

HSBC HOLDINGS PLC  
Form 20-F  
February 25, 2016  
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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

b **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**

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(Exact name of Registrant as specified in its charter)

<p><b>N/A</b> (Translation of Registrant's name into English)</p>	<p><b>United Kingdom</b> (Jurisdiction of incorporation or organisation)</p>
	<p>8 Canada Square  London E14 5HQ  United Kingdom</p>
	<p>(Address of principal executive offices)</p> <p>Russell C Picot  8 Canada Square  London E14 5HQ  United Kingdom</p> <p>Tel +44 (0) 20 7991 8888  Fax +44 (0) 20 7992 4880</p>
	<p>(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)</p>

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 Depositary Shares, each representing 5	New York Stock Exchange
Ordinary Shares of nominal value US\$0.50 each. 6.20% Non-Cumulative Dollar Preference Shares,	New York Stock Exchange*
Series A American Depositary Shares evidenced by American	New York Stock Exchange
Depositary receipts, each representing one-	
fortieth of a Share of 6.20% Non-Cumulative Dollar	
Preference Shares, Series A	
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

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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	New York Stock Exchange

Exchangeable at the Issuer's Option into Non-

Cumulative Dollar Preference Shares	
8.00% Perpetual Subordinated Capital Securities	New York Stock Exchange

Exchangeable at the Issuer's Option into Non-

Cumulative Dollar Preference Shares, Series 2	
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
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  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  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.

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  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

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

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  No

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

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

Board of Directors

Board committees

Internal control

Employees

Directors Remuneration Report

Report of Independent Registered Public  
Accounting Firm to the Board of Directors and  
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Financial Statements

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**Strategic Report**

**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.

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Certain defined terms

**Certain defined terms**

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC, the Group, we, us or 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.

**HSBC HOLDINGS PLC**

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**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 )**

We help millions of people  
across the world to

**Commercial Banking  
( CMB )**

We support more than two  
million business customers in

**Global Banking and  
Markets ( GB&M )**

We provide financial  
services and products to

**Global Private Banking  
( GPB )**

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 31**

**Further details on page 30**

**Further details on page 28**

**Further details on page 29**

**Reported profit before tax**

\$5.0bn

\$8.0bn

\$7.9bn

\$0.3bn

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HSBC at a glance

**Key metrics**

**Geographical regions**

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

**Market presence**

For further details on our regions, see page 32.

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**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.

## **HSBC HOLDINGS PLC**

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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.

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### **Strategic Report | Group Chairman's Statement**

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.

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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

**HSBC HOLDINGS PLC**

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### **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.

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Group Chief Executive's Review

### **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

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

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**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)	<b>57,765</b>	57,227
Loan impairment charges and other credit risk provisions ( LICs )	<b>(3,721)</b>	(3,168)
Total operating expenses	<b>(36,182)</b>	(34,576)
Operating profit	<b>17,862</b>	19,483
Share of profit in associates and joint ventures	<b>2,556</b>	2,493
Profit before tax	<b>20,418</b>	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.

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**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.

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### **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.

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**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.

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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.

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## Strategic Report

## 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%

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Global businesses

**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%

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## Strategic Report | Global businesses

**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%

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Global businesses

**Global Private Banking ( GPB )**

<p><b>Customers</b></p> <p>GPB serves high net worth individuals and families, including those with international banking needs, through 18 booking centres covering our priority markets.</p> <p>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.</p> <p>We have also reduced the number of offshore markets we cover to ensure appropriate focus is given to key growth areas.</p> <p>GPB remains committed to implementing the most effective global</p>	<p><b>Products and services</b></p> <p>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.</p> <p><b>Business synergies</b></p> <p>GPB aims to bring the best of the Group's research, product and service capabilities to GPB clients.</p> <p>To achieve this, we have three client service groups: the Corporate Client Group, enhancing connectivity with CMB and GB&amp;M; the Wealth Client Group, delivering a seamless transition across the RBWM and GPB wealth franchises; and the</p>	<p><b>Continued repositioning of our GPB business</b></p> <p>Adjusted profit before tax fell by 26% to \$0.5bn, mainly because revenue fell by 6% as we continued to reposition the GPB business.</p> <p>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.</p> <p>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.</p> <p><b>Adjusted profit before tax</b></p> <p>-26%</p>
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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.

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### **Strategic Report | How we do business**

## **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.

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**Strategic Report** | How we do business

### **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%

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How we do business

## **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](http://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.

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**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
-----------	---------	---------------	------

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

<sup>1</sup> 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**

<b>31 December 2014 actual (end point)</b>	11.1%
<b>Minimum stressed ratio before management actions</b>	7.0%
<b>Minimum stressed ratio after management actions</b>	7.7%
<b>Bank of England minimum ratio</b>	4.5%
<b>31 December 2015 actual (end point)</b>	11.9%

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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
<b>Externally driven</b>		
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	

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**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](http://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 invested 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)

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

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

	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
<b>Fixed pay</b>								
Base salary	<b>1,500</b>	1,500	<b>1,250</b>	1,250	<b>700</b>	700	<b>700</b>	700
Fixed pay allowance			<b>1,700</b>	1,700	<b>950</b>	950	<b>950</b>	950
Pension	<b>750</b>	750	<b>625</b>	625	<b>350</b>	350	<b>350</b>	350
<b>Total fixed pay</b>	<b>2,250</b>	2,250	<b>3,575</b>	3,575	<b>2,000</b>	2,000	<b>2,000</b>	2,000
<b>Variable pay</b>								
Annual incentive			<b>1,072</b>	1,290	<b>1,068</b>	867	<b>827</b>	1,033
GPSP			<b>1,969</b>	2,112	<b>1,101</b>	1,131	<b>1,101</b>	1,131
<b>Total variable pay</b>			<b>3,041</b>	3,402	<b>2,169</b>	1,998	<b>1,928</b>	2,164
<b>Total fixed and variable pay</b>	<b>2,250</b>	2,250	<b>6,616</b>	6,977	<b>4,169</b>	3,998	<b>3,928</b>	4,164
<b>Benefits</b>	<b>151</b>	136	<b>662</b>	589	<b>54</b>	43	<b>6</b>	6

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

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## 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
<b>Fixed</b>	<b>Base salary</b>	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
	<b>Fixed pay allowance</b>	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

	<b>Pension</b>	Cash allowance in lieu of pension of up to 50% of base salary	Reduced to a maximum of 30% of base salary
	<b>Benefits</b>	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
<b>Variable</b>	<b>Annual incentive</b>	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
	<b>Long-term incentive</b>	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

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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.

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**Table of Contents****Report of the Directors: Financial summary**

## Use of non-GAAP financial measures

**Financial summary**

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*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.

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**Table of Contents****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*

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

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

*For footnotes, see page 99.*

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**Table of Contents****Reconciliation of 2014 and 2013 reported and adjusted items***Reconciliation of reported and adjusted items*

	2014 \$m	2013 \$m	Change %
Revenue <sup>1</sup>			
Reported	61,248	64,645	(5)
Currency translation		(686)	
Own credit spread <sup>2</sup>	(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)

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Currency translation		(159)	
Own credit spread <sup>2</sup>	(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.

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**Table of Contents****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:

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

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**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*

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

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

*Five-year financial information*

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

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**Table of Contents****Group performance by income and expense item****Net interest income**

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

*For footnotes, see page 99.*

**Summary of interest income by type of asset**

	<b>2015</b>			2014			2013		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Short-term funds									
Loans and advances to banks	<b>221,924</b>	<b>2,277</b>	<b>1.03</b>	237,148	3,068	1.29	236,377	2,851	1.21
Loans and advances to customers	<b>909,707</b>	<b>33,104</b>	<b>3.64</b>	931,311	37,429	4.02	897,322	38,529	4.29
Reverse repurchase agreements									
Securities trading	<b>162,308</b>	<b>1,301</b>	<b>0.80</b>	198,273	1,800	0.91	114,324	995	0.87

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Financial investments	396,113	7,508	1.90	399,816	8,323	2.08	393,309	8,002	2.03
Interest-earning assets	36,897	2,999	8.13	19,988	335	1.68	28,036	815	2.91
Financial investments	1,726,949	47,189	2.73	1,786,536	50,955	2.85	1,669,368	51,192	3.06
Including assets and financial assets designated at fair value <sup>9,10</sup>	195,285	4,626	2.37	238,958	5,596	2.34	354,817	5,763	1.62
Impairment allowances	(10,606)			(14,015)			(15,954)		
Non-interest-earning assets	682,143			668,564			683,785		
<b>Year ended December</b>	<b>2,593,771</b>	<b>51,815</b>	<b>2.00</b>	<b>2,680,043</b>	<b>56,551</b>	<b>2.11</b>	<b>2,692,016</b>	<b>56,955</b>	<b>2.12</b>

For further details, see footnotes, see page 99.

Summary 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	Cost %
Deposits by banks <sup>11</sup>	55,863	378	0.68	61,217	481	0.79	61,616	555	0.90
Financial liabilities designated at fair value - own debt	58,489	717	1.23	66,374	837	1.26	72,333	967	1.34
Customer accounts <sup>13</sup>	1,075,901	7,401	0.69	1,088,493	9,131	0.84	1,035,500	8,794	0.85
Securities purchased	117,947	355	0.30	190,705	652	0.34	94,410	405	0.43
Securities in trading	129,039	3,521	2.73	129,724	4,554	3.51	150,976	4,182	2.77
Interest-bearing liabilities	28,396	2,286	8.05	10,120	595	5.88	11,345	750	6.62
Financial liabilities	1,465,635	14,658	1.00	1,546,633	16,250	1.05	1,426,180	15,653	1.10
Including liabilities financial	151,294	2,071	1.37	178,518	2,856	1.60	301,353	3,027	1.00

ilities designated air value cluding own debt (ed)									
n-interest bearing rent accounts	<b>190,914</b>			185,990			184,370		
al equity and er non-interest ring liabilities	<b>785,928</b>			768,902			780,113		
<b>ar ended</b>									
<b>December</b>	<b>2,593,771</b>	<b>16,729</b>	<b>0.64</b>	2,680,043	19,106	0.71	2,692,016	18,680	0.0

For footnotes, see page 99.

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**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*

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

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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 \$m	2014 \$m	2013 \$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
<b>Year ended 31 December</b>		<b>1,214</b>

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.

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**Table of Contents****Report of the Directors: Financial summary (continued)****Group performance by income and expense item****Net trading income**

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

	<b>2015</b>	2014
	<b>\$m</b>	\$m
Significant items		
Included within trading activities:	<b>230</b>	(332)

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

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

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

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

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

Including:

Financial assets held to meet liabilities under:

insurance and investment contracts with DPF	<b>11,119</b>	10,650	10,717
unit-linked insurance and other insurance and investment contracts	<b>11,153</b>	16,333	25,423
Long-term debt issues designated at fair value	<b>60,188</b>	69,681	75,278

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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*

	<b>2015</b>	2014
	<b>\$m</b>	\$m
Significant items		
Own credit spread	<b>1,002</b>	417
Currency translation		303
<b>Year ended 31 December</b>	<b>1,002</b>	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**

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

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

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

	<b>2015</b>	2014
	<b>\$m</b>	\$m
Significant items		
Currency translation		930
<b>Year ended 31 December</b>		<b>930</b>

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	2014	2013
	\$m	\$m	\$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
<b>Year ended 31 December</b>	<b>1,055</b>	<b>1,131</b>	<b>2,632</b>
<i>Change in present value of in-force long-term insurance business</i>			

	2015	2014	2013
	\$m	\$m	\$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
<b>Year ended 31 December</b>	<b>799</b>	<b>261</b>	<b>525</b>

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	2014
\$m	\$m

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

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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**

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net insurance claims and benefits paid and movement in liabilities to policyholders:			
gross	<b>11,872</b>	13,723	13,948
less reinsurers' share	<b>(580)</b>	(378)	(256)
<b>Year ended 31 December<sup>15</sup></b>	<b>11,292</b>	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
<b>Year ended 31 December</b>		<b>1,109</b>

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	<b>4,400</b>	5,010	7,344
recoveries of amounts previously written off	<b>(808)</b>	(955)	(1,296)
	<b>3,592</b>	4,055	6,048
Individually assessed allowances	<b>1,505</b>	1,780	2,320
Collectively assessed allowances	<b>2,087</b>	2,275	3,728
Releases of impairment on available-for-sale debt securities	<b>(17)</b>	(319)	(211)
Other credit risk provisions	<b>146</b>	115	12
<b>Year ended 31 December</b>	<b>3,721</b>	<b>3,851</b>	<b>5,849</b>
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers	<b>0.39%</b>	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
<b>Year ended 31 December</b>		683

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**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
<b>By expense category</b>			
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

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

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	<b>2015</b>	2014
	<b>\$m</b>	\$m
<b>By expense group</b>		
Run-the-bank front office	<b>15,482</b>	14,879
Run-the-bank back office	<b>15,784</b>	15,631
Change-the-bank	<b>3,494</b>	3,002
Bank levy	<b>1,421</b>	1,063
Significant items	<b>3,586</b>	3,396
Currency translation		3,278
<b>Year ended 31 December</b>	<b>39,768</b>	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 GBP	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
	<b>3,586</b>	3,395
Currency translation		3,278
<b>Year ended 31 December</b>	<b>3,586</b>	<b>6,673</b>

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.

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**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)*

	<b>2015</b>	2014	2013
<b>Geographical regions</b>			
Europe	<b>67,509</b>	69,363	68,334
Asia	<b>120,144</b>	118,322	113,701
Middle East and North Africa	<b>8,066</b>	8,305	8,618
North America	<b>19,656</b>	20,412	20,871
Latin America	<b>39,828</b>	41,201	42,542
<b>At 31 December</b>	<b>255,203</b>	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<sup>16</sup>*

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

North America	84.9	78.9	72.9
Latin America	72.6	71.7	56.1
<b>Global businesses</b>			
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
<b>Year ended 31 December</b>	<b>2,556</b>	<b>2,532</b>	<b>2,325</b>

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)
<b>Profit after tax for the year ended 31 December</b>	<b>15,096</b>	<b>14,705</b>	<b>17,800</b>
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.

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**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.



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**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 GBP 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		(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
<i>For footnote, see page 100a.</i>		

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 .

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**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 <sup>51</sup>		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.

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**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:		
write-off of allocated goodwill relating to the GPB Monaco business	168	(772)
loss on sale of the non-real estate portfolio in the US		(279)
		(271)

gain/(loss) on sale of several tranches of real estate secured accounts in the US Household Insurance Group Holding company's disposal of its insurance manufacturing business <sup>52</sup>	168	(123)
Included within the remaining line items:		
reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties <sup>52</sup>	(41)	2,193
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A. <sup>53</sup>		1,089
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holdings <sup>52</sup>		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
<i>For footnotes, see page 100a.</i>		

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.

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**Table of Contents****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)
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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 GBP	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.

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**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).

