HSBC HOLDINGS PLC
Form 20-F
February 25, 2016
Table of Contents

As filed with the Securities and Exchange Commission on February 25, 2016.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

For the transition period from N/A to N/A

Commission file number: 001-14930

HSBC Holdings plc

(Exact name of Registrant as specified in its charter)

N/A	**United Kingdom**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organisation)

8 Canada Square

London E14 5HQ

United Kingdom

(Address of principal executive offices)

Russell C Picot

8 Canada Square

London E14 5HQ

United Kingdom

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value US$0.50 each.	London Stock Exchange Hong Kong Stock Exchange Euronext Paris Bermuda Stock Exchange New York Stock Exchange*
American Depository Shares, each representing 5 Ordinary Shares of nominal value US$0.50 each.	New York Stock Exchange
6.20% Non-Cumulative Dollar Preference Shares, Series A	New York Stock Exchange*
American Depositary Shares evidenced by American Depositary receipts, each representing one-fortieth of a Share of 6.20% Non-Cumulative Dollar Preference Shares, Series A	New York Stock Exchange
5.10% Senior Unsecured Notes Due 2021	New York Stock Exchange
4.00% Senior Unsecured Notes Due 2022	New York Stock Exchange
4.875% Senior Unsecured Notes Due 2022	New York Stock Exchange
7.625% Subordinated Notes due 2032	New York Stock Exchange
7.35% Subordinated Notes due 2032	New York Stock Exchange
6.5% Subordinated Notes 2036	New York Stock Exchange

6.5% Subordinated Notes 2037	New York Stock Exchange
6.8% Subordinated Notes Due 2038	New York Stock Exchange
6.100% Senior Unsecured Notes due 2042	New York Stock Exchange
8.125% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Preference Shares	New York Stock Exchange
8.00% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Preference Shares, Series 2	New York Stock Exchange
4.250% Subordinated Notes due 2024	New York Stock Exchange
5.250% Subordinated Notes due 2044	New York Stock Exchange
4.250% Subordinated Notes due 2025	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, nominal value US$0.50 each 19,685,096,934

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes þ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes þ No.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ Other ¨

International Financial Reporting Standards as issued by the
International Accounting Standards Board þ

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes þ No

* Not for trading, but only in connection with the registration of American Depositary Shares.

Table of Contents

As a reminder

This *Strategic Report* was approved by the Board on 22 February 2016. Douglas Flint, Group Chairman

Cautionary statement regarding forward-looking statements

This Form 20-F contains certain forward-looking statements with respect to HSBC s financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about HSBC s beliefs and expectations, are forward-looking statements. Words such as expects , anticipates , intends , plans , believes , seeks , estimates , and reasonably possible , variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;

changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions

serving their consumer markets; expropriation, nationalisation,
confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non bank financial services companies, including securities firms; and

factors specific to HSBC, including discretionary RWA growth and our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the DPA.

Table of Contents

Certain defined terms

Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC , the Group , we , us our refer to HSBC Holdings 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 . When used in the terms shareholders equity and total shareholders equity , shareholders means holders of HSBC Holdings

ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations $m and $bn represent millions and billions (thousands of millions) of US dollars, respectively.

Table of Contents

Strategic Report

HSBC at a glance

We are one of the most international banking

and financial services organisations in the world.

Group

Our operating model consists of four global businesses and five geographical regions supported by 11 global functions.

Reported profit before tax

(2014: $18.7bn)

$18.9bn

Reported revenue

(2014: $61.2bn)

$59.8bn

Key highlights

We grew adjusted revenue by 1%, primarily in client-facing GB&M, CMB and Principal RBWM.

Adjusted operating expenses increased by 5% from 2014. However, costs in the second half of the year were in line with the first half as our cost saving initiatives began to take effect.

Through management initiatives, we were able to reduce risk-weighted assets (RWAs) by $124bn in 2015 and therefore also the amount of capital we are required to hold.

Adjusted profit before tax

(2014: $22.0bn)

$20.4bn

Risk-weighted assets

(2014: $1,220bn)

$1,103bn

Global businesses

Our global businesses set globally consistent business strategies and operating models. They manage the products and business propositions offered to our customers.

Retail Banking and Wealth Management (RBWM)	Commercial Banking (CMB)	Global Banking and Markets (GB&M)	Global Private Banking (GPB)
We help millions of people across the world to	We support more than two million business customers in	We provide financial services and products to	We help high net worth individuals and their

manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers needs.	55 countries with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.	companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet our clients specific objectives.	families to grow, manage and preserve their wealth.
Further details on page 30	**Further details on page 28**	**Further details on page 29**	**Further details on page 31**
Reported profit before tax			
$5.0bn	$8.0bn	$7.9bn	$0.3bn

Table of Contents

HSBC at a glance

Key metrics

Geographical regions

For further details on our regions, see page 32.

We operate in 71 countries and territories around the world. Our operating entities represent HSBC to customers, regulators, employees and other stakeholders.

Market presence

Table of Contents

Table of Contents

Table of Contents

Strategic Report

Group Chairman s

Statement

We enter 2016 with a clear strategy and with

a plan for its implementation already well

under way. Our diversified business model

and balance sheet strength form the foundation

for our future progress, and position HSBC

well to deal with today s challenging economic

and financial conditions.

2015 was marked by some seismic shifts in global economic conditions, most notably the continuation of a sharp decline in commodity and oil prices, in part attributable to growing concerns over China s slowing economic growth. As a consequence, monetary policy remained accommodative throughout the major developed economies and key currency interest rates remained at historically low levels. Fiscal priorities continued to focus on controlling spending, an emphasis replicated in the private sector as weak revenue growth persisted in many industries.

Against this backdrop, the Group s financial performance in 2015 was broadly satisfactory, with reported profit before tax rising 1% to $18.9bn. On the adjusted basis used to measure management and business performance, profit before tax of $20.4bn was 7% lower than that achieved in 2014, driven by higher costs and credit charges.

Earnings per share of $0.65 compared with $0.69 in 2014. Sound management of capital, accelerated run-off of legacy books and shrinking the balance sheet in areas that can no longer support the expanded capital requirements now in force, contributed to the common equity tier 1 ratio increasing by 0.8 percentage points to 11.9%. This capital released from managing the asset base, together with that generated from operations, allowed the Board to approve a fourth interim dividend in respect of 2015 of $0.21 per ordinary share. This took dividends per ordinary share in respect of the year to $0.51, $0.01 higher than 2014. Total dividends in respect of 2015 amounted to $10.0bn, $0.4bn higher than in respect of 2014.

In approving the dividend increase, the Board noted that prospective dividend growth remained dependent upon the long-term overall profitability of the Group and delivering further release of less efficiently deployed capital. Actions to address these points are core elements of the Investor Update provided last June.

Table of Contents

Group Chairman s Statement

Sound progress on strategic initiatives

The *Strategic Report* highlights delivery to date against the strategic objectives laid out in last June s Investor Update.

When assessing management performance during 2015, outside of the financial results, the Board took particular account of the following aspects.

The successful negotiation of a majority stake in a new nationally licensed securities joint-venture in mainland China is the culmination of more than a decade of seeking out an appropriate platform through which to participate in the country s fast-developing securities markets. Once final approvals have been received, we believe this will establish a landmark opportunity for HSBC to contribute to the development of China s capital markets.

Our three major businesses generated higher revenue, notwithstanding the uncertain economic environment and the considerable reshaping necessitated by regulatory changes

During 2015, the Group maintained, reinforced and broadened its leadership position in all aspects of the internationalisation of the renminbi. This position has been built over the past five years to establish a highly competitive platform to service China s international trade and investment flows as it pursues the financial liberalisation and outgoing investment priorities laid out in the recent 13th five-year plan. The recent highly successful State visit to the UK, following an equally successful Economic and Financial dialogue in China, served to illustrate the huge potential for mutually beneficial cooperation between the UK and China from which HSBC is uniquely positioned to benefit in the realm of financial services.

The disposal of our Brazilian operations, which is expected to complete shortly, was both timely and well executed. This divestment was a key element of the Board s desire to simplify the Group and redeploy capital to geographic areas where we have greater competitive strength, most particularly in Asia.

Our three major businesses generated higher revenue, notwithstanding the uncertain economic

environment and the considerable reshaping necessitated by regulatory changes. Global Banking and Markets and Retail Banking and Wealth Management, in particular, have made significant changes to their business models and are now beginning to see the benefits. Commercial Banking continued to leverage the value of the Group s international network and product capabilities. Global Private Banking, chastened by the exposure of historical failings in Switzerland, accelerated disposal of a number of customer portfolios as it refocused its business model on core customer segments within a fully transparent operating model.

Across all businesses, the Board recognised a heightened emphasis on customer focus, which permeated recruitment, training, product design and incentives. This is essential to the restoration of trust.

Finally, and underpinning the above, we made further progress embedding the standards now expected to protect customers and the financial system from bad actors and financial crime. We are, however, not yet where we need to be. There is still more investment to make with ever greater urgency as more and more activity takes place digitally through multiple channels and via increasingly sophisticated mobile devices. HSBC s determination to address emerging risks and identify bad actors remains resolute. The Board has made it one of its top priorities to oversee and ensure management s delivery of the necessary enhancements to customer and transaction screening systems.

The regulatory landscape has

become clearer

The second half of 2015 saw completion of some of the most important and complex initiatives undertaken to repair the fault lines that contributed to the global financial crisis. International agreement was reached on the amount of total loss-absorbing capacity that global systemically important banks, such as HSBC, need for orderly resolution, without risks to public funds. This allowed the Financial Stability Board to report to G20 leaders that they had finalised the tools needed to end too big to fail in the banking sector. There is still much to do to build these tools into national legislative and regulatory frameworks; however, this international agreement is an important step forward towards finally settling the capital base against which we can assess our target returns.

Table of Contents

There is now broad agreement that the implementation of the suite of regulatory reforms introduced post-crisis has made the financial system more resilient. Accordingly, public policy priorities are now focusing on harnessing this greater strength and resilience to support economic growth, which we welcome.

Concentration within the current regulatory agenda is increasingly on new and emerging risks and vulnerabilities. There is growing industry participation in dialogue around these emerging threats, most notably regarding cyber risk, the changing liquidity dynamics resulting from more market-based finance and financial exclusion stemming from excessive risk aversion.

Likewise, addressing the root causes of the misconduct issues that have bedevilled our industry in recent years has led to growing cooperation arising out of the multiplicity of joint working groups and enquiries that have examined the most serious failings. 2016 sees the introduction of the new Senior Managers Regime in the UK, which will reinforce individual responsibility and accountability, which we welcome.

Also in the UK, 2015 saw further clarity given to the operation of the ring-fenced bank structure and a welcome announcement of a reduction in the scope and rate of the bank levy going forward.

It is too early to say whether this amounts to a new understanding between the industry and the public, but it is encouraging that the industry is once again gaining a voice at a time of great economic and geopolitical uncertainty. We can only fulfil our essential role if we have regained trust, a fact that is now fully understood.

Board changes

Subsequent to the changes announced with our interim results, we have made further changes to the Board. Safra Catz stepped down from the Board at the end of 2015 and Sir Simon Robertson, our Deputy Chairman, and Rona Fairhead will retire at the forthcoming Annual General Meeting.

There is now broad agreement that the implementation of the suite of regulatory reforms introduced post-crisis has made the financial system more resilient

Safra served on the Board for nearly eight years while Simon and Rona are HSBC s longest serving non-executive Directors, having served for close to 10 and 12 years, respectively. Over their respective periods of service, they have made invaluable contributions to the Group, not least during the global financial crisis, for which the Board is extremely grateful. Their combined expertise and experience in matters of governance, audit and risk, remuneration, technology, and international business affairs has been invaluable to HSBC and they will, upon their retirement, be sorely missed. On behalf of shareholders and the Board, I want to take this further opportunity to recognise their immense contributions to HSBC.

Review of headquarters location

As we announced last week, the Board concluded its review of domicile alternatives and decided unanimously to remain headquartered in the UK. As we evaluated jurisdictions against the specified criteria, it became clear that the combination of our strategic focus on Asia and maintaining our hub in one of the world s leading international financial centres, London, was not only compatible, but offered the best outcome for our customers and shareholders. This decision was taken after some 10 months of careful analysis and assessment of geopolitical, economic, regulatory and financial factors. Advice was taken from internationally respected experts and from leading financial advisers. After considering all the relevant factors, the Board concluded that having our headquarters in the UK and our significant business in Asia Pacific led from Hong Kong, delivers the best of both worlds to our stakeholders. The completion of this review closes out one of the 10 strategic actions set out at our Investor Update last June.

The Board was delighted to announce the appointments of Paul Walsh and Henri de Castries as independent non-executive Directors. Paul joined the Board on 1 January 2016 and Henri s appointment takes effect from 1 March 2016.

Paul Walsh was Group CEO of Diageo plc between 2000 and 2013. Under his leadership, Diageo was refocused from a diversified food, beverage and hotels conglomerate into one of the world s leading global alcoholic beverage businesses. In building this position, Paul took Diageo from a largely European and US business into emerging markets and to global leadership through the acquisition of many of the world s leading brands.

Henri de Castries has more than 25 years of international experience in the finance industry. Henri has been Chairman and Chief Executive Officer of AXA, one of the world s leading global insurance and asset management companies since April 2010 after serving as Chairman of its Management Board from May 2000.

Their international experience and track record in leading the reshaping of growing businesses, including undertaking business portfolio realignments, will be of great value to the Board as we address the opportunities and challenges ahead.

Table of Contents

Group Chairman s Statement

Looking back our 150th anniversary

In 2015, HSBC marked its 150th anniversary by recognising its staff for their essential contributions through the ages, and its customers for their shared commitment and loyalty. As we enter the next period of our history, I want to reiterate these messages of gratitude and underline our recognition that such commitment and loyalty have to be earned.

HSBC has also always recognised its responsibilities to the communities it serves and so in this special year committed $150m of additional funding to community projects around the world over three years.

We also wanted to identify a distinctive cause with global significance to mark our special anniversary.

We enter 2016 with a clear strategy and with much of the Group s required reshaping completed or under way

We were delighted, therefore, to announce a partnership with Cancer Research UK to support the scientific leaders of tomorrow through a $25m contribution towards the development and construction of the Francis Crick Institute. This state-of-the-art biomedical research facility will open in the heart of London in 2016 and support more than 1,200 scientists, collaborating to tackle the diseases that pose the greatest threat to humanity cancer, heart disease, lung disease and infectious diseases, including HIV and malaria.

To mark HSBC s support, 150 PhD students, selected from across the world, will have the opportunity to conduct vital research at the new institute.

Looking ahead

Current market conditions are inevitably concentrating attention on the risks that exist within the global economy. It is, however, important also to recognise again the resilience that our diversified business model and balance sheet strength provide, as well as noting the many counterbalances that should help to underpin the global economy.

China s slower economic growth will undoubtedly contribute to a bumpier financial environment, but it is still expected to be the largest contributor to global growth as its economy transitions to higher added value manufacturing and services and becomes more consumer driven. This transition is driving our focus on the Pearl River Delta as a priority growth opportunity given its concentration of high tech, research focused and digital businesses.

There is a real possibility of meaningful stimulus for the global economy to come from further trade liberalisation initiatives such as the Trans-Pacific Partnership agreement, which was signed earlier this month.

The global focus on infrastructure development, most notably the Belt and Road initiative in China and the Juncker plan in Europe will expand public/ private financing opportunities.

Similarly, the agreements reached on climate change at the recent COP21 conference in Paris will require further significant infrastructure renewal. They will also greatly expand the market for sustainable financing options such as green bonds where HSBC is a leading participant. Reinforcing this position, the Group recently committed $1bn to a green bond portfolio to fund projects in sectors such as renewable energy, energy efficiency, clean transportation and climate change adaption as well as SME financing in sectors such as public transport, education and healthcare.

Technology advancements in financial services are broadening access, improving customer service and lowering the costs of service delivery. At the same time, the amount of data held digitally is exploding, reinforcing the need to bolster cyber security. There is an urgent public policy need to clarify how responsibility is to be shared, given the growing number of routes through which customers can authorise movement of money from their accounts or the sharing of data within these accounts.

We enter 2016 with a clear strategy and with much of the Group s required reshaping completed or under way. Our 264,000 staff, like their predecessors, went the extra mile consistently throughout 2015 to meet the demands placed on them by our customers, regulators and the public. I want to place on the record the Board s appreciation of that commitment and our gratitude for what they have achieved to make HSBC fit for the next 150 years.

Douglas Flint

Group Chairman

22 February 2016

Table of Contents

Strategic Report

Group Chief Executive s Review

HSBC is better balanced, better connected and better placed to capitalise on higher return businesses than it was 12 months ago.

Business performance

Our performance in 2015 again demonstrated the fundamental strength of our business. Targeted investment, prudent lending and our diversified, universal banking business model helped us achieve revenue growth in a difficult market environment whilst also reducing risk-weighted assets.

We also started to implement the actions that we announced at our Investor Update in June to adapt HSBC to new operating conditions. Completing these plans will refocus the business to achieve stronger, sustainable growth and we are acting on them quickly and efficiently.

On an adjusted basis, we grew revenue over the course of the year. Global Banking and Markets performed strongly and Commercial Banking grew steadily in spite of slower trade. Principal Retail Banking and Wealth Management also grew following a strong Wealth Management performance in the first half. Global Private Banking grew in Asia, but was down overall due to the impact of the continued repositioning of the business.

Our adjusted operating expenses increased as we continued to strengthen our compliance capability whilst also investing for growth. However, a combination of strict cost management and the cost reduction programmes that we started in the middle of the year helped us keep second half costs flat relative to the first half, excluding the bank levy.

Loan impairment charges remained generally low despite an increase in provisions towards the end of the year. This demonstrates again our prudent approach to lending and the benefit of our de-risking measures since 2011.

In total, we generated $11.3bn of capital in 2015, which enabled us to increase the dividend and strengthen the common equity tier 1 ratio.

HSBC HOLDINGS PLC

10

Adapting HSBC

The plans that we announced at our Investor Update are designed to grow income, reduce costs and thereby increase our return on equity. There is a lot to do to achieve our targets but we have made a good start.

Reducing our risk-weighted assets (RWAs) is vital to achieving a better return for shareholders. In 2015, management action reduced RWAs by $124bn, which takes us nearly half-way towards our target to be achieved by the end of 2017. Much of this reduction came from Global Banking and Markets, although a large proportion also came from Commercial Banking, accelerated asset sales in our US Consumer and Mortgage Lending portfolio and the sale of our investment in Industrial Bank. We expect to deliver further RWA reductions in 2016, in addition to a decrease of around $33bn from the sale of our business in Brazil.

The plans that we announced at our Investor Update are designed to grow income, reduce costs and increase our return on equity. There is a lot to do to achieve our targets but we have made a good start

We have received a number of offers for our business in Turkey since June, none of which were deemed to be in the best interests of shareholders. We have therefore decided to retain and restructure our Turkish operations, maintaining our wholesale banking business and refocusing our retail banking network. This will provide better value for shareholders and continue to allow our clients to capitalise on HSBC s international footprint.

Our cost-reduction measures are already having an impact on our cost base and HSBC is now a leaner business than at the half-year. All of our initiatives to reduce costs are under way and we expect further progress in 2016.

We continued to redevelop our businesses in the US and Mexico over the course of 2015. These are important businesses in the context of the wider Group and we are committed to turning them around. An increase in cross-border business across the NAFTA area and improved collaboration between global businesses helped to generate increased revenue. They remain works in progress.

We are investing in areas of the business that extract the greatest gain from our international network and market-leading strength in Asia.

Investment in flagship transaction banking products helped to increase our market share, particularly in Payments and Cash Management, Foreign Exchange and Securities Services.

The development of our Asia businesses is gaining momentum and we achieved growth in excess of GDP in seven out of eight of our priority Asia markets.

We continue to expand our business in the Pearl River Delta and reached a number of milestones in 2015, including the signing of an agreement to form the first majority foreign-owned securities company in mainland China. When approved, this will allow us to engage in the full spectrum of securities business in the country.

We remain the world s number one bank for offshore renminbi services and increased revenue by 3% year-on-year in this vitally important growth market.

Summary and outlook

HSBC is better balanced, better connected and better placed to capitalise on higher return businesses than it was 12 months ago. Our universal banking model is generating higher income from collaboration between businesses and our operating expenses and capital ratio are trending in the right direction. Maintaining these trends while boosting revenue will be the principal challenge in the year ahead.

The current economic environment is uncertain, but our diversified banking model, low earnings volatility and strong capital generation give us strength and resilience that will stand us in good stead.

We remain focused on delivering our nine remaining strategic actions by the end of 2017.

Stuart Gulliver

Group Chief Executive

22 February 2016

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

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Table of Contents

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Table of Contents

Table of Contents

Table of Contents

Strategic Report

Financial overview

Reported results

This table shows our reported results for
the last three years. The results for 2015
are described below.

Reported results	2015 $m	2014 $m	2013 $m
Net interest income	**32,531**	34,705	35,539
Net fee income	**14,705**	15,957	16,434
Net trading income	**8,723**	6,760	8,690
Other income	**3,841**	3,826	3,982
Net operating income before loan impairment charges and other credit risk provisions (revenue)	**59,800**	61,248	64,645
Loan impairment charges and other credit risk provisions (LICs)	**(3,721)**	(3,851)	(5,849)
Net operating income	**56,079**	57,397	58,796
Total operating expenses	**(39,768)**	(41,249)	(38,556)
Operating profit	**16,311**	16,148	20,240
Share of profit in associates and joint ventures	**2,556**	2,532	2,325
Profit before tax	**18,867**	18,680	22,565

Reported profit before tax

Reported profit before tax was $18.9bn, up by $0.2bn or 1% from 2014. This was driven by a favourable movement in significant items of $2.6bn partly offset by $0.9bn of adverse effects of foreign currency translation between the years. The favourable movement in significant items included lower fines, settlements, UK customer redress and associated provisions (down by $1.3bn in total) and a gain on the partial disposal of Industrial Bank ($1.4bn).

Excluding the effects of significant items and currency translation, profit before tax was down by 7% from 2014. We describe the drivers of our performance under Adjusted performance on page 23.

Reported revenue

Revenue of $59.8bn was $1.4bn or 2% lower than in 2014. Revenue benefited from a favourable movement in significant items but this was more than offset by the adverse effect of currency translation of $4.8bn between the years.

Significant items affecting revenue in 2015 included:

- a $1.4bn gain on the partial sale of our shareholding in Industrial Bank;
- lower provisions and charges relating to the ongoing review of compliance with the Consumer Credit Act in the UK ($0.6bn lower than in 2014); and
- an increase in favourable movements on our own debt designated at fair value from changes in credit spreads of $0.6bn.

Reported LICs

Loan impairment charges and other credit risk provisions (LICs) of $3.7bn were $0.1bn or 3% lower than in 2014, reflecting the favourable impact of currency translation between the years.

