Other deposit accounts | 1,045,756 | 1,180,998 |
| | <u>4,640,076</u> | <u>4,479,992</u> |

The group's advances-to-deposits ratio was 59.5% at 31 December 2015 (2014: 62.8%).

18. Other liabilities and provisions

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|--|------------------------------------|------------------------------------|
| Accruals and deferred income | 25,425 | 26,435 |
| Provisions for liabilities and charges | 1,203 | 1,141 |
| Acceptances and endorsements | 31,480 | 31,200 |
| Share-based payment liability to HSBC Holdings plc | 1,769 | 2,186 |
| Other liabilities | 27,043 | 26,769 |
| | <u>86,920</u> | <u>87,731</u> |

19. Contingent liabilities and commitments

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|-------------------------|------------------------------------|------------------------------------|
| Contract amount: | | |
| Contingent liabilities | 257,932 | 248,127 |
| Commitments | 2,131,992 | 1,896,242 |
| | <u>2,389,924</u> | <u>2,144,369</u> |

20. 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 under the requirements of section 3C(1) of the Banking (Capital) Rules.

The basis of consolidation for financial accounting purposes is described in Note 1 on the Financial Statements and differs from that used for regulatory 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.

| | At 31 December 2015 % | At 31 December 2014 % |
|---|--------------------------------|--------------------------------|
| Capital ratios | | |
| Common equity tier 1 (CET1) capital ratio | 15.6 | 14.4 |
| Tier 1 capital ratio | 16.6 | 14.4 |
| Total capital ratio | 18.6 | 15.7 |
| Risk-weighted assets by risk type | HK\$m | HK\$m |
| Credit risk | 1,942,430 | 2,064,687 |
| Counterparty credit risk | 176,764 | 209,703 |
| Market risk | 101,551 | 143,199 |
| Operational risk | 298,662 | 290,342 |
| | <u>2,519,407</u> | <u>2,707,931</u> |

The following table sets out the composition of the group's capital base under Basel III at 31 December 2015. The position at 31 December 2015 benefits from transitional arrangements, which will be phased out.

20. Capital adequacy (continued)

| | At 31 December 2015 HK\$m | At 31 December 2014 HK\$m |
|---|---------------------------------|---------------------------------|
| Common equity tier 1 ('CET1') capital | | |
| Shareholders' equity | 514,078 | 491,545 |
| Shareholders' equity per balance sheet | 584,201 | 557,835 |
| Revaluation reserve capitalisation issue | (1,454) | (1,454) |
| Other equity instruments | (14,737) | (14,737) |
| Unconsolidated subsidiaries | (53,932) | (50,099) |
| Non-controlling interests | 22,352 | 27,971 |
| Non-controlling interests per balance sheet | 51,685 | 50,511 |
| Non-controlling interests in unconsolidated subsidiaries | (5,717) | (4,873) |
| Surplus non-controlling interests disallowed in CET1 | (23,616) | (17,667) |
| Regulatory deductions to CET1 capital | (142,611) | (129,771) |
| Valuation adjustments | (1,845) | (2,030) |
| Goodwill and intangible assets | (14,032) | (14,683) |
| Deferred tax assets net of deferred tax liabilities | (1,863) | (1,485) |
| Cash flow hedging reserve | (51) | 182 |
| Changes in own credit risk on fair valued liabilities | (940) | (596) |
| Defined benefit pension fund assets | (40) | (89) |
| Significant capital investments in unconsolidated financial sector entities | (39,524) | (28,866) |
| Property revaluation reserves ¹ | (56,497) | (52,657) |
| Regulatory reserve | (27,819) | (27,959) |
| Excess AT1 deductions | – | (1,588) |
| Total CET1 capital | 393,819 | 389,745 |
| Additional tier 1 ('AT1') capital | | |
| Total AT1 capital before regulatory deductions | 50,826 | 48,750 |
| Perpetual subordinated loans | 14,737 | 14,737 |
| Perpetual non-cumulative preference shares | 25,213 | 25,229 |
| Allowable non-controlling interests in AT1 capital | 10,876 | 8,784 |
| Regulatory deductions to AT1 capital | (25,887) | (48,750) |
| Significant capital investments in unconsolidated financial sector entities | (25,887) | (50,338) |
| Excess AT1 deductions | – | 1,588 |
| Total AT1 capital | 24,939 | – |
| Total tier 1 capital | 418,758 | 389,745 |
| Tier 2 capital | | |
| Total tier 2 capital before regulatory deductions | 79,164 | 88,802 |
| Perpetual cumulative preference shares | 3,100 | 3,102 |
| Cumulative term preference shares | 8,138 | 8,143 |
| Perpetual subordinated debt | 6,204 | 9,337 |
| Term subordinated debt | 21,603 | 25,400 |
| Property revaluation reserves ¹ | 26,079 | 24,350 |
| Impairment allowances and regulatory reserve eligible for inclusion in tier 2 capital | 14,040 | 14,957 |
| Allowable non-controlling interests in tier 2 capital | – | 3,513 |
| Regulatory deductions to tier 2 capital | (29,059) | (53,510) |
| Significant capital investments in unconsolidated financial sector entities | (29,059) | (53,510) |
| Total tier 2 capital | 50,105 | 35,292 |
| Total capital | 468,863 | 425,037 |

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.

20. 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 2015; it is not a projection. On this pro-forma basis, the group's CET1 ratio is 13.6% (2014: 10.7%), 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 2015 HK\$m | At 31 December 2014 HK\$m |
|---|--|---------------------------------|
| CET1 capital on a transitional basis | 393,819 | 389,745 |
| Transitional provisions: | | |
| Significant capital investments in unconsolidated financial sector entities | (51,774) | (100,676) |
| Excess AT1 deductions | – | 1,588 |
| CET1 capital end point basis | 342,045 | 290,657 |
| AT1 capital on a transitional basis | 24,939 | – |
| Grandfathered instruments: | | |
| Perpetual non-cumulative preference shares | (25,213) | (25,229) |
| Transitional provisions: | | |
| Allowable non-controlling interests in AT1 capital | (9,494) | (5,389) |
| Significant capital investments in unconsolidated financial sector entities | 25,887 | 50,338 |
| Excess AT1 deductions | – | (1,588) |
| AT1 capital end point basis | 16,119 | 18,132 |
| Tier 2 capital on a transitional basis | 50,105 | 35,292 |
| Grandfathered instruments: | | |
| Perpetual cumulative preference shares | (3,100) | (3,102) |
| Cumulative term preference shares | (8,138) | (8,143) |
| Perpetual subordinated debt | (6,204) | (9,337) |
| Term subordinated debt | (1,607) | (6,787) |
| Transitional provisions: | | |
| Significant capital investments in unconsolidated financial sector entities | 25,887 | 50,338 |
| Tier 2 capital end point basis | 56,943 | 58,261 |

21. 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 2015*. A number of amendments to Hong Kong Financial Reporting Standards became effective in 2015 and none has a material impact on the group.

22. Statutory accounts

The information in this document is not audited and does not constitute statutory accounts.

Certain financial information in this document is extracted from the financial statements for the year ended 31 December 2015, which were approved by the Board of Directors on 22 February 2016 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 22 February 2016. The Annual Report and Accounts for the year ended 31 December 2015, 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.

23. Ultimate holding company

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

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