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**Table of Contents****Consolidated balance sheet***Five-year summary consolidated balance sheet*

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

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

*Five-year selected financial information*

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

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**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
<b>Combined customer lending</b>		
Loans and advances to customers	924,454	974,660
Loans and advances to customers reported in Assets held for sale	19,021	577
Brazil <sup>2</sup>	17,001	
other	2,020	577
<b>At 31 December</b>	<b>943,475</b>	<b>975,237</b>
<b>Combined customer deposits</b>		
Customer accounts	1,289,586	1,350,642
Customer accounts reported in Liabilities of disposal groups held for sale	16,682	145
Brazil <sup>2</sup>	15,094	
other	1,588	145
<b>At 31 December</b>	<b>1,306,268</b>	<b>1,350,787</b>
<i>For footnote, see page 99.</i>		

**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.

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*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 (RWAs) 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
<b>Europe</b>	<b>497,876</b>	545,959
UK	404,084	439,313
France <sup>23</sup>	35,635	40,750
Germany	13,873	15,757
Switzerland	10,448	11,058
other	33,836	39,081
<b>Asia</b>	<b>598,620</b>	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
<b>Middle East and North Africa (excluding Saudi Arabia)</b>	<b>36,468</b>	39,720
Egypt	6,602	7,663
United Arab Emirates	18,281	19,771
other	11,585	12,286
<b>North America</b>	<b>135,152</b>	138,884
US	86,322	84,894
Canada	39,727	43,871
other	9,103	10,119
<b>Latin America</b>	<b>21,470</b>	48,588
Mexico	15,798	18,360
other	5,672	30,228
included in other: Brazil <sup>22</sup>		23,204
<b>At 31 December</b>	<b>1,289,586</b>	1,350,642

*For footnotes, see page 99.*

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**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	Interest		Average	Interest		Average	Inte
balance	income	Yield	balance	income	Yield	balance	inc
\$m	\$m	%	\$m	\$m	%	\$m	



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assets measured at (itemised below)	<b>1,726,949</b>	<b>47,189</b>	<b>2.73</b>	1,786,536	50,955	2.85	1,669,368	51.1
and financial assets at fair value <sup>54,55</sup>	<b>195,285</b>	<b>4,626</b>	<b>2.37</b>	238,958	5,596	2.34	354,817	5.1
allowances	<b>(10,606)</b>			(14,015)			(15,954)	
earning assets	<b>682,143</b>			668,564			683,785	
interest income	<b>2,593,771</b>	<b>51,815</b>	<b>2.00</b>	2,680,043	56,551	2.11	2,692,016	56.1
on all interest-earning assets			<b>2.70</b>			2.79		
<b>Banks and loans and branches</b>								
HSBC Bank	<b>79,101</b>	<b>827</b>	<b>1.05</b>	96,638	997	1.03	89,921	
HSBC Private Banking Holdings (Suisse)	<b>11,498</b>	<b>4</b>	<b>0.03</b>	9,704	10	0.10	15,400	
HSBC France	<b>5,242</b>	<b>40</b>	<b>0.76</b>	7,055	66	0.94	10,603	
Hang Seng Bank	<b>14,379</b>	<b>210</b>	<b>1.46</b>	15,374	279	1.81	16,496	
The Hongkong and Shanghai Banking Corporation	<b>55,951</b>	<b>536</b>	<b>0.96</b>	57,141	822	1.44	53,372	
HSBC Bank Malaysia	<b>3,994</b>	<b>121</b>	<b>3.03</b>	5,060	158	3.12	5,487	
HSBC Bank Middle East	<b>5,038</b>	<b>30</b>	<b>0.60</b>	4,678	29	0.62	5,018	
HSBC Bank USA	<b>35,271</b>	<b>134</b>	<b>0.38</b>	28,148	105	0.37	24,907	
HSBC Bank Canada	<b>767</b>	<b>2</b>	<b>0.26</b>	606	4	0.66	425	
HSBC Mexico	<b>2,463</b>	<b>76</b>	<b>3.09</b>	2,675	86	3.21	2,846	
Brazilian operations	<b>1,717</b>	<b>193</b>	<b>11.24</b>	5,416	498	9.19	5,579	
HSBC Bank Argentina	<b>1,050</b>	<b>4</b>	<b>0.38</b>	1,083	12	1.11	1,199	
Other	<b>5,453</b>	<b>100</b>	<b>1.83</b>	3,570	2	0.06	5,124	
	<b>221,924</b>	<b>2,277</b>	<b>1.03</b>	237,148	3,068	1.29	236,377	2.1

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**Table of Contents****Report of the Directors: Financial Review** (continued)

## Assets (continued)

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

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	HSBC Finance	21,529	1,705	7.92	26,446	2,171	8.21	34,146	3,064	8.97
Latin America	HSBC Bank Canada	33,280	1,086	3.26	37,472	1,371	3.66	39,199	1,431	3.65
	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
	<b>Reverse repurchase agreements</b>									
	<b>Non-trading</b>									
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
	<b>Financial investments</b>									
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

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

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**Report of the Directors: Financial Review** (continued)

Assets (continued)

		Average	2015		Average	2014		Average	2013	
		balance	Interest	Yield	balance	Interest	Yield	balance	Interest	Yield
		\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Interest-earning assets</b>										
Europe	HSBC Bank	61,355	100	0.16	85,604	25	0.03	73,607	64	0.08
	HSBC Private Banking Holdings (Suisse)	2,200	24	1.09	5,220	32	0.61	7,441	69	0.93
	HSBC France	2,818	61	2.16	6,016	97	1.61	14,294	111	0.78
	Hang Seng Bank	3,551	14	0.39	2,504	14	0.56	2,088	14	0.67
	The Hongkong and Shanghai Banking Corporation	82,422	451	0.55	86,361	583	0.68	62,369	498	0.80
	HSBC Bank Malaysia	92			152			456	2	0.44
NA	HSBC Bank Middle East	1,263	37	2.93	2,221	32	1.44	1,888	87	4.56
Africa	HSBC Bank USA	4,012	132	3.29	6,936	123	1.77	6,386	103	1.61
	HSBC Finance	5,538	7	0.13	6,081	5	0.08	6,821	19	0.28

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	HSBC Bank									
	Canada	249	5	2.01	292	5	1.71	1,691	42	2
	HSBC									
merica	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		
r 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
	<b>Global interest-earning</b>									
	<b>assets</b>									
ype	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	41,999	1,180	2.81	44,050	1,300	2.95	44,901	1,358	3
	Middle East									
h	HSBC Bank	167,153	3,163	1.89	148,013	2,803	1.89	145,970	2,860	1
merica	USA									
	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
n	HSBC									
merica	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
r 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

	Average	2015		Average	2014		Average	2013	
	balance	Interest	Cost	balance	Interest	Cost	balance	Interest	Cost
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Summary</b>									
Interest-bearing liabilities measured at amortised cost (discussed below)	<b>1,465,635</b>	<b>14,658</b>	<b>1.00</b>	1,546,633	16,250	1.05	1,426,180	15,653	1.10
Interest-bearing liabilities and financial liabilities designated at fair value (including own debt issued)	<b>151,294</b>	<b>2,071</b>	<b>1.37</b>	178,518	2,856	1.60	301,353	3,027	1.00
Non-interest bearing current accounts	<b>190,914</b>			185,990			184,370		
Equity and other non-interest bearing liabilities	<b>785,928</b>			768,902			780,113		
Equity and liabilities	<b>2,593,771</b>	<b>16,729</b>	<b>0.64</b>	2,680,043	19,106	0.71	2,692,016	18,680	0.69
Weighted average cost on all interest-bearing liabilities			<b>1.03</b>			1.11			1.11

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Equity and liabilities (continued)*

		Average	2015		Average	2014		Average	2013	
		balance	Interest	Cost	balance	Interest	Cost	balance	Interest	Cost
		\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Deposits by banks<sup>56</sup></b>										
Europe	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
Asia	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
EMEA	HSBC Bank Middle East	737	3	0.41	982	3	0.31	1,471	3	0.20
North America	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
Latin	HSBC	1,506	55	3.65	2,078	73	3.51	1,018	46	4.52



America	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
	Other 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
	<b>Financial liabilities designated at fair value - own debt issued<sup>57</sup></b>									
Europe	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
North America	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
	Other 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
	<b>Customer accounts<sup>58</sup></b>									
Europe	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
Asia	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
North America	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
Latin America	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

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	Brazilian operations									
	HSBC Bank Argentina	2,989	436	14.59	2,758	373	13.52	3,318	343	10.34
	Other operations	41,169	167	0.41	46,610	164	0.35	58,342	322	0.55
		<b>1,075,901</b>	<b>7,401</b>	<b>0.69</b>	1,088,493	9,131	0.84	1,035,500	8,794	0.85
	<b>Repurchase agreements non-trading</b>									
Europe	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
	France	8,965	2	0.02	29,539	59	0.20	37,554	34	0.09
Asia	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
EMEA	HSBC Bank Middle East				2			17	1	5.88
North America	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
Latin America	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					
	Other operations	62,104	48	0.08	67,490	30	0.04	11,692	7	0.06
		<b>117,947</b>	<b>355</b>	<b>0.30</b>	190,705	652	0.34	94,410	405	0.43

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Equity and liabilities (continued)*

		Average	2015		Average	2014		Average	2013	
		balance	Interest	Cost	balance	Interest	Cost	balance	Interest	Cost
		\$m	expense	%	\$m	expense	%	\$m	expense	%
			\$m			\$m			\$m	
	<b>Equity securities in</b>									
Europe	HSBC Holdings	<b>16,230</b>	<b>904</b>	<b>5.57</b>	16,781	945	5.63	13,405	807	6.02
	HSBC Bank	<b>41,413</b>	<b>359</b>	<b>0.87</b>	56,949	589	1.03	64,528	768	1.19
	HSBC France	<b>12,379</b>	<b>40</b>	<b>0.32</b>	10,846	52	0.48	13,365	54	0.40
	Hang Seng Bank	<b>428</b>	<b>7</b>	<b>1.64</b>	1,155	8	0.69	1,393	12	0.86
	The Hongkong and Shanghai Banking Corporation	<b>5,520</b>	<b>123</b>	<b>2.23</b>	6,365	176	2.77	7,586	186	2.45
	HSBC Bank Malaysia	<b>385</b>	<b>17</b>	<b>4.42</b>	461	19	4.12	967	26	2.68
NA	HSBC Bank Middle East	<b>2,199</b>	<b>33</b>	<b>1.50</b>	2,262	45	1.99	3,057	64	2.10
Asia	HSBC Bank USA	<b>31,089</b>	<b>542</b>	<b>1.74</b>	15,935	414	2.60	14,012	415	2.96
	HSBC Finance	<b>8,961</b>	<b>407</b>	<b>4.54</b>	13,045	483	3.70	19,888	739	3.72
	HSBC Bank Canada	<b>8,718</b>	<b>211</b>	<b>2.42</b>	10,232	257	2.51	13,158	342	2.59
Latin America	HSBC Mexico	<b>2,005</b>	<b>90</b>	<b>4.49</b>	1,061	57	5.37	813	41	5.05

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	Brazilian operations HSBC Bank	4,795	782	16.31	12,707	1,565	12.32	10,963	863	7
	Argentina				1			52	10	19
	Other 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
	<b>Interest-bearing liabilities</b>									
	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
	HSBC Bank Middle East	2,429	46	1.89	2,617	57	2.18	2,557	58	2
	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
	HSBC Mexico	837	16	1.91	1,031	13	1.26	1,658	19	1
	Brazilian operations HSBC Bank	16,943	1,897	11.20	3,927	357	9.09	3,497	189	5
	Argentina	22	4	18.18	40	7	17.50	29	3	10
	Other 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
	<b>Total interest-bearing liabilities</b>									
	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
HSBC Bank Middle East	20,580	148	0.72	22,994	190	0.83	25,489	232	0
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
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
Other operations	(92,810)	(904)		(142,752)	(1,357)		(154,753)	(1,043)	
	<b>1,465,635</b>	<b>14,658</b>	<b>1.00</b>	1,546,633	16,250	1.05	1,426,180	15,653	1

For footnotes, see page 100a.

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Net interest margin<sup>59</sup>*

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

*Distribution of average total assets*

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

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

*For footnote, see page 100a.*

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**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
<b>Short-term funds and loans and advances to banks</b>								
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 Brazilian operations	76	(7)	(3)	86	(7)	(16)	109
	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
<b>Loans and advances to customers</b>								
Europe	HSBC Bank HSBC Private Banking Holdings (Suisse)	9,916	(396)	(111)	10,423	386	(594)	10,631
	HSBC France	136	(12)	(11)	159	(28)	(7)	194
	HSBC Finance	1,252	(92)	(282)	1,626	(128)	98	1,656
Asia	HSBC Finance Hang Seng Bank The Hongkong and Shanghai Banking Corporation	2,579	199	(30)	2,410	211	20	2,179
	HSBC Bank Malaysia	8,082	(65)	(370)	8,517	870	(375)	8,022
MENA	HSBC Bank Middle East	589	(51)	(32)	672	(19)	8	683
		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 Brazilian operations	1,319	(143)	(80)	1,542	47	(163)	1,658
	HSBC Bank Argentina	1,915	(2,835)	171	4,579	284	(309)	4,604
Other operations		880	79	3	798	(119)	118	799
		623	102	284	237	(134)	(327)	698
		33,104	(868)	(3,457)	37,429	1,458	(2,558)	38,529
<b>Reverse repurchase agreements non-trading</b>								
Europe	HSBC Bank HSBC France	354	(91)	(5)	450	153	184	113
		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

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

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**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 \$m	Volume \$m	Rate \$m	2014 \$m	Volume \$m	Rate \$m	2013 \$m
<b>Financial investments</b>								
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
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*Interest expense*

		Increase/(decrease)			Increase/(decrease)			
		in 2015 compared			in 2014			
		with 2014			with 2013			
		2015	Volume	Rate	2014	Volume	Rate	2013
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Deposits by banks</b>								
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
<b>Customer accounts</b>								
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 America	HSBC Bank USA	147	6	63	78	1	(27)	104

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

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**Table of Contents****Report of the Directors: Financial Summary** (continued)*Interest expense (continued)*

		<b>Increase/(decrease)</b>			<b>Increase/(decrease)</b>			
		<b>in 2015 compared</b>			<b>in 2014</b>			
		<b>with 2014</b>			<b>compared</b>			
		<b>2015</b>	<b>Volume</b>	<b>Rate</b>	<b>2014</b>	<b>Volume</b>	<b>Rate</b>	<b>2013</b>
		<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Repurchase agreements non-trading</b>								
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
		<b>355</b>	<b>(247)</b>	<b>(50)</b>	<b>652</b>	<b>414</b>	<b>(167)</b>	<b>405</b>
<b>Financial liabilities designated at fair value</b>								
<b>own debt issued</b>								
<b>Debt securities in issue</b>								

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

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**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*

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
<b>Securities sold under agreements to repurchase</b>			
Outstanding at 31 December	<b>80,842</b>	111,230	181,641
Average amount outstanding during the year	<b>120,241</b>	195,482	218,580
Maximum quarter-end balance outstanding during the year	<b>120,141</b>	227,637	210,452
Weighted average interest rate during the year	<b>0.4%</b>	0.3%	0.3%
Weighted average interest rate at the year-end	<b>0.8%</b>	0.6%	0.5%
<b>Short-term bonds</b>			
Outstanding at 31 December	<b>36,614</b>	38,868	40,667
Average amount outstanding during the year	<b>40,449</b>	39,547	46,455
Maximum quarter-end balance outstanding during the year	<b>42,483</b>	41,117	54,933
Weighted average interest rate during the year	<b>1.3%</b>	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			More than
	\$m	1 year	1 3 years	3 5 years	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

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**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:

	<b>Europe \$m</b>	<b>Asia \$m</b>	<b>MENA \$m</b>	<b>North America \$m</b>	<b>Latin America \$m</b>	<b>Total \$m</b>
<b>Maturity of 1 year or less</b>						
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
	<b>118,038</b>	<b>134,623</b>	<b>15,233</b>	<b>28,353</b>	<b>5,675</b>	<b>301,922</b>
<b>Maturity after 1 year but within 5 years</b>						
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
	<b>81,766</b>	<b>75,444</b>	<b>7,090</b>	<b>35,937</b>	<b>3,770</b>	<b>204,007</b>
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
<b>Maturity after 5 years</b>						
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

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**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 (CDs) 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 \$m	Average rate %	Average balance \$m	Average rate %	Average balance \$m	Average rate %
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 bearing	730		563		1,058	

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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
<b>Total</b>	<b>73,509</b>		<b>79,636</b>		<b>89,084</b>	
<b>Demand and other non-interest bearing</b>	<b>18,525</b>		<b>18,419</b>		<b>27,467</b>	
<b>Demand interest bearing</b>	<b>23,683</b>	<b>0.5</b>	<b>23,003</b>	<b>0.6</b>	<b>20,468</b>	<b>0.5</b>
<b>Time</b>	<b>18,468</b>	<b>1.2</b>	<b>24,262</b>	<b>1.0</b>	<b>31,062</b>	<b>1.1</b>
<b>Other</b>	<b>12,833</b>	<b>0.6</b>	<b>13,952</b>	<b>0.7</b>	<b>10,087</b>	<b>1.2</b>