Reported operating expenses

Operating expenses of $39.8bn were $1.5bn or 4% lower than in 2014. This reduction primarily reflected the favourable effect of currency translation of $3.3bn between the years.

The total of significant items was broadly in line with 2014, although there were notable movements as follows:

- lower provisions and charges relating to UK customer redress ($0.7bn lower than in 2014); and
- the non-recurrence of a charge of $0.6bn in 2014 relating to a settlement with the US Federal Housing Finance Agency; broadly offset by
- settlements and provisions in connection with legal matters ($0.5bn higher than in 2014); and
- costs-to-achieve relating to business transformation of $0.9bn in 2015 (for further details, see page 58).

Reported income from associates

Income from associates of $2.6bn was in line with 2014.

HSBC HOLDINGS PLC

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 347. We also present adjusted performance measures as we believe these help explain our performance and these are highlighted with the following symbol:

To arrive at adjusted performance, we adjust for:

- the year-on-year effects of foreign currency translation; and
- the effect of significant items that distort year-on-year comparisons and are excluded in order to understand better the underlying trends in the business.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see pages 66 67 and 77 78.

Adjusted results

This table shows our adjusted results for 2015. These are discussed in more detail on the following pages.

Adjusted results	2015 $m	2014 $m
Net operating income before loan income charges and other credit risk provisions (revenue)	**57,765**	57,227
Loan impairment charges and other credit risk provisions (LICs)	**(3,721)**	(3,168)
Total operating expenses	**(36,182)**	(34,576)
Operating profit	**17,862**	19,483
Share of profit in associates and joint ventures	**2,556**	2,493
Profit before tax	**20,418**	21,976

Adjusted profit before tax

Our adjusted profit before tax fell by $1.6bn or 7%.

We grew adjusted revenue by $0.5bn or 1%, notably in GB&M (up by $1.2bn or 7%), CMB (up by $0.4bn or 3%) and Principal RBWM, which is our RBWM business excluding the US run-off portfolio (up by $0.4bn or 2%). These increases were partly offset in GPB (down by $0.1bn or 6%) and Other (down by $0.3bn).

Our LICs were $0.6bn or 17% higher than in 2014, primarily due to increases in CMB ($0.5bn) and RBWM ($0.3bn), partly offset by a reduction in GB&M ($0.3bn).

Our adjusted operating expenses increased by $1.6bn or 5%. Excluding the bank levy, operating expenses in the second half of 2015 were broadly in line with the first half of the year. This was despite investment and inflationary pressures, and partly reflects the initial effect of our cost saving initiatives as well as a strong focus on cost management.

Adjusted performance (continued)

Adjusted revenue

Adjusted revenue rose by 1% in part due to growth in GB&M, CMB and Principal RBWM reflecting the following:

GB&M: Revenue of $18.0bn was $1.2bn or 7% higher than in 2014. This was driven by higher revenue in all client-facing businesses except Principal Investments. In Equities, revenue increased by $0.5bn, reflecting higher client flows and increased market volatility. Revenue from transaction banking products rose $0.4bn as volatility drove higher client flows in Foreign Exchange, as assets under custody in Asia rose in Securities Services, and as deposits rose in Payments and Cash Management (PCM). Revenue was also higher in Balance Sheet Management (BSM), rising $0.1bn.

CMB: We grew revenue by $0.4bn or 3%, in particular in Credit and Lending (up by $0.4bn) and PCM (up by $0.1bn). This growth was mainly in Hong Kong and the UK, reflecting average balance sheet growth. In Hong Kong, lending balance growth was primarily in 2014 and the first half of 2015. Balances were business, revenue was higher (up by $0.4bn or 2%). This was driven by increased Wealth Management revenue in Asia (up by $0.2bn) in the first half of 2015, from growth in investment distribution, which more than offset weaker investor sentiment in the second half of 2015. There was

GPB: Our revenue fell by $0.1bn or 6% reflecting lower brokerage and account services fee income from a managed reduction in client assets. However, revenue increased in Asia, notably in the first half of 2015, due to higher client activity as a result of stock market broadly unchanged for the remainder of 2015 reflecting subdued demand for credit. In Global Trade and Receivables Finance, performance was resilient (revenue down $44m or 2%) despite a significant decline in commodity prices (approximately 40%) and stagnant world trade.

RBWM: Our revenue was broadly unchanged from 2014. We continued to reduce the size of the balances in our US Consumer and Mortgage Lending (CML) run-off portfolio, resulting in a fall in revenue of $0.3bn. However, in our Principal RBWM also growth in Europe (up by $0.3bn), notably from insurance manufacturing. We also increased our current account, savings and deposit revenue by $0.1bn, notably in Hong Kong and the UK, from an increase in customer deposit balances of $32bn. This was partly offset by a decrease in Personal Lending revenue of $0.3bn, primarily from lower overdraft fees in the UK after the introduction of a text message alert service in late 2014.

performance.

Other: Revenue was $0.3bn or 4% lower, reflecting adverse hedging ineffectiveness movements compared with favourable movements in 2014 (a net adverse movement of $0.2bn), together with the non-recurrence of a gain on the external hedging of an intra-Group financing transaction of $0.2bn. In addition, dividend income was $0.1bn lower following the partial sale of our shareholding in Industrial Bank.

Table of Contents

Adjusted performance (continued)

Adjusted LICs

Our LICs were $0.6bn or 17% higher than in 2014, mainly in CMB ($0.5bn). This included a fourth quarter increase in specific LICs in a small number of countries, largely reflecting local factors, as well as LICs related to oil and gas.

LICs increased in RBWM by $0.3bn, mainly in Brazil as delinquency rates increased; while in the UAE, impairments on mortgages rose, following a review of the quality and value of collateral.

In GB&M, there was a reduction of $0.3bn in specific impairments as 2014 included a small number of significant charges, notably in Brazil and Hong Kong.

Adjusted operating expenses

Our adjusted operating expenses in 2015 were up $1.6bn or 5% on 2014.

Run-the-bank costs rose by $0.8bn or 2%. This was mainly due to wage

For further details on the categorisation of run-the-bank and change-the-bank costs, see page 58.

Adjusted income from associates

Our share of profit from associates and joint-ventures was broadly unchanged in 2015. The majority of this profit was from our investments in Bank of Communications Co. (BoCom) and The Saudi British Bank.

inflation in Latin America and Asia. We also recruited additional staff across the Group to support business growth.

Change-the-bank costs rose by $0.5bn or 16% on 2014. This reflected investment in regulatory programmes and compliance, including infrastructure and systems.

The bank levy of $1.4bn was $0.4bn or 34% higher than in 2014. Excluding the bank levy, adjusted operating expenses in the second half of 2015 were broadly in line with the first half of the year. This was despite investment and inflation, and reflected the initial effect of our cost-saving initiatives and a strong focus on cost management. This included a reduction in full-time equivalent staff in the second half of the year of 4,585 and lower travel costs.

Balance sheet and capital strength

Balance sheet strength

Total reported assets were $2.4 trillion, 8.5% lower than at 31 December 2014. On a constant currency basis, total assets were $91bn or 4% lower. This reduction in part reflects the efficient use of our balance sheet to maximise shareholder returns.

We are focused on reducing our use of the balance sheet in areas that are capital intensive relative to returns. This provides capacity for growth in higher returning business areas and regions. For example, in GB&M, we have reduced trading assets by decreasing holdings of debt securities in our Rates business in Europe and North America.

Capital strength

We manage our capital in an effort to ensure we exceed current regulatory requirements and are well placed to meet those expected in the future.

We monitor our position by using capital ratios. These measure capital relative to a regulatory assessment of risks taken. We quantify how these risks relate to our businesses using risk-weighted assets. Details of these risks are included on page 227.

Our common equity tier 1 (CET1) ratio at 31 December 2015 was 11.9%, up from 11.1% at 31 December 2014.

Distributable reserves

The distributable reserves of HSBC Holdings plc at 31 December 2015 were $47bn, and at 31 December 2014 were $49bn.

For detailed information on our financial performance, see pages 50 to 60.

Delivering on our Group financial targets

Return on equity

Our medium-term target is to achieve a return on equity (RoE) of more than 10%. This target is modelled on a CET1 ratio in the range of 12% to 13%.

In 2015, we achieved an RoE of 7.2% compared with 7.3% in 2014. The bank levy and significant items, such as fines, penalties, customer redress and associated provisions, had a significant effect on our 2015 RoE, reducing the return achieved by 190 basis points.

Adjusted jaws

Our target is to grow revenue faster than operating expenses on an adjusted basis. This is referred to as positive jaws. In 2015, we grew adjusted revenue by 0.9% whilst our adjusted operating expenses rose by

4.6%.

Jaws was therefore negative 3.7%. Jaws for 2015 was affected by the revenue performance in the second half of the year. Adjusted revenue growth in the first half of 2015 was 4.5% but fell in the second half of 2015, reflecting the economic environment, including slowing GDP growth in China. This resulted in overall revenue growth of 0.9% for 2015.

The increase in adjusted operating expenses in 2015 included a $0.4bn rise in the bank levy (to $1.4bn). Excluding this increase, jaws in 2015 would have been negative 2.8%. During the second half of 2015, we made progress on our cost saving plans set out at our Investor Update. We reduced the growth rate in adjusted operating expenses, down from 7.3% in the first half of 2015 to 4.7% for the year.

Progressive dividend

In 2015, we increased the dividends per ordinary share in respect of the year to $0.51 from $0.50 in 2014.

Global businesses

We manage our products and services globally through four global businesses.

For further details on the financial performance of our global businesses, see pages 68 to 73.

Commercial Banking (CMB)

Customers

CMB serves more than two million customers in 55 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally.

We have been simplifying our product range and services to meet clients needs better. Since 2013, we have reduced the number of products we offer around the world from 975 to fewer than 410. We have also completed role-specific conduct training for more than 20,000 employees to help ensure that products are sold appropriately.

Products and services

In 2015, the quality of our service was recognised by several leading awards. For the fourth consecutive year, we were recognised as the Best Global Cash Manager (for Non-Financial Institutions) in the *Euromoney* Cash Management survey. We were also recognised as the Best Overall Global Trade Finance Bank, among other awards, in the *Trade Finance* Awards for Excellence.

Business synergies

CMB is at the centre of business synergies within the Group, enabling nearly $6bn of business synergy revenue in 2015. For example, it provides trade finance, working capital and liquidity management solutions to GB&M clients. It also provides Capital Finance expertise, and Insurance and Asset Management capabilities from across the Group to benefit customers.

Continued revenue growth in Hong Kong and the UK

Adjusted profit before tax of $8.2bn was $0.4bn or 5% lower than in 2014, as revenue growth was more than offset by a rise in LICs and higher costs.

We grew revenue by $0.4bn or 3%, in particular in Credit and Lending, and PCM. This was mainly in Hong Kong and the UK, reflecting average balance sheet growth, although demand for credit in Hong Kong was subdued in the second half of 2015, with balances remaining broadly unchanged.

LICs were $0.5bn or 36% higher, reflecting enhanced credit risk in the oil and gas sector, notably in North America, Asia, and Middle East and North Africa. In addition, we raised

We support our customers with tailored financial products and services to allow them to operate efficiently and to grow. This includes providing them with working capital, term loans, payment services and international trade facilitation, among other services. We offer expertise in mergers and acquisitions, and provide access to financial markets.

Areas of focus

We are focused on creating value from our network, which covers 90% of global trade and capital flows. We are therefore investing in digital and technology aspects of our core Payments and Cash Management (PCM), and Global Trade and Receivables Finance propositions, as well as in the Pearl River Delta, ASEAN and NAFTA growth areas.

We achieved significant risk-weighted asset efficiencies through management initiatives in 2015 and continue to ensure our capital is deployed effectively.

LICs against a small number of specific clients in Indonesia, the UAE and the UK.

Costs increased by $0.4bn or 6%, notably in Asia and the US, due to wage inflation and investment in growth initiatives, regulatory programmes and compliance.

Management initiatives set out in our Investor Update in June 2015 contributed a reduction in risk-weighted assets (RWAs) of $23.0bn or more than 75% of our 2015 2017 target.

Adjusted profit before tax

-5%

Table of Contents

Global Banking and Markets (GB&M)

Customers

GB&M supports major government, corporate and institutional clients worldwide in achieving their long-term strategic goals through tailored and innovative solutions. Our deep sector expertise extends across transaction banking, financing, advisory, capital markets and risk management. We serve nearly 4,000 clients in more than 50 countries and territories, helping them to realise opportunities in the markets that matter to them.

We continue to strengthen the services we provide and our relationships with clients. We regularly assess these relationships, using benchmarking and internal programmes. As a result, in 2015 we improved the on-boarding experience for clients and enabled relationship bankers to spend more time understanding clients needs. Customer feedback allows us to identify opportunities to further improve our business and the wider client experience.

accolades, including Most Innovative Investment Bank and Best Bank for Securities Services in *The Banker* awards. We were ranked number one Bank for Corporates (Global Market Share) in the *Euromoney* FX Survey, and for the third consecutive year we were voted Best Bond House in Asia by *FinanceAsia.*

In addition, we provide award-winning research to investors with an emphasis on emerging markets.

Business synergies

In 2015, GB&M enabled business synergies of $8.4bn, supporting growth in a number of areas. For example, we provide Markets products to CMB and RBWM customers, Capital Financing products to CMB customers, and also use CMB and Asset Management products to serve GB&M clients.

Adjusted profit growth of 14% compared with 2014

Adjusted profit before tax was higher by $1.1bn due to higher revenue and lower LICs, partly offset by increased costs.

Our revenue increased by $1.2bn or 7%, with higher revenue in all businesses except Principal Investments. In client-facing GB&M, revenue rose due to increased client flows and volatility in Equities (up by $0.5bn) and in transaction banking products (up by $0.4bn). Revenue was also higher in Balance Sheet Management (up $0.1bn).

LICs were $0.3bn lower. This reflected minimal impairments in 2015 compared with a net charge in 2014 in client-facing GB&M. However, in 2015 we had lower net releases of credit risk provisions, primarily on available-for-sale asset-backed securities in legacy credit.

Areas of focus

Products and services

Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services. In 2015, our product strengths were recognised by numerous

Deepening relationships with clients in both event and transaction banking products remains a priority. We will focus on regions where we see the greatest growth opportunities such as NAFTA, ASEAN and the Pearl River Delta. We also plan to grow our business from the internationalisation of China s renminbi currency and by investing in digital capabilities.

We made significant progress towards reducing RWAs in 2015. This will remain a focus as we continue to exit legacy credit, manage our Markets and Capital Financing businesses and employ a disciplined approach to new client business.

Our continued focus on cost discipline will result in further simplification of the business from streamlining of our business lines, operations and technology.

Our operating expenses increased by $0.4bn or 5%, mainly from higher performance-related costs and higher staff costs reflecting wage inflation. In addition, we continued to invest in our PCM and Foreign Exchange businesses, as well as in regulatory programmes and compliance.

Management initiatives identified in our Investor Update in June 2015 contributed to an overall reduction in RWAs of $72bn this year. This is 54% of our target of $134bn (stated at December 2015 exchange rates).

The graph below shows reported and adjusted profit before tax. The difference between these figures primarily reflects fines, penalties and charges in relation to legal matters, which totalled $1.9bn and $0.9bn in 2014 and 2015, respectively. Significant items are detailed on page 66.

Adjusted profit before tax

+14%

Retail Banking and Wealth Management (RBWM)

Customers

RBWM serves close to 45 million customers worldwide through four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance.

Since 2012, we have taken numerous actions to improve the way we conduct our business. We have removed the formulaic link between product sales and remuneration, paying all staff on a discretionary basis, which includes assessment of their behaviour and the satisfaction of our customers. We have simplified our product range, reviewed the fairness of our product features and pricing, and enhanced the way we monitor the quality of our sales.

Products and services

Asset Management and Insurance

We operate our own Asset Management and Insurance businesses. By owning these businesses directly, we can tailor their products to the needs of customers and maintain end-to-end control over their quality. We are investing for growth in these businesses, leveraging our network and strong client relationships.

Business synergies

RBWM makes a significant contribution to the overall success of the Group. In 2015, Insurance Manufacturing (within Wealth Management) and Asset Management generated revenue of $1.7bn and $1.1bn, respectively, from the provision of services to clients across all of our global businesses. In addition, the foreign exchange and wealth management needs of our RBWM clients create opportunities for GB&M.

Despite a challenging second half of 2015, Wealth Management revenue grew by 8%

Total RBWM Total RBWM adjusted profit before tax fell by $0.7bn or 10%, with a decrease in profit before tax in both Principal RBWM and from the continued reduction in our US run-off portfolio.

The graph below shows reported and adjusted profit before tax. The difference between them primarily reflects fines, penalties and charges in relation to legal matters, which totalled $1.6bn and $1.3bn in 2014 and 2015, respectively. Significant items are detailed on page 66.

Principal RBWM In our Principal RBWM business, profit before tax was down by $0.5bn or 7%, reflecting higher costs and LICs. Revenue grew.

RBWM provides services to individuals under the HSBC Premier and Advance propositions aimed at mass affluent and emerging affluent customers who value international connectivity and benefit from our global reach and scale. For customers who have simpler everyday banking needs, RBWM offers a full range of banking products and services reflecting local requirements.

RBWM s strong deposit franchise supports a stable and diversified core funding base for the Group, and the branch network supports the needs of other global business clients while enhancing the visibility of the HSBC brand.

Areas of focus

RBWM s focus is on growing the business through relationship-led personal lending and wealth management, while transforming our customer experience and cost base through investment in digital infrastructure.

Revenue rose $0.4bn in Wealth Management in Asia in the first half of the year from investment distribution, offsetting weaker investor sentiment in the second half of 2015. Wealth Management income in Europe also grew as insurance manufacturing increased. Deposit and savings income grew in Asia and the UK as deposits increased by $32bn. This was partly offset by lower overdraft fees in the UK.

LICs increased by $0.3bn or 20%, mainly in Brazil from increased impairment charges following the economic slowdown, and the UAE following a review of collateral in the mortgage book.

Costs rose by $0.5bn or 4%, driven by inflation in Asia and Latin America. Our marketing costs also increased as we relaunched our Global Advance account proposition with notable investment in the UK, and we continued to invest in regulatory programmes and compliance.

Adjusted profit before tax total RBWM

-10%

Table of Contents

Global Private Banking (GPB)

Customers

GPB serves high net worth individuals and families, including those with international banking needs, through 18 booking centres covering our priority markets.

Since 2011, GPB has taken significant steps to simplify and improve the way it conducts its business. We have reduced the number of booking centres to refocus resources on a smaller number of locations where we have the scale to support our new client service model and enhanced sales quality standards.

We have also reduced the number of offshore markets we cover to ensure appropriate focus is given to key growth areas.

GPB remains committed to implementing the most effective global

Products and services

We work closely with our clients to provide solutions to grow, manage and preserve wealth. Our products and services include: Investment Management, incorporating advisory, discretionary and brokerage services; Private Wealth Solutions, comprising trusts and estate planning, designed to protect wealth and preserve it for future generations; and a full range of Private Banking services.

Business synergies

GPB aims to bring the best of the Group s research, product and service capabilities to GPB clients.

To achieve this, we have three client service groups: the Corporate Client Group, enhancing connectivity with CMB and GB&M; the Wealth Client Group, delivering a seamless transition across the RBWM and GPB wealth franchises; and the

Continued repositioning of our GPB business

Adjusted profit before tax fell by 26% to $0.5bn, mainly because revenue fell by 6% as we continued to reposition the GPB business.

However, revenue increased in Asia, notably in the first half of 2015, due to higher client activity as a result of a strong stock market performance, which more than offset the weaker investor sentiment in the second half of the year.

We attracted positive net new money of $14bn in 2015 in the parts of the business that fit our target model, mainly in Hong Kong, the UK, Singapore and the US.

Adjusted profit before tax

-26%

standards, including customer due diligence, a tax transparency framework and financial crime compliance measures.

Global Solutions Group, delivering non-traditional wealth management solutions.

Wherever possible, GPB uses product capabilities within GB&M, CMB and RBWM, including asset management, research, insurance, trade finance and capital financing, to offer a unique proposition to our clients.

Areas of focus

GPB aspires to build on HSBC s commercial banking heritage and be the leading private bank for high net worth business owners and principals. We work closely and systematically with CMB and GB&M to deliver a coordinated private and corporate coverage model for our clients.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Building lasting business relationships

Ensuring fair outcomes

We recognise that delivering fair outcomes for customers and upholding financial market integrity is critical to a sustainable business model.

We continue to enhance our product governance processes to further ensure products are designed to meet customers needs and are sold appropriately. In the UK, for example, we have started to alert customers by text message when they are about to go into overdraft. As a result, customer complaints in this area have declined by 67% and customers have saved more than $129.9m in fees.

For further details on the steps we have taken to strengthen conduct across the Group, see page 40. For further details on compliance risk and for further details on conduct-related costs included in significant items, see pages 178 and 97, respectively.

Increasing quality of service

We seek feedback from customers in order to assess how well we are doing and what we can do better. In 2015, we improved our processes for responding to customer complaints and tools for understanding their causes. For example, in India our analysis of customer complaints led us to improve customer communication regarding minimum balances and change our fee structure. Complaints in this area subsequently reduced by 62%.

Through our commercial banking research programmes, we have spoken to more than 50,000 businesses to gather feedback on our products and services from existing and potential customers. We use competitor benchmarking, brand tracking and customer surveys to evaluate our performance. In RBWM, we conducted more than 350,000 individual customer surveys.

Developing long-term opportunities

Technology and climate change are two areas that present both challenges and opportunities to us and our customers.

Investing in technology

We are investing in innovation and digital capabilities to serve customers better, and enhancing security around financial transactions and customer data.

In 2015, we enabled the Apple Pay mobile payment service for customers in the UK and the US, and launched live-chat online customer service in six markets including the UK, Hong Kong and France. We made digital secure keys available in the UK to simplify the customer login experience. In Argentina and the Philippines, we launched our new online banking platform, which will be deployed in additional countries in 2016.

Facilitating a low-carbon economy

Reducing global carbon dioxide emissions is a critical challenge for society. We see the potential for financial services to facilitate investment that can help the world transition to a low-carbon economy.

In 2015, our Global Research team was ranked number one for Integrated Climate Change for the second year running in the Extel Survey. Furthermore, our Asset Management business joined the Montreal Pledge to disclose the carbon intensity of its portfolio.

For more information about our climate business, see page 37.

HSBC Global Research

1st

for integrated climate

change research, ranked

by Extel Survey 2015.

Empowering people

Valuing diversity

We are proud to provide an open, supportive and inclusive workplace where people can grow and achieve their potential. Our commitment to diversity and inclusion helps us attract, develop and retain employees. We are also committed to reflecting the communities we serve.

Our employees lead and organise seven global employee networks to promote diversity. They focus on gender, age, ethnicity, sexual orientation, religion, working parents and disability.

To help managers address bias in hiring, promotion and talent identification, we use education programmes and have expanded mentoring initiatives for under-represented groups.