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**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

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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
<b>Total</b>	<b>1,273,931</b>		<b>1,282,792</b>		<b>1,227,888</b>	
<b>Demand and other non-interest bearing</b>	<b>198,029</b>		<b>194,299</b>		<b>192,388</b>	
<b>Demand interest bearing</b>	<b>770,649</b>	<b>0.3</b>	<b>746,242</b>	<b>0.3</b>	<b>678,821</b>	<b>0.3</b>
<b>Savings</b>	<b>228,042</b>	<b>2.3</b>	<b>255,649</b>	<b>2.3</b>	<b>265,882</b>	<b>2.1</b>
<b>Time</b>	<b>74,468</b>	<b>0.9</b>	<b>84,355</b>	<b>1.1</b>	<b>88,477</b>	<b>1.3</b>
<b>Other</b>	<b>2,743</b>	<b>1.9</b>	<b>2,247</b>	<b>2.6</b>	<b>2,320</b>	<b>3.1</b>

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Certificates of deposit and other money market instruments*

	2015		2014		2013	
	Average balance \$m	Average rate %	Average balance \$m	Average rate %	Average balance \$m	Average rate %
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 (CDs) 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					Total \$m
	3 months or less \$m	After 3 months but within 6 months \$m	After 6 months but within 12 months \$m	After 12 months \$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
<b>Total</b>	<b>71,276</b>	<b>10,478</b>	<b>7,947</b>	<b>7,890</b>	<b>97,591</b>
<b>Certificates of deposit</b>	<b>8,826</b>	<b>4,990</b>	<b>3,212</b>	<b>1,138</b>	<b>18,166</b>
<b>Time deposits:</b>					
<b>banks</b>	<b>8,331</b>	<b>855</b>	<b>360</b>	<b>3,556</b>	<b>13,102</b>
<b>customers</b>	<b>54,119</b>	<b>4,633</b>	<b>4,375</b>	<b>3,196</b>	<b>66,323</b>

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**Table of Contents****Report of the Directors: Financial Review** (continued)**Ratio of earnings to fixed charges<sup>60</sup>**

	<b>2015</b>	2014	2013	2012	2011
<b>Ratio of earnings to fixed charges</b>					
excluding interest on deposits	<b>3.68</b>	3.39	3.84	3.03	2.82
including interest on deposits	<b>2.00</b>	1.86	2.09	1.76	1.68
<b>Ratio of earnings to combined fixed charges and preference share dividends</b>					
excluding interest on deposits	<b>3.05</b>	3.07	3.50	2.79	2.64
including interest on deposits	<b>1.85</b>	1.79	2.01	1.71	1.64

*For footnote, see page 100a.*

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**Table of Contents****Report of the Directors: Financial summary / Global businesses****Reconciliation of RoRWA / Critical estimates and judgements / Summary****Reconciliation of RoRWA measures****Performance Management**

During 2015, we targeted a return on average ordinary shareholders' equity of 10%. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on average risk-weighted assets. This metric is calibrated against return on equity (RoE) and capital requirements to ensure that we are best placed to achieve capital strength and business profitability combined with regulatory capital efficiency objectives. We targeted a return on average RWAs of 2.3% in 2015.

In addition to the return on average risk-weighted assets (RoRWA) we measure our performance internally using the non-GAAP measure of adjusted RoRWA, which is adjusted profit before tax as a percentage of average risk-weighted assets adjusted for the effects of foreign currency translation differences and significant items. Excluded from adjusted RoRWA are certain items which distort year-on-year performance as explained on page 48.

We also present the non-GAAP measure of adjusted RoRWA excluding run-off portfolios.

*Reconciliation of adjusted RoRWA (excluding run-off portfolios)*

	2015			2014		
	Pre-tax return \$m	Average RWAs <sup>25</sup> \$bn	RoRWA <sup>24</sup> %	Pre-tax return \$m	Average RWAs <sup>25</sup> \$bn	RoRWA <sup>24</sup> %
Reported	18,867	1,174	1.6	18,680	1,209	1.5
Adjusted	20,418	1,171	1.7	21,976	1,150	1.9

Run-off portfolios	447	84	0.5	847	115	0.7
Legacy credit in GB&M	(5)	35		149	48	0.3
US CML and other <sup>26</sup>	452	49	0.9	698	67	1.0
Adjusted (excluding run-off portfolios)	19,971	1,087	1.8	21,129	1,035	2.0

*Reconciliation of reported and adjusted average risk-weighted assets*

	Year ended 31 December		
	2015	2014	Change
	\$bn	\$bn	%
Average reported RWAs <sup>25</sup>	1,174	1,209	(2.9)
Currency translation adjustment <sup>27</sup>		(50)	
Significant items	(3)	(9)	
Average adjusted RWAs <sup>25</sup>	1,171	1,150	1.8

*For footnotes, see page 99.*

### Critical accounting estimates and judgements

The results of HSBC reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of HSBC's consolidated financial statements. The significant accounting policies, including the policies which include critical accounting estimates and judgements, are described in Note 1 and in the individual Notes on the Financial Statements. The accounting policies listed below are highlighted as they involve a high degree of judgement and estimation uncertainty and have a material impact on the financial statements:

Impairment of loans and advances: Note 1(j) on page 354;

Deferred tax assets: Note 8 on page 370;

Valuation of financial instruments: Note 13 on page 378;

Impairment of interests in associates: Note 19 on page 402;

Goodwill impairment: Note 20 on page 406; and

Provisions: Note 29 on page 421.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items above, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in the recognition and measurement of materially different amounts from those estimated by management in the 2015 Financial Statements.

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**Table of Contents****Global businesses**

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<b>Summary</b>	

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

The tables and charts below present global businesses followed by geographical regions (page 76). Performance is analysed in this order because certain strategic themes, business initiatives and trends affect more than one

geographical region. All tables are on a reported basis unless stated otherwise.

**Basis of preparation**

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in Other .

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the presentation by global business, the cost of the levy is included in Other .

### *Profit/(loss) before tax*

	2015		2014		2013	
	\$m	%	\$m	%	\$m	%
Retail Banking and Wealth Management <sup>28</sup>	4,967	26.3	5,581	29.9	6,553	29.1
Commercial Banking <sup>28</sup>	7,973	42.3	8,814	47.2	8,537	37.8
Global Banking and Markets	7,910	41.9	5,889	31.5	9,441	41.8
Global Private Banking	344	1.8	626	3.4	193	0.9
Other <sup>29</sup>	(2,327)	(12.3)	(2,230)	(12.0)	(2,159)	(9.6)
<b>Year ended 31 December</b>	<b>18,867</b>	<b>100.0</b>	<b>18,680</b>	<b>100.0</b>	<b>22,565</b>	<b>100.0</b>

### *Total assets<sup>30</sup>*

	2015		2014	
	\$m	%	\$m	%
Retail Banking and Wealth Management	473,284	19.6	500,864	19.0
Commercial Banking	365,290	15.2	370,958	14.1
Global Banking and Markets	1,616,704	67.1	1,839,644	69.8
Global Private Banking	81,448	3.4	88,342	3.4
Other	147,417	6.1	164,537	6.2
Intra-HSBC items	(274,487)	(11.4)	(330,206)	(12.5)
<b>At 31 December</b>	<b>2,409,656</b>	<b>100.0</b>	<b>2,634,139</b>	<b>100.0</b>

### *Risk-weighted assets*

2015

2014

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	<b>\$bn</b>	<b>%</b>	<b>\$bn</b>	<b>%</b>
Retail Banking and Wealth Management	<b>189.5</b>	<b>17.2</b>	207.2	17.0
Commercial Banking	<b>421.0</b>	<b>38.2</b>	430.3	35.3
Global Banking and Markets	<b>440.6</b>	<b>39.9</b>	516.1	42.3
Global Private Banking	<b>19.3</b>	<b>1.7</b>	20.8	1.7
Other	<b>32.6</b>	<b>3.0</b>	45.4	3.7
<b>At 31 December</b>	<b>1,103.0</b>	<b>100.0</b>	1,219.8	100.0

*For footnotes, see page 99.*

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**Table of Contents****Report of the Directors: Global businesses (continued)****Reconciliations****Reconciliation of reported and adjusted items****global businesses****2015 compared with 2014**

	2015					Total \$m
	RBWM \$m	CMB \$m	GB&M \$m	GPB \$m	Other \$m	
<b>Revenue<sup>1</sup></b>						
Reported <sup>31</sup>	23,516	14,870	18,233	2,172	7,604	59,800
Significant items	326	17	(199)	(31)	(2,148)	(2,035)
disposal costs of Brazilian operations					18	18
DVA on derivative contracts			(230)			(230)
fair value movements on non-qualifying hedges <sup>32</sup>	90	(1)	31	(1)	208	327
gain on the partial sale of shareholding in Industrial Bank					(1,372)	(1,372)
loss on sale of several tranches of real estate secured accounts in the US	214					214
own credit spread					(1,002)	(1,002)
provisions/(releases) arising from the ongoing review of compliance with the Consumer Credit Act in the UK	22	18		(30)		10
Adjusted <sup>31</sup>	23,842	14,887	18,034	2,141	5,456	57,765
<b>LICs</b>						
Reported	(1,939)	(1,770)		(12)		(3,721)
Adjusted	(1,939)	(1,770)		(12)		(3,721)
<b>Operating expenses</b>						
Reported <sup>31</sup>	(17,020)	(6,744)	(10,834)	(1,832)	(9,933)	(39,768)
Significant items	1,537	202	1,035	206	606	3,586

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disposal costs of Brazilian operations	66	16	14	1	13	110
costs-to-achieve	198	163	69	16	462	908
costs to establish UK ring-fenced bank regulatory provisions in GBP					89	89
restructuring and other related costs	32	5	22	171	1	172
settlements and provisions in connection with legal matters	700		949	18	40	1,649
UK customer redress programmes	541	18	(19)		1	541
Adjusted <sup>31</sup>	(15,483)	(6,542)	(9,799)	(1,626)	(9,327)	(36,182)
<b>Share of profit in associates and joint ventures</b>						
Reported	410	1,617	511	16	2	2,556
Adjusted	410	1,617	511	16	2	2,556
<b>Profit/(loss) before tax</b>						
Reported	4,967	7,973	7,910	344	(2,327)	18,867
Significant items	1,863	219	836	175	(1,542)	1,551
revenue	326	17	(199)	(31)	(2,148)	(2,035)
operating expenses	1,537	202	1,035	206	606	3,586
Adjusted	6,830	8,192	8,746	519	(3,869)	20,418

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	2014					Total
	RBWM	CMB	GB&M	GPB	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue <sup>1</sup>						
Reported <sup>31</sup>	25,149	15,748	17,778	2,377	6,365	61,248
Currency translation <sup>31</sup>	(2,209)	(1,242)	(1,296)	(138)	(158)	(4,775)
Significant items	877	9	328	41	(501)	754
DVA on derivative contracts			332			332
fair value movements on non-qualifying hedges <sup>32</sup>	493	(1)	8	1	40	541
gain on sale of several tranches of real estate secured accounts in the US	(168)					(168)
gain on sale of shareholding in Bank of Shanghai					(428)	(428)
impairment of our investment in Industrial Bank					271	271
own credit spread provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK					(417)	(417)
(gain)/loss and trading results from disposals and changes in ownership levels	568	24		40		632
Adjusted <sup>31</sup>	23,817	14,515	16,810	2,280	5,706	57,227
LICs						
Reported	(1,936)	(1,558)	(365)	8		(3,851)
Currency translation	340	256	86	3	(2)	683
Significant items	2	(2)				
trading results from disposals and changes in ownership levels	2	(2)				
Adjusted	(1,594)	(1,304)	(279)	11	(2)	(3,168)

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Operating expenses						
Reported <sup>31</sup>	(18,030)	(6,981)	(12,028)	(1,778)	(8,601)	(41,249)
Currency translation <sup>31</sup>	1,851	627	782	100	186	3,278
Significant items	1,118	189	1,896	71	121	3,395
charge in relation to the settlement agreement with the Federal Housing Finance Authority	17		533			550
regulatory provisions in GBP				65		65
restructuring and other related costs	88	37	27	6	120	278
settlements and provisions in connection with legal matters			1,187			1,187
UK customer redress programmes	992	138	145			1,275
trading results from disposals and changes in ownership levels	21	14	4		1	40
Adjusted <sup>31</sup>	(15,061)	(6,165)	(9,350)	(1,607)	(8,294)	(34,576)
Share of profit in associates and joint ventures						
Reported	398	1,605	504	19	6	2,532
Currency translation	(5)	(28)	(7)		1	(39)
Adjusted	393	1,577	497	19	7	2,493
Profit/(loss) before tax						
Reported	5,581	8,814	5,889	626	(2,230)	18,680
Currency translation	(23)	(387)	(435)	(35)	27	(853)
Significant items	1,997	196	2,224	112	(380)	4,149
revenue	877	9	328	41	(501)	754
LICs	2	(2)				
operating expenses	1,118	189	1,896	71	121	3,395
Adjusted	7,555	8,623	7,678	703	(2,583)	21,976
<i>For footnotes, see page 99.</i>						

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**Table of Contents****Reconciliation of reported and adjusted items****global businesses****2014 compared with 2013**

	2014					Total
	RBWM	CMB	GB&M	GPB	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue <sup>1</sup>						
Reported <sup>31</sup>	25,149	15,748	17,778	2,377	6,365	61,248
Significant items	877	9	328	41	(501)	754
DVA on derivative contracts			332			332
fair value movements on						
non-qualifying hedges <sup>32</sup>	493	(1)	8	1	40	541
gain on sale of several tranches of real						
estate secured accounts in the US	(168)					(168)
gain on sale of shareholding in Bank						
of Shanghai					(428)	(428)
impairment of our investment in						
Industrial Bank					271	271
own credit spread					(417)	(417)
provisions arising from the ongoing						
review of compliance with						
the Consumer Credit Act in the UK	568	24		40		632
(gain)/loss and trading results from						
disposals and changes in ownership						
levels	(16)	(14)	(12)		33	(9)
Adjusted <sup>31</sup>	26,026	15,757	18,106	2,418	5,864	62,002
LICs						
Reported	(1,936)	(1,558)	(365)	8		(3,851)
Significant items	2	(2)				

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trading results from disposals and changes in ownership levels	2	(2)				
Adjusted	(1,934)	(1,560)	(365)	8		(3,851)
Operating expenses						
Reported <sup>31</sup>	(18,030)	(6,981)	(12,028)	(1,778)	(8,601)	(41,249)
Significant items	1,118	189	1,896	71	121	3,395
charge in relation to the settlement agreement with the Federal Housing Finance Authority	17		533			550
regulatory provisions in GPB				65		65
restructuring and other related costs	88	37	27	6	120	278
settlements and provisions in connection with legal matters			1,187			1,187
UK customer redress programmes	992	138	145			1,275
trading results from disposals and changes in ownership levels	21	14	4		1	40
Adjusted <sup>31</sup>	16,912	(6,792)	(10,132)	(1,707)	(8,480)	(37,854)
Share of profit in associates and joint ventures						
Reported	398	1,605	504	19	6	2,532
Adjusted	398	1,605	504	19	6	2,532
Profit before tax						
Reported	5,581	8,814	5,889	626	(2,230)	18,680
Significant items	1,997	196	2,224	112	(380)	4,149
revenue	877	9	328	41	(501)	754
LICs	2	(2)				
operating expenses	1,118	189	1,896	71	121	3,395
Adjusted	7,578	9,010	8,113	738	(2,610)	22,829

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**Table of Contents****Report of the Directors: Financial summary***Reconciliation of reported and adjusted items – global businesses (continued)*