In 2015, we won Diversity Team of the Year at the European Diversity Awards. We were also one of 10 companies recognised as a Top Global Employer in Stonewall s Global Workplace Equality Index.

We continue to address gender representation, particularly at senior levels, with additional focus on promotions and hiring. We also continue to expand support and flexible working programmes for parents returning to work.

Our award-winning Balance employee network aims to address gender diversity across HSBC, encouraging dialogue and a better understanding of the challenges and opportunities in promoting a gender-balanced workforce throughout the Group. It is available to staff of all genders, and had active groups in more than 30 offices around the world in 2015.

Encouraging ownership

We promote individual ownership and responsibility, and have created forums to encourage dialogue. In 2015, we continued to facilitate agenda-free exchange meetings across the Group for employees to collaborate on ideas and initiatives to improve our work. We also held 14 webcasts with senior executives to promote understanding of our strategic actions and allow employees to ask questions.

Equipping employees

Our training programmes reinforce a culture grounded in our values. In 2015, we completed a three-year programme of values-led leadership training for all employees.

We are building employee training centres in Birmingham, Dubai and mainland China. These will operate alongside HSBC University, our online training service.

In 2015, we also launched HSBC Confidential, which brought together all our existing whistleblowing channels on to a global platform that allows employees to raise concerns confidentially without fear of personal repercussions. The global channel can be accessed by telephone, email, web or mail. For further details, see Whistleblowing on page 179.

Rewarding positive behaviours

We have embedded behaviour ratings in our performance review processes, which are factored into variable pay considerations.

In 2015, we introduced an At Our Best online recognition tool for all employees. It allows them to recognise colleagues actions by awarding points that are redeemed for gifts and benefits.

Exchange meeting participation

(% of employees that attended a 2015 meeting)

53%

Employee retention

84.1%

Ensuring sustainable outcomes

Tax

Managing environmental

and social impacts

We continue to reduce the environmental impact of our operations and have robust policies and processes to manage sustainability risks in our business activities.

We are reducing the amount of energy we consume, and increasing the proportion from renewable sources. We have signed agreements to increase the percentage of our electricity from new wind and solar sources to 9%, and have a target of 25% by 2020. We report on our carbon dioxide emissions for the year in the Report of the Directors on page 98.

Our sustainability risk policies cover a number of sensitive industries and themes. After we issued new standards in our forestry and agricultural commodities policies in 2014, we took the decision to stop banking more than 160 customers as soon as possible because they did not comply. In 2015, HSBC was recognised as a leader in the Forest 500 ranking of 150 investors policies on the sustainability of forest commodity supply chains.

We also support a transition to certified, sustainable palm oil. Our standards require our palm oil customers to have all their operations certified as sustainable by the end of 2018, and we continue to support them in meeting this goal.

In 2015, there were more than 2,300 attendances by relationship and risk managers of training on our sustainability risk policies to help ensure their implementation is robust.

Details on our sustainability risk framework and policies are available online at www.hsbc.com/citizenship/sustainability/finance.

Respecting human rights

We apply human rights considerations directly as they affect our employees and indirectly through our suppliers and customers, and through our action to prevent bribery and corruption. For example, our code of conduct for suppliers includes elements related to human rights, as do our project finance lending and sustainability risk policies. Our Statement on Human Rights, issued in 2015, explains how we do this and is available on our website. We will integrate the provisions of the Modern Slavery Act 2015 into our business and supply chain, and will report in line with the guidelines published by the UK government.

We are guided by the International Bill of Human Rights, and support the UN Declaration of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation s Declaration on

Fundamental Principles and Rights at Work.

Investing in our communities

We believe that education and the environment are essential to resilient communities and thriving economies. For more than 10 years, we focused our community investment activities on these two areas. In 2015, following survey responses from employees, we decided to add medical charities to the causes we support.

In 2015, we contributed a total of $205m to charitable programmes and our employees volunteered 304,555 hours in community activities during the working day.

We marked our 150th year by setting up an additional fund of $150m to support causes selected by our employees. It will support 140 charities across the world over three years. We also made a one-off $62m donation to charities in Hong Kong from the sale of commemorative HK$150 bank notes.

Our approach to tax

We apply the spirit as well as the letter of the law in all territories where we operate, and have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to be designed to facilitate tax evasion.

HSBC continued to support global initiatives to improve tax transparency such as:

- the US Foreign Account Tax Compliance Act (FATCA);
- the OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- the Capital Requirements Directive IV (CRD IV) Country by Country Reporting; and
- the OECD Base Erosion and Profit Shifting (BEPS) initiative.

We do not expect the BEPS initiative or similar initiatives adopted by national governments to adversely impact HSBC s results.

Table of Contents

Table of Contents

Table of Contents

Strategic Report

Risk overview

We actively manage risk to protect

and enable the business.

Managing risk

As a provider of banking and financial services, managing risk is part of our core day-to-day activities. Our success in doing so is due to our clear risk appetite, which is aligned to our strategy. We set out the aggregate level and types of risk that we are willing to accept in order to achieve our medium- and long-term strategic objectives in our risk appetite statement, which is approved by the Board, covering:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur to generate income, such as operational risk and capital and liquidity risk, which are managed to remain below an acceptable tolerance; and
- risks that we have zero tolerance for, such as reputational risk.

Our risk management framework and its key components, and our exposure to risks arising from the business activities of the global businesses are shown on pages 101 and 109.

The strategic actions designed to increase our return on equity are described on page 18.

To ensure that risks are managed in a consistent way across the Group, we employ a risk management framework that is applicable to all levels of the organisation and across all risk types. It sets out governance and structures,

responsibilities and processes. Global Risk, led by the Group Chief Risk Officer, who is an executive Director, is responsible for enterprise-wide risk oversight and is independent from the sales and trading functions of the Group s businesses. This independence ensures the necessary balance in risk/ return decisions.

Key risk appetite metrics

Component	Measure	Risk appetite	2015

Returns	Return on average ordinary shareholders equity in excess of our estimated cost of equity of 9%	≥10%	7.2%
Capital	Common equity tier 1 ratio CRD IV end point basis	≥10%	11.9%
Liquidity	HSBC consolidated balance sheet advances-to- deposits ratio	£90%	72%
Loan impairment charges	RBWM loan impairment charges as % of advances[1]	<0.65%	0.58%
	Wholesale loan impairment charges as % of advances	<0.45%	0.26%

[1] Including the loans of the Brazilian operations held for sale.

Risk management and stress testing

Stress testing is an integral component of our risk management framework. It is an important tool for us to assess potential vulnerabilities in our businesses, business model or portfolios. It allows us to understand the sensitivities of the core assumptions in our strategic and capital plans, and improve decision-making through balancing risk and return.

Internal stress test scenarios are closely aligned to our assessment of top and emerging risks. The potential impact from these scenarios, were they to occur, may prompt pre-emptory management actions including a reduction in limits or direct exposures, or closer monitoring of exposures sensitive to stress.

Our approach to stress testing and the results of regulatory stress testing programmes are discussed on pages 103 and 116, respectively.

We also participate in regulatory stress test exercises in a number of jurisdictions. The primary Group-wide exercise is requested by the Bank of England. The 2015 scenario incorporated a synchronised global downturn affecting Asia, Brazil and the eurozone in particular, a reduction in global risk appetite and market liquidity, and a recession in the

UK.

The results were published by the Bank of England on 1 December 2015 and are summarised below. Our CET1 ratio remained well above the regulatory minimum despite our significant presence in the countries and regions affected by the scenario, demonstrating our resilience to a severe stress situation in our core markets.

2015 Bank of England Stress Test Results **Group Common Equity Tier 1 Ratio**	
31 December 2014 actual (end point)	11.1%
Minimum stressed ratio before management actions	7.0%
Minimum stressed ratio after management actions	7.7%
Bank of England minimum ratio	4.5%
31 December 2015 actual (end point)	11.9%

Table of Contents

Risk overview

Top and emerging risks

We employ a top and emerging risks framework at all levels of the organisation to identify current and forward-looking risks so that we may take action that either prevents them materialising or limits their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks were to occur, they could have a material effect on HSBC.

Our current top and emerging risks are summarised below.

During 2015, we made two changes to our top and emerging risks to reflect our assessment of their effect on the Group. Turning of the credit cycle was added as a new risk, reflecting the risk of deterioration in the credit environment. Internet crime and fraud was removed as mitigating actions taken have reduced credit and fraud losses through digital channels.

In addition, four risks were renamed to better reflect the issues facing HSBC. We use the new names below.

Our top and emerging risks

are discussed in more detail

on page 110.

Risk	Trend	Mitigants
Externally driven		
Economic outlook and capital flows		We closely monitor economic developments in key markets, undertaking business or portfolio reviews or stress tests as required, and take appropriate action as circumstances evolve.

Geopolitical risk	We continuously assess the impact of the geopolitical outlook on our country limits and exposures to ensure we remain within our risk appetite.
Turning of the credit cycle	We undertook portfolio and limit reviews and conducted stress tests on the sectors and portfolios that are most sensitive to the credit cycle.
Regulatory developments affecting our business model and profitability	We actively assess the effect of relevant developments and engage closely with governments and regulators, seeking to ensure that requirements are considered properly and implemented in an effective manner.
US DPA and related agreements and consent orders	We are continuing to take concerted action to remedy anti-money laundering and sanctions compliance deficiencies and to implement Global Standards.
Regulatory focus on conduct of business and financial crime	We are enhancing our financial crime and regulatory compliance controls and resources and are implementing significant programmes to enhance the management of conduct and financial crime risks.
Dispute risk	We continue to focus on identifying emerging regulatory and judicial trends, and sharing lessons learned globally in an effort to avoid or limit future litigation exposure.
Cyber threat and unauthorised access to systems	We continue to improve our governance and controls framework to protect HSBC s information and technical infrastructure against ever-increasing and sophisticated cyber threats.

Internally driven	
People risk	We continue to focus on attracting and retaining key talent and are implementing a number of initiatives to improve employee capability, collaboration and engagement.
Execution risk	We have strengthened our prioritisation and governance processes for significant strategic, regulatory and compliance projects. Risks related to the disposals of our operations in Brazil and Turkey were subject to close management oversight.
Third-party risk management	We are enhancing our third-party risk management governance, processes and procedures and have conducted enhanced risk assessments of our most critical third parties.
Model risk	We have strengthened our governance framework, created centralised global analytical functions and recruited additional subject matter experts in our modelling and independent model review teams.
Data management	A number of key initiatives and projects are in progress to implement our data strategy to enable consistent data aggregation, reporting and management.

Risk heightened during 2015

Risk remained at the same level as 2014

Table of Contents

Strategic Report

Remuneration

Our remuneration policy supports the achievement of our strategic objectives through balancing reward for both short-term and long-term sustainable performance.

Remuneration principles

The remuneration strategy for our employees is based on a series of key principles.

For full details of our remuneration policy, see www.hsbc.com/~/media/HSBC-com/InvestorRelationsAssets/governance/151023-remuneration-policy.

What we do

Focus on total compensation with a strong link between pay and performance

Judge not only what is achieved but how it is achieved in line with HSBC Values

Operate a thorough performance management and HSBC Values assessment process

Recognise and reward our employees for outstanding positive behaviour

What we don t do

Reward inappropriate or excessive risk taking or short-term performance at the expense of long-term company sustainability

Use only a formulaic approach to determine bonuses for our executives

Award discretionary bonuses to employees rated unacceptable against our HSBC Values and behaviours

Allow our employees to hedge against their unvested or retained awards

Design our policy to align compensation with long-term shareholder interests	Offer employment contracts with a notice period of more than 12 months
Apply consequence management to strengthen the alignment between risk and reward	Have pre-arranged individual severance agreements

Single figure of remuneration for our executive Directors

(£000)

For full details of our Directors pay and performance for 2015, see the Directors Remuneration Report on page 285.

How much our executive Directors earned in 2015 (£000)

	Douglas Flint Group Chairman		**Stuart Gulliver** Group Chief Executive		**Iain Mackay** Group Finance Director		**Marc Moses** Group Chief Risk Officer	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Fixed pay								
Base salary	**1,500**	1,500	**1,250**	1,250	**700**	700	**700**	700
Fixed pay allowance			**1,700**	1,700	**950**	950	**950**	950
Pension	**750**	750	**625**	625	**350**	350	**350**	350
Total fixed pay	**2,250**	2,250	**3,575**	3,575	**2,000**	2,000	**2,000**	2,000
Variable pay								
Annual incentive			**1,072**	1,290	**1,068**	867	**827**	1,033
GPSP			**1,969**	2,112	**1,101**	1,131	**1,101**	1,131
Total variable pay			**3,041**	3,402	**2,169**	1,998	**1,928**	2,164
Total fixed and variable pay	**2,250**	2,250	**6,616**	6,977	**4,169**	3,998	**3,928**	4,164
Benefits	**151**	136	**662**	589	**54**	43	**6**	6

Non-taxable benefits	**95**	105	**53**	53	**28**	28	**29**	33
Notional return on deferred cash		41	**9**		**5**	11	**5**	36
Total single figure of remuneration	**2,496**	2,532	**7,340**	7,619	**4,256**	4,080	**3,968**	4,239

Table of Contents

Remuneration

Policy for executive Directors

We are making changes to our Directors remuneration policy

Our current remuneration policy was approved by shareholders at the 2014 Annual General Meeting (AGM) and was applied for 2015. Due to increased

regulatory requirements, we are putting forward a new remuneration policy for shareholder approval at the AGM this year. For further details, see page 288.

The table below summarises how each element of pay was implemented in 2015 and how it will change for 2016 if the new policy is approved.

For full details of the current Directors remuneration policy, see page 381 of the 2013 Directors Remuneration Report.

Pay	Element	Implementation in 2015	Proposed changes to policy for 2016
Fixed	**Base salary**	Benchmarked on an annual basis Increases will not exceed more than 15% of base salary levels as at 2013 during the term of the policy Amounts have not changed since 2010	No change to policy: Increase will not exceed more than 15% of base salary levels as at 2016 during the term of the policy
	Fixed pay allowance	Fixed pay allowances introduced in 2014 to ensure the total compensation package remains competitive as a consequence of new regulatory requirements in 2013 Granted in immediately vested shares, subject to a retention period with 20% released after one year and the remainder after five years	Maximum fixed pay allowance for each executive Director is 150% of base salary Granted in immediately vested shares, subject to a retention period released pro-rata over a period of five years

	Pension	Cash allowance in lieu of pension of up to 50% of base salary	Reduced to a maximum of 30% of base salary
	Benefits	Takes account of local market practice, including but not limited to medical and income protection insurance	No change to current provided benefits Post-departure benefits introduced for up to seven years from date of departure
Variable	**Annual incentive**	Maximum is 67% of fixed pay (equal to approximately 181% of base salary) Measured against an annual scorecard A minimum of 60% will be deferred and vest over a three-year period Delivered in cash and shares, with a minimum of 50% delivered in shares	Maximum is 215% of base salary 100% delivered in shares subject to a retention period, with the Remuneration Committee to have discretion to defer a portion of the awards or apply a longer retention period
	Long-term incentive	Group Performance Share Plan Maximum of 133% of fixed pay (equal to approximately 381% of base salary) Measured against 2014 long-term scorecard Delivered in shares with a five-year vesting period Required to hold shares until retirement	New long-term incentive plan Maximum is 320% of base salary Performance targets set annually for each three-year forward-looking performance period Introduction of relative total shareholder return as a performance measure Delivered in shares, subject to the outcome of the performance conditions at the end of the three-year performance period, in equal instalments between the third and seventh anniversary of the grant date A retention period may be applied to ensure compliance with regulatory requirements

Table of Contents

Table of Contents

Financial review

All disclosures in the Financial Review section are unaudited unless otherwise stated.

Disclosures marked as audited should be considered audited in the context of financial statements taken as a whole.

Table of Contents

Report of the Directors: Financial summary

Use of non-GAAP financial measures

Financial summary

The management commentary included in the Strategic Report, the Report of the Directors: Financial Review, together with the Employees and Corporate sustainability sections of Corporate Governance and the Directors Remuneration Report is presented in compliance with the IFRSs Practice Statement Management Commentary *issued by the IASB.*

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 336. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort year-on-year comparisons. These are considered non-GAAP financial measures.

The primary non-GAAP financial measure we use is adjusted performance . Other non-GAAP financial measures are described and reconciled to the most relevant reported financial measure when used.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items that distort year-on-year comparisons. Significant items are excluded from adjusted performance because management and investors would ordinarily identify and consider them separately in order to better understand the underlying trends in a business.

These items, which are detailed in the tables starting on pages 66 and 77, include:

- gains or losses on the disposal or reclassification of subsidiaries, associates and joint ventures;
- fines, penalties, customer redress and associated provisions, together with settlements and provisions relating to legal matters when their size or historical nature mean they warrant separate consideration;
- costs incurred to achieve the productivity and cost reduction targets outlined in the Investor Update of June 2015; and
- credit spread movements on our long-term debt designated at fair value.

We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses year-on-year performance.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2015. We exclude the translation differences when deriving constant currency data because using this data allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for 2015 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

the income statements for 2014 at the average rates of exchange for 2015; and

the balance sheet at 31 December 2014 at the prevailing rates of exchange on 31 December 2015.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. When reference is made to foreign currency translation differences in tables or commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the appropriate exchange rates applied in the current year on the basis described above.

Significant items

The tables starting on pages 66 and 77, detail the effect of significant items on each of our geographical segments and global businesses in 2015 and 2014.

The following table reconciles selected reported items for 2015 and 2014 to adjusted items at a Group level.

Reconciliation of 2015 and 2014 reported and adjusted items

Reconciliation of reported and adjusted items

	2015 $m	2014 $m	Change %
Revenue[1]			
Reported	**59,800**	61,248	(2)
Currency translation		(4,775)	
Own credit spread[2]	**(1,002)**	(417)	
Acquisitions, disposals and dilutions		(9)	
Other significant items	**(1,033)**	1,180	
Adjusted	**57,765**	57,227	1
Loan impairment charges and other credit risk provisions			
Reported	**(3,721)**	(3,851)	3
Currency translation		683	
Acquisitions, disposals and dilutions			
Other significant items			
Adjusted	**(3,721)**	(3,168)	(17)
Total operating expenses			
Reported	**(39,768)**	(41,249)	4
Currency translation		3,278	
Acquisitions, disposals and dilutions		40	
Other significant items	**3,586**	3,355	

Adjusted	**(36,182)**	(34,576)	(5)
Adjusted cost efficiency ratio	**62.6%**	60.4%	
Share of profit in associates and joint ventures			
Reported	**2,556**	2,532	1
Currency translation		(39)	
Acquisitions, disposals and dilutions			
Other significant items			
Adjusted	**2,556**	2,493	3
Profit before tax			
Reported	**18,867**	18,680	1
Currency translation		(853)	
Own credit spread[2]	**(1,002)**	(417)	
Acquisitions, disposals and dilutions		31	
Other significant items	**2,553**	4,535	
Adjusted	**20,418**	21,976	(7)

For footnotes, see page 99.

Table of Contents

Reconciliation of 2014 and 2013 reported and adjusted items

Reconciliation of reported and adjusted items

	2014	2013	Change
	$m	$m	%
Revenue[1]			
Reported	61,248	64,645	(5)
Currency translation		(686)	
Own credit spread[2]	(417)	1,246	
Acquisitions, disposals and dilutions	(9)	(2,757)	
Other significant items	1,180	(594)	
Adjusted	62,002	61,854	
Loan impairment charges and other credit risk provisions			
Reported	(3,851)	(5,849)	34
Currency translation		168	
Acquisitions, disposals and dilutions		67	
Other significant items			
Adjusted	(3,851)	(5,614)	31
Total operating expenses			
Reported	(41,249)	(38,556)	(7)
Currency translation		348	
Acquisitions, disposals and dilutions	40	488	
Other significant items	3,355	2,038	
Adjusted	(37,854)	(35,682)	(6)
Adjusted cost efficiency ratio	61.1%	57.7%	
Share of profit in associates and joint ventures			
Reported	2,532	2,325	9
Currency translation		11	
Acquisitions, disposals and dilutions		87	
Other significant items			
Adjusted	2,532	2,423	4
Profit before tax			
Reported	18,680	22,565	(17)

Currency translation		(159)	
Own credit spread[2]	(417)	1,246	
Acquisitions, disposals and dilutions	31	(2,115)	
Other significant items	4,535	1,444	
Adjusted	22,829	22,981	(1)

For footnotes, see page 100a.

Negative percentage change numbers are favourable:

positive numbers are unfavourable.

Return on equity and Return on tangible equity

Return on tangible equity (ROTE) is computed by adjusting reported results for the movements in the present value of in-force long-term insurance business (PVIF), impairments of goodwill, and adjusting the reported equity for goodwill, intangibles and PVIF. The

adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests.

We provide ROTE as an additional measure to ROE to provide a way to look at our performance which is closely aligned to our capital position.

The following table details the adjustments made to the reported results and equity:

	2015	2014	2013
	$m	$m	$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	**12,572**	13,115	15,631
Goodwill impairment (net of tax)			279
Increase in PVIF (net of tax)	**(494)**	(213)	(397)
Profit attributable to the ordinary shareholders, excl. goodwill impairment and PVIF	**12,078**	12,902	15,513
Equity			
Average ordinary shareholders equity	**174,627**	178,898	169,260
Effect of Goodwill, PVIF and other intangibles (net of deferred tax)	**(25,012)**	(27,740)	(28,024)
Average tangible equity	**149,615**	151,158	141,236
	%	%	%
Ratio			
Return on equity	**7.2**	7.3	9.2
Return on tangible equity	**8.1**	8.5	11.0

49b

Table of Contents

Report of the Directors: Financial summary (continued)

Consolidated income statement / Group performance by income and expense item

Consolidated income statement

Five-year summary consolidated income statement

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
Net interest income	**32,531**	34,705	35,539	37,672	40,662
Net fee income	**14,705**	15,957	16,434	16,430	17,160
Net trading income	**8,723**	6,760	8,690	7,091	6,506
Net income/(expense) from financial instruments designated at fair value	**1,532**	2,473	768	(2,226)	3,439
Gains less losses from financial investments	**2,068**	1,335	2,012	1,189	907
Dividend income	**123**	311	322	221	149
Net insurance premium income	**10,355**	11,921	11,940	13,044	12,872
Gains on disposal of US branch network, US cards business and Ping An Insurance (Group) Company of China, Ltd				7,024	
Other operating income	**1,055**	1,131	2,632	2,100	1,766
Total operating income	**71,092**	74,593	78,337	82,545	83,461
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(11,292)**	(13,345)	(13,692)	(14,215)	(11,181)
Net operating income before loan impairment charges and other credit risk provisions	**59,800**	61,248	64,645	68,330	72,280
Loan impairment charges and other credit risk provisions	**(3,721)**	(3,851)	(5,849)	(8,311)	(12,127)
Net operating income	**56,079**	57,397	58,796	60,019	60,153
Total operating expenses	**(39,768)**	(41,249)	(38,556)	(42,927)	(41,545)
Operating profit	**16,311**	16,148	20,240	17,092	18,608
Share of profit in associates and joint ventures	**2,556**	2,532	2,325	3,557	3,264
Profit before tax	**18,867**	18,680	22,565	20,649	21,872

Tax expense	**(3,771)**	(3,975)	(4,765)	(5,315)	(3,928)
Profit for the year	**15,096**	14,705	17,800	15,334	17,944
Profit attributable to shareholders of the parent company	**13,522**	13,688	16,204	14,027	16,797
Profit attributable to non-controlling interests	**1,574**	1,017	1,596	1,307	1,147

Five-year financial information

	2015	2014	2013	2012	2011
	$	$	$	$	$
Basic earnings per share	**0.65**	0.69	0.84	0.74	0.92
Diluted earnings per share	**0.64**	0.69	0.84	0.74	0.91
Dividends per ordinary share[3]	**0.50**	0.49	0.48	0.41	0.39
	%	%	%	%	%
Dividend payout ratio[4]	**76.5**	71.0	57.1	55.4	42.4
Post-tax return on average total assets	**0.6**	0.5	0.7	0.6	0.6
Return on average ordinary shareholders equity	**7.2**	7.3	9.2	8.4	10.9
Average foreign exchange translation rates to $:					
$1: £	**0.654**	0.607	0.639	0.631	0.624
$1:	**0.902**	0.754	0.753	0.778	0.719

For footnotes, see page 99.

Unless stated otherwise, all tables in the Annual Report and Accounts 2015 are presented on a reported basis.

For a summary of our financial performance in 2015, see page 22.

Table of Contents

Group performance by income and expense item

Net interest income

	2015 $m	2014 $m	2013 $m
Interest income	**47,189**	50,955	51,192
Interest expense	**(14,658)**	(16,250)	(15,653)
Net interest income[5]	**32,531**	34,705	35,539
Average interest-earning assets	**1,726,949**	1,786,536	1,669,368
Gross interest yield[6]	**2.73%**	2.85%	3.07%
Less: cost of funds	**(1.00%)**	(1.05%)	(1.10%)
Net interest spread[7]	**1.73%**	1.80%	1.97%
Net interest margin[8]	**1.88%**	1.94%	2.13%

For footnotes, see page 99.

Summary of interest income by type of asset

	2015 Average balance $m	2015 Interest income $m	2015 Yield %	2014 Average balance $m	2014 Interest income $m	2014 Yield %	2013 Average balance $m	2013 Interest income $m	2013 Yie[ld %]
[Sho]rt-term funds [and] loans and [adv]ances to banks	**221,924**	**2,277**	**1.03**	237,148	3,068	1.29	236,377	2,851	1.[illegible]
[Loa]ns and advances [to c]ustomers	**909,707**	**33,104**	**3.64**	931,311	37,429	4.02	897,322	38,529	4.[illegible]
[Re]verse repurchase [agr]eements [– non]-trading	**162,308**	**1,301**	**0.80**	198,273	1,800	0.91	114,324	995	0.[illegible]

ancial estments	**396,113**	**7,508**	**1.90**	399,816	8,323	2.08	393,309	8,002	2.0
er rest-earning ets	**36,897**	**2,999**	**8.13**	19,988	335	1.68	28,036	815	2.9
al rest-earning ets	**1,726,949**	**47,189**	**2.73**	1,786,536	50,955	2.85	1,669,368	51,192	3.0
ding assets and ancial assets ignated at fair ue[9,10]	**195,285**	**4,626**	**2.37**	238,958	5,596	2.34	354,817	5,763	1.6
pairment wances	**(10,606)**			(14,015)			(15,954)		
n-interest-earning ets	**682,143**			668,564			683,785		
ar ended December	**2,593,771**	**51,815**	**2.00**	2,680,043	56,551	2.11	2,692,016	56,955	2.1

footnotes, see page 99.

mary of interest expense by type of liability and equity

	2015			2014			2013		
	Average balance $m	**Interest expense $m**	**Cost %**	Average balance $m	Interest expense $m	Cost %	Average balance $m	Interest expense $m	Co
posits by banks[11]	**55,863**	**378**	**0.68**	61,217	481	0.79	61,616	555	0.9
ancial liabilities ignated at fair ue own debt ued[12]	**58,489**	**717**	**1.23**	66,374	837	1.26	72,333	967	1.3
stomer ounts[13]	**1,075,901**	**7,401**	**0.69**	1,088,493	9,131	0.84	1,035,500	8,794	0.8
ourchase eements -trading	**117,947**	**355**	**0.30**	190,705	652	0.34	94,410	405	0.4
ot securities in ue	**129,039**	**3,521**	**2.73**	129,724	4,554	3.51	150,976	4,182	2.7
er rest-bearing ilities	**28,396**	**2,286**	**8.05**	10,120	595	5.88	11,345	750	6.6
al rest-bearing ilities	**1,465,635**	**14,658**	**1.00**	1,546,633	16,250	1.05	1,426,180	15,653	1.1
ding liabilities financial	**151,294**	**2,071**	**1.37**	178,518	2,856	1.60	301,353	3,027	1.0

ilities designated air value cluding own debt ued)									
n-interest bearing rent accounts	**190,914**			185,990			184,370		
al equity and er non-interest ring liabilities	**785,928**			768,902			780,113		
ar ended December	**2,593,771**	**16,729**	**0.64**	2,680,043	19,106	0.71	2,692,016	18,680	0.6

For footnotes, see page 99.

Table of Contents

Report of the Directors: Financial summary (continued)

Group performance by income and expense item

Reported net interest income of $32.5bn decreased by $2.2bn or 6% compared with 2014. This included the significant items and currency translation summarised in the table below.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	(10)	(632)
Acquisitions, disposals and dilutions		38
	(10)	(594)
Currency translation		2,890
Year ended 31 December	(10)	2,296

Excluding the significant items and currency translation tabulated above, net interest income was broadly unchanged compared with 2014, as increases in Asia and Latin America were offset by a reduction in North America.

On a reported basis, net interest spread and margin both fell, mainly due to adverse foreign exchange movements in Latin America and Europe, partly offset by a reduction in significant items, namely lower provisions arising from the ongoing review of compliance with the Consumer Credit Act (CCA) in the UK. Excluding these factors, net interest spread and margin were marginally lower due to reduced yields on customer lending in Europe and North America. However, during the year, we changed the mix of our overall portfolio towards higher yielding customer lending balances. This was through a managed reduction in the average balances of lower yielding short-term funds, reverse repos and financial investments, notably in Europe, reflecting our continued focus on the efficient use of our balance sheet.

Interest income by type of asset and interest expense by type of liability, and the associated average balances as set out in the summary tables above, were affected by the reclassification in June 2015, of our operations in Brazil to Assets held for sale in Other interest-earning assets and liabilities of disposal groups held for sale in Other interest-bearing liabilities , respectively.

Interest income

Reported interest income decreased by $3.8bn compared with 2014 driven by currency translation, notably in Latin America and Europe, although this was partly offset in Europe as 2014 included higher provisions arising from the on-going review of compliance with the CCA.

Excluding these factors, interest income was broadly unchanged compared with 2014.

Interest income on loans and advances to customers was broadly unchanged as lower interest income in Europe and North America was offset by increases in Asia and Latin America.

In Europe, the reduction in interest income was driven by lower yields on mortgages in the UK in line with competitive pricing, and the effect of downward movements in market interest rates in the eurozone. Interest income also fell in North America as the CML portfolio continued to decrease from run-off and sales. In addition, new lending to customers in RBWM and CMB was at reduced yields in the current low interest rate

environment, although the effect of this was partly offset by an increase in average term lending balances.

By contrast, in Asia, the rise in interest income was driven by growth in average term lending balances, primarily in Hong Kong and mainland China. This was partly offset by compressed yields on customer lending, notably in mainland China and Australia due to central bank rate reductions, although yields in Hong Kong marginally increased. In Latin America, the increase was primarily in Argentina, driven by growth in average balances.

Interest income on short-term funds and financial investments in Balance Sheet Management marginally decreased. This was driven by lower interest income in Europe, due to a managed reduction in average balances, and in Asia, reflecting movement in central bank interest rates in mainland China and India. These factors were partly offset in North America by a change in product mix towards higher yielding mortgage backed securities in order to maximise the effectiveness of the portfolio.

Interest income from other interest-earning assets rose due to the reclassification of our operations in Brazil to Assets held for sale in June 2015. In Brazil, excluding the impact of currency translation, interest income rose due to growth in average term lending balances and financial investments, together with higher yields reflecting successive increases in central bank interest rates in 2014 and 2015.

Interest expense

Reported interest expense decreased by $1.6bn compared with 2014 driven by currency translation, primarily in Latin America and Europe.

Excluding this, interest expense fell driven by a lower cost of customer accounts, debt issued and repos.

Interest expense on customer accounts fell marginally despite growth in average balances. This reflected central bank rate reductions in a number of markets, notably Mexico, mainland China, Australia and India. Europe was affected by downward movements in market rates in the eurozone. This was partly offset by rising costs in North America, in line with promotional deposit offerings.

Interest expense on debt issued also fell, primarily in Europe as new debt was issued at lower prevailing rates and average outstanding balances fell as a result of net redemptions. Interest expense also fell on repos, notably in Europe, reflecting the managed reduction in average balances.

Table of Contents

Interest expense on other interest-bearing liabilities increased due to the reclassification of our operations in Brazil. In Brazil, excluding currency translation, interest expense rose, primarily on debt securities in issue and also

on customer accounts driven by successive increases in central bank rates. Other interest expense also increased in North America, as 2014 benefited from the release of accrued interest associated with uncertain tax positions.

Net fee income

	2015	2014	2013
	$m	$m	$m
Account services	**2,745**	3,407	3,581
Funds under management	**2,570**	2,658	2,673
Cards	**2,281**	2,460	2,455
Credit facilities	**1,919**	1,890	1,907
Broking income	**1,441**	1,371	1,388
Unit trusts	**1,007**	1,005	891
Imports/exports	**971**	1,115	1,157
Remittances	**772**	833	849
Underwriting	**762**	872	866
Global custody	**721**	726	698
Insurance agency commission	**519**	516	551
Other	**2,308**	2,692	2,957
Fee income	**18,016**	19,545	19,973
Less: fee expense	**(3,311)**	(3,588)	(3,539)
Year ended 31 December	**14,705**	15,957	16,434

Reported net fee income fell by $1.3bn compared with 2014, primarily reflecting the adverse effects of currency translation

between the years of $1.2bn, notably in Europe and Latin America, as tabulated below.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Acquisitions, disposals and dilutions		10
Currency translation		1,204
Year ended 31 December		1,214

On an adjusted basis, net fee income decreased by $38m. This reflected a reduction in Europe, primarily within RBWM and GB&M, largely offset by increases in Asia in RBWM and North America in GB&M.

Account services fee income fell significantly by $348m, mainly in the UK in RBWM where lower overdraft fees reflected re-pricing and fewer overdrawn balances following the introduction in November 2014 of a text-alert service for customers. Account services fees also fell in Switzerland due to the continuing repositioning of our GPB business.

Import and export fees fell too (by $79m), mainly in Asia reflecting a reduction in trade activity. In addition, our underwriting fee income fell by $65m, mainly in Hong Kong in GB&M, where there was reduced activity in equity capital markets, although this was partly offset by higher debt issuances in the US.

By contrast, our credit facilities fee income grew strongly (by $190m) in North America and, to a lesser extent, in Asia, reflecting continued growth in average lending

balances, although balances were broadly unchanged in Asia in the second half of the year.

Our fee income from broking and unit trusts also grew (up by $182m), mainly in Hong Kong, driven by higher sales of equities and mutual funds in RBWM. This was from increased stock market turnover, in part facilitated by the Shanghai-Hong Kong Stock Connect platform and greater investor appetite following improvements in Asian equity markets in the first half of the year, however there was weaker investor sentiment in the second half of the year.

Fees from funds under management increased by $157m. In our Global Asset Management business, this was notably in France and the US due to volume growth from fixed income products. In addition, fee income from funds under management also increased in Germany from growth in Securities Services in GB&M, and in Hong Kong from increased funds under management in GPB.

Fee expenses were marginally higher by $101m due to a rise in brokerage fees, notably in Germany.

Table of Contents

Report of the Directors: Financial summary (continued)

Group performance by income and expense item

Net trading income

	2015 $m	2014 $m	2013 $m
Trading activities	**7,285**	5,419	6,921
Ping An contingent forward sale contract			(682)
Net interest income on trading activities	**1,775**	1,907	2,047
Gain/(loss) on termination of hedges	**(11)**	1	(194)
Other trading income hedge ineffectiveness:			
on cash flow hedges	**15**	34	22
on fair value hedges	**(11)**	19	65
Fair value movement on non-qualifying hedges[14]	**(330)**	(620)	511
Year ended 31 December	**8,723**	6,760	8,690

For footnote, see page 99.

Reported net trading income of $8.7bn was $2.0bn higher than in 2014, predominantly in Europe. The movement in net trading income in part reflected the favourable

significant items and currency translation summarised in the table below.

Significant items and currency translation

	2015 $m	2014 $m
Significant items		
Included within trading activities:	**230**	(332)

favourable/(adverse) debit valuation adjustment on derivative contracts	**230**	(332)
Included in other net trading income:	**(327)**	(539)
fair value movement on non-qualifying hedges	**(327)**	(541)
acquisitions, disposals and dilutions		2
	(97)	(871)
Currency translation		520
Year ended 31 December	**(97)**	(351)

On an adjusted basis, net trading income from trading activities increased by $1.7bn compared with 2014, driven by our client-facing GB&M businesses, notably Equities, Foreign Exchange and Credit. This was primarily in the UK following an increase in volatility and client activity.

Net trading income from trading activities also rose due to a number of other valuation movements. In 2014, we revised our estimation methodology for valuing

uncollateralised derivative portfolios by introducing the funding fair value adjustment (FFVA) which resulted in a charge of $263m. In addition, the Equities and Rates businesses benefited from favourable movements on own credit spreads compared with minimal movements in 2014.

These movements contributed to an increase in net trading income from trading activities in Rates, although client activity remained subdued.

Net income from financial instruments designated at fair value

	2015	2014	2013
	$m	$m	$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**531**	2,300	3,170
liabilities to customers under investment contracts	**34**	(435)	(1,237)
HSBC s long-term debt issued and related derivatives	**863**	508	(1,228)
change in own credit spread on long-term debt (significant item)	**1,002**	417	(1,246)
other changes in fair value	**(139)**	91	18
other instruments designated at fair value and related derivatives	**104**	100	63
Year ended 31 December	**1,532**	2,473	768

Assets and liabilities from which net income from financial instruments designated at fair value arose

	2015	2014	2013
	$m	$m	$m
Financial assets designated at fair value at 31 December	**23,852**	29,037	38,430
Financial liabilities designated at fair value at 31 December	**66,408**	76,153	89,084

Including:			
Financial assets held to meet liabilities under:			
insurance and investment contracts with DPF	**11,119**	10,650	10,717
unit-linked insurance and other insurance and investment contracts	**11,153**	16,333	25,423
Long-term debt issues designated at fair value	**60,188**	69,681	75,278

Table of Contents

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issuances and are managed in conjunction with interest rate swaps as part of our interest rate management strategy.

Reported net income from financial instruments designated at fair value was $1.5bn in 2015, compared with $2.5bn in 2014. The former included favourable movements in the fair value of our own long-term debt of $1.0bn due to changes in credit spread, compared with favourable movements of $417m in 2014.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Own credit spread	**1,002**	417
Currency translation		303
Year ended 31 December	**1,002**	720

On an adjusted basis, which excludes changes in our own credit spread and the net adverse effect of currency translation shown above, net income from financial instruments at fair value decreased by $1.2bn.

Net income from financial assets held to meet liabilities under insurance and investment contracts of $531m was $1.8bn lower than in 2014. This was primarily driven by weaker equity markets in Hong Kong and the UK, notably in the second half of the year. The fair value movement in

2015 included gains in Brazil and France, partly offset by losses in Hong Kong. These gains and losses are broadly offset by Net insurance claims and benefits paid and movements in liabilities to policyholders and Liabilities to customers under investment contracts .

Other changes in fair value reflected a net adverse movement due to interest and exchange rate hedging ineffectiveness.

Gains less losses from financial investments

	2015	2014	2013
	$m	$m	$m
Net gains/(losses) from disposal of:			
debt securities	**345**	665	491
equity securities	**1,829**	1,037	1,697
other financial investments	**5**	6	(1)
	2,179	1,708	2,187
Impairment of available-for-sale equity securities	**(111)**	(373)	(175)
Year ended 31 December	**2,068**	1,335	2,012

In 2015, gains less losses from financial investments increased by $733m on a reported basis compared with 2014. This was driven by the significant items and currency

translation tabulated below, notably the gain on the partial sale of our shareholding in Industrial Bank Co. Ltd (Industrial Bank) of $1.4bn.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Gain on sale of shareholding in Bank of Shanghai		428
Gain on the partial sale of shareholding in Industrial Bank	**1,372**	
Impairment of our investment in Industrial Bank		(271)
	1,372	157
Currency translation		95
Year ended 31 December	**1,372**	252

On an adjusted basis, excluding all significant items and currency translation tabulated above, gains less losses from financial investments decreased by $387m. This was primarily in our GB&M business, driven by lower gains on disposals of available-for-sale debt securities, notably in the UK and US and lower gains on equity securities in Principal Investments in the UK.

In addition, we recorded minor losses on disposals from our legacy credit portfolio compared with gains in 2014. The disposal of these assets reflects our continued efforts to manage down low-returning assets to maximise returns.

Table of Contents

Report of the Directors: Financial summary (continued)

Group performance by income and expense item

Net insurance premium income

	2015	2014	2013
	$m	$m	$m
Gross insurance premium income	11,012	12,370	12,398
Reinsurance premiums	(657)	(449)	(458)
Year ended 31 December	**10,355**	11,921	11,940

Reported net insurance premium income was $1.6bn lower, largely from the adverse effects of currency translation of $930m.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Currency translation		930
Year ended 31 December		930

On an adjusted basis, excluding the effect of currency translation, net insurance premium income fell by $636m or 6%, driven by Asia, primarily in Hong Kong where it declined because of lower unit-linked contract premiums and new reinsurance agreements.

In Europe, premium income fell mainly in the UK, reflecting a decision to exit the commercial pensions market in 2014.

Other operating income

	2015 $m	2014 $m	2013 $m
Rent received	**171**	162	155
Gains/(losses) recognised on assets held for sale	**(244)**	220	(729)
Gains on investment properties	**61**	120	113
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**53**	32	178
Gains/(losses) arising from dilution of interest in Industrial Bank and other associates and joint ventures		(32)	1,051
Gain on disposal of HSBC Bank (Panama) S.A.			1,107
Change in present value of in-force long-term insurance business	**799**	261	525
Other	**215**	368	232
Year ended 31 December	**1,055**	1,131	2,632

Change in present value of in-force long-term insurance business

	2015 $m	2014 $m	2013 $m
Value of new business	809	870	924
Expected return	(552)	(545)	(505)
Assumption changes and experience variances	504	(116)	88
Other adjustments	38	52	18
Year ended 31 December	799	261	525

Reported other operating income decreased by $76m from 2014. This was partly due to the significant items recorded in the table below.

Significant items and currency translation

	2015 $m	2014 $m

Significant items		
Included within gains/(losses) recognised on assets held for sale:	**(232)**	168
disposal costs of our Brazilian operation	**(18)**	
gain/(loss) on sale of several tranches of real estate secured accounts in the US	**(214)**	168
Included within the remaining line items:		(41)
acquisitions, disposals and dilutions		(41)
Currency translation		(64)
Year ended 31 December	**(232)**	63

Excluding the significant items and currency translation tabulated above, other operating income increased by $219m compared with 2014. This was primarily from higher favourable movements in present value of in-force (PVIF) long-term insurance business, partly offset by lower

disposal and revaluation gains on investment properties, mainly in Asia.

The higher favourable movement in the PVIF balance was driven by changes in interest rates and investment return assumptions, notably in France and Hong Kong.

Net insurance claims and benefits paid and movement in liabilities to policyholders

	2015	2014	2013
	$m	$m	$m
Net insurance claims and benefits paid and movement in liabilities to policyholders:			
gross	**11,872**	13,723	13,948
less reinsurers share	**(580)**	(378)	(256)
Year ended 31 December[15]	**11,292**	13,345	13,692

For footnote, see page 99.

Reported net insurance claims and benefits paid and movement in liabilities to policyholders were $2.1bn lower

than in 2014, in part reflecting the effect of currency translation of $1.1bn.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Currency translation		1,109
Year ended 31 December		1,109

Excluding the effects of currency translation, net insurance claims and benefits paid and movements in liabilities to policyholders were $0.9bn lower.

This was primarily driven by a decrease in returns on financial assets supporting liabilities to policyholders, where the policyholder shares in the investment risk. This decrease in returns reflected a weaker equity market performance in Hong Kong in the second half of the year.

The gains or losses recognised on the financial assets designated at fair value that are held to support these insurance contract liabilities are reported in Net income from financial instruments designated at fair value .

In addition, movements in liabilities to policyholders were lower due to a decrease in premiums written in Asia, as explained in Net earned insurance premiums .

Loan impairment charges and other credit risk provisions

	2015	2014	2013
	$m	$m	$m
Loan impairment charges:			
new allowances net of allowance releases	**4,400**	5,010	7,344
recoveries of amounts previously written off	**(808)**	(955)	(1,296)
	3,592	4,055	6,048
Individually assessed allowances	**1,505**	1,780	2,320
Collectively assessed allowances	**2,087**	2,275	3,728
Releases of impairment on available-for-sale debt securities	**(17)**	(319)	(211)
Other credit risk provisions	**146**	115	12
Year ended 31 December	**3,721**	**3,851**	**5,849**
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers	**0.39%**	0.43%	0.67%

Reported loan impairment charges and other credit risk provisions (LICs) of $3.7bn were $0.1bn lower than in 2014, primarily due to favourable currency translation of $683m.

Excluding the effects of currency translation, LICs were $0.6bn higher than in 2014.

Significant items and currency translation

	2015	2014
	$m	$m
Significant items		
Currency translation		683
Year ended 31 December		683

Report of the Directors: Financial summary (continued)

Group performance by income and expense item

In the fourth quarter of 2015, our LICs increased compared with the third quarter following a rise in individually assessed LICs in a small number of countries. This was reflective of specific circumstances associated with those countries with no common underlying theme. In addition, we increased our collectively assessed LICs on exposures related to the oil and gas industry by $0.2bn, notably in North America, Middle East and North Africa, and Asia. For more information on our exposure to the oil and gas sector, see page 117.

The following paragraphs set out in more detail the factors that have contributed to movements in our collectively and individually assessed LICs compared with 2014.