	2013					Total
	RBWM	CMB	GB&M	GPB	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue <sup>1</sup>						
Reported <sup>31</sup>	27,453	15,652	19,176	2,439	5,651	64,645
Currency translation <sup>31</sup>	(460)	(176)	(62)	12	(60)	(686)
Significant items	(95)	(643)	(582)	274	(1,059)	(2,105)
debit valuation adjustment on derivative contracts			(106)			(106)
fair value movements on non-qualifying hedges <sup>32</sup>	(262)		18		(267)	(511)
FX gains relating to sterling debt issued by HSBC Holdings					(442)	(442)
write-off of allocated goodwill relating to the GPB Monaco business				279		279
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holdings	(104)					(104)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A.	(310)	(479)	(317)	(1)		(1,107)
loss on early termination of cash flow hedges in the US run-off portfolio	199					199
loss on sale of an HFC Bank UK secured loan portfolio	146					146
loss on sale of non-real estate secured accounts in the US	271					271
loss on sale of several tranches of real estate secured accounts in the US	123					123
net gain on completion of Ping An disposal					(553)	(553)
own credit spread					1,246	1,246

reclassification gain in respect of our holdings in Industrial Bank Co., Limited following the issue of additional share capital to third parties					(1,089)	(1,089)
other (gain)/loss and trading results from disposals and changes in ownership levels	(158)	(164)	(177)	(4)	46	(457)
Adjusted <sup>31</sup>	26,898	14,833	18,532	2,725	4,532	61,854
LICs						
Reported	(3,510)	(2,101)	(207)	(31)		(5,849)
Currency translation	175	19	(23)	(2)	(1)	168
Significant items	65	2				67
other trading results from disposals and changes in ownership levels	65	2				67
Adjusted	(3,270)	(2,080)	(230)	(33)	(1)	(5,614)
Operating expenses						
Reported <sup>31</sup>	(17,774)	(6,523)	(9,960)	(2,229)	(7,796)	(38,556)
Currency translation <sup>31</sup>	309	117	(44)	(6)	32	348
Significant items	1,306	120	442	429	229	2,526
accounting gain arising from change in basis of delivering ill-health benefits in the UK	(189)	(160)	(81)			(430)
Madoff-related litigation costs			298			298
regulatory provisions in GBP				352		352
restructuring and other related costs	167	31	13	73	199	483
UK customer redress programmes	953	148	134			1,235
US customer remediation provisions relating to CRS	100					100
other trading results from disposals and changes in ownership levels	275	101	78	4	30	488
Adjusted <sup>31</sup>	(16,159)	(6,286)	(9,562)	(1,806)	(7,535)	(35,682)
Share of profit in associates and joint ventures						
Reported	384	1,509	432	14	(14)	2,325
Currency translation		8	2		1	11
Significant items	13	19	34		21	87
other trading results from disposals and changes in ownership levels	13	19	34		21	87
Adjusted	397	1,536	468	14	8	2,423

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	2013					Total
	RBWM	CMB	GB&M	GPB	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Profit before tax						
Reported	6,553	8,537	9,441	193	(2,159)	22,565
Currency translation	24	(32)	(127)	4	(28)	(159)
Significant items	1,289	(502)	(106)	703	(809)	575
revenue	(95)	(643)	(582)	274	(1,059)	(2,105)
LICs	65	2				67
operating expenses	1,306	120	442	429	229	2,526
share of profit in associates and joint ventures	13	19	34		21	87
Adjusted	7,866	8,003	9,208	900	(2,996)	22,981

*For footnotes, see page 100a.*

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**Table of Contents****Report of the Directors: Global businesses (continued)****RBWM****Retail Banking and Wealth Management**

**RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.**

	Total RBWM <sup>28</sup> \$m	US run-off portfolio \$m	Principal RBWM \$m	Banking operations \$m	Principal RBWM consists of Insurance manufacturing \$m	manag
rest income	15,926	1,033	14,893	13,127	1,757	
(expense)	6,218	(4)	6,222	5,726	(560)	
(expense) <sup>33</sup>	1,372	(203)	1,575	876	680	
rating	23,516 (1,939)	826 (62)	22,690 (1,877)	19,729 (1,877)	1,877	
rating	21,577	764	20,813	17,852	1,877	
erating s	(17,020)	(1,384)	(15,636)	(14,459)	(432)	
ng oss)	4,557	(620)	5,177	3,393	1,445	
from es <sup>35</sup>	410		410	357	24	
	4,967	(620)	5,587	3,750	1,469	

(loss) before						
24	2.5%	(1.3%)	3.7%			
rest income	17,130	1,390	15,740	13,983	1,746	
(expense)	6,836	(4)	6,840	6,264	(534)	
(expense) <sup>33</sup>	1,183	(49)	1,232	602	608	
rating	25,149	1,337	23,812	20,849	1,820	
	(1,936)	(30)	(1,906)	(1,906)		
rating	23,213	1,307	21,906	18,943	1,820	
erating	(18,030)	(738)	(17,292)	(16,060)	(453)	
g profit	5,183	569	4,614	2,883	1,367	
from						
es <sup>35</sup>	398		398	323	40	
efore tax	5,581	569	5,012	3,206	1,407	
24	2.5%	0.8%	3.2%			
rest income	18,808	2,061	16,747	15,003	1,725	
(expense)	7,211	11	7,200	6,786	(625)	
(expense) <sup>33</sup>	1,434	(400)	1,834	1,014	779	
rating	27,453	1,672	25,781	22,803	1,879	
	(3,510)	(705)	(2,805)	(2,806)		
rating	23,943	967	22,976	19,997	1,879	
erating	(17,774)	(1,166)	(16,608)	(15,307)	(554)	
g	6,169	(199)	6,368	4,690	1,325	
(expense)						
ociates <sup>35</sup>	384	(1)	385	299	62	
(loss) before	6,553	(200)	6,753	4,989	1,387	
24	2.6%	(0.2%)	4.2%			

For footnotes, see page 99.

RBWM comprises the Principal RBWM business and the US run-off portfolio. We believe that highlighting Principal RBWM (and its constituent business streams, Banking Operations, Insurance Manufacturing and Asset Management) allows management to identify more readily the causes of material changes from year-to-year in the ongoing business and assess the factors and trends that are expected to have a material effect on the business in future years.

*Insurance manufacturing for RBWM excluded other global businesses which contributed net operating income of \$286m (2014: \$358m, 2013: \$397m) and profit before tax of \$201m (2014: \$263m, 2013: \$266m) to overall insurance manufacturing. In 2015 insurance manufacturing net operating income for RBWM included \$1,686m within Wealth Management (2014: \$1,529m) and \$191m within other products (2014: \$350m).*

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**Table of Contents****Principal RBWM performance***Principal RBWM: management view of adjusted revenue*

	2015 \$m	2014 \$m
<b>Net operating income<sup>1</sup></b>		
Current accounts, savings and deposits	5,602	5,530
Wealth management products	6,282	5,825
investment distribution <sup>36</sup>	3,512	3,271
life insurance manufacturing	1,686	1,529
asset management	1,084	1,025
Personal lending	9,962	10,218
mortgages	2,873	2,956
credit cards	3,868	3,961
other personal lending <sup>37</sup>	3,221	3,301
Other <sup>38</sup>	841	759
<b>Year ended 31 December</b>	<b>22,687</b>	<b>22,332</b>
<i>For footnotes, see page 99.</i>		

*Profit before tax (\$m)**Revenue (\$m)**Operating expenses (\$m)*

*For details of significant items, see page 66.*

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**Table of Contents****Report of the Directors: Global businesses (continued)****CMB / GB&M****Commercial Banking**

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.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net interest income	<b>9,859</b>	10,158	9,731
Net fee income	<b>4,190</b>	4,570	4,527
Other income <sup>33</sup>	<b>821</b>	1,020	1,394
<b>Net operating income<sup>1</sup></b>	<b>14,870</b>	<b>15,748</b>	<b>15,652</b>
LICs <sup>34</sup>	<b>(1,770)</b>	(1,558)	(2,101)
<b>Net operating income</b>	<b>13,100</b>	<b>14,190</b>	<b>13,551</b>
Total operating expenses	<b>(6,744)</b>	(6,981)	(6,523)
<b>Operating profit</b>	<b>6,356</b>	<b>7,209</b>	<b>7,028</b>
Income from associates <sup>35</sup>	<b>1,617</b>	1,605	1,509
<b>Profit before tax</b>	<b>7,973</b>	<b>8,814</b>	<b>8,537</b>
RoRWA <sup>24</sup>	<b>1.9%</b>	2.1%	2.2%

*For footnotes, see page 99.*

*Management view of adjusted revenue*

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
<b>Net operating income<sup>1</sup></b>		
Global Trade and Receivables Finance	<b>2,403</b>	2,447
Credit and Lending	<b>6,002</b>	5,609
Payments and Cash Management, current accounts and savings deposits	<b>4,568</b>	4,423
Markets products, Insurance and Investments and Other <sup>39</sup>	<b>1,914</b>	2,036
<b>Year ended 31 December</b>	<b>14,887</b>	14,515
<i>For footnotes, see page 99.</i>		

*Profit before tax (\$m)*

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 66.*

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**Table of Contents****Global Banking and Markets**

GB&M supports major government,  
corporate and institutional clients worldwide  
in achieving their long-term strategic goals  
through tailored and innovative solutions.

	Total GB&M \$m	Legacy \$m	GB&M client- facing and BSM \$m
<b>2015</b>			
Net interest income	6,931	127	6,804
Net fee income/(expense)	3,375	(11)	3,386
Net trading income <sup>40</sup>	7,169	9	7,160
Other income/(expense) <sup>33</sup>	758	(64)	822
Net operating income <sup>1</sup>	18,233	61	18,172
LICs <sup>34</sup>		37	(37)
Net operating income	18,233	98	18,135
Total operating expenses	(10,834)	(103)	(10,731)
Operating profit/(loss)	7,399	(5)	7,404
Income from associates <sup>35</sup>	511		
Profit/(loss) before tax	7,910		
RoRWA <sup>24</sup>	1.6%		1.8%
<b>2014</b>			
Net interest income/(expense)	7,022	(172)	7,194

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Net fee income/(expense)	3,560	(7)	3,567
Net trading income/(expense) <sup>40</sup>	5,861	(55)	5,916
Other income <sup>33</sup>	1,335	232	1,103
Net operating income/ (expense) <sup>1</sup>	17,778	(2)	17,780
LICs <sup>34</sup>	(365)	349	(714)
Net operating income	17,413	347	17,066
Total operating expenses	(12,028)	(708)	(11,320)
Operating profit/(loss)	5,385	(361)	5,746
Income from associates <sup>35</sup>	504		
Profit/(loss) before tax	5,889		
RoRWA <sup>24</sup>	1.2%	(0.8%)	1.3%

2013

Net interest income	6,766	38	6,728
Net fee income/(expense)	3,482	(7)	3,489
Net trading income <sup>40</sup>	6,780	198	6,582
Other income/(expense) <sup>33</sup>	2,148	(80)	2,228
Net operating income <sup>1</sup>	19,176	149	19,027
LICs <sup>34</sup>	(207)	206	(413)
Net operating income	18,969	355	18,614
Total operating expenses	(9,960)	(170)	(9,790)
Operating profit	9,009	185	8,824
Income from associates <sup>35</sup>	432		
Profit before tax	9,441		
RoRWA <sup>24</sup>	2.3%	0.6%	2.5%

For footnotes, see page 99.

The GB&M client-facing and Balance Sheet Management ( BSM ) businesses measure excludes the effects of the legacy credit portfolio and income from associates. This allows GB&M management to identify more readily the cause of material changes from year to year in the ongoing businesses and assess the factors and trends that are expected to have a material effect on the businesses in future years.

*Management view of adjusted revenue*

	2015	2014
	\$m	\$m
<b>Total operating income<sup>1</sup></b>		
Markets <sup>41</sup>	6,882	5,775
Legacy credit	61	(16)
Credit	659	532
Rates	1,638	1,419
Foreign Exchange	2,918	2,722
Equities	1,606	1,118
	<b>1,606</b>	<b>1,118</b>
Capital Financing	3,789	3,777
Payments and Cash Management	1,801	1,680

Securities Services	<b>1,698</b>	1,589
Global Trade and Receivables Finance	<b>718</b>	701
Balance Sheet Management	<b>2,943</b>	2,845
Principal Investments	<b>243</b>	498
Other <sup>42</sup>	<b>(40)</b>	(55)
<b>Year ended 31 December</b>	<b>18,034</b>	16,810
<i>For footnotes, see page 99.</i>		

*Profit before tax (\$m)*

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 66.*

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**Table of Contents****Report of the Directors: Global businesses (continued)****GPB / Other****Global Private Banking**

**GPB serves high net worth individuals and families with complex and international needs within the Group's priority markets.**

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net interest income	<b>870</b>	994	1,146
Net fee income	<b>959</b>	1,056	1,150
Other income <sup>33</sup>	<b>343</b>	327	143
<b>Net operating income</b> <sup>1</sup>	<b>2,172</b>	2,377	2,439
LICs <sup>34</sup>	<b>(12)</b>	8	(31)
<b>Net operating income</b>	<b>2,160</b>	2,385	2,408
Total operating expenses	<b>(1,832)</b>	(1,778)	(2,229)
<b>Operating profit</b>	<b>328</b>	607	179
Income from associates <sup>35</sup>	<b>16</b>	19	14
<b>Profit before tax</b>	<b>344</b>	626	193
RoRWA <sup>24</sup>	<b>1.7%</b>	2.9%	0.9%
<i>Reported client assets</i> <sup>43</sup>			

	<b>2015</b>	2014
	<b>\$bn</b>	\$bn
At 1 January	<b>365</b>	382
Net new money	<b>1</b>	(3)
Of which: areas targeted for growth	<b>14</b>	14
Value change	<b>1</b>	8
Disposals		(11)
Exchange and other	<b>(18)</b>	(11)

<b>At 31 December</b>	<b>349</b>	365
<i>Reported client assets by geography</i>		

	<b>2015</b>	2014
	<b>\$bn</b>	\$bn
Europe	<b>168</b>	179
Asia	<b>112</b>	112
North America	<b>61</b>	63
Latin America	<b>8</b>	11
<b>At 31 December</b>	<b>349</b>	365

*For footnotes, see page 99.*

*Profit before tax (\$m)*

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 66.*

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**Table of Contents****Other<sup>29</sup>**

**Other** contains the results of HSBC's holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions and movements in fair value of own debt.