On an adjusted basis, **collectively assessed LICs** rose by $221m, mainly in Middle East and North Africa, North America and Asia, partly offset in Europe. It arose from the following:

- in Middle East and North Africa (up by $167m), this was mainly in the UAE in RBWM, where we increased the impairment allowances on our mortgage book following a review of the quality and value of collateral. In addition, LICs grew in our CMB business, notably relating to the oil and foodstuffs industries;

- in North America (up by $132m) and Asia (up by $108m), this reflected an increase in allowances against our oil and gas exposures. In our US CML portfolio, LICs were higher than in 2014 reflecting lower favourable market value adjustments of underlying properties as improvements in the housing market conditions were less pronounced in 2015. This was partly offset by a fall in LICs from lower levels of newly impaired loans and reduced lending balances from continued run-off and sales. Additionally, collectively assessed LICs rose in Indonesia following credit deterioration; and

- in Europe, collectively assessed LICs were $192m lower, most notably in our GB&M business in the UK, as 2014 included additional impairment charges from revisions to certain estimates used in our corporate collective loan impairment calculation.

Individually assessed LICs were broadly unchanged from 2014 on an adjusted basis. This reflected decreases in Latin America, Europe and Asia which were offset by increases in Middle East and North Africa and in North America. This included the following:

in Latin America (down by $95m), Europe (down by $44m) and Asia (down by $44m), we saw reductions in individually assessed LICs in our GB&M business as 2014 included significant impairment charges related to corporate clients in our respective regions. In Asia, the reduction was partly offset by an increase in LICs against a small number of CMB customers in Indonesia; and

in Middle East and North Africa (up by $134m) and North America (up by $47m), individually assessed LICs increased in our CMB business. In the former, this primarily related to higher LICs on food wholesalers, while in North America LICs rose in the oil and gas sector.

In 2015, there were lower net releases of credit risk provisions than in 2014, down by $0.3bn, mainly on available-for-sale asset-backed securities (ABS s) in our UK GB&M business.

Operating expenses

In addition to detailing operating expense items by category, as set out in the table below, we also categorise adjusted expenses as follows:

run-the-bank costs comprise business-as-usual running costs that keep operations functioning at the required quality and standard year-on-year, maintain IT infrastructure and support revenue growth. Run-the-bank costs are split between front office and back office, reflecting the way the Group is organised into four global businesses (front office) supported by global functions (back office);

change-the-bank costs comprise expenses relating to the implementation of mandatory regulatory changes and other investment costs incurred relating to projects to change business-as-usual activity to enhance future operating capabilities;

costs-to-achieve comprise those specific costs relating to the achievement of the strategic actions set out in the Investor Update in June 2015. They comprise costs incurred between 1 July 2015 and 31 December 2017 and do not include ongoing initiatives such as Global Standards. Any costs arising within this category have been incurred as part of a significant transformation programme. Costs-to-achieve are included within significant items and incorporate restructuring costs which were identified as a separate significant item prior to 1 July 2015; and

the UK bank levy is reported as a separate category.

Operating expenses

	2015 $m	2014 $m	2013 $m
By expense category			
Employee compensation and benefits	**19,900**	20,366	19,196
Premises and equipment (excluding depreciation and impairment)	**3,830**	4,204	4,183
General and administrative expenses	**13,832**	14,361	12,882
Administrative expenses	**37,562**	38,931	36,261

Depreciation and impairment of property, plant and equipment	**1,269**	1,382	1,364
Amortisation and impairment of intangible assets	**937**	936	931
Year ended 31 December	**39,768**	41,249	38,556

	2015 $m	2014 $m
By expense group		
Run-the-bank front office	**15,482**	14,879
Run-the-bank back office	**15,784**	15,631
Change-the-bank	**3,494**	3,002
Bank levy	**1,421**	1,063
Significant items	**3,586**	3,396
Currency translation		3,278
Year ended 31 December	**39,768**	41,249

Reported operating expenses for 2015 of $39.8bn were $1.5bn or 4% lower than in 2014. The reduction in reported expenses was driven by the favourable effects of currency translation between the years. Significant items increased by $0.2bn, with a reduction in fines, penalties, redress and associated provisions of $0.7bn, more than offset by transformation costs (costs-to-achieve) of $0.9bn.

Costs-to-achieve, which relate to specific programmes

aimed at achieving the cost reduction and productivity outcomes outlined in the Investor Update, comprise:

- severance costs of $0.4bn across a number of areas including CMB ($147m), RBWM ($49m), Risk ($44m) and GB&M ($45m);
- staff costs for the transformation programme in progress of $0.1bn in the second half of 2015; and
- other costs of $0.4bn, including software write-offs, US portfolio run-off costs and consultancy costs.

Significant items and currency translation

	2015	2014

	$m	$m
Significant items		
Disposal costs of our Brazilian operations	**110**	
Charge in relation to settlement agreement with Federal Housing Finance Authority		550
Costs-to-achieve	**908**	
Cost to establish UK ring-fenced bank	**89**	
Regulatory provisions in GPB	**172**	65
Restructuring and other related costs	**117**	278
Settlements and provisions in connection with legal matters	**1,649**	1,187
UK customer redress programmes	**541**	1,275
Acquisitions, disposals and dilutions		40
	3,586	3,395
Currency translation		3,278
Year ended 31 December	**3,586**	6,673

On an adjusted basis, operating expenses of $36.2bn were $1.6bn or 5% higher than in 2014, reflecting increases in both run-the-bank and change-the-bank costs.

Run-the-bank costs totalled $31.3bn for 2015, an increase of $0.8bn or 2% on 2014. This was primarily driven by targeted investment in Latin America, Asia and Europe. We recruited new staff to support growth in targeted areas as follows:

- in GB&M we invested in Payments and Cash Management (PCM) mainly in Europe;
- in CMB, we invested in PCM revenue-generating full time equivalent staff (FTEs) in North America and Asia; and
- in RBWM, we invested in additional FTEs in Asia in our branch network to support revenue growth.

Our total expenditure on regulatory programmes and compliance in 2015, including both run-the-bank and change-the-bank elements, was $2.9bn, up by $0.7bn or 33% from 2014.

Run-the-bank costs associated with regulatory programmes and compliance increased by $0.2bn reflecting the continued implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

Change-the-bank costs totalled $3.5bn in 2015, an increase of $0.5bn or 16% on 2014, primarily driven by regulatory programmes and compliance costs. This reflected investment in strategic IT infrastructure including systems enhancements for customer due diligence, transaction monitoring and sanctions screening as part of the Global Standards programme. These actions were in line with our strategic target to complete the implementation of Global Standards in 2017. There was also further investment in stress testing and other programmes to meet legal and regulatory requirements.

The bank levy totalled $1.4bn, up by $0.4bn or 34% from 2014. Excluding the bank levy, operating expenses in the second half of 2015 were broadly in line with the first half of the year. Investment in regulatory programmes and compliance and inflationary pressures were offset by cost saving initiatives mainly driven by reduced staff costs. This reflected a reduction in FTEs of 4,585 from 30 June 2015 to 31 December 2015. In addition we reduced travel and entertainment costs through a strong focus on cost management.

Excluding investment in regulatory programmes and compliance, and the bank levy, adjusted operating expenses grew by 2% compared with 2014.

Table of Contents

Report of the Directors: Financial summary (continued)

Group performance by income and expense item / Consolidated balance sheet

Staff numbers (full-time equivalents)

	2015	2014	2013
Geographical regions			
Europe	**67,509**	69,363	68,334
Asia	**120,144**	118,322	113,701
Middle East and North Africa	**8,066**	8,305	8,618
North America	**19,656**	20,412	20,871
Latin America	**39,828**	41,201	42,542
At 31 December	**255,203**	257,603	254,066

The number of employees, expressed in FTEs, at 31 December 2015 was 255,203, a decrease of 4,585 from 30 June 2015 reflecting the initial impact of cost saving initiatives. Compared with 31 December 2014, FTEs decreased by 2,400. This was driven by reductions in global businesses and global functions, offset by an increase in compliance of 2,419 FTEs.

The average number of FTEs adjusted for business disposals increased by 1.2% compared with 2014 due to additional FTE requirements for regulatory programmes and compliance, and investment in growth areas.

Reported cost efficiency ratios[16]

	2015	2014	2013
	%	%	%
HSBC	**66.5**	67.3	59.6
Geographical regions			
Europe	**93.7**	93.7	84.0
Asia	**43.0**	44.0	40.7
Middle East and North Africa	**48.1**	47.7	51.5

North America	**84.9**	78.9	72.9
Latin America	**72.6**	71.7	56.1
Global businesses			
Retail Banking and Wealth Management	**72.4**	71.7	64.7
Commercial Banking	**45.4**	44.3	41.7
Global Banking and Markets	**59.4**	67.7	51.9
Global Private Banking	**84.3**	74.8	91.4

For footnote, see page 99.

Share of profit in associates and joint ventures

	2015	2014	2013
	$m	$m	$m
Associates			
Bank of Communications Co., Limited	**2,011**	1,974	1,878
The Saudi British Bank	**462**	455	403
Other	**45**	64	5
Share of profit in associates	**2,518**	2,493	2,286
Share of profit in joint ventures	**38**	39	39
Year ended 31 December	**2,556**	2,532	2,325

Our reported share of profit in associates and joint ventures was $2.6bn, an increase of $24m or 1%, driven by higher contributions from Bank of Communications Co., Limited (BoCom) and The Saudi British Bank.

Our share of profit from BoCom rose as a result of balance sheet growth, partly offset by higher operating expenses.

Profits from The Saudi British Bank also rose, by $7m, reflecting strong balance sheet growth.

Tax expense

	2015	2014	2013
	$m	$m	$m
Profit before tax	**18,867**	18,680	22,565
Tax expense	**(3,771)**	(3,975)	(4,765)
Profit after tax for the year ended 31 December	**15,096**	14,705	17,800
Effective tax rate	**20.0%**	21.3%	21.1%

The effective tax rate for the year was 20.0% (2014: 21.3%) and was in line with expectations.

We expect the effective rate of tax to increase due to the introduction of the 8% surcharge on UK banking profits in 2016.

Table of Contents

Report of the Directors: Financial summary (continued)

2014 compared with 2013

Net interest income

Reported net interest income of $35bn decreased by $834m or 2% compared with 2013. This included the significant items and currency translation summarised in the table below.

Significant items and currency translation

	2014	2013
	$m	$m
Significant items		
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	(632)	
Acquisitions, disposals and dilutions	38	386
	(594)	386
Currency translation		518
Year ended 31 December	(594)	904

On a reported basis, net interest spread and margin both fell, reflecting lower yields on customer lending in North America and Europe. In North America, this was due to changes in the composition of the lending portfolios towards lower yielding secured assets and to the run-off of the CML portfolio. In Europe, it was principally due to a significant item, namely provisions arising from the ongoing review of compliance with the Consumer Credit Act (CCA) in the UK. These factors were partially offset by a lower cost of funds.

Excluding the significant items and currency translation tabulated above, net interest income rose by $664m or 2% from 2013, driven by increases in Asia, partly reflecting growth in customer lending volumes.

Interest income

Reported interest income was broadly unchanged, as decreases in interest income from customer lending (which included the effect of the CCA provisions) were offset by increases in income from short-term funds, as well as a rise due to the change in the management of reverse repo transactions (see page 60b).

Interest income on loans and advances to customers decreased, principally in North America and Latin America, partially offset by increases in Asia. In North America, this was a consequence of the disposal of the higher yielding non-real estate loan portfolio and the reduction in the CML portfolio from run-off and sales. In addition, new lending to customers in RBWM and CMB was at lower yields, reflecting a shift in the portfolio towards higher levels of lower yielding first lien real estate secured loans. In Latin America, interest income on customer lending also decreased, reflecting a fall in yields in both Brazil and Mexico, despite the rise in average balances in term lending in both countries. In Brazil, the falling yield reflected the shift in product and client mix to more secured, relationship-led lending while, in Mexico, it was driven by reductions in Central Bank interest rates. The region was also affected by the disposal of non-strategic businesses.

By contrast, we recorded increased interest income on customer lending in Asia, driven by growth in term lending volumes and, to a lesser extent, residential

mortgages during the year. This increase in balances was partially offset by compressed yields. In Europe, excluding the effect of the CCA provisions noted above, interest income on customer lending rose due to increases in mortgage and term lending balances.

Interest income on short-term funds and financial investments increased both in Latin America and Asia, as interest rates rose in certain countries in these regions (notably in Brazil, Argentina and mainland China) and average balances grew. However, in Europe, interest income on short-term funds and financial investments fell as maturing positions were replaced by longer-term but lower-yielding bonds.

Interest expense

Reported interest expense increased in the year. We recorded increased interest expense on customer accounts in Asia and Latin America, partly offset by a reduction in North America. In Asia, the growth was principally from an increase in the average balances of customer accounts. In Latin America, interest expense on customer accounts rose as reductions in average balances were more than offset by the increase in the cost of funds due to interest rate rises, notably in Brazil. However, the effects of this were partly offset by a fall in the cost of funds in Mexico as Central Bank rates fell, and the disposal of non-strategic businesses. Conversely, in North America, interest expense on customer deposits declined as a result of a strategic decision to re-price deposits downwards. In addition, other interest expense decreased due to a release of accrued interest associated with an uncertain tax position.

Interest expense on debt issued rose. We recorded an increase in the cost of funds which was partly offset by decreased overall balances. Interest expense rose in Latin America, notably in Brazil, in line with interest rate rises and increased medium-term loan note balances. By contrast, in North America the business disposals led to a decline in our funding requirements. The cost of funds also fell as higher coupon debt matured and was repaid. In Europe, interest expense on debt also decreased, as average outstanding balances fell as a result of net redemptions and the cost of funds reduced.

Table of Contents

Report of the Directors: Financial Review (continued)

Repos and reverse repos

During the final quarter of 2013, GB&M changed the way it managed reverse repurchase (reverse repo) and repurchase (repo) activities. This had the effect of reducing the net interest margin as average interest earning assets and interest bearing liabilities increased significantly. These reverse repo and repo agreements have a lower gross yield and cost of funds, respectively, than the remainder of our portfolio.

Net interest income includes the expense of internally funded trading assets, while related revenue is reported in Net trading income . The internal cost of funding these assets decreased, as average trading asset balances fell to a greater extent than trading liabilities. In reporting our global business results, this cost is included within Net trading income .

Net fee income

Reported net fee income fell by $477m, primarily in Latin America and North America. In Latin America, the decrease included the effect of currency translation and the continued repositioning and disposal of businesses, notably the sale of our Panama operations in 2013. In North America, net fee income was lower following the expiry of the Transition Servicing Agreements we entered into with the buyer of the Card and Retail Services (CRS) business, and adverse adjustments to mortgage servicing rights valuations.

Net trading income

Account services fee income decreased, notably in Latin America and Europe. In Latin America, the fall was due to a reduction in customer numbers in Mexico, as we continued to reposition the business, and in Brazil, due to strong market competition. In Europe, account services fees were lower, primarily in Switzerland due to the repositioning of our GPB business, and in the UK, in part reflecting the implementation of the Retail Distribution Review in 2013.

By contrast, unit trust fees rose, primarily in Asia, due to increased sales of equity funds in Hong Kong.

Other fee income declined in North America due to the expiry of the Transition Servicing Agreements and in Latin America following the sale of our operations in Panama in 2013 and the continued repositioning of the business in Mexico.

In addition, fee expenses were higher due to adverse adjustments to mortgage servicing rights valuations in North America, reflecting mortgage interest rate decreases in 2014 which compared with increases in 2013.

Reported net trading income of $6.8bn was $1.9bn lower, predominantly in Europe. The reduction in net trading income was partly driven by the significant items summarised in the table below.

Significant items and currency translation

	2014	2013
	$m	$m
Significant items		
Included within trading activities:	(332)	548
Debit valuation adjustment on derivative contracts	(332)	106
FX gains relating to sterling debt issued by HSBC Holdings		442
Included in other net trading income:	(539)	(346)
Ping An contingent forward sale contract[51]		(682)
Loss on early termination of cash flow hedges in the US run-off portfolio		(199)
Fair value movement on non-qualifying hedges	(541)	511
Acquisitions, disposals and dilutions	2	24
	(871)	202
Currency translation		(11)
Year ended 31 December	(871)	191

For footnote, see page 100a.

Excluding the significant items and currency translation tabulated above, net trading income from trading activities decreased by $0.6bn, notably in Markets within GB&M. This was predominantly driven by our Foreign Exchange business, which was affected by lower volatility and reduced client flows. In Equities, revenue decreased, as 2013 benefited from higher revaluation gains which more than offset a rise in 2014 in revenue from increased client flows and higher derivatives income.

In 2014, we revised our estimation methodology for valuing uncollateralised derivative portfolios by introducing the funding fair value adjustment (FFVA), resulting in a reduction in net trading income of $263m, primarily in Rates ($164m) and Credit ($97m). Excluding the FFVA, Credit was also affected by adverse movements

on credit spreads and a reduction in revenue in Legacy Credit. By contrast, Rates was affected by favourable market movements, notably in Asia, along with minimal fair value movements on our own credit spread on structured liabilities compared with adverse movements in 2013. These factors were partly offset by a fall in Rates in Europe.

Included within net trading income from trading activities, there were favourable foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value, compared with adverse movements in 2013. These movements offset fair value movements on the foreign currency debt which are reported in Net income/(expense) from financial instruments designated at fair value .

HSBC HOLDINGS PLC

60b

Table of Contents

Report of the Directors: Financial Review (continued)

In addition, net interest income from trading activities fell due to lower average balances, notably relating to reverse repo and repo agreements, in line with the change in the way GB&M manages these agreements. The net interest income from these activities is now recorded in Net interest income .

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

The accounting policies for the designation of financial instruments at fair value and the treatment of the associated income and expenses are described in Note 2 on the Financial Statements.

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issues, the interest rate profile of which has been changed to floating through swaps as part of a documented interest rate management strategy. The movement in fair value of these long-term debt issues and the related hedges includes the effect of our credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. The size and direction of the changes in the credit spread on our debt and ineffectiveness, which are recognised in the income statement, can be volatile from year to year, but do not alter the cash flows expected as part of the documented interest rate management strategy. As a consequence, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to global businesses, but are reported in Other . Credit spread movements on own debt designated at fair value are excluded from adjusted results, and related fair value movements are not included in the calculation of regulatory capital.

Reported net income from financial instruments designated at fair value was $2.5bn in 2014, compared with $768m in 2013. The former included favourable movements in the fair value of our own long-term debt of

$417m due to changes in credit spread, compared with adverse movements of $1.2bn in 2013. Excluding this significant item, net income from financial instruments designated at fair value increased by $42m.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts of $2.3bn was $870m lower than in 2013. This was driven by weaker equity market performance in the UK and France, partly offset by improved equity market performance in Hong Kong and higher net income on the bonds portfolio in Brazil.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is also recorded under Net income/(expense) from financial instruments designated at fair value . This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features (DPF), where the corresponding movement in liabilities to customers is recorded under Net insurance claims and benefits paid and movement in liabilities to policyholders .

Other changes in fair value reflected a net favourable movement due to interest and exchange rate hedging ineffectiveness. This was partly offset by net adverse foreign exchange movements on foreign currency debt designated at fair value and issued as part of our overall funding strategy (offset from assets held as economic hedges in Net trading income).

Gains less losses from financial investments

Reported gains less losses from financial investments were $1.3bn, a decrease of $677m from 2013. The decrease primarily reflected the significant items summarised below.

Significant items and currency translation

	2014	2013
	$m	$m
Significant items		
Gain on sale of shareholding in Bank of Shanghai	428	
Impairment on our investment in Industrial Bank	(271)	
Net gain on completion of Ping An disposal[51]		1,235
Acquisitions, disposals and dilutions		5
	157	1,240
Currency translation		(10)
Year ended 31 December	157	1,230

For footnote, see page 100a.

Excluding the significant items and currency translation noted above, gains less losses from financial investments increased by $396m, primarily driven by higher net gains on the disposal of debt securities as we actively managed the Legacy Credit portfolio. In addition, we reported higher gains on sale of available-for-sale equity securities and lower impairments on available-for-sale equity securities

from improved market conditions and business performance of the underlying portfolio.

Table of Contents

Report of the Directors: Financial Review (continued)

Net insurance premium income

Reported net insurance premium income was broadly unchanged, with reductions in Europe and Latin America largely offset by higher premium income in Asia.

In Asia, premium income rose, primarily in Hong Kong, due to increased new business from deferred annuity, universal life and endowment contracts. This was partly offset by lower new business from unit-linked contracts.

In Europe, premium income decreased, mainly in the UK, reflecting lower sales following the withdrawal of external independent financial adviser distribution channels for

certain linked insurance contracts in the second half of 2013. This was partly offset by increases in France, mainly reflecting higher sales of investment contracts with DPF.

Net insurance premium income also fell in Latin America, primarily in Brazil, reflecting lower sales, in part due to changes in our distribution channel.

Other operating income

Reported other operating income of $1.1bn decreased by $1.5bn from 2013. This was largely due to the significant items summarised in the table below.

Significant items and currency translation

	2014	2013
	$m	$m
Significant items		
Included within gains/(losses) recognised on assets held for sale:	168	(772)
write-off of allocated goodwill relating to the GPB Monaco business		(279)
loss on sale of the non-real estate portfolio in the US		(271)

gain/(loss) on sale of several tranches of real estate secured accounts in the US	168	(123)
Household Insurance Group Holding company s disposal of its insurance manufacturing business[52]		(99)
Included within the remaining line items:	(41)	2,193
reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[52]		1,089
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Panama) S.A.[53]		1,107
HSBC Insurance (Asia-Pacific) Holdings Limited s disposal of its shareholding in Bao Viet Holdings[52]		104
loss on sale of an HFC Bank UK secured loan portfolio		(146)
acquisitions, disposals and dilutions	(41)	39
Currency translation		(18)
Year ended 31 December	127	1,403

For footnotes, see page 100a.

Excluding the significant items and currency translation tabulated above, other operating income decreased by $0.2bn compared with 2013. This was primarily from lower favourable movements in 2014 in present value of in-force (PVIF) long-term insurance business, and lower disposal and revaluation gains on investment properties, mainly in Hong Kong. The decrease was partly offset by gains reported in Legacy Credit in GB&M in the UK as we actively managed the portfolio.

Lower favourable movements in the PVIF long-term insurance business asset in 2014 were mainly due to the following factors:

- a reduction in the value of new business, mainly in Brazil, due to higher interest rates and lower volumes; and

- adverse assumption changes and experience variances in 2014 compared with favourable movements in 2013. This was mainly driven by falling interest rates in France and adverse actuarial assumption updates in Hong Kong, partly offset by the favourable effects of interest rate fluctuations, mainly in Asia and Brazil.

Net insurance claims and benefits paid and movement in liabilities to policyholders

Reported net insurance claims and benefits paid and movement in liabilities to policyholders were $347m lower than in 2013.