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net interest expense	<b>(710)</b>	(501)	(737)
Net fee income/(expense)	<b>(37)</b>	(65)	64
Net trading income/(expense)	<b>(192)</b>	(92)	6
Changes in fair value of long-term debt issued and related derivatives	<b>863</b>	508	(1,228)
Changes in other financial instruments designated at fair value	<b>61</b>	(9)	(576)
Net income/(expense) from financial instruments designated at fair value	<b>924</b>	499	(1,804)
Other income	<b>7,619</b>	6,524	8,122
<b>Net operating income<sup>1</sup></b> LICs <sup>34</sup>	<b>7,604</b>	6,365	5,651
<b>Net operating income</b>	<b>7,604</b>	6,365	5,651
Total operating expenses	<b>(9,933)</b>	(8,601)	(7,796)
<b>Operating loss</b>	<b>(2,329)</b>	(2,236)	(2,145)
Income/(expense) from associates <sup>35</sup>	<b>2</b>	6	(14)
<b>Loss before tax</b>	<b>(2,327)</b>	(2,230)	(2,159)

*For footnotes, see page 99.*

*Loss before tax (\$m)*

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 66.*

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**Report of the Directors: Group businesses (continued)**

**Analysis by global business**

**Analysis by global business**

*HSBC profit/(loss) before tax and balance sheet data*

	2015					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other <sup>29</sup>	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>est</i>						
<i>expense)</i>	15,926	9,859	6,931	870	(710)	(345)
<i>expense)</i>	6,218	4,190	3,375	959	(37)	
<i>expense)</i>						
<i>g net</i>						
<i>income</i>	540	571	5,714	327	(204)	
<i>est</i>						
<i>expense)</i>						
<i>g activities</i>	(19)	(16)	1,455	(2)	12	345
<i>ng</i>						
<i>expense)<sup>40</sup></i>	521	555	7,169	325	(192)	345
<i>in fair</i>						
<i>long-term</i>						
<i>ed and</i>						
<i>derivatives</i>					863	
	556	110	(58)		61	



(expense) er financial nts ed at fair							
(expense) ncial nts ed at fair	556	110	(58)		924		
s losses ncial nts	68	37	598	23	1,342		
l income	23	16	40	11	33		
rance income erating	9,204	1,106	5	42	(2)		
	972	252	177	3	6,246	(6,595)	
<b>erating</b>	<b>33,488</b>	<b>16,125</b>	<b>18,237</b>	<b>2,233</b>	<b>7,604</b>	<b>(6,595)</b>	
rance	(9,972)	(1,255)	(4)	(61)			
<b>erating</b>	<b>23,516</b>	<b>14,870</b>	<b>18,233</b>	<b>2,172</b>	<b>7,604</b>	<b>(6,595)</b>	
airment nd other k s	(1,939)	(1,770)		(12)			
<b>erating</b>	<b>21,577</b>	<b>13,100</b>	<b>18,233</b>	<b>2,160</b>	<b>7,604</b>	<b>(6,595)</b>	
e 46	(4,966)	(2,443)	(3,735)	(654)	(8,102)		
<b>erating</b>	<b>(12,054)</b>	<b>(4,301)</b>	<b>(7,099)</b>	<b>(1,178)</b>	<b>(1,831)</b>	<b>6,595</b>	
<b>erating</b>	<b>(17,020)</b>	<b>(6,744)</b>	<b>(10,834)</b>	<b>(1,832)</b>	<b>(9,933)</b>	<b>6,595</b>	
<b>ng</b> (loss) profit in s and joint	4,557	6,356	7,399	328	(2,329)		
	410	1,617	511	16	2		
(loss) before	4,967	7,973	7,910	344	(2,327)		
	%	%	%	%	%		
HSBC s fore tax	26.3	42.3	41.9	1.8	(12.3)		

Efficiency ratio	<b>72.4</b>	<b>45.4</b>	<b>59.4</b>	<b>84.3</b>	<b>130.6</b>		
<i>sheet</i>							
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>		
and advances							
ers (net)	<b>340,009</b>	<b>302,240</b>	<b>236,932</b>	<b>42,942</b>	<b>2,331</b>		<b>9</b>
d in held for	<b>5,258</b>	<b>8,010</b>	<b>3,689</b>	<b>85</b>	<b>1,979</b>		
ets	<b>473,284</b>	<b>365,290</b>	<b>1,616,704</b>	<b>81,448</b>	<b>147,417</b>	<b>(274,487)</b>	<b>2,4</b>
r accounts	<b>584,872</b>	<b>361,701</b>	<b>261,728</b>	<b>80,404</b>	<b>881</b>		<b>1,2</b>
d in held for	<b>7,758</b>	<b>3,363</b>	<b>2,551</b>	<b>3,010</b>			

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	2014					
	Retail Banking and Wealth Management <sup>28</sup>	Commercial Banking <sup>28</sup>	Global Banking and Markets	Global Private Banking	Other <sup>29</sup>	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
Profit (loss) before						
Interest						
(expense)	17,130	10,158	7,022	994	(501)	(98)
(expense)	6,836	4,570	3,560	1,056	(65)	
(expense)						
Income						
before	(26)	618	4,063	298	(100)	
(expense) on						
activities	9	(2)	1,798	(4)	8	98
Income						
(expense) <sup>40</sup>	(17)	616	5,861	294	(92)	98
Income						
before						
and						
derivatives					508	
(expense)						
Income						
before						
at fair	1,684	279	12	(1)	(9)	
	1,684	279	12	(1)	499	

(expense)						
Financial						
Items						
measured at fair						
Value						
Net losses						
Financial						
Items	14	31	1,117	9	164	
Net income	24	18	80	5	184	
Insurance						
Net income	10,609	1,257	5	50		
Operating						
	726	241	124	33	6,176	(6,169)
Operating						
	37,006	17,170	17,781	2,440	6,365	(6,169)
Insurance						
Net	(11,857)	(1,422)	(3)	(63)		
Operating						
	25,149	15,748	17,778	2,377	6,365	(6,169)
Impairment						
(reversals)/recoveries						
Net credit risk						
Items	(1,936)	(1,558)	(365)	8		
Operating						
	23,213	14,190	17,413	2,385	6,365	(6,169)
Net	(5,126)	(2,351)	(3,655)	(732)	(8,502)	
Operating						
Items	(12,904)	(4,630)	(8,373)	(1,046)	(99)	6,169
Operating						
Items	(18,030)	(6,981)	(12,028)	(1,778)	(8,601)	6,169
Net	5,183	7,209	5,385	607	(2,236)	
Profit in						
Share and joint	398	1,605	504	19	6	
Items						
(loss) before	5,581	8,814	5,889	626	(2,230)	
	%	%	%	%	%	
Of HSBC						
Items						
Before tax	29.9	47.2	31.5	3.4	(12.0)	
Efficiency ratio	71.7	44.3	67.7	74.8	135.1	
Balance						
Sheet data <sup>30</sup>						
	\$m	\$m	\$m	\$m	\$m	
Net advances						
to customers (net)	360,704	313,039	254,463	44,102	2,352	97
	198		288	91		

ed in held for

sets	500,864	370,958	1,839,644	88,342	164,537	(330,206)	2,6
er accounts	583,757	361,318	319,121	85,465	981		1,33
ed in held for				145			

*For footnotes, see page 99.*

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Profit/(loss) before tax and balance sheet data (continued)*

	2013					
	Retail Banking and Wealth Management <sup>28</sup>	Commercial Banking <sup>28</sup>	Global Banking and Markets	Global Private Banking	Other <sup>29</sup>	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Profit/(loss) before tax</i>						
<i>Interest</i>						
<i>Income/(expense)</i>	18,808	9,731	6,766	1,146	(737)	(175)
<i>Other income</i>	7,211	4,527	3,482	1,150	64	
<i>Other</i>						
<i>Income/(expense)</i>						
<i>Operating net</i>						
<i>Income</i>	695	643	4,953	390	(38)	
<i>Interest</i>						
<i>Income/(expense)</i>						
<i>Other activities</i>	(4)	1	1,827	4	44	175
<i>Income/(expense)</i>						
<i>Other<sup>40</sup></i>	691	644	6,780	394	6	175
<i>Income/(expense)</i>						
<i>Income/(expense) of long-term</i>						
<i>issued and</i>						
<i>derivatives</i>	1,643	327	599	4	(1,228)	(1)
<i>Income/(expense)</i>					(576)	
<i>Financial</i>						

ments ated at fair						
/(expense)						
financial ments ated at fair	1,643	327	599	4	(1,804)	(1)
less losses						
financial ments	55	1	747	(3)	1,212	2
nd income	22	14	129	8	149	
insurance						
m income	10,598	1,320	6	16		11
operating /(expense)	554	611	670	(239)	6,761	(5,725)
operating						
e	39,582	17,175	19,179	2,476	5,651	(5,726)
insurance						
45	(12,129)	(1,523)	(3)	(37)		(13
erating						
1	27,453	15,652	19,176	2,439	5,651	(5,726)
mpairment s and other						
risk						
ons	(3,510)	(2,101)	(207)	(31)		(5
erating						
e	23,943	13,551	18,969	2,408	5,651	(5,726)
yee						
es <sup>46</sup>	(5,308)	(2,238)	(3,549)	(776)	(7,325)	(19
operating						
es	(12,466)	(4,285)	(6,411)	(1,453)	(471)	5,726
operating						
es	(17,774)	(6,523)	(9,960)	(2,229)	(7,796)	5,726
ing (loss)	6,169	7,028	9,009	179	(2,145)	20
of (loss) in						
ates and						
entures	384	1,509	432	14	(14)	2
(loss)						
tax	6,553	8,537	9,441	193	(2,159)	22
	%	%	%	%	%	
of HSBC s before tax	29.1	37.8	41.8	0.9	(9.6)	1
fficiency	64.7	41.7	51.9	91.4	138.0	

Balance sheet

	\$m	\$m	\$m	\$m	\$m		
and							
es to							
ers (net)	376,463	296,475	272,473	44,224	2,454		992
ssets	518,718	358,990	1,975,509	97,655	171,812	(451,366)	2,671
ner							
ts	583,140	351,152	328,800	96,770	1,435		1,361

For footnotes, see page 99.

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**Report of the Directors: Geographical regions**

**Summary / Reconciliations**

**Geographical regions**

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## Summary

Additional information on results in 2015 may be found in the Financial Summary on pages 48 to 64.

In the analysis of profit and loss by geographical regions that follows, operating income and operating expenses include intra-HSBC items of \$3,375m (2014: \$2,972m; 2013: \$2,628m).

All tables are on a reported basis unless otherwise stated.

## Basis of preparation

The results of the geographical regions are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated, and accordingly, the presentation of the geographical data includes internal allocation of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to geographical regions. While such allocations have been done on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company transactions. All such transactions are undertaken on an arm's length basis.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK.

## *Profit/(loss) before tax*

	2015		2014		2013	
	\$m	%	\$m	%	\$m	%
Europe	643	3.4	596	3.2	1,825	8.1
Asia	15,763	83.5	14,625	78.3	15,853	70.3
Middle East and North Africa	1,537	8.1	1,826	9.8	1,694	7.5

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North America	<b>614</b>	<b>3.3</b>	1,417	7.6	1,221	5.4
Latin America	<b>310</b>	<b>1.7</b>	216	1.1	1,972	8.7
<b>Year ended 31 December</b>	<b>18,867</b>	<b>100.0</b>	18,680	100.0	22,565	100.0

*Total assets*<sup>30</sup>

	<b>2015</b>		2014	
	<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>
Europe	<b>1,129,365</b>	<b>46.9</b>	1,290,926	49.0
Asia	<b>889,747</b>	<b>36.9</b>	878,723	33.4
Middle East and North Africa	<b>59,236</b>	<b>2.5</b>	62,417	2.4
North America	<b>393,960</b>	<b>16.3</b>	436,859	16.6
Latin America	<b>86,262</b>	<b>3.6</b>	115,354	4.4
Intra-HSBC items	<b>(148,914)</b>	<b>(6.2)</b>	(150,140)	(5.8)
<b>At 31 December</b>	<b>2,409,656</b>	<b>100.0</b>	2,634,139	100.0

*Risk-weighted assets*<sup>47</sup>

	<b>2015</b>		2014	
	<b>\$bn</b>	<b>%</b>	<b>\$bn</b>	<b>%</b>
<b>At 31 December</b>	<b>1,103.0</b>	<b>100.0</b>	1,219.8	100.0
Europe	<b>337.4</b>	<b>30.6</b>	375.4	30.1
Asia	<b>459.7</b>	<b>41.7</b>	499.8	40.0
Middle East and North Africa	<b>60.4</b>	<b>5.5</b>	63.0	5.0
North America	<b>191.6</b>	<b>17.4</b>	221.4	17.8
Latin America	<b>73.4</b>	<b>6.7</b>	88.8	7.1

*For footnotes, see page 99.*

HSBC HOLDINGS PLC

**Table of Contents****Reconciliation of reported and adjusted items – geographical regions****2015 compared with 2014**

	2015							
	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m	UK \$m	Hong Kong \$m
<b>Revenue<sup>1</sup></b>								
Reported <sup>31</sup>	21,058	25,303	2,565	7,657	6,592	59,800	15,493	15,616
Significant items	(656)	(1,431)	(10)	98	(36)	(2,035)	(595)	(1,383)
disposal costs of Brazilian operations					18	18		
debit valuation adjustment ( DVA ) on derivative contracts	(95)	(58)	(1)	(21)	(55)	(230)	(78)	(13)
fair value movements on non-qualifying hedges <sup>32</sup>	200	2		124	1	327	204	6
gain on the partial sale of shareholding in Industrial Bank		(1,372)				(1,372)		(1,372)
loss on sale of several tranches of real estate secured accounts in the US	(771)	(3)	(9)	214		214	(731)	(4)
	(771)	(3)	(9)	(219)		(1,002)	(731)	(4)

own credit spread <sup>2</sup>								
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	10					10	10	
Adjusted <sup>31</sup>	20,402	23,872	2,555	7,755	6,556	57,765	14,898	14,233
<b>Loan impairment charges and other credit risk provisions ( LIC s )</b>								
Reported	(690)	(693)	(299)	(544)	(1,495)	(3,721)	(248)	(155)
Adjusted	(690)	(693)	(299)	(544)	(1,495)	(3,721)	(248)	(155)
<b>Operating expenses</b>								
Reported <sup>31</sup>	(19,733)	(10,889)	(1,234)	(6,501)	(4,786)	(39,768)	(15,555)	(5,686)
Significant items	2,405	130	15	851	185	3,586	2,151	49
disposal costs of Brazilian operations					110	110		
costs-to-achieve costs to establish UK ring-fenced bank regulatory provisions in GBP	600	122	14	103	69	908	536	43
restructuring and other related costs	89					89	89	
settlements and provisions in connection with legal matters	172					172		
UK customer redress programmes	68	8	1	34	6	117	50	6
Adjusted <sup>31</sup>	935			714		1,649	935	
	541					541	541	
Adjusted <sup>31</sup>	(17,328)	(10,759)	(1,219)	(5,650)	(4,601)	(36,182)	(13,404)	(5,637)
<b>Share of profit in associates</b>								

**and joint  
ventures**

Reported	8	2,042	505	2	(1)	2,556	10	31
Adjusted	8	2,042	505	2	(1)	2,556	10	31

**Profit/(loss)  
before tax**

Reported	643	15,763	1,537	614	310	18,867	(300)	9,806
Significant items	1,749	(1,301)	5	949	149	1,551	1,556	(1,334)
revenue	(656)	(1,431)	(10)	98	(36)	(2,035)	(595)	(1,383)
operating								
expenses	2,405	130	15	851	185	3,586	2,151	49
Adjusted	2,392	14,462	1,542	1,563	459	20,418	1,256	8,472

HSBC HOLDINGS PLC

**Table of Contents****Report of the Directors: Geographical regions (continued)****Reconciliations / Europe***Reconciliation of reported and adjusted items (continued)*

	2014					Total \$m	UK \$m	Hong Kong \$m
	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m			
Revenue <sup>1</sup> Reported <sup>31</sup>	21,571	23,677	2,548	8,152	8,272	61,248	15,727	13,844
Currency translation <sup>31</sup>	(2,013)	(680)	(50)	(252)	(1,871)	(4,775)	(1,058)	4
Significant items	708	(48)	(3)	116	(19)	754	353	(119)
DVA on derivative contracts	234	69	5	16	8	332	203	26
fair value movements on non-qualifying hedges <sup>32</sup>	235	4		302		541	(8)	11
gain on sale of several tranches of real estate secured accounts in the US				(168)		(168)		
gain on sale of shareholding in Bank of Shanghai		(428)				(428)		(428)
impairment of our investment in Industrial		271				271		271

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Bank own credit spread <sup>4</sup>	(393)	4	6	(34)		(417)	(474)	1
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	632					632	632	
(gain)/loss and trading results from disposals and changes in ownership levels		32	(14)		(27)	(9)		
Adjusted <sup>31</sup>	20,266	22,949	2,495	8,016	6,382	57,227	15,022	13,729
LICs Reported	(764)	(647)	6	(322)	(2,124)	(3,851)	(214)	(320)
Currency translation	104	26		13	540	683	4	
Significant items trading results from disposals and changes in ownership levels			(2)		2			
Adjusted	(660)	(621)	4	(309)	(1,582)	(3,168)	(210)	(320)
Operating expenses Reported <sup>31</sup>	(20,217)	(10,427)	(1,216)	(6,429)	(5,932)	(41,249)	(15,576)	(5,424)
Currency translation <sup>31</sup>	1,499	352	16	129	1,373	3,278	809	(1)
Significant items charge in relation to the settlement agreement with the Federal Housing Finance Authority	2,601	58	33	578	125	3,395	2,553	56
	16	49		550		550	65	49



regulatory provisions in GBP								
restructuring and other related costs	123	9	2	28	116	278	91	7
settlements and provisions in connection with legal matters	1,187					1,187	1,187	
UK customer redress programmes	1,275					1,275	1,275	
trading results from disposals and changes in ownership levels			31		9	40		
Adjusted <sup>31</sup>	(16,117)	(10,017)	(1,167)	(5,722)	(4,434)	(34,576)	(12,214)	(5,369)
Share of profit in associates and joint ventures								
Reported	6	2,022	488	16		2,532	7	42
Currency translation	1	(38)		(2)		(39)	(1)	(1)
Adjusted	7	1,984	488	14		2,493	6	41
Profit/(loss) before tax								
Reported	596	14,625	1,826	1,417	216	18,680	(56)	8,142
Currency translation	(409)	(340)	(34)	(112)	42	(853)	(246)	2
Significant items	3,309	10	28	694	108	4,149	2,906	(63)
revenue	708	(48)	(3)	116	(19)	754	353	(119)
LICs			(2)		2			
operating expenses	2,601	58	33	578	125	3,395	2,553	56
Adjusted	3,496	14,295	1,820	1,999	366	21,976	2,604	8,081

*For footnotes, see page 99.*

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**Table of Contents****Reconciliation of reported and adjusted items geographical regions****2014 compared with 2013**

	2014							Hong
	Europe	Asia	MENA	North	Latin	Total	UK	Kong
	\$m	\$m	\$m	America	America	\$m	\$m	\$m
				\$m	\$m			
Revenue <sup>1</sup>								
Reported <sup>31</sup>	21,571	23,677	2,548	8,152	8,272	61,248	15,727	13,844
Significant								
items	708	(48)	(3)	116	(19)	754	353	(119)
DVA on								
derivative								
contracts	234	69	5	16	8	332	203	26
fair value								
movements on								
non-qualifying								
hedges <sup>32</sup>	235	4		302		541	(8)	11
gain on sale of								
several								
tranches of real								
estate secured								
accounts in the								
US				(168)		(168)		
gain on sale of								
shareholding in								
Bank of								
Shanghai		(428)				(428)		(428)
impairment of								
our investment								
in Industrial								
Bank		271				271		271
	(393)	4	6	(34)		(417)	(474)	1

own credit spread <sup>2</sup>								
provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	632					632	632	
(gain)/loss and trading results from disposals and changes in ownership levels		32	(14)		(27)	(9)		
Adjusted <sup>31</sup>	22,279	23,629	2,545	8,268	8,253	62,002	16,080	13,725
LICs								
Reported Significant items	(764)	(647)	6	(322)	(2,124)	(3,851)	(214)	(320)
trading results from disposals and changes in ownership levels			(2)		2			
Adjusted	(764)	(647)	4	(322)	(2,122)	(3,851)	(214)	(320)
Operating expenses								
Reported <sup>31</sup> Significant items	(20,217)	(10,427)	(1,216)	(6,429)	(5,932)	(41,249)	(15,576)	(5,424)
charge in relation to the settlement agreement with the Federal Housing Finance Authority	2,601	58	33	578	125	3,395	2,553	56
restructuring and other related costs				550		550		
regulatory provisions in GBP	123	9	2	28	116	278	91	7
	16	49				65		49

settlements and provisions in connection with legal matters	1,187					1,187	1,187	
UK customer redress programmes	1,275					1,275	1,275	
trading results from disposals and changes in ownership levels			31		9	40		
Adjusted <sup>31</sup>	(17,616)	(10,369)	(1,183)	(5,851)	(5,807)	(37,854)	(13,023)	(5,368)
Share of profit in associates and joint ventures								
Reported	6	2,022	488	16		2,532	7	42
Adjusted	6	2,022	488	16		2,532	7	42
Profit before tax								
Reported	596	14,625	1,826	1,417	216	18,680	(56)	8,142
Significant items	3,309	10	28	694	108	4,149	2,906	(63)
revenue	708	(48)	(3)	116	(19)	754	353	(119)
LICs			(2)		2			
operating expenses	2,601	58	33	578	125	3,395	2,553	56
Adjusted	3,905	14,635	1,854	2,111	324	22,829	2,850	8,079

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**Table of Contents***Reconciliation of reported and adjusted items – geographical regions (continued)*

	2013							
	Europe	Asia	MENA	North	Latin	Total	UK	Hong
	\$m	\$m	\$m	America	America	\$m	\$m	Kong
				\$m	\$m			\$m
Revenue <sup>1</sup>								
Reported <sup>31</sup>	20,967	24,432	2,503	8,803	10,568	64,645	14,253	13,203
Currency translation <sup>31</sup>	651	(280)	(13)	(139)	(914)	(686)	789	5
Significant items	585	(1,698)	(88)	675	(1,579)	(2,105)	323	3
debit valuation adjustment on derivative contracts	(65)	(40)	(2)	14	(13)	(106)	(78)	(12)
fair value movements on non-qualifying hedges <sup>32</sup>	(297)	32		(246)		(511)	(263)	14
FX gains relating to sterling debt issued by HSBC Holdings	(442)					(442)	(442)	
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in		(104)				(104)		

Bao Viet Holdings								
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A. loss on early termination of cash flow hedges in the US run-off portfolio					(1,107)	(1,107)		
loss on sale of an HFC Bank UK secured loan portfolio	146			199		199	146	146
loss on sale of non-real estate secured accounts in the US				271		271		
loss on sale of several tranches of real estate secured accounts in the US				123		123		
net gain on completion of Ping An disposal		(553)				(553)		
own credit spread <sup>2</sup>	1,015	2	4	225		1,246	1,011	1
reclassification gain in respect of our holdings in Industrial Bank Co., Limited following the issue of additional share capital to third parties		(1,089)				(1,089)		
write-off of allocated goodwill relating to the	279					279		

GPB Monaco business other (gain)/loss and trading results from disposals and changes in ownership levels	(51)	54	(90)	89	(459)	(457)	(51)	
Adjusted <sup>31</sup>	22,203	22,454	2,402	9,339	8,075	61,854	15,365	13,211
LICs Reported Currency translation Significant items other trading results from disposals and changes in ownership levels	(1,530)	(498)	42	(1,197)	(2,666)	(5,849)	(1,003)	(137)
	(54)	18		13	191	168	(83)	
			6		61	67		
			6		61	67		
Adjusted	(1,584)	(480)	48	(1,184)	(2,414)	(5,614)	(1,086)	(137)

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**Table of Contents***Reconciliation of reported and adjusted items geographical regions (continued)*

	2013							Hong
	Europe	Asia	MENA	North	Latin	Total	UK	Kong
	\$m	\$m	\$m	America \$m	America \$m	\$m	\$m	\$m
Operating expenses Reported <sup>31</sup>	(17,613)	(9,936)	(1,289)	(6,416)	(5,930)	(38,556)	(12,096)	(5,045)
Currency translation <sup>31</sup>	(376)	127	6	65	535	348	(455)	(1)
Significant items accounting gain arising from change in basis of delivering ill-health benefits in the UK	1,665	193	69	215	384	2,526	937	41
Madoff-related litigation costs								
regulatory provisions in GBP	(430)					(430)	(430)	
restructuring and other related costs	298					298		
UK customer redress programmes	317	35				352		35
	217	86	4	101	75	483	104	6
	1,235					1,235	1,235	



US customer remediation provisions relating to CRS				100		100		
other trading results from disposals and changes in ownership levels	28	72	65	14	309	488	28	
Adjusted <sup>31</sup>	(16,324)	(9,616)	(1,214)	(6,136)	(5,011)	(35,682)	(11,614)	(5,005)
Share of profit in associates and joint ventures								
Reported	1	1,855	438	31		2,325	6	68
Currency translation		14	(1)	(2)		11		(1)
Significant items	5	82				87	5	
other trading results from disposals and changes in ownership levels	5	82				87	5	
Adjusted	6	1,951	437	29		2,423	11	67
Profit before tax								
Reported	1,825	15,853	1,694	1,221	1,972	22,565	1,160	8,089
Currency translation	221	(121)	(8)	(63)	(188)	(159)	251	3
Significant items	2,255	(1,423)	(13)	890	(1,134)	575	1,265	44
revenue	585	(1,698)	(88)	675	(1,579)	(2,105)	323	3
LICs			6		61	67		
operating expenses	1,665	193	69	215	384	2,526	937	41
share of profit in associates and joint ventures	5	82				87	5	
Adjusted	4,301	14,309	1,673	2,048	650	22,981	2,676	8,136
<i>For footnotes, see page 99.</i>								

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**Table of Contents****Europe**

**Our principal banking operations in Europe are HSBC Bank plc in the UK, HSBC France, HSBC Private Bank (Suisse) SA and HSBC Trinkaus & Burkhardt AG. Through these operations we provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.**

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net interest income	<b>10,005</b>	10,611	10,693
Net fee income	<b>4,891</b>	6,042	6,032
Net trading income	<b>4,060</b>	2,534	4,423
Other income/(expense)	<b>2,102</b>	2,384	(181)
<b>Net operating income<sup>1</sup></b>	<b>21,058</b>	21,571	20,967
LICs <sup>34</sup>	<b>(690)</b>	(764)	(1,530)
<b>Net operating income</b>	<b>20,368</b>	20,807	19,437
Total operating expenses	<b>(19,733)</b>	(20,217)	(17,613)
<b>Operating profit</b>	<b>635</b>	590	1,824
Income from associates <sup>35</sup>	<b>8</b>	6	1
<b>Profit before tax</b>	<b>643</b>	596	1,825
Cost efficiency ratio	<b>93.7%</b>	93.7%	84.0%
RoRWA <sup>24</sup>	<b>0.2%</b>	0.2%	0.6%
Year-end staff numbers	<b>67,509</b>	69,363	68,334

*For footnotes, see page 99.*

*Country view of adjusted revenue*

	<b>2015</b>	2014
	<b>\$m</b>	\$m
UK	<b>14,898</b>	15,022
France	<b>2,619</b>	2,487

Germany	827	788
Switzerland	631	698
Other	1,427	1,271
<b>Year ended 31 December</b>	<b>20,402</b>	<b>20,266</b>
<i>Profit before tax (\$m)</i>		

*Revenue (\$m)**Operating expenses (\$m)*

For details of significant items, see page 77.

*Profit/(loss) before tax by country within global businesses*

	Retail Banking and Wealth Management		Global Commercial Banking and Markets		Global Private Banking	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK	964	2,040	384	169	(3,857)	(300)	
France <sup>23</sup>	388	152	112	14	(27)	639	
Germany	23	66	157	20	(27)	239	
Switzerland		8		(220)	(4)	(216)	
Other	(181)	53	395	31	(17)	281	
<b>Year ended 31 December 2015</b>	<b>1,194</b>	<b>2,319</b>	<b>1,048</b>	<b>14</b>	<b>(3,932)</b>	<b>643</b>	
UK	589	2,193	(801)	191	(2,228)	(56)	
France <sup>23</sup>	(181)	240	354		(199)	214	
Germany	28	71	162	27	(10)	278	
Switzerland		5	2	38	(3)	42	
Other	(122)	39	332	59	(190)	118	
Year ended 31 December 2014	314	2,548	49	315	(2,630)	596	
UK	1,471	1,684	1,246	252	(3,493)	1,160	
France <sup>23</sup>	285	255	351	21	(162)	750	
Germany	30	70	183	44	(25)	302	

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Switzerland		2	2	(291)		(287)
Other	(33)	77	19	(191)	28	(100)
Year ended 31 December 2013	1,753	2,088	1,801	(165)	(3,652)	1,825

HSBC HOLDINGS PLC

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**Table of Contents****Report of the Directors: Financial Review** (continued)**2015 compared with 2014**

In Europe, our operations reported a profit before tax of \$643m in 2015, an increase of 8% compared with 2014. This was driven by a favourable movement in significant items of \$1.6bn partly offset by \$0.4bn of adverse effects of foreign currency translation between the years. The favourable movement in significant items included lower fines, settlements, UK redress and associated provisions. These were partly offset by costs-to-achieve relating to business transformation of \$0.6bn.

Adjusted profit before tax decreased by 32% to \$2.4bn.

Our adjusted **revenue** rose by \$136m to \$20.4bn. In our GB&M business we increased revenue by \$651m, with growth in both our client facing businesses and in Balance Sheet Management. In the former, this was notably in Equities, Credit and Foreign Exchange reflecting higher volatility and client flows. Revenue also increased in Rates, partly offset by reductions in Principal investments and Capital Financing. In CMB, we increased revenue by \$69m, primarily from Credit and Lending following balance sheet growth, although overdraft fees fell. These increases were partly offset in GPB where revenue continued to fall (down \$157m) reflecting the repositioning we are undertaking in this business.

In 2015, revenue was also affected by adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of our long-term debt. This compared with favourable movements in 2014. The prior year period also included a gain arising from the external hedging of an intra-Group financing transaction.

Adjusted **LICs** of \$690m were marginally higher (\$30m) than in 2014. LICs increased in RBWM, primarily from lower recoveries, while in our CMB business, LICs increased reflecting an increase in individually assessed LICs, notably in the UK and Spain. By contrast, LICs declined in our GB&M business due to lower individually assessed LICs and lower collective provisions, as 2014 included an increase due to a revision to certain estimates used in our corporate loan impairment calculation. This was partly offset by lower net releases on available-for-sale assets compared with 2014.

Adjusted **operating expenses** rose by \$1.2bn or 8% to \$17.3bn. The increase was mainly in the UK as we continued our investment in regulatory programmes and compliance, as well as in growth initiatives. The UK bank levy charge was \$1.4bn. This was \$0.4bn higher than in 2014.

**2014 compared with 2013**

Our European operations reported a profit before tax of \$596m in 2014 compared with \$1.8bn in 2013. The decrease in reported profit before tax was driven by a number of significant items including charges relating to UK customer redress (\$1.3bn), settlements and provisions in relation to regulatory investigations into foreign exchange (\$1.2bn) and provisions arising from the ongoing review of compliance with the CCA in the UK (\$632m).

Adjusted profit before tax decreased by \$396m or 9%.

Adjusted revenue increased by \$76m, as growth in the UK was partly offset by a reduction in France.

In the UK, revenue increased by \$715m. This was driven by favourable fair value movements of \$222m from ineffectiveness in the hedging of long-term debt issued principally by HSBC Holdings in 2014, compared with adverse movements of \$480m in 2013, and a gain arising from external hedging of an intra-Group financing transaction.

In our CMB business in the UK, revenue increased from deposit balance growth in Payments and Cash Management and wider spreads and higher fees in term lending. By contrast, in our GB&M in the UK business revenue decreased. This included the introduction of the FFVA on certain derivative contracts which resulted in a charge affecting Rates and Credit. Revenue also fell in Foreign Exchange, reflecting lower volatility and reduced client flows. In RBWM, lower revenue reflected spread compression, notably on mortgages, and lower fee income from investment products and overdrafts as well as higher fees payable under partnership agreements.

In France revenue was \$160m lower, principally in RBWM in the Insurance business due to adverse movements of \$203m in the PVIF asset, compared with favourable movements of \$48m in 2013.

Revenue in Switzerland also decreased reflecting the repositioning of the GPB business and reduction in client assets.

Adjusted LICs reduced as individually assessed provisions fell in both CMB and GB&M. The latter also recorded higher net releases on available or sale ABSs, although these factors were partly offset by a revision in certain estimates in our corporate collective loan impairment calculation.

Adjusted operating expenses rose by \$1.3bn, mainly in the UK, reflecting growth in regulatory programmes and compliance costs in all businesses and increased staff costs. In addition, the UK bank levy charge of \$1.1bn in respect of 2014 was \$0.2bn higher than in 2013, primarily due to an increase in the rate of the levy. Expenses also increased due to the timing of the recognition of the Financial Services Compensation Scheme levy in the UK. These increases were partly offset by sustainable cost savings of over \$330m.