Movements in claims resulting from investment returns on the assets held to support policyholder contracts, where

the policyholder bears investment risk, decreased. This reflected weaker equity market performance in the UK and France, partly offset by improved equity market performance in Hong Kong and higher net income on the bonds portfolio in Brazil. The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Loan impairment charges and other credit risk provisions

Reductions in claims resulting from a decrease in new business written in Europe and Latin America were mostly offset by increases in Hong Kong as explained under Net earned insurance premiums .

Reported loan impairment charges and other credit risk provisions (LICs) of $3.9bn were $2.0bn lower than in 2013, primarily in North America, Europe and Latin America. The percentage of impairment charges to average gross loans and advances fell to 0.4% at 31 December 2014 from 0.7% at 31 December 2013.

Individually assessed charges decreased by $540m, primarily in Europe, partly offset by an increase in Asia and the Middle East and North Africa. In Europe, they were lower, mainly in CMB in the UK, reflecting improved quality in the portfolio and the economic environment, as well as in GB&M. In Asia, the increase was on a small number of exposures in Hong Kong and in mainland China, primarily in CMB and GB&M, while in the Middle East and North Africa we recorded net charges compared with net releases in 2013, mainly due to lower releases on a particular UAE-related exposure in GB&M.

Report of the Directors: Financial Review (continued)

Collectively assessed charges declined by $1.5bn, primarily due to decreases in North America and Latin America. In North America, the reduction was mainly in RBWM, reflecting reduced levels of delinquency and new impaired loans in the CML portfolio. A decrease in lending balances from continued portfolio run-off and loan sales was partly offset by an increase relating to less favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in 2014 than in 2013. In Latin America, the reduction in collectively assessed charges was driven by the adverse effect of changes to the impairment model and assumption revisions for restructured loan portfolios in Brazil which occurred in 2013, both in RBWM and CMB. Charges were also lower due to reduced Business Banking

provisions reflecting improved delinquency rates and the effect of the disposal of non-strategic businesses.

Net releases of credit risk provisions of $204m were broadly unchanged, as higher releases on available-for-sale ABSs in GB&M in Europe were offset by provisions in Latin America and North America. In Latin America, a provision was made in Brazil against a guarantee in GB&M. In North America we recorded provisions in Canada, compared with releases in 2013, and in the US reflecting a deterioration in the underlying asset values of a specific GB&M exposure.

Operating expenses

Reported operating expenses of $41bn were $2.7bn or 7% higher than in 2013. The increase in operating expenses was partly driven by the significant items noted in the table below, including settlements and provisions in connection with foreign exchange investigations, of which $809m was recorded in the fourth quarter of 2014 (see Note 40 on the Financial Statements for further details).

Significant items and currency translation

	2014	2013
	$m	$m
Significant items		
		(430)

Accounting gain arising from change in basis of delivering ill-health benefits in the UK		
Charge in relation to settlement agreement with Federal Housing Finance Authority	550	
Madoff-related litigation costs		298
Settlements and provisions in connection with foreign exchange investigations	1,187	
Regulatory provisions in GPB	65	352
UK customer redress programmes	1,275	1,235
US customer remediation provision relating to CRS		100
Restructuring and other related costs	278	483
Acquisitions, disposals and dilutions	40	488
	3,395	2,526
Currency translation		348
Year ended 31 December	3,395	2,874

Excluding significant items and currency translation, operating expenses were $2.2bn or 6% higher than in 2013.

Regulatory Programmes and Compliance costs increased as a result of the continued focus on Global Standards and the broader regulatory reform programme being implemented by the industry to build the necessary infrastructure to meet today s enhanced compliance standards, along with implementation costs to meet obligations such as stress tests in different jurisdictions and structural reform.

During 2014, we accelerated the deployment of Global Standards throughout the Group. Our global businesses and Compliance function have developed operating procedures to meet our new global AML and sanctions policies and these are now being implemented in every country, encompassing local requirements as necessary. During 2014, we invested in developing our financial crime compliance expertise and building strategic infrastructure solutions for customer due diligence, transaction monitoring and sanctions screening.

We continued to invest in strategic initiatives in support of organically growing our business, primarily in CMB in both Asia, in Business Banking and Global Trade and Receivables Finance and, to a lesser extent, in Europe. We also increased expenditure on marketing and advertising to

support revenue generating initiatives, primarily in RBWM s core propositions of Premier and Advance and personal lending products.

The increase in costs also reflected:

- inflationary pressures, including wage inflation, primarily in Asia and Latin America;

- the UK bank levy charge, which increased to $1.1bn in 2014 from $904m in 2013, mainly due to an increase in the rate of the levy. Both years also included adjustments relating to the previous year s bank levy charge (2014: $45m favourable adjustment; 2013: $12m adverse adjustment); and

- the Financial Services Compensation Scheme levy in the UK, as a result of the timing of the recognition.

During 2014, we generated further sustainable savings of $1.3bn, primarily driven by re-engineering our back office processes, which in part offset the investments and inflation noted above.

The average number of FTEs was broadly unchanged as reductions through sustainable savings programmes were broadly offset by the initiatives related to Regulatory Programmes and Compliance and business growth.

Table of Contents

Report of the Directors: Financial Review (continued)

Share of profit in associates and joint ventures

HSBC s reported share of profit in associates and joint ventures was $2.5bn, an increase of $207m or 9%, in part due to the non-recurrence of an impairment charge of $106m on our banking associate in Vietnam in 2013. Excluding this, our share of profit in associates and joint ventures increased, driven by higher contributions from BoCom and The Saudi British Bank.

Our share of profit from BoCom rose as a result of balance sheet growth and increased trading income, partly offset by higher operating expenses and a rise in loan impairment charges.

At 31 December 2014, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value in use calculation (see Note 19 on the Financial Statements for further details).

In future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase in 2015 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC would continue to recognise its share of BoCom s profit or loss, but the carrying amount would be reduced to equal

the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Profits from The Saudi British Bank rose, reflecting strong balance sheet growth.

The effective tax rate for 2014 of 21.3% was lower than the blended UK corporation tax rate for the year of 21.5%.

Tax expense

The effective tax rate in the year reflected the following recurring benefits: tax exempt income from government bonds and equities held by a number of Group entities and recognition of the Group s share of post-tax profits of associates and joint ventures within our pre-tax income. In addition, the effective tax rate reflected a current tax credit for prior periods. This was partly offset by non-tax deductible settlements and provisions in connection with foreign exchange investigations.

The tax expense decreased by $0.8bn to $4.0bn for 2014, primarily due to a reduction in accounting profits and the benefit of the current tax credit for previous years.

In 2014, the tax borne and paid by the Group to the relevant tax authorities, including tax on profits, bank levy and employer-related taxes, was $7.9bn (2013: $8.6bn). The amount differs from the tax charge reported in the income statement due to indirect taxes such as VAT and the bank levy which are included in pre-tax profit, and the timing of payments.

We also play a major role as tax collector for governments in the jurisdictions in which we operate. Such taxes include employee-related taxes and taxes withheld from payments to deposit holders. In 2014, we collected $9.1bn (2013: $8.8bn).

Table of Contents

Consolidated balance sheet

Five-year summary consolidated balance sheet

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
ASSETS					
Cash and balances at central banks	**98,934**	129,957	166,599	141,532	129,902
Trading assets	**224,837**	304,193	303,192	408,811	330,451
Financial assets designated at fair value	**23,852**	29,037	38,430	33,582	30,856
Derivatives	**288,476**	345,008	282,265	357,450	346,379
Loans and advances to banks	**90,401**	112,149	120,046	117,085	139,078
Loans and advances to customers[17]	**924,454**	974,660	992,089	962,972	899,010
Reverse repurchase agreements non-trading	**146,255**	161,713	179,690	70,112	83,328
Financial investments	**428,955**	415,467	425,925	421,101	400,044
Assets held for sale	**43,900**	7,647	4,050	19,269	39,558
Other assets	**139,592**	154,308	159,032	160,624	156,973
Total assets at 31 December	**2,409,656**	2,634,139	2,671,318	2,692,538	2,555,579
LIABILITIES AND EQUITY					
Liabilities					
Deposits by banks	**54,371**	77,426	86,507	95,480	95,205
Customer accounts	**1,289,586**	1,350,642	1,361,297	1,311,396	1,223,140
Repurchase agreements non-trading	**80,400**	107,432	164,220	40,567	48,402
Trading liabilities	**141,614**	190,572	207,025	304,563	265,192
Financial liabilities designated at fair value	**66,408**	76,153	89,084	87,720	85,724
Derivatives	**281,071**	340,669	274,284	358,886	345,380
Debt securities in issue	**88,949**	95,947	104,080	119,461	131,013
Liabilities under insurance contracts	**69,938**	73,861	74,181	68,195	61,259

Liabilities of disposal groups held for sale	**36,840**	6,934	2,804	5,018	22,200
Other liabilities	**102,961**	114,525	117,377	118,123	111,971
Total liabilities at 31 December	**2,212,138**	2,434,161	2,480,859	2,509,409	2,389,486
Equity					
Total shareholders equity	**188,460**	190,447	181,871	175,242	158,725
Non-controlling interests	**9,058**	9,531	8,588	7,887	7,368
Total equity at 31 December	**197,518**	199,978	190,459	183,129	166,093
Total liabilities and equity at 31 December	**2,409,656**	2,634,139	2,671,318	2,692,538	2,555,579

Five-year selected financial information

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
Called up share capital	**9,842**	9,609	9,415	9,238	8,934
Capital resources[18,19]	**189,833**	190,730	194,009	180,806	170,334
Undated subordinated loan capital	**2,368**	2,773	2,777	2,778	2,779
Preferred securities and dated subordinated loan capital[20]	**42,844**	47,208	48,114	48,260	49,438
Risk-weighted assets[18]	**1,102,995**	1,219,765	1,092,653	1,123,943	1,209,514
Financial statistics					
Loans and advances to customers as a percentage of customer accounts	**71.7**	72.2	72.9	73.4	73.5
Average total shareholders equity to average total assets	**7.31**	7.01	6.55	6.16	5.64
Net asset value per ordinary share at year-end[21] ($)	**8.73**	9.28	9.27	9.09	8.48
Number of $0.50 ordinary shares in issue (millions)	**19,685**	19,218	18,830	18,476	17,868
Closing foreign exchange translation rates to $:					
$1: £	**0.675**	0.642	0.605	0.619	0.646
$1:	**0.919**	0.823	0.726	0.758	0.773

For footnotes, see page 99.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 339.

Table of Contents

Report of the Directors: Financial summary (continued)

Consolidated balance sheet

Combined view of customer lending and customer deposits

	2015	2014
	$m	$m
Combined customer lending		
Loans and advances to customers	924,454	974,660
Loans and advances to customers reported in Assets held for sale	19,021	577
Brazil[22]	17,001	
other	2,020	577
At 31 December	943,475	975,237
Combined customer deposits		
Customer accounts	1,289,586	1,350,642
Customer accounts reported in Liabilities of disposal groups held for sale	16,682	145
Brazil[22]	15,094	
other	1,588	145
At 31 December	1,306,268	1,350,787

For footnote, see page 99.

Movement in 2015

Total reported assets of $2.4 trillion were 9% lower than at 31 December 2014 on a reported basis and 4% lower on a constant currency basis. One of the main drivers for this reduction was a fall in trading assets which reflects our ongoing focus on the efficient use of the balance sheet in the context of new prudential regulations.

Our ratio of customer advances to customer accounts was 71.7%. Both customer loans and customer accounts fell on a reported basis with these movements including:

- adverse currency translation movements of $52bn and $65bn, respectively;

- the transfer to Assets held for sale and Liabilities of disposal groups held for sale of balances relating to the planned disposal of our operations in Brazil of $17bn and $15bn, respectively; and

- a $13bn reduction in corporate overdraft and current account balances relating to a small number of clients in our PCM business in the UK who settled their overdraft and deposit balances on a net basis, with customers increasing the frequency with which they settled their positions.

Excluding these movements, customer lending grew by $32bn (or 4%) driven by Europe, and customer accounts grew by $32bn (or 3%), notably in Asia.

Assets

Cash and balances at central banks fell by $31bn, primarily in North America as we managed the balance of our liquid asset portfolio to maximise investment returns.

Trading assets decreased by $79bn, of which $16bn was driven by adverse currency translation, as we continued our reduction in trading inventory in the context of the prudential regulation. This resulted in reductions in holdings of debt securities by the Rates business, notably in Europe and North America. In addition, lower settlement balances also reflected our actions to improve efficiency of balance sheet usage.

Derivative assets decreased by $57bn or 16%, driven by valuation movements in interest rate contracts, reflecting shifts in major yield curves, notably in France and the UK.

Loans and advances to customers decreased by $50bn on a reported basis, driven by Latin America and Europe. This included the following items:

- adverse currency translation movements of $52bn;

- reclassification of $17bn to Assets held for sale relating to our operations in Brazil; and

- a $13bn reduction in corporate overdraft balances in Europe, with a corresponding fall in corporate customer accounts.

Excluding these factors, customer lending balances grew by $32bn, largely from growth in Europe of $20bn, North America of $5bn and Asia of $4bn.

In Europe, the growth was from increased term lending to CMB customers, notably in the UK and Germany and higher balances in GB&M. In North America, the growth in balances was driven by increased term lending to corporate and commercial customers in CMB and GB&M, partly offset by a decline in RBWM from the continued reduction in the US run-off portfolio and the transfer to Assets held for sale of US first lien mortgage balances. In Asia, balances rose largely from residential mortgage lending in Hong Kong and mainland China. CMB lending balances also rose, although GB&M lending fell. Both of these businesses were affected by weakening demand for trade lending, while GB&M s reduction also reflected our active management of overall client returns.

Liabilities

Repurchase agreements decreased by $27bn or 25%, driven by falls in Europe, notably in the UK, and in North America. We continued to closely manage these balances, as we reassessed the overall returns on these activities in light of the evolving regulatory landscape and overall client returns.

Customer accounts decreased by $61bn and included the following items:

- adverse currency translation movements of $65bn;
- reclassification of over $15bn to 'Liabilities of disposal groups held for sale' relating to our operations in Brazil; and
- a $13bn reduction in corporate current account balances, in line with the fall in corporate overdraft positions.

Excluding these factors, customer accounts grew by $32bn, notably in Asia in the first half of the year, reflecting growth in RBWM from increased savings balances by new and existing Premier customers, together with a rise in our PCM business in CMB.

Balances in Europe were broadly unchanged. Growth in our PCM business in CMB and a rise in RBWM balances reflecting customers' continued preference for holding balances in current and savings accounts were broadly offset by a fall in GB&M.

Table of Contents

Trading liabilities fell by $49bn, mainly in North America and Europe reflecting the reduction in trading assets and our focus on optimising the funding of trading assets.

The decrease in *derivative liabilities* was in line with that of derivative assets as the underlying risk was broadly matched.

Equity

Total shareholders equity fell by $2.0bn or 1%. The effects of profits generated in the year and the issue of new contingent convertible securities were more than offset by the combined effect of dividends paid and an increase in accumulated foreign exchange losses, which reflected the marked appreciation in the US dollar against a number of currencies, notably sterling and the euro. We recorded fair value gains in our available-for-sale reserve relating to our equity interest in Visa Europe of $432m. These were more than offset by fair value gains transferred to the income statement and fair value losses on debt securities during the year. The gains on Visa Europe were assessed against the expected consideration to be received from the proposed sale to Visa Inc. This transaction is expected to complete in 2016, at which point we will transfer the fair value gains to the income statement.

Risk-weighted assets

Risk-weighted assets (RWA s) totalled $1,103bn at 31 December 2015, a decrease of $117bn during 2015. After foreign currency translation differences, RWAs reduced by $65bn in 2015, driven by targeted RWA initiatives of $124bn, partly offset by business growth of $35bn, and from growth in our associates of $14bn. The RWA initiatives included:

- the accelerated sell-down of our consumer mortgage portfolio in the US and the GB&M legacy book, together contributing $30bn to the reduction; and

- exposure reductions, process improvements and refined calculations, which reduced RWAs by $93bn, 61% of which were in GB&M.

The business growth of $35bn was from higher term lending to corporate customers in CMB and from higher general lending to corporates in GB&M. There was an increase of $14bn in our associates, BoCom and The Saudi British Bank.

Customer accounts by country

	2015	2014
	$m	$m
Europe	**497,876**	545,959
UK	**404,084**	439,313
France[23]	**35,635**	40,750
Germany	**13,873**	15,757
Switzerland	**10,448**	11,058
other	**33,836**	39,081
Asia	**598,620**	577,491
Hong Kong	**421,538**	389,094
Australia	**17,703**	19,312
India	**11,795**	11,678
Indonesia	**5,366**	5,788
Mainland China	**46,177**	46,588
Malaysia	**14,114**	16,292
Singapore	**41,307**	43,731
Taiwan	**11,812**	14,901
other	**28,808**	30,107
Middle East and North Africa (excluding Saudi Arabia)	**36,468**	39,720
Egypt	**6,602**	7,663
United Arab Emirates	**18,281**	19,771
other	**11,585**	12,286
North America	**135,152**	138,884
US	**86,322**	84,894
Canada	**39,727**	43,871
other	**9,103**	10,119
Latin America	**21,470**	48,588
Mexico	**15,798**	18,360
other	**5,672**	30,228
included in other: Brazil[22]		23,204
At 31 December	**1,289,586**	1,350,642

For footnotes, see page 99.

Table of Contents

Report of the Directors: Financial Review (continued)

Average balance sheet

Average balance sheet and net interest income

Average balances and related interest are shown for the domestic operations of our principal commercial banks by geographical region. Other operations comprise the operations of our principal commercial banking and consumer finance entities outside their domestic markets and all other banking operations, including investment banking balances and transactions.

Average balances are based on daily averages for the principal areas of our banking activities with monthly or less frequent averages used elsewhere. Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking and consumer finance

entities and the elimination entries are included within Other operations .

Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the Net interest income line of the income statement. Total interest-earning assets include loans where the carrying amount has been adjusted as a result of impairment allowances. In accordance with IFRSs, we recognise interest income on assets after the carrying amount has been adjusted as a result of impairment. Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in Interest income .

Assets

	2015			2014			2013	
	Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	Average balance	Inc
	$m	**$m**	**%**	$m	$m	%	$m	

assets measured at (itemised below)	**1,726,949**	**47,189**	**2.73**	1,786,536	50,955	2.85	1,669,368	51.
and financial assets ir value[54,55]	**195,285**	**4,626**	**2.37**	238,958	5,596	2.34	354,817	5.
owances	**(10,606)**			(14,015)			(15,954)	
rning assets	**682,143**			668,564			683,785	
l interest income	**2,593,771**	**51,815**	**2.00**	2,680,043	56,551	2.11	2,692,016	56.
on all interest-earning			**2.70**			2.79		
nds and loans and nks								
HSBC Bank	**79,101**	**827**	**1.05**	96,638	997	1.03	89,921	
HSBC Private Banking Holdings (Suisse)	**11,498**	**4**	**0.03**	9,704	10	0.10	15,400	
HSBC France	**5,242**	**40**	**0.76**	7,055	66	0.94	10,603	
Hang Seng Bank	**14,379**	**210**	**1.46**	15,374	279	1.81	16,496	
The Hongkong and Shanghai Banking Corporation	**55,951**	**536**	**0.96**	57,141	822	1.44	53,372	
HSBC Bank Malaysia	**3,994**	**121**	**3.03**	5,060	158	3.12	5,487	
HSBC Bank Middle East	**5,038**	**30**	**0.60**	4,678	29	0.62	5,018	
HSBC Bank USA	**35,271**	**134**	**0.38**	28,148	105	0.37	24,907	
HSBC Bank Canada	**767**	**2**	**0.26**	606	4	0.66	425	
HSBC Mexico	**2,463**	**76**	**3.09**	2,675	86	3.21	2,846	
Brazilian operations	**1,717**	**193**	**11.24**	5,416	498	9.19	5,579	
HSBC Bank Argentina	**1,050**	**4**	**0.38**	1,083	12	1.11	1,199	
s	**5,453**	**100**	**1.83**	3,570	2	0.06	5,124	
	221,924	**2,277**	**1.03**	237,148	3,068	1.29	236,377	2.