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**Table of Contents****Report of the Directors: Geographical regions** (continued)**Europe***Profit/(loss) before tax and balance sheet data Europe*

	2015					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Profit/(loss) before</i>						
Interest						
(expense)	5,128	3,433	1,848	471	(689)	(186)
(expense)	1,880	1,683	849	509	(30)	
Income						
before tax	103	35	3,270	186	(203)	
(expense) on						
activities	(3)	(6)	493	(3)	2	186
(expense) <sup>40</sup>	100	29	3,763	183	(201)	186
Income						
before tax						
and						
derivatives					671	
(expense)	446	6	(70)		47	
Income						
before tax						
and						
derivatives						
(expense)						
Income						
before tax						
and						
derivatives						
(expense)						
Income						
before tax						
and						
derivatives						
(expense)						



(expense)							
Financial							
Items							
measured at fair							
	446	6	(70)		718		
Less losses							
Financial							
Items	12	8	231	23			
and income		1	12	7	2		
Insurance							
from income	2,295	135		42			
operating	360	7	61	7	1,229	(312)	
<b>operating</b>	<b>10,221</b>	<b>5,302</b>	<b>6,694</b>	<b>1,242</b>	<b>1,029</b>	<b>(312)</b>	<b>2</b>
Insurance							
5	(2,918)	(139)		(61)			
<b>operating</b>	<b>7,303</b>	<b>5,163</b>	<b>6,694</b>	<b>1,181</b>	<b>1,029</b>	<b>(312)</b>	<b>2</b>
Impairment							
(losses)/recoveries							
from credit risk							
transitions	(260)	(475)	62	(18)	1		
<b>operating</b>	<b>7,043</b>	<b>4,688</b>	<b>6,756</b>	<b>1,163</b>	<b>1,030</b>	<b>(312)</b>	<b>2</b>
operating							
expenses	(5,851)	(2,368)	(5,715)	(1,149)	(4,962)	312	(1)
<b>ing</b>	<b>1,192</b>	<b>2,320</b>	<b>1,041</b>	<b>14</b>	<b>(3,932)</b>		
(loss)							
of profit/(loss)							
from associates							
and joint ventures	2	(1)	7				
<b>(loss) before</b>	<b>1,194</b>	<b>2,319</b>	<b>1,048</b>	<b>14</b>	<b>(3,932)</b>		
	%	%	%	%	%		
of HSBC s							
before tax	6.3	12.3	5.6	0.1	(20.9)		
efficiency ratio	80.1	45.9	85.4	97.3	482.2		
<i>Balance sheet data</i> <sup>30</sup>							
	\$m	\$m	\$m	\$m	\$m		
and advances							
to customers (net)	156,156	110,617	101,568	23,273	427		39
assets	205,866	124,105	804,373	56,470	57,943	(119,392)	1,12
other accounts	200,437	132,928	126,225	37,810	476		49

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	2014					
	Retail Banking and Wealth Management \$m	Commercial Banking \$m	Global Banking and Markets \$m	Global Private Banking \$m	Other \$m	Inter- segment elimination <sup>44</sup> \$m
Loss) before						
Interest						
(expense)	5,196	3,616	1,956	594	(654)	(97)
(expense)	2,456	1,900	1,087	626	(27)	
(expense)						
ing net						
income	(260)	33	1,943	140	(92)	
Interest						
(expense) on						
activities	14	2	660	(4)	1	97
ing						
(expense) <sup>40</sup>	(246)	35	2,603	136	(91)	97
s in fair						
of long-term						
ued and						
derivatives					614	
(expense)						
ner financial						
ents						
ted at fair						
	616	119	14	(1)	(11)	
	616	119	14	(1)	603	
(expense)						
ancial						
ents						

ated at fair							
ess losses							
ancial							
ents	12	10	730	9	11		
nd income	3	7	50	2	3		
urance							
n income	2,741	217		50			
perating							
(expense)	(127)	45	(3)	29	1,249	(186)	
perating							
	10,651	5,949	6,437	1,445	1,094	(186)	2
urance							
5	(3,450)	(306)		(63)			0
rating							
	7,201	5,643	6,437	1,382	1,094	(186)	2
mpairment							
s)/recoveries							
er credit risk							
ns	(268)	(502)		4	2		
rating							
	6,933	5,141	6,437	1,386	1,096	(186)	2
perating							
s	(6,621)	(2,594)	(6,391)	(1,071)	(3,726)	186	(2
ng							
oss)	312	2,547	46	315	(2,630)		
f profit in							
es							
t ventures	2	1	3				
oss) before							
	314	2,548	49	315	(2,630)		
	%	%	%	%	%		
f HSBC s							
efore tax	1.7	13.6	0.3	1.7	(14.1)		
iciency ratio	91.9	46.0	99.3	77.5	340.6		
heet data <sup>30</sup>							
	\$m	\$m	\$m	\$m	\$m		
nd advances							
mers (net)	165,112	106,342	113,136	24,766	377		40
sets	221,679	120,819	948,951	64,676	64,182	(129,381)	1,29
er accounts	202,413	135,837	166,075	41,380	254		54

For footnotes, see page 99.

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**Report of the Directors: Financial Review** (continued)

*Profit/(loss) before tax and balance sheet data Europe (continued)*

				2013		
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Profit/(loss) before</i>						
Interest						
(expense)	5,600	3,353	1,774	722	(694)	(62)
Other						
(expense)	2,545	1,789	957	744	(3)	
Income						
giving net						
income	206	30	2,181	192	698	
Interest income						
giving						
2		5	1,013	4	30	62
Income						
208		35	3,194	196	728	62
Income in fair						
value long-term						
and						
derivatives					(936)	
(expense)						
Other						
Income						
giving						
Income at fair	1,059	271	591	4	(570)	(1)

(expense)							
Financial							
Impairment							
measured at fair							
	1,059	271	591	4	(1,506)	(1)	
Net losses							
Financial							
Impairment							
measured at fair							
	52		344	(17)			
Net income	4	2	65	4			
Provision							
for							
credit							
(expense)	2,782	361	(1)	16			
Operating							
(expense)	(103)	9	110	(253)	766		
Operating							
(expense)	12,147	5,820	7,034	1,416	(709)	(1)	
Provision							
for							
credit							
(expense)	(4,136)	(567)		(37)			
Operating							
(expense) <sup>1</sup>	8,011	5,253	7,034	1,379	(709)	(1)	
Impairment							
and other							
Provision							
for							
credit							
(expense)	(329)	(935)	(242)	(24)			
Operating							
(expense)	7,682	4,318	6,792	1,355	(709)	(1)	
Operating							
(expense)	(5,934)	(2,231)	(4,987)	(1,519)	(2,943)	1	(
Provision							
for							
credit							
(expense)	1,748	2,087	1,805	(164)	(3,652)		
Provision							
for							
credit							
(expense) in							
Associates and joint							
ventures							
(expense) before	5	1	(4)	(1)			
Provision							
for							
credit							
(expense)	1,753	2,088	1,801	(165)	(3,652)		
	%	%	%	%	%		
HSBC's							
before tax	7.8	9.2	8.0	(0.7)	(16.2)		
inefficiency							
	74.1	42.5	70.9	110.2	(415.1)		
Balance sheet							
	\$m	\$m	\$m	\$m	\$m		
and							
assets to							
assets (net)	177,357	105,498	145,136	27,289	830		4
assets	238,499	124,242	1,054,506	75,718	72,174	(172,180)	1,3

er accounts	205,288	134,120	191,715	49,789	1,021	5
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*For footnotes, see page 99.*

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**Table of Contents****Report of the Directors: Geographical regions (continued)****Asia****Asia**

**Our principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia.**

**We offer a wide range of banking and financial services in mainland China through our local subsidiaries, HSBC Bank (China) Company Limited and Hang Seng Bank (China) Limited. We also participate indirectly in mainland China through our associate, Bank of Communications Co., Ltd.**

**Outside Hong Kong and mainland China in Asia, we conduct business in 18 countries and territories, with particularly strong coverage in Australia, India, Indonesia, Malaysia, Singapore and Taiwan.**

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net interest income	<b>12,184</b>	12,273	11,432
Net fee income	<b>6,032</b>	5,910	5,936
Net trading income	<b>3,090</b>	2,622	2,026
Other income	<b>3,997</b>	2,872	5,038
<b>Net operating income<sup>1</sup></b>	<b>25,303</b>	23,677	24,432
LICs <sup>34</sup>	<b>(693)</b>	(647)	(498)
<b>Net operating income</b>	<b>24,610</b>	23,030	23,934
Total operating expenses	<b>(10,889)</b>	(10,427)	(9,936)
<b>Operating profit</b>	<b>13,721</b>	12,603	13,998
Income from associates <sup>35</sup>	<b>2,042</b>	2,022	1,855
<b>Profit before tax</b>	<b>15,763</b>	14,625	15,853
Cost efficiency ratio	<b>43.0%</b>	44.0%	40.7%
RoRWA <sup>24</sup>	<b>3.3%</b>	3.1%	3.8%
Year-end staff numbers	<b>120,144</b>	118,322	113,701

*For footnotes, see page 99.*

*Country view of adjusted revenue*



	<b>2015</b>	2014
	<b>\$m</b>	\$m
Hong Kong	<b>14,233</b>	13,729
Australia	<b>847</b>	814
India	<b>1,845</b>	1,738
Indonesia	<b>536</b>	497
Mainland China	<b>2,606</b>	2,429
Malaysia	<b>984</b>	899
Singapore	<b>1,288</b>	1,234
Taiwan	<b>417</b>	469
Other	<b>1,116</b>	<b>1,140</b>
<b>Year ended 31 December</b>	<b>23,872</b>	<b>22,949</b>
<i>Profit before tax (\$m)</i>		

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 77.*

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**Table of Contents***Profit/(loss) before tax by country within global businesses*

	<b>Retail</b>		<b>Global</b>		<b>Total</b>	
	<b>Banking</b>	<b>Commercial Banking and</b>	<b>Banking and</b>	<b>Global Private</b>		
	<b>Management</b>	<b>Banking</b>	<b>Markets</b>	<b>Banking</b>	<b>Other</b>	
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	
Hong Kong	3,799	2,384	2,119	177	1,327	9,806
Australia	61	79	238		(5)	373
India	(25)	97	379	14	141	606
Indonesia	(6)	(112)	80		31	(7)
Mainland China	297	1,569	1,062	(3)	135	3,060
Malaysia	119	95	215		13	442
Singapore	80	122	259	65	(19)	507
Taiwan	11	24	133		(13)	155
Other	50	250	449	(1)	73	821
<b>Year ended 31 December 2015</b>	<b>4,386</b>	<b>4,508</b>	<b>4,934</b>	<b>252</b>	<b>1,683</b>	<b>15,763</b>
Hong Kong	3,727	2,264	1,807	146	198	8,142
Australia	78	126	232		(4)	432
India	4	121	442	11	122	700
Indonesia	10	53	110		25	198
Mainland China	292	1,533	954	(3)	175	2,951
Malaysia	156	122	190		28	496
Singapore	129	168	243	57	(8)	589
Taiwan	19	35	166		1	221
Other	57	320	432		87	896
<b>Year ended 31 December 2014</b>	<b>4,472</b>	<b>4,742</b>	<b>4,576</b>	<b>211</b>	<b>624</b>	<b>14,625</b>

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Hong Kong	3,742	2,110	1,971	208	58	8,089
Australia	100	131	189		26	446
India	(21)	113	418	7	136	653
Indonesia	12	106	126		36	280
Mainland China	223	1,536	842	(4)	1,644	4,241
Malaysia	148	105	236		25	514
Singapore	147	120	262	74	22	625
Taiwan	7	30	158		5	200
Other	61	207	473	(1)	65	805
Year ended 31 December 2013	4,419	4,458	4,675	284	2,017	15,853

*Analysis of mainland China profit/(loss) before tax*

	<b>Retail</b>	<b>Banking</b>	<b>Global</b>	<b>Global</b>		
	<b>and Wealth</b>	<b>Commercial</b>	<b>Banking and</b>	<b>Private</b>	<b>Other</b>	<b>Total</b>
	<b>Management</b>	<b>Banking</b>	<b>Markets</b>	<b>Banking</b>		
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
BoCom and other associates	260	1,448	301			2,009
Mainland China operations	37	121	761	(3)	135	1,051
<b>Year ended 31 December 2015</b>	<b>297</b>	<b>1,569</b>	<b>1,062</b>	<b>(3)</b>	<b>135</b>	<b>3,060</b>
BoCom and other associates	255	1,421	296		1	1,973
Mainland China operations	37	112	658	(3)	174	978
Year ended 31 December 2014	292	1,533	954	(3)	175	2,951
BoCom and other associates	247	1,360	284		(38)	1,853
Mainland China operations	(24)	176	558	(4)	40	746
Industrial Bank					1,089	1,089
Ping An					553	553
Year ended 31 December 2013	223	1,536	842	(4)	1,644	4,241

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**Table of Contents****Report of the Directors: Financial Review** (continued)**2015 compared with 2014**

Our operations in Asia reported a profit before tax of \$15.8bn in 2015 compared with \$14.6bn in 2014, an increase of 8%. This was mainly driven by a favourable movement in significant items of \$1.3bn partly offset by \$0.3bn of adverse effects of foreign currency translation between the years. In 2015, significant items included a gain on the partial sale of our shareholding in Industrial Bank (\$1.4bn). By contrast, significant items in 2014 included the gain on sale of our investment in Bank of Shanghai (\$428m) and an impairment of our investment in Industrial Bank (\$271m).

On an adjusted basis, profit before tax of \$14.5bn was \$167m or 1% higher than in 2014.

Adjusted **revenue** was \$24bn. This was \$923m or 4% higher than in 2014. The increase was primarily in GB&M from Foreign Exchange and Equities, mainly in Hong Kong. We increased revenue in our RBWM business from growth in lending and deposit balances, as well as higher sales of Wealth Management products. This was primarily due to growth in Investment Distribution revenue, notably in the first half of 2015 following high levels of stock market turnover which more than offset weaker investor sentiment experienced in the second half. CMB also recorded revenue growth, mainly in Hong Kong from a rise in average lending and deposit balances, coupled with wider spreads on deposit and trade-related lending. However, there was a notable slowing of demand for credit in the second half of 2015.

Adjusted **LICs** of \$693m were 12% higher. In CMB, our LICs increased from a rise in specific LICs, notably in Indonesia. This was partly offset by a decrease in GB&M in Hong Kong as 2014 included a significant impairment charge, which was partially released in 2015.

Our adjusted **operating expenses** rose by \$742m or 7% to \$10.8bn, with increases in all of our businesses. This was primarily due to higher staff costs following wage inflation, and growth in average FTEs, mainly in RBWM to support business growth. In addition, cost growth reflected our continued investment in regulatory programmes and compliance.

Adjusted **share of profit** from associates and joint ventures rose by \$58m, mainly from BoCom.

**2014 compared with 2013**

Our operations in Asia reported a profit before tax of \$14.6bn in 2014 compared with \$15.9bn in 2013, a decrease of 8%. The reduction was due to the effect of a number of significant items. In 2013, these included an accounting gain arising from the reclassification of Industrial Bank as a financial investment (\$1.1bn) and the net gain on completion of the Ping An disposal (\$553m). In 2014, significant items included the gain on sale of our investment in Bank of

Shanghai (\$428m) and an impairment of our investment in Industrial Bank (\$271m).

On an adjusted basis, profit before tax rose by \$326m or 2%.

Adjusted revenue was \$1.2bn or 5% higher. The increase was primarily in Hong Kong and mainland China, mainly in our CMB and RBWM businesses from balance sheet growth. In addition, we grew revenue in GB&M from portfolio growth in Balance Sheet Management and increased term lending. Revenue was also higher in India and Australia.

Adjusted LICs rose by \$167m or 35%, principally in our GB&M and CMB businesses from a rise in individually assessed impairment charges against a small number of customers in Hong Kong and mainland China. This was partly offset by a reduction in individually assessed LICs in CMB in New Zealand, Malaysia and Vietnam.

Operating expenses rose by \$753m following investment in the region, notably in regulatory programmes and compliance. In addition, we incurred higher costs at our Global Service Centres following migration of activities from other areas of the Group. Cost growth also reflected wage inflation and additional headcount, notably in Hong Kong and mainland China to support business growth, mainly in CMB, and increased marketing activity. These factors were partly offset by around \$270m of sustainable cost savings achieved in 2014.

Adjusted share of profit from associates and joint ventures rose by \$71m, mainly from BoCom.