HSBC HOLDINGS PLC

63a

Table of Contents

Report of the Directors: Financial Review (continued)

Assets *(continued)*

		2015 Average balance $m	2015 Interest income $m	2015 Yield %	2014 Average balance $m	2014 Interest income $m	2014 Yield %	2013 Average balance $m	2013 Interest income $m	2013 Yield %
Loans and advances to customers										
Europe	HSBC Bank	**291,311**	**9,916**	**3.40**	302,817	10,423	3.44	292,200	10,631	3.64
	HSBC Private Banking Holdings (Suisse)	**12,006**	**136**	**1.13**	13,026	159	1.22	15,235	194	1.27
	HSBC France	**41,257**	**1,252**	**3.03**	43,736	1,626	3.72	47,404	1,656	3.49
	HSBC Finance							173	10	5.78
Asia	Hang Seng Bank	**86,149**	**2,579**	**2.99**	79,586	2,410	3.03	72,537	2,179	3.00
	The Hongkong and Shanghai Banking Corporation	**261,705**	**8,082**	**3.09**	263,732	8,517	3.23	237,915	8,022	3.37
	HSBC Bank Malaysia	**12,517**	**589**	**4.71**	13,548	672	4.96	13,928	683	4.90
MENA	HSBC Bank Middle East	**27,240**	**1,041**	**3.82**	26,618	1,133	4.26	25,537	1,124	4.40
North America	HSBC Bank USA	**74,013**	**1,981**	**2.68**	63,770	1,791	2.81	56,538	1,776	3.14

	HSBC Finance	**21,529**	**1,705**	**7.92**	26,446	2,171	8.21	34,146	3,064	8.97
	HSBC Bank Canada	**33,280**	**1,086**	**3.26**	37,472	1,371	3.66	39,199	1,431	3.65
Latin America	HSBC Mexico	**14,304**	**1,319**	**9.22**	15,770	1,542	9.78	15,335	1,658	10.81
	Brazilian operations	**10,388**	**1,915**	**18.43**	27,275	4,579	16.79	25,688	4,604	17.92
	HSBC Bank Argentina	**3,381**	**880**	**26.03**	3,078	798	25.93	3,615	799	22.10
Other operations		**20,627**	**623**	**3.02**	14,437	237	1.64	17,872	698	3.91
		909,707	**33,104**	**3.64**	931,311	37,429	4.02	897,322	38,529	4.29
Reverse repurchase agreements non-trading										
Europe	HSBC Bank	**53,036**	**354**	**0.67**	66,360	450	0.68	28,131	113	0.40
	HSBC France	**12,986**	**7**	**0.05**	29,703	62	0.21	45,929	48	0.10
Asia	The Hongkong and Shanghai Banking Corporation	**26,714**	**273**	**1.02**	23,562	333	1.41	11,722	272	2.32
	HSBC Bank Malaysia	**1,001**	**32**	**3.20**	991	31	3.13	378	11	2.91
MENA	HSBC Bank Middle East	**272**	**2**	**0.74**	18	2	11.11	620	7	1.13
North America	HSBC Bank USA	**4,589**	**23**	**0.50**	1,196	10	0.84	1,837	13	0.71
	HSBC Finance									
	HSBC Bank Canada	**5,814**	**40**	**0.69**	7,169	84	1.17	9,196	93	1.01
Latin America	HSBC Mexico	**877**	**27**	**3.08**	90	3	3.33	133	5	3.76
	Brazilian operations	**3,248**	**421**	**12.96**	7,241	753	10.40	5,541	404	7.29
	HSBC Bank Argentina	**42**	**7**	**16.67**	88	10	11.36	138	13	9.42
Other operations		**53,729**	**115**	**0.21**	61,855	62	0.10	10,699	16	0.15
		162,308	**1,301**	**0.80**	198,273	1,800	0.91	114,324	995	0.87
Financial investments										
Europe	HSBC Bank	**73,043**	**753**	**1.03**	100,609	867	0.86	88,406	1,223	1.38
	HSBC Private Banking Holdings (Suisse)	**7,479**	**75**	**1.00**	10,890	114	1.05	13,509	183	1.35
		13,608	**17**	**0.12**	12,685	113	0.89	13,733	94	0.68

	HSBC France									
Asia	Hang Seng Bank	**39,891**	**647**	**1.62**	33,246	655	1.97	31,502	601	1.91
	The Hongkong and Shanghai Banking Corporation	**128,922**	**1,909**	**1.48**	118,096	2,109	1.79	104,740	1,781	1.70
	HSBC Bank Malaysia	**2,864**	**104**	**3.63**	2,749	94	3.42	2,197	72	3.28
MENA	HSBC Bank Middle East	**8,186**	**70**	**0.86**	10,515	104	0.99	11,838	113	0.95
North America	HSBC Bank USA	**49,268**	**893**	**1.81**	47,963	774	1.61	56,302	884	1.57
	HSBC Finance									
	HSBC Bank Canada	**17,486**	**199**	**1.14**	17,970	246	1.37	20,364	279	1.37
Latin America	HSBC Mexico	**6,301**	**286**	**4.54**	9,914	409	4.13	7,782	351	4.51
	Brazilian operations	**3,520**	**515**	**14.63**	8,350	1,003	12.01	7,404	740	9.99
	HSBC Bank Argentina	**650**	**149**	**22.92**	518	130	25.10	451	71	15.74
Other operations		**44,895**	**1,891**	**4.21**	26,311	1,705	6.48	35,081	1,610	4.59
		396,113	**7,508**	**1.90**	399,816	8,323	2.08	393,309	8,002	2.03

Table of Contents

Report of the Directors: Financial Review (continued)

Assets *(continued)*

		2015			2014			2013		
		Average balance $m	**Interest income $m**	**Yield %**	Average balance $m	Interest income $m	Yield %	Average balance $m	Interest income $m	Yi
er rest-earning assets										
ope	HSBC Bank	**61,355**	**100**	**0.16**	85,604	25	0.03	73,607	64	0
	HSBC Private Banking Holdings (Suisse)	**2,200**	**24**	**1.09**	5,220	32	0.61	7,441	69	0
	HSBC France	**2,818**	**61**	**2.16**	6,016	97	1.61	14,294	111	0
	Hang Seng Bank	**3,551**	**14**	**0.39**	2,504	14	0.56	2,088	14	0
	The Hongkong and Shanghai Banking Corporation	**82,422**	**451**	**0.55**	86,361	583	0.68	62,369	498	0
	HSBC Bank Malaysia	**92**			152			456	2	0
NA	HSBC Bank Middle East	**1,263**	**37**	**2.93**	2,221	32	1.44	1,888	87	4
h erica	HSBC Bank USA	**4,012**	**132**	**3.29**	6,936	123	1.77	6,386	103	1
	HSBC Finance	**5,538**	**7**	**0.13**	6,081	5	0.08	6,821	19	0

	HSBC Bank Canada	**249**	**5**	**2.01**	292	5	1.71	1,691	42	2
h erica	HSBC Mexico	**517**	**1**	**0.19**	324			265	6	2
	Brazilian operations	**20,972**	**2,744**	**13.08**	1,215	136	11.19	2,394	107	4
	HSBC Bank Argentina	**69**			61			93		
er operations		**(148,161)**	**(577)**		(182,999)	(717)		(151,757)	(307)	
		36,897	**2,999**	**8.13**	19,988	335	1.68	28,036	815	2
al interest-earning ts										
ope	HSBC Bank	**557,846**	**11,950**	**2.14**	652,028	12,762	1.96	572,265	12,911	2
	HSBC Private Banking Holdings (Suisse)	**33,183**	**239**	**0.72**	38,840	315	0.81	51,585	456	0
	HSBC France	**75,911**	**1,377**	**1.81**	99,195	1,964	1.98	131,963	2,002	1
	Hang Seng Bank	**143,970**	**3,450**	**2.40**	130,710	3,358	2.57	122,623	3,045	2
	The Hongkong and Shanghai Banking Corporation	**555,714**	**11,251**	**2.02**	548,892	12,364	2.25	470,118	11,382	2
	HSBC Bank Malaysia	**20,468**	**846**	**4.13**	22,500	955	4.24	22,446	930	4
NA	HSBC Bank Middle East	**41,999**	**1,180**	**2.81**	44,050	1,300	2.95	44,901	1,358	3
h erica	HSBC Bank USA	**167,153**	**3,163**	**1.89**	148,013	2,803	1.89	145,970	2,860	1
	HSBC Finance	**27,067**	**1,712**	**6.33**	32,527	2,176	6.69	40,967	3,083	7
	HSBC Bank Canada	**57,596**	**1,332**	**2.31**	63,509	1,710	2.69	70,875	1,848	2
h erica	HSBC Mexico	**24,462**	**1,709**	**6.99**	28,773	2,040	7.09	26,361	2,129	8
	Brazilian operations	**39,845**	**5,788**	**14.53**	49,497	6,969	14.08	46,606	6,243	13
	HSBC Bank Argentina	**5,192**	**1,040**	**20.03**	4,828	950	19.68	5,496	901	16
er operations		**(23,457)**	**2,152**		(76,826)	1,289		(82,808)	2,044	
		1,726,949	**47,189**	**2.73**	1,786,536	50,955	2.85	1,669,368	51,192	3

footnotes, see page 100a.

ity and liabilities

	2015 Average balance $m	2015 Interest expense $m	2015 Cost %	2014 Average balance $m	2014 Interest expense $m	2014 Cost %	2013 Average balance $m	2013 Interest expense $m	2013 C
mary									
rest-bearing lities measured at rtised cost nised below)	**1,465,635**	**14,658**	**1.00**	1,546,633	16,250	1.05	1,426,180	15,653	1
ing liabilities and ncial liabilities gnated at fair value luding own debt ed)	**151,294**	**2,071**	**1.37**	178,518	2,856	1.60	301,353	3,027	1
-interest bearing ent accounts	**190,914**			185,990			184,370		
l equity and other interest bearing lities	**785,928**			768,902			780,113		
l equity and lities	**2,593,771**	**16,729**	**0.64**	2,680,043	19,106	0.71	2,692,016	18,680	0
rage cost on all rest-bearing lities			**1.03**			1.11			1

HSBC HOLDINGS PLC

63c

Table of Contents

Report of the Directors: Financial Review (continued)

Equity and liabilities (continued)

		2015			2014			2013		
		Average balance $m	**Interest expense $m**	**Cost %**	Average balance $m	Interest expense $m	Cost %	Average balance $m	Interest expense $m	Cos %
eposits by banks[56]										
urope	HSBC Bank	**16,333**	**75**	**0.46**	20,508	139	0.68	21,230	165	0.78
	HSBC Private Banking Holdings (Suisse)	**400**	**1**	**0.25**	354	1	0.28	351	1	0.28
	HSBC France	**7,323**	**41**	**0.56**	6,191	53	0.86	7,747	69	0.89
sia	Hang Seng Bank	**1,098**	**19**	**1.73**	960	9	0.94	1,095	15	1.37
	The Hongkong and Shanghai Banking Corporation	**19,426**	**80**	**0.41**	19,589	79	0.40	15,663	90	0.57
	HSBC Bank Malaysia	**974**	**26**	**2.67**	1,095	26	2.37	864	20	2.31
ENA	HSBC Bank Middle East	**737**	**3**	**0.41**	982	3	0.31	1,471	3	0.20
orth merica	HSBC Bank USA	**5,503**	**17**	**0.31**	6,436	12	0.19	8,131	16	0.20
	HSBC Bank Canada	**319**	**1**	**0.31**	371	1	0.27	607	2	0.33
atin	HSBC	**1,506**	**55**	**3.65**	2,078	73	3.51	1,018	46	4.52

merica	Mexico									
	Brazilian operations	**1,024**	**49**	**4.79**	2,309	84	3.64	3,356	94	2.80
	HSBC Bank Argentina	**10**	**2**	**20.00**	10	1	10.00	20	2	10.00
ther operations		**1,210**	**9**	**0.74**	334			63	32	50.79
		55,863	**378**	**0.68**	61,217	481	0.79	61,616	555	0.90
nancial liabilities esignated at fair alue own debt sued[57]										
urope	HSBC Holdings	**18,816**	**263**	**1.40**	18,745	234	1.25	19,719	366	1.86
	HSBC Bank	**20,758**	**316**	**1.52**	27,762	421	1.52	28,969	443	1.53
	HSBC France	**8,472**	**31**	**0.37**	8,232	66	0.80	9,173	67	0.73
orth merica	HSBC Bank USA	**2,100**	**32**	**1.52**	2,032	33	1.62	1,933	35	1.81
	HSBC Finance	**5,169**	**47**	**0.91**	7,195	58	0.81	8,878	80	0.90
ther operations		**3,174**	**28**	**0.88**	2,408	25	1.04	3,661	(24)	(0.66
		58,489	**717**	**1.23**	66,374	837	1.26	72,333	967	1.34
ustomer accounts[58]										
urope	HSBC Bank	**364,503**	**2,051**	**0.56**	372,151	2,268	0.61	329,867	2,229	0.68
	HSBC Private Banking Holdings (Suisse)	**7,201**	**29**	**0.40**	8,165	31	0.38	16,414	70	0.43
	HSBC France	**15,900**	**116**	**0.73**	20,988	189	0.90	24,519	237	0.97
sia	Hang Seng Bank	**106,783**	**464**	**0.43**	98,794	472	0.48	91,778	360	0.39
	The Hongkong and Shanghai Banking Corporation	**394,313**	**2,446**	**0.62**	377,748	2,743	0.73	344,968	2,548	0.74
	HSBC Bank Malaysia	**11,865**	**264**	**2.23**	13,457	291	2.16	13,673	295	2.16
ENA	HSBC Bank Middle East	**14,360**	**53**	**0.37**	16,533	75	0.45	18,387	106	0.58
orth merica	HSBC Bank USA	**61,314**	**147**	**0.24**	57,015	78	0.14	56,411	104	0.18
	HSBC Bank Canada	**35,998**	**197**	**0.55**	40,682	319	0.78	41,905	330	0.79
atin merica	HSBC Mexico	**12,568**	**201**	**1.60**	15,050	300	1.99	15,316	383	2.50
		6,938	**830**	**11.96**	18,542	1,828	9.86	20,602	1,467	7.12

	Brazilian operations									
	HSBC Bank Argentina	**2,989**	**436**	**14.59**	2,758	373	13.52	3,318	343	10.34
ther operations		**41,169**	**167**	**0.41**	46,610	164	0.35	58,342	322	0.55
		1,075,901	**7,401**	**0.69**	1,088,493	9,131	0.84	1,035,500	8,794	0.85
epurchase greements on-trading										
urope	HSBC Bank	**31,782**	**119**	**0.37**	72,481	213	0.29	29,019	111	0.38
	HSBC Private Banking Holdings (Suisse)				74			67		0.14
	HSBC France	**8,965**	**2**	**0.02**	29,539	59	0.20	37,554	34	0.09
sia	Hang Seng Bank	**203**	**4**	**1.97**	11			6		4.24
	The Hongkong and Shanghai Banking Corporation	**3,022**	**70**	**2.32**	1,760	56	3.18	779	32	4.11
	HSBC Bank Malaysia	**43**	**1**	**2.33**	35	1	2.86	65	1	1.54
ENA	HSBC Bank Middle East				2			17	1	5.88
orth merica	HSBC Bank USA	**6,828**	**26**	**0.38**	11,485	20	0.17	9,269	12	0.13
	HSBC Bank Canada	**2,534**	**17**	**0.67**	2,167	25	1.15	2,996	30	1.00
atin merica	HSBC Mexico	**2,127**	**62**	**2.91**	4,748	152	3.20	1,842	90	4.89
	Brazilian operations	**334**	**6**	**1.80**	910	96	10.55	1,104	87	7.88
	HSBC Bank Argentina	**5**			3					
ther operations		**62,104**	**48**	**0.08**	67,490	30	0.04	11,692	7	0.06
		117,947	**355**	**0.30**	190,705	652	0.34	94,410	405	0.43

Table of Contents

Report of the Directors: Financial Review (continued)

Equity and liabilities (continued)

		2015 Average balance $m	2015 Interest expense $m	2015 Cost %	2014 Average balance $m	2014 Interest expense $m	2014 Cost %	2013 Average balance $m	2013 Interest expense $m	2013 C
t securities in e										
ope	HSBC Holdings	**16,230**	**904**	**5.57**	16,781	945	5.63	13,405	807	6
	HSBC Bank	**41,413**	**359**	**0.87**	56,949	589	1.03	64,528	768	1
	HSBC France	**12,379**	**40**	**0.32**	10,846	52	0.48	13,365	54	0
	Hang Seng Bank	**428**	**7**	**1.64**	1,155	8	0.69	1,393	12	0
	The Hongkong and Shanghai Banking Corporation	**5,520**	**123**	**2.23**	6,365	176	2.77	7,586	186	2
	HSBC Bank Malaysia	**385**	**17**	**4.42**	461	19	4.12	967	26	2
NA	HSBC Bank Middle East	**2,199**	**33**	**1.50**	2,262	45	1.99	3,057	64	2
h erica	HSBC Bank USA	**31,089**	**542**	**1.74**	15,935	414	2.60	14,012	415	2
	HSBC Finance	**8,961**	**407**	**4.54**	13,045	483	3.70	19,888	739	3
	HSBC Bank Canada	**8,718**	**211**	**2.42**	10,232	257	2.51	13,158	342	2
n erica	HSBC Mexico	**2,005**	**90**	**4.49**	1,061	57	5.37	813	41	5

	Brazilian operations	**4,795**	**782**	**16.31**	12,707	1,565	12.32	10,963	863	7
	HSBC Bank Argentina				1			52	10	19
er operations		**(5,083)**	**6**		(18,076)	(56)		(12,211)	(145)	
		129,039	**3,521**	**2.73**	129,724	4,554	3.51	150,976	4,182	2
er rest-bearing lities										
ope	HSBC Bank	**77,583**	**471**	**0.61**	103,819	646	0.62	96,464	659	0
	HSBC Private Banking Holdings (Suisse)	**8,347**	**94**	**1.13**	7,903	23	0.29	7,869	13	0
	HSBC France	**10,481**	**112**	**1.07**	12,838	34	0.26	26,159	77	0
	HSBC Finance							23		
.	Hang Seng Bank	**1,899**	**35**	**1.84**	1,918	45	2.35	2,021	48	2
	The Hongkong and Shanghai Banking Corporation	**78,630**	**412**	**0.52**	91,468	635	0.69	60,056	490	0
	HSBC Bank Malaysia	**1,158**	**15**	**1.30**	1,342	14	1.04	1,339	8	0
NA	HSBC Bank Middle East	**2,429**	**46**	**1.89**	2,617	57	2.18	2,557	58	2
h erica	HSBC Bank USA	**16,250**	**81**	**0.50**	17,632	11	0.06	17,793	176	0
	HSBC Finance	**5,807**	**241**	**4.15**	5,817	258	4.44	5,265	220	4
	HSBC Bank Canada	**2,539**	**7**	**0.28**	599	4	0.67	3,007	25	0
n erica	HSBC Mexico	**837**	**16**	**1.91**	1,031	13	1.26	1,658	19	1
	Brazilian operations	**16,943**	**1,897**	**11.20**	3,927	357	9.09	3,497	189	5
	HSBC Bank Argentina	**22**	**4**	**18.18**	40	7	17.50	29	3	10
er operations		**(194,529)**	**(1,145)**		(240,831)	(1,509)		(216,392)	(1,235)	
		28,396	**2,286**	**8.05**	10,120	595	5.88	11,345	750	6
l interest-bearing lities										
ope	HSBC Holdings	**35,046**	**1,167**	**3.33**	35,526	1,179	3.32	33,125	1,173	3
	HSBC Bank	**552,372**	**3,391**	**0.61**	653,670	4,276	0.65	570,077	4,375	0

	HSBC Private Banking Holdings (Suisse)	**15,948**	**124**	**0.78**	16,496	55	0.33	24,701	84	0
	HSBC France	**63,520**	**342**	**0.54**	88,634	453	0.51	118,517	538	0
	HSBC Finance							23		
	Hang Seng Bank	**110,411**	**533**	**0.48**	102,927	535	0.52	96,293	435	0
	The Hongkong and Shanghai Banking Corporation	**500,911**	**3,131**	**0.63**	496,930	3,689	0.74	428,959	3,346	0
	HSBC Bank Malaysia	**14,425**	**323**	**2.24**	16,390	351	2.14	16,908	350	2
NA	HSBC Bank Middle East	**20,580**	**148**	**0.72**	22,994	190	0.83	25,489	232	0
h erica	HSBC Bank USA	**123,084**	**845**	**0.69**	110,535	568	0.51	107,549	758	0
	HSBC Finance	**19,937**	**695**	**3.49**	26,057	799	3.07	34,031	1,039	3
	HSBC Bank Canada	**50,108**	**433**	**0.86**	54,051	606	1.12	61,673	729	1
n erica	HSBC Mexico	**19,043**	**424**	**2.23**	23,968	595	2.48	20,647	579	2
	Brazilian operations	**30,034**	**3,564**	**11.87**	38,395	3,930	10.24	39,522	2,700	6
	HSBC Bank Argentina	**3,026**	**442**	**14.61**	2,812	381	13.55	3,419	358	10
er operations		**(92,810)**	**(904)**		(142,752)	(1,357)		(154,753)	(1,043)	
		1,465,635	**14,658**	**1.00**	1,546,633	16,250	1.05	1,426,180	15,653	1

For footnotes, see page 100a.

Table of Contents

Report of the Directors: Financial Review (continued)

Net interest margin[59]

		2015 %	2014 %	2013 %
Total		**1.88**	1.94	2.13
Europe	HSBC Bank	**1.53**	1.30	1.49
	HSBC Private Banking Holdings (Suisse)	**0.35**	0.67	0.72
	HSBC France	**1.36**	1.52	1.11
	HSBC Finance			5.78
Asia	Hang Seng Bank	**2.03**	2.16	2.13
	The Hongkong and Shanghai Banking Corporation	**1.46**	1.58	1.70
	HSBC Bank Malaysia	**2.56**	2.68	2.58
MENA	HSBC Bank Middle East	**2.46**	2.52	2.51
North America	HSBC Bank USA	**1.39**	1.51	1.44
	HSBC Finance	**3.76**	4.23	4.99
	HSBC Bank Canada	**1.56**	1.74	1.58
Latin America	HSBC Mexico	**5.25**	5.02	5.88
	Brazilian operations	**5.58**	6.14	7.60
	HSBC Bank Argentina	**11.52**	11.79	9.88

Distribution of average total assets

		2015 %	2014 %	2013 %
Europe	HSBC Bank	**37.0**	39.2	40.1
	HSBC Private Banking Holdings (Suisse)	**1.4**	1.5	2.0
	HSBC France	**7.4**	9.0	11.4
Asia	Hang Seng Bank	**6.5**	5.7	5.3
	The Hongkong and Shanghai Banking Corporation	**30.0**	26.3	25.0
	HSBC Bank Malaysia	**0.9**	0.9	1.0
MENA	HSBC Bank Middle East	**1.9**	1.9	2.0
North America	HSBC Bank USA	**9.6**	8.5	8.7

	HSBC Finance	**1.2**	1.3	1.7
	HSBC Bank Canada	**2.8**	3.0	3.2
Latin America	HSBC Mexico	**1.4**	1.5	1.5
	Brazilian operations	**2.0**	2.4	2.3
	HSBC Bank Argentina			
Other operations (including consolidation adjustments)		**(2.1)**	(1.2)	(4.2)
		100.0	100.0	100.0

For footnote, see page 100a.

Table of Contents

Report of the Directors: Financial Summary (continued)

Analysis of changes in net interest income and net interest expense

The following tables allocate changes in net interest income and net interest expense between volume and rate for 2015 compared with 2014, and for 2014 compared with 2013. We isolate volume variances and allocate any change arising from both volume and rate to rate.

Interest income

			Increase/(decrease) in 2015 compared with 2014			Increase/(decrease) in 2014 compared with 2013		
		2015 $m	**Volume $m**	**Rate $m**	2014 $m	Volume $m	Rate $m	2013 $m
Short-term funds and loans and advances to banks								
Europe	HSBC Bank	**827**	**(181)**	**11**	997	66	51	880
	HSBC Private Banking Holdings (Suisse)	**4**	**2**	**(8)**	10	(4)	4	10
	HSBC France	**40**	**(17)**	**(9)**	66	(31)	4	93
Asia	Hang Seng Bank	**210**	**(18)**	**(51)**	279	(17)	45	251
	The Hongkong and Shanghai Banking Corporation	**536**	**(17)**	**(269)**	822	57	(44)	809
	HSBC Bank Malaysia	**121**	**(33)**	**(4)**	158	(13)	9	162
MENA	HSBC Bank Middle East	**30**	**2**	**(1)**	29	(2)	4	27
North America	HSBC Bank USA	**134**	**26**	**3**	105	11	10	84
		2	**1**	**(3)**	4	1		3

	HSBC Bank Canada							
Latin America	HSBC Mexico	**76**	**(7)**	**(3)**	86	(7)	(16)	109
	Brazilian operations	**193**	**(340)**	**35**	498	(11)	121	388
	HSBC Bank Argentina	**4**		**(8)**	12	(2)	(4)	18
Other operations		**100**	**1**	**97**	2	(5)	(10)	17
		2,277	**(196)**	**(595)**	3,068	9	208	2,851
Loans and advances to customers								
Europe	HSBC Bank	**9,916**	**(396)**	**(111)**	10,423	386	(594)	10,631
	HSBC Private Banking Holdings (Suisse)	**136**	**(12)**	**(11)**	159	(28)	(7)	194
	HSBC France	**1,252**	**(92)**	**(282)**	1,626	(128)	98	1,656
	HSBC Finance					(10)		10
Asia	Hang Seng Bank	**2,579**	**199**	**(30)**	2,410	211	20	2,179
	The Hongkong and Shanghai Banking Corporation	**8,082**	**(65)**	**(370)**	8,517	870	(375)	8,022
	HSBC Bank Malaysia	**589**	**(51)**	**(32)**	672	(19)	8	683
MENA	HSBC Bank Middle East	**1,041**	**26**	**(118)**	1,133	48	(39)	1,124
North America	HSBC Bank USA	**1,981**	**288**	**(98)**	1,791	227	(212)	1,776
	HSBC Finance	**1,705**	**(404)**	**(62)**	2,171	(691)	(202)	3,064
	HSBC Bank Canada	**1,086**	**(153)**	**(132)**	1,371	(63)	3	1,431
Latin America	HSBC Mexico	**1,319**	**(143)**	**(80)**	1,542	47	(163)	1,658
	Brazilian operations	**1,915**	**(2,835)**	**171**	4,579	284	(309)	4,604
	HSBC Bank Argentina	**880**	**79**	**3**	798	(119)	118	799
Other operations		**623**	**102**	**284**	237	(134)	(327)	698
		33,104	**(868)**	**(3,457)**	37,429	1,458	(2,558)	38,529
Reverse repurchase agreements non-trading								
Europe	HSBC Bank	**354**	**(91)**	**(5)**	450	153	184	113
	HSBC France	**7**	**(35)**	**(20)**	62	(16)	30	48
Asia	The Hongkong and Shanghai Banking Corporation	**273**	**44**	**(104)**	333	275	(214)	272
	HSBC Bank Malaysia	**32**		**1**	31	18	2	11

MENA	HSBC Bank Middle East	**2**	**28**	**(28)**	2	(7)	2	7
North America	HSBC Bank USA	**23**	**29**	**(16)**	10	(5)	2	13
	HSBC Finance							
	HSBC Bank Canada	**40**	**(16)**	**(28)**	84	(20)	11	93
Latin America	HSBC Mexico	**27**	**26**	**(2)**	3	(2)		5
	Brazilian operations	**421**	**(415)**	**83**	753	124	225	404
	HSBC Bank Argentina	**7**	**(5)**	**2**	10	(5)	2	13
Other operations		**115**	**(8)**	**61**	62	77	(31)	16
		1,301	**(327)**	**(172)**	1,800	730	75	995

Table of Contents

Report of the Directors: Financial Summary (continued)

Interest income (continued)

			Increase/(decrease) in 2015 compared with 2014			Increase/(decrease) in 2014 compared with 2013		
		2015	**Volume**	**Rate**	2014	Volume	Rate	2013
		$m	**$m**	**$m**	$m	$m	$m	$m
Financial investments								
Europe	HSBC Bank	**753**	**(237)**	**123**	867	168	(524)	1,223
	HSBC Private Banking Holdings (Suisse)	**75**	**(36)**	**(3)**	114	(35)	(34)	183
	HSBC France	**17**	**8**	**(104)**	113	(7)	26	94
Asia	Hang Seng Bank	**647**	**131**	**(139)**	655	33	21	601
	The Hongkong and Shanghai Banking Corporation	**1,909**	**194**	**(394)**	2,109	227	101	1,781
	HSBC Bank Malaysia	**104**	**4**	**6**	94	18	4	72
MENA	HSBC Bank Middle East	**70**	**(23)**	**(11)**	104	(13)	4	113
North America	HSBC Bank USA	**893**	**21**	**98**	774	(131)	21	884
	HSBC Finance							
	HSBC Bank Canada	**199**	**(7)**	**(40)**	246	(33)		279
Latin America	HSBC Mexico	**286**	**(149)**	**26**	409	96	(38)	351
	Brazilian operations	**515**	**(580)**	**92**	1,003	94	169	740
	HSBC Bank Argentina	**149**	**33**	**(14)**	130	11	48	71
Other operations		**1,891**	**1,204**	**(1,018)**	1,705	(403)	498	1,610

		7,508	**(77)**	**(738)**	8,323	132	189	8,002

Interest expense

			Increase/(decrease) in 2015 compared with 2014			Increase/(decrease) in 2014 compared with 2013		
		2015	**Volume**	**Rate**	2014	Volume	Rate	2013
		$m	**$m**	**$m**	$m	$m	$m	$m
Deposits by banks								
Europe	HSBC Bank	**75**	**(19)**	**(45)**	139	(6)	(20)	165
	HSBC Private Banking Holdings (Suisse)	**1**			1			1
	HSBC France	**41**	**10**	**(22)**	53	(14)	(2)	69
Asia	Hang Seng Bank	**19**	**1**	**9**	9	(2)	(4)	15
	The Hongkong and Shanghai Banking Corporation	**80**	**(1)**	**2**	79	22	(33)	90
	HSBC Bank Malaysia	**26**	**(3)**	**3**	26	5	1	20
MENA	HSBC Bank Middle East	**3**	**(1)**	**1**	3	(1)	1	3
North America	HSBC Bank USA	**17**	**(2)**	**7**	12	(3)	(1)	16
	HSBC Bank Canada	**1**			1	(1)		2
Latin America	HSBC Mexico	**55**	**(20)**	**2**	73	48	(21)	46
	Brazilian operations	**49**	**(47)**	**12**	84	(29)	19	94
	HSBC Bank Argentina	**2**		**1**	1	(1)		2
Other operations		**9**		**9**		138	(170)	32
		378	**(47)**	**(170)**	481	(4)	(70)	555
Customer accounts								
Europe	HSBC Bank	**2,051**	**(46)**	**(171)**	2,268	288	(249)	2,229
	HSBC Private Banking Holdings (Suisse)	**29**	**(4)**	**2**	31	(35)	(4)	70
	HSBC France	**116**	**(46)**	**(27)**	189	(34)	(14)	237
Asia	Hang Seng Bank	**464**	**38**	**(46)**	472	27	85	360
	The Hongkong and Shanghai Banking Corporation	**2,446**	**121**	**(418)**	2,743	243	(48)	2,548
	HSBC Bank Malaysia	**264**	**(34)**	**7**	291	(5)	1	295
MENA	HSBC Bank Middle East	**53**	**(10)**	**(12)**	75	(11)	(20)	106
North	HSBC Bank USA	**147**	**6**	**63**	78	1	(27)	104

America								
	HSBC Bank Canada	**197**	**(37)**	**(85)**	319	(10)	(1)	330
Latin America	HSBC Mexico	**201**	**(49)**	**(50)**	300	(7)	(76)	383
	Brazilian operations	**830**	**(1,144)**	**146**	1,828	(147)	508	1,467
	HSBC Bank Argentina	**436**	**31**	**32**	373	(58)	88	343
Other operations		**167**	**(19)**	**22**	164	(65)	(93)	322
		7,401	**(106)**	**(1,624)**	9,131	450	(113)	8,794

HSBC HOLDINGS PLC

63h

Table of Contents

Report of the Directors: Financial Summary (continued)

Interest expense (continued)

			Increase/(decrease) in 2015 compared with 2014			Increase/(decrease) in 2014 compared with 2013		
		2015	**Volume**	**Rate**	2014	Volume	Rate	2013
		$m	**$m**	**$m**	$m	$m	$m	$m
Repurchase agreements non-trading								
Europe	HSBC Bank	**119**	**(118)**	**24**	213	165	(63)	111
	HSBC France	**2**	**(41)**	**(16)**	59	(7)	32	34
Asia	Hang Seng Bank	**4**		**4**				
	The Hongkong and Shanghai Banking Corporation	**70**	**40**	**(26)**	56	40	(16)	32
	HSBC Bank Malaysia	**1**			1	(1)	1	1
MENA	HSBC Bank Middle East					(1)		1
North America	HSBC Bank USA	**26**	**(8)**	**14**	20	3	5	12
	HSBC Bank Canada	**17**	**4**	**(12)**	25	(8)	3	30
Latin America	HSBC Mexico	**62**	**(84)**	**(6)**	152	141	(79)	90
	Brazilian operations	**6**	**(61)**	**(29)**	96	(15)	24	87
	HSBC Bank Argentina							
Other operations		**48**	**(2)**	**20**	30	33	(10)	7
		355	**(247)**	**(50)**	652	414	(167)	405
Financial liabilities designated at fair value own debt issued								
Debt securities in issue								

Europe	HSBC Holdings	**904**	**(31)**	**(10)**	945	203	(65)	807
	HSBC Bank	**359**	**(160)**	**(70)**	589	(90)	(89)	768
	HSBC France	**40**	**7**	**(19)**	52	(10)	8	54
Asia	Hang Seng Bank	**7**	**(5)**	**4**	8	(2)	(2)	12
	The Hongkong and Shanghai Banking Corporation	**123**	**(23)**	**(30)**	176	(28)	18	186
	HSBC Bank Malaysia	**17**	**(3)**	**1**	19	(14)	7	26
MENA	HSBC Bank Middle East	**33**	**(1)**	**(11)**	45	(17)	(2)	64
North America	HSBC Bank USA	**542**	**394**	**(266)**	414	57	(58)	415
	HSBC Finance	**407**	**(151)**	**75**	483	(255)	(1)	739
	HSBC Bank Canada	**211**	**(38)**	**(8)**	257	(76)	(9)	342
Latin America	HSBC Mexico	**90**	**51**	**(18)**	57	12	4	41
	Brazilian operations	**782**	**(975)**	**192**	1,565	137	565	863
	HSBC Bank Argentina					(10)		10
Other operations		**6**		**62**	(56)		89	(145)
		3,521	**(24)**	**(1,009)**	4,554	(589)	961	4,182

Table of Contents

Report of the Directors: Financial Review (continued)

Short-term borrowings

Short-term borrowings in the form of repurchase agreements are shown separately on the face of the balance sheet. Other forms of short-term borrowings are included within customer accounts, deposits by banks, debt securities in issue and trading liabilities. Short-term borrowings are defined by the US Securities and Exchange Commission as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings.

Our only significant short-term borrowings are securities sold under agreements to repurchase and certain debt securities in issue. For securities sold under agreements to repurchase, we run matched repo and reverse repo trading books. We generally observe lower year-end demand in our reverse repo lending business which results in lower repo balances at the balance sheet date. Additional information on these is provided in the table below.

Repos and short-term bonds

	2015	2014	2013
	$m	$m	$m
Securities sold under agreements to repurchase			
Outstanding at 31 December	**80,842**	111,230	181,641
Average amount outstanding during the year	**120,241**	195,482	218,580
Maximum quarter-end balance outstanding during the year	**120,141**	227,637	210,452
Weighted average interest rate during the year	**0.4%**	0.3%	0.3%
Weighted average interest rate at the year-end	**0.8%**	0.6%	0.5%
Short-term bonds			
Outstanding at 31 December	**36,614**	38,868	40,667
Average amount outstanding during the year	**40,449**	39,547	46,455
Maximum quarter-end balance outstanding during the year	**42,483**	41,117	54,933
Weighted average interest rate during the year	**1.3%**	1.7%	1.4%

Weighted average interest rate at the year-end	**1.2%**	1.6%	0.7%

Contractual obligations

The table below provides details of our material contractual obligations as at 31 December 2015.

	Payments due by period				
	Total	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
	$m	**$m**	**$m**	**$m**	**$m**
Long-term debt obligations	**178,557**	**47,244**	**43,141**	**27,214**	**60,958**
Term deposits and certificates of deposit	**97,591**	**89,701**	**6,958**	**594**	**338**
Capital (finance) lease obligations	**48**	**17**	**10**	**4**	**17**
Operating lease obligations	**5,333**	**980**	**1,543**	**1,085**	**1,725**
Purchase obligations	**468**	**377**	**5**	**34**	**52**
Short positions in debt securities and equity shares	**43,828**	**28,677**	**5,093**	**1,565**	**8,493**
Current tax liability	**783**	**783**			
Pension/healthcare obligation	**17,016**	**1,488**	**3,057**	**3,354**	**9,117**
	343,624	**169,267**	**59,807**	**33,850**	**80,700**

Table of Contents

Report of the Directors: Financial Review (continued)

Loan maturity and interest sensitivity analysis

At 31 December 2015, the geographical analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis was as follows:

	Europe $m	Asia $m	MENA $m	North America $m	Latin America $m	Total $m
Maturity of 1 year or less						
Loans and advances to banks	**14,045**	**50,016**	**7,271**	**5,726**	**3,312**	**80,370**
Commercial loans to customers						
Manufacturing and international trade and services	**60,605**	**83,210**	**9,049**	**10,904**	**3,285**	**167,053**
Real estate and other property related	**10,833**	**22,548**	**1,537**	**4,469**	**719**	**40,106**
Non-bank financial institutions	**16,121**	**11,078**	**216**	**6,636**	**411**	**34,462**
Governments	**1,550**	**329**	**1,445**	**20**	**286**	**3,630**
Other commercial	**28,929**	**17,458**	**2,986**	**6,324**	**974**	**56,671**
	118,038	**134,623**	**15,233**	**28,353**	**5,675**	**301,922**
Maturity after 1 year but within 5 years						
Loans and advances to banks	**4,000**	**3,104**	**648**	**654**	**2**	**8,408**
Commercial loans to customers						
Manufacturing and international trade and services	**31,424**	**21,834**	**2,386**	**15,576**	**1,956**	**73,176**
Real estate and other property related	**18,694**	**36,206**	**900**	**8,312**	**260**	**64,372**
Non-bank financial institutions	**13,713**	**2,885**	**1,747**	**3,023**	**250**	**21,618**
Governments	**1,064**	**286**	**250**	**90**	**106**	**1,796**
Other commercial	**16,871**	**14,233**	**1,807**	**8,936**	**1,198**	**43,045**
	81,766	**75,444**	**7,090**	**35,937**	**3,770**	**204,007**
Interest rate sensitivity of loans						

and advances to banks and commercial loans to customers						
Fixed interest rate	**16,908**	**2,182**	**1,027**	**4,003**	**898**	**25,018**
Variable interest rate	**68,858**	**76,366**	**6,711**	**32,588**	**2,874**	**187,397**
	85,766	**78,548**	**7,738**	**36,591**	**3,772**	**212,415**
Maturity after 5 years						
Loans and advances to banks	**303**	**1,233**		**105**		**1,641**
Commercial loans to customers						
Manufacturing and international trade and services	**9,641**	**1,427**	**621**	**2,532**	**427**	**14,648**
Real estate and other property related	**4,052**	**8,823**	**161**	**3,233**	**643**	**16,912**
Non-bank financial institutions	**3,785**	**7**	**357**	**163**	**20**	**4,332**
Governments	**1,039**	**517**		**93**	**380**	**2,029**
Other commercial	**7,063**	**4,353**	**1,126**	**2,393**	**1,140**	**16,075**
	25,580	**15,127**	**2,265**	**8,414**	**2,610**	**53,996**
Interest rate sensitivity of loans and advances to banks and commercial loans to customers						
Fixed interest rate	**6,020**	**1,230**	**530**	**1,063**	**345**	**9,188**
Variable interest rate	**19,863**	**15,130**	**1,735**	**7,456**	**2,265**	**46,449**
	25,883	**16,360**	**2,265**	**8,519**	**2,610**	**55,637**

HSBC HOLDINGS PLC

63k

Table of Contents

Report of the Directors: Financial Review (continued)

Deposits

The following tables summarise the average amount of bank deposits, customer deposits and certificates of deposit (CD s) and other money market instruments (which are included within Debt securities in issue in

the balance sheet), together with the average interest rates paid thereon for each of the past three years. The geographical analysis of average deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies.

Deposits by banks

	2015		2014		2013	
	Average balance	**Average rate**	Average balance	Average rate	Average balance	Average rate
	$m	**%**	$m	%	$m	%
Europe	**32,367**		36,427		42,687	
Demand and other non-interest bearing	**8,094**		8,819		13,198	
Demand interest bearing	**5,412**	**0.3**	5,778	0.4	5,154	0.5
Time	**9,885**	**0.9**	14,191	1.0	17,465	1.1
Other	**8,976**	**0.2**	7,639	0.4	6,870	0.7
Asia	**27,618**		26,524		26,928	
Demand and other non-interest bearing	**6,114**		5,189		9,606	
Demand interest bearing	**16,107**	**0.5**	13,828	0.5	12,181	0.6
Time	**2,209**	**1.5**	3,581	0.7	4,282	0.8
Other	**3,188**	**0.5**	3,926	0.3	859	1.6
Middle East and North Africa	**1,478**		1,546		2,529	
Demand and other non-interest	**730**		563		1,058	

bearing						
Demand interest bearing	**3**		3		12	
Time	**723**	**0.4**	938	0.2	1,422	0.2
Other	**22**		42		37	
North America	**9,327**		10,497		12,237	
Demand and other non-interest bearing	**3,499**		3,686		3,488	
Demand interest bearing	**1,956**	**0.2**	2,557	0.1	2,787	0.1
Time	**3,746**	**0.4**	3,308	0.3	5,110	0.3
Other	**126**		946	0.1	852	
Latin America	**2,719**		4,642		4,703	
Demand and other non-interest bearing	**88**		162		118	
Demand interest bearing	**205**	**7.8**	837	3.8	333	4.5
Time	**1,905**	**4.5**	2,244	3.0	2,783	3.1
Other	**521**	**10.4**	1,399	4.4	1,469	4.4
Total	**73,509**		79,636		89,084	
Demand and other non-interest bearing	**18,525**		18,419		27,467	
Demand interest bearing	**23,683**	**0.5**	23,003	0.6	20,468	0.5
Time	**18,468**	**1.2**	24,262	1.0	31,062	1.1
Other	**12,833**	**0.6**	13,952	0.7	10,087	1.2

Table of Contents

Report of the Directors: Financial Review (continued)

Customer accounts

	2015		2014		2013	
	Average balance $m	**Average rate %**	Average balance $m	Average rate %	Average balance $m	Average rate %
Europe	**476,749**		490,511		462,669	
Demand and other non-interest bearing	**73,834**		73,088		75,480	
Demand interest bearing	**316,349**	**0.4**	314,374	0.4	272,973	0.4
Savings	**49,068**	**1.2**	57,464	1.4	63,585	1.4
Time	**35,803**	**0.9**	43,760	1.0	50,010	1.1
Other	**1,695**	**2.4**	1,825	2.6	621	8.2
Asia	**590,436**		566,595		533,002	
Demand and other non-interest bearing	**67,460**		62,988		59,023	
Demand interest bearing	**399,209**	**0.2**	374,026	0.2	347,526	0.2
Savings	**100,801**	**2.3**	108,074	2.3	104,099	2.2
Time	**22,035**	**0.9**	21,381	0.9	20,978	0.7
Other	**931**	**0.4**	126	2.4	1,376	0.4
Middle East and North Africa	**37,876**		39,076		40,451	
Demand and other non-interest bearing	**18,996**		18,410		16,801	
Demand interest bearing	**11,009**	**0.3**	11,587	0.4	13,248	0.4
Savings	**7,120**	**1.9**	7,974	2.1	9,981	2.6
Time	**751**	**1.2**	1,074	1.2	357	1.4
Other			31		64	
North America	**136,773**		135,692		137,181	
Demand and other non-interest bearing	**29,390**		27,361		27,992	
Demand interest bearing	**37,234**	**0.2**	38,843	0.3	37,837	0.3
Savings	**60,157**	**0.4**	60,075	0.5	63,565	0.6

Time	**9,927**	**0.4**	9,290	0.2	7,673	0.3
Other	**65**		123	0.8	114	1.8
Latin America	**32,097**		50,918		54,585	
Demand and other non-interest bearing	**8,349**		12,452		13,092	
Demand interest bearing	**6,848**	**0.9**	7,412	1.2	7,237	1.8
Savings	**10,896**	**18.3**	22,062	10.0	24,652	7.4
Time	**5,952**	**2.5**	8,850	2.8	9,459	4.4
Other	**52**	**9.6**	142	5.6	145	9.7
Total	**1,273,931**		1,282,792		1,227,888	
Demand and other non-interest bearing	**198,029**		194,299		192,388	
Demand interest bearing	**770,649**	**0.3**	746,242	0.3	678,821	0.3
Savings	**228,042**	**2.3**	255,649	2.3	265,882	2.1
Time	**74,468**	**0.9**	84,355	1.1	88,477	1.3
Other	**2,743**	**1.9**	2,247	2.6	2,320	3.1

HSBC HOLDINGS PLC

63m

Table of Contents

Report of the Directors: Financial Review (continued)

Certificates of deposit and other money market instruments

	2015		2014		2013	
	Average balance	**Average rate**	Average balance	Average rate	Average balance	Average rate
	$m	**%**	$m	%	$m	%
Europe	**22,539**	**0.5**	20,970	0.4	28,680	0.5
Asia	**1,275**	**2.4**	2,441	1.6	3,199	2.0
North America	**11,336**	**0.4**	5,406	0.3	5,583	0.6
Latin America	**6,971**	**22.1**	12,035	12.1	9,335	8.3
	42,121	**4.1**	40,852	3.9	46,797	2.3

Certificates of deposit and other time deposits

The maturity analysis of certificates of deposit (CD s) and other wholesale time deposits is expressed by remaining maturity. The majority of CDs and time deposits are in amounts of $100,000 and over or the equivalent in other currencies.

	At 31 December 2015				
	3 months or less	**After 3 months but within 6 months**	**After 6 months but within 12 months**	**After 12 months**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Europe	**29,727**	**5,668**	**5,728**	**5,303**	**46,426**
Certificates of deposit	**2,085**	**2,715**	**2,445**		**7,245**
Time deposits:					
banks	**4,402**	**334**	**337**	**3,379**	**8,452**

customers	**23,240**	**2,619**	**2,946**	**1,924**	**30,729**
Asia	**21,079**	**1,504**	**936**	**751**	**24,270**
Certificates of deposit	**590**	**101**	**181**	**605**	**1,477**
Time deposits:					
banks	**355**	**76**	**1**		**432**
customers	**20,134**	**1,327**	**754**	**146**	**22,361**
Middle East and North Africa	**327**	**19**	**7**	**202**	**555**
Time deposits:					
banks	**265**	**15**			**280**
customers	**62**	**4**	**7**	**202**	**275**
North America	**13,826**	**2,435**	**1,187**	**1,367**	**18,815**
Certificates of deposit	**5,372**	**2,071**	**566**	**444**	**8,453**
Time deposits:					
banks	**2,735**	**107**			**2,842**
customers	**5,719**	**257**	**621**	**923**	**7,520**
Latin America	**6,317**	**852**	**89**	**267**	**7,525**
Certificates of deposit	**779**	**103**	**20**	**89**	**991**
Time deposits:					
banks	**574**	**323**	**22**	**177**	**1,096**
customers	**4,964**	**426**	**47**	**1**	**5,438**
Total	**71,276**	**10,478**	**7,947**	**7,890**	**97,591**
Certificates of deposit	**8,826**	**4,990**	**3,212**	**1,138**	**18,166**
Time deposits:					
banks	**8,331**	**855**	**360**	**3,556**	**13,102**
customers					