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**Report of the Directors: Geographical regions (continued)**

**Asia**

*Profit before tax and balance sheet data Asia*

	<b>Retail Banking and Wealth Management \$m</b>	<b>Commercial Banking \$m</b>	<b>Global Banking and Markets \$m</b>	<b>2015 Global Private Banking \$m</b>	<b>Other \$m</b>	<b>Inter- segment elimination<sup>44</sup> \$m</b>
Profit before tax						
Operating income	5,132	3,613	3,373	175	(70)	(39)
Operating expense	2,939	1,466	1,304	310	13	
Operating profit	2,193	2,147	2,069	(135)	(83)	(39)
Operating profit after tax	225	352	1,801	127	13	
Operating profit after tax and other income	(23)	(11)	559	1	7	39
Operating profit after tax and other income, net of fair value changes	202	341	2,360	128	20	39
Operating profit after tax and other income, net of fair value changes, net of long-term investments and derivatives					5	
Operating profit after tax and other income, net of fair value changes, net of long-term investments and derivatives, net of other income	(329)	(30)	10		14	
Operating profit after tax and other income, net of fair value changes, net of long-term investments and derivatives, net of other income, net of other income	(329)	(30)	10		19	

Financial assets measured at fair value						
Financial losses	35	23	117		1,384	
Financial assets	2		1		25	
Income	6,006	780			(2)	
Income	659	149	146	2	2,878	(1,116)
Operating	14,646	6,342	7,311	615	4,267	(1,116)
Income	(5,925)	(837)				
Operating	8,721	5,505	7,311	615	4,267	(1,116)
Impairment recoveries						
credit risk	(307)	(425)	40		(1)	
Operating	8,414	5,080	7,351	615	4,266	(1,116)
Operating	(4,320)	(2,020)	(2,719)	(363)	(2,583)	1,116
Operating profit	4,094	3,060	4,632	252	1,683	
profit in and joint	292	1,448	302			
before tax	4,386	4,508	4,934	252	1,683	
	%	%	%	%	%	
HSBC's	23.2	23.9	26.2	1.3	8.9	
before tax	49.5	36.7	37.2	59.0	60.5	
liquidity ratio						
Sheet data <sup>30</sup>	\$m	\$m	\$m	\$m	\$m	
advances	117,807	130,513	93,007	13,144	1,904	
ers (net)	172,719	157,838	540,404	14,488	69,080	(64,782)
ts	303,536	165,202	100,998	28,685	199	
accounts						

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	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	2014 Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
before tax						
rest						
(expense)	5,003	3,439	3,579	177	(16)	91
income	2,792	1,529	1,311	272	6	
(expense)						
ing net						
income	216	382	1,220	142	(5)	
rest						
(expense) on						
activities	(13)	(9)	771		9	(91)
ing						
0	203	373	1,991	142	4	(91)
s in fair						
of long-term						
ued and						
derivatives					(4)	
(expense)						
ner financial						
ents						
ted at fair						
	543	(6)	(2)		2	
	543	(6)	(2)		(2)	
(expense)						
ancial						
ents						
ted at fair						



Business losses							
Financial							
Items	1	5	46		148		
Income	1		1		177		
Insurance							
Income	6,596	794					
Operating							
Income	516	95	141	3	2,734	(1,158)	
Operating	15,655	6,229	7,067	594	3,051	(1,158)	
Insurance							
Income	(6,979)	(782)					
Operating							
Income	8,676	5,447	7,067	594	3,051	(1,158)	
Impairment							
(Provisions)/recoveries							
Under credit risk							
Provisions	(317)	(228)	(103)	1			
Operating	8,359	5,219	6,964	595	3,051	(1,158)	
Operating							
Income	(4,191)	(1,897)	(2,686)	(384)	(2,427)	1,158	
Operating profit	4,168	3,322	4,278	211	624		
Profit in							
Associates and joint							
Ventures	304	1,420	298				
Before tax	4,472	4,742	4,576	211	624		
	%	%	%	%	%		
Efficiency ratio							
Before tax	23.9	25.4	24.5	1.1	3.4		
Efficiency ratio	48.3	34.8	38.0	64.6	79.5		
Balance sheet data <sup>30</sup>							
	\$m	\$m	\$m	\$m	\$m		
Loans and advances							
to customers (net)	115,643	132,509	99,934	12,894	1,975		
Assets	166,577	158,747	548,865	14,905	79,477	(89,848)	
Other accounts	286,670	155,608	104,896	29,847	470		

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Profit before tax and balance sheet data Asia (continued)*

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	2013 Global Private Banking	Other	Inter- segment elimination <sup>44</sup>	
	\$m	\$m	\$m	\$m	\$m	\$m	
<i>Profit before tax</i>							
Interest							
/(expense)	4,895	3,103	3,245	205	(124)	108	1
/(expense)	2,758	1,518	1,419	249	(8)		
/(expense)							
ing net							
income	238	377	1,483	175	(739)		
Interest							
/(expense)							
ing activities	(16)	(6)	608		14	(108)	
ing							
/(expense) <sup>40</sup>	222	371	2,091	175	(725)	(108)	
s in fair							
f long-term							
ued and							
derivatives					(1)		
/(expense)							
her financial							
ents							
ted at fair							
	315		7		(7)		

(expense)						
financial						
ments						
ted at fair	315		7		(8)	
ess losses						
financial						
ments	(1)		58	14	1,204	
nd income		1	6		145	
urance						
m income	6,263	654	1			
perating						
	764	97	163	12	3,871	(1,232)
perating						
	15,216	5,744	6,990	655	4,355	(1,232)
urance						
5	(6,609)	(687)				
erating						
1	8,607	5,057	6,990	655	4,355	(1,232)
mpairment						
and other						
risk						
ons	(347)	(144)	(3)	(4)		
erating						
	8,260	4,913	6,987	651	4,355	(1,232)
perating						
es	(4,138)	(1,786)	(2,560)	(367)	(2,317)	1,232
ng profit	4,122	3,127	4,427	284	2,038	
f						
loss) in						
tes and joint						
s	297	1,331	248		(21)	
efore tax	4,419	4,458	4,675	284	2,017	
	%	%	%	%	%	
f HSBC s						
efore tax	19.6	19.8	20.7	1.3	8.9	
iciency ratio	48.1	35.3	36.6	56.0	53.2	
e sheet						
	\$m	\$m	\$m	\$m	\$m	
and advances						
omers (net)	111,769	122,882	89,722	10,904	1,620	33
assets	158,456	146,898	515,023	12,994	82,453	(84,033)
er accounts	278,392	141,958	96,546	31,250	337	54

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Geographical regions (continued)****Middle East and North Africa****Middle East and North Africa**

The network of branches of HSBC Bank Middle East Limited, together with HSBC's subsidiaries and associates, gives us wide coverage in the region. Our associate in Saudi Arabia, The Saudi British Bank (40% owned), is the Kingdom's fifth largest bank by total assets.

	2015 \$m	2014 \$m	2013 \$m
Net interest income	1,531	1,519	1,486
Net fee income	633	650	622
Net trading income	325	314	357
Other income	76	65	38
<b>Net operating income<sup>1</sup></b>	<b>2,565</b>	2,548	2,503
LICs <sup>34</sup>	(299)	6	42
<b>Net operating income</b>	<b>2,266</b>	2,554	2,545
Total operating expenses	(1,234)	(1,216)	(1,289)
<b>Operating profit</b>	<b>1,032</b>	1,338	1,256
Income from associates <sup>35</sup>	505	488	438
<b>Profit before tax</b>	<b>1,537</b>	1,826	1,694
Cost efficiency ratio	48.1%	47.7%	51.5%
RoRWA <sup>24</sup>	2.5%	2.9%	2.7%
Year-end staff numbers	8,066	8,305	8,618

*For footnotes, see page 99.*

**Country view of adjusted revenue**

	2015 \$m	2014 \$m
Egypt	610	493
United Arab Emirates	1,407	1,446

Other	<b>538</b>	556
<b>Year ended 31 December</b>	<b>2,555</b>	2,495
<i>Profit before tax (\$m)</i>		

*Revenue (\$m)*

*Operating expenses (\$m)*

*For details of significant items, see page 77.*

*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management</b>	<b>Commercial Banking</b>	<b>Global Banking and Markets</b>	<b>Global Private Banking</b>	<b>Other</b>	<b>Total</b>
	\$m	\$m	\$m	\$m	\$m	\$m
Egypt	50	101	256		3	410
United Arab Emirates	91	19	292		(35)	367
Saudi Arabia	112	169	202	16	1	500
Other	19	119	123		(1)	260
<b>Year ended 31 December 2015</b>	<b>272</b>	<b>408</b>	<b>873</b>	<b>16</b>	<b>(32)</b>	<b>1,537</b>
Egypt	64	94	177			335
United Arab Emirates	154	190	364		(46)	662
Saudi Arabia	91	168	203	19	5	486
Other	14	152	182		(5)	343
<b>Year ended 31 December 2014</b>	<b>323</b>	<b>604</b>	<b>926</b>	<b>19</b>	<b>(46)</b>	<b>1,826</b>
Egypt	31	37	166		(29)	205
United Arab Emirates	142	290	275	1	(72)	636
Saudi Arabia	82	146	188	15	7	438
Other	3	172	240			415
<b>Year ended 31 December 2013</b>	<b>258</b>	<b>645</b>	<b>869</b>	<b>16</b>	<b>(94)</b>	<b>1,694</b>

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**Report of the Directors: Financial Review** (continued)

**2015 compared with 2014**

Our operations in Middle East and North Africa reported a profit before tax of \$1.5bn in 2015, a decrease of \$0.3bn or 16% compared with 2014.

On an adjusted basis, profit before tax of \$1.5bn was \$0.3bn or 15% lower than in 2014.

Adjusted **revenue** of \$2.6bn was \$60m or 2% higher than in 2014. This was mainly from revenue growth in our GB&M business in Egypt from growth in lending and investments, and in RBWM in the UAE from higher fee income on cards and wealth products.

Adjusted **LICs** of \$299m compared with a net release of \$4m in 2014. In 2015, LICs included higher impairment charges in our CMB business against specific exposures in the oil and foodstuff industries. LICs also increased in our RBWM business in the UAE from higher collective impairment charges on our mortgage book which included the effect of a review of portfolio collateral. By contrast, 2014 included releases in GB&M.

**Operating expenses** of \$1.2bn were \$52m or 5% higher than in 2014. This was mainly from higher staff costs, in part reflecting continued investment in Global Standards and wage inflation. In addition, FTEs increased primarily reflecting a rise in customer-facing staff in RBWM.

Adjusted **share of profits** from associates and joint ventures increased by \$17m or 3%, mainly from The Saudi British Bank.

**2014 compared with 2013**

Our operations in Middle East and North Africa reported a profit before tax of \$1.8bn, an increase of 8% on a reported basis, despite the effects of business disposals, including the loss on sale of our Pakistan business.

On an adjusted basis, profit before tax grew by 11%.

Adjusted revenue was \$143m or 6% higher. The growth was primarily in Egypt from improved deposit spreads in our RBWM business from re-pricing, as well as from the non-recurrence of losses on disposal of available-for-sale debt securities in GB&M in 2013. In addition, the Egyptian Central Bank resumed interest payments on overnight placements during 2014, which contributed to the rise in revenue in all global businesses.

In the UAE, we increased revenue by \$47m, primarily in our GB&M businesses from a rise in Capital Financing due to increased advisory mandates in Project and Export Finance and a gain on restructuring a specific loan in Credit and Lending. In addition, we grew revenue in our Equities and Securities Services businesses from increased customer



flows.

Adjusted net loan impairment releases were lower by \$44m, primarily due to lower releases from a particular UAE-related exposure in GB&M.

Operating expenses of \$1,183m decreased by \$31m on an adjusted basis. In Egypt, expenses fell following charges recorded in 2013 relating to changes in the interpretation of tax regulations. In the UAE, expenses reduced due to the non-recurrence of charges incurred in 2013 on customer redress programmes in RBWM relating to fees charged on overseas credit card transactions. This was partly offset by wage inflation, investment in regulatory programmes and compliance, growth in customer-facing staff in RBWM and increased service and product support staff in CMB.

Adjusted share of profits from associates and joint ventures increased by 12%, mainly from The Saudi British Bank.

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*Profit/(loss) before tax and balance sheet data Middle East and North Africa*

	<b>Retail Banking and Wealth Management \$m</b>	<b>Commercial Banking \$m</b>	<b>Global Banking and Markets \$m</b>	<b>2015 Global Private Banking \$m</b>	<b>Other \$m</b>	<b>Inter- segment elimination<sup>44</sup> \$m</b>
Profit/(loss) before tax	587	451	478		3	12
Operating expense)	176	249	213		(5)	
Income						
net						
income	51	62	216			
st						
expense) on						
activities			8			(12)
g	51	62	224			(12)
se from						
nstruments						
d at fair					6	
losses						
ncial						
ts	7	5	5			
income	1	1	7			
rating						
	12	11	25		99	(103)

Rating	834	779	952		103	(103)	
Income							
Rating	834	779	952		103	(103)	
Impairment							
recoveries							
credit risk	(121)	(183)	5				
Rating	713	596	957		103	(103)	
Rating	(557)	(357)	(286)		(137)	103	
g	156	239	671		(34)		
ss)							
profit in	116	169	202	16	2		
and joint							
ss) before	272	408	873	16	(32)		
	%	%	%	%	%		
HSBC s							
ore tax	1.4	2.2	4.6	0.1	(0.2)		
iciency ratio	66.8	45.8	30.0		133.0		
heet data <sup>30</sup>							
	\$m	\$m	\$m	\$m	\$m		
l advances	6,374	13,695	9,825				
ers (net)	7,194	15,546	35,929	92	3,067	(2,592)	
ts	17,172	12,192	6,901		203		
accounts							

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**Table of Contents****Report of the Directors: Geographical regions (continued)****Middle East and North Africa / North America**

	2014					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>loss) before</i>						
Interest income	615	467	410		3	24
/(expense)	152	268	240		(10)	
g						
/(expense)						
ing net						
income	58	68	207		(5)	
Interest						
/(expenses)						
ing activities			10			(24)
ling						
/(expense) <sup>40</sup>	58	68	217		(5)	(24)
ense from						
al instruments						
ted at fair					(3)	
ess losses						
financial						
ments	1	1	20			
nd income	1	1	12			
perating	8		27		108	(111)
	835	805	926		93	(111)

operating						
insurance						
5						
operating	835	805	926		93	(111)
impairment						
(losses)/recoveries						
from credit risk						
transitions	(26)	(21)	53			
operating	809	784	979		93	(111)
operating						
expenses	(578)	(348)	(256)		(145)	111
impairment						
(loss)	231	436	723		(52)	
of profit in						
branches and joint						
ventures	92	168	203	19	6	
(loss) before	323	604	926	19	(46)	
	%	%	%	%	%	
of HSBC s						
before tax	1.7	3.2	5.0	0.1	(0.2)	
efficiency ratio	69.2	43.2	27.6		155.9	
see sheet data <sup>30</sup>						
	\$m	\$m	\$m	\$m	\$m	
and advances						
from customers (net)	6,318	13,104	9,641			
assets	7,073	14,911	39,229	77	2,900	(1,773)
other accounts	18,024	11,809	9,630		257	

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Profit/(loss) before tax and balance sheet data Middle East and North Africa (continued)*

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	2013 Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Profit/(loss) before</i>						
Interest income	585	486	390		4	21
(Expense)	161	269	197		(5)	
Income						
Operating net	59	85	220			
Interest income						
Operating activities			14			(21)
Operating	59	85	234			(21)
Income from						
Financial instruments						
Measured at fair						
					(2)	
Operating losses						
Financial						
Operating			(18)			
Operating income			9			
Operating	25	30	15		99	(120)
Operating	830	870	827		96	(120)

Finance						
Operating	830	870	827		96	(120)
Impairment						
Provision for credit risk						
Losses	(49)	(20)	110	1		
Operating	781	850	937	1	96	(120)
Operating	(606)	(350)	(256)		(197)	120
Operating	175	500	681	1	(101)	
Profit in						
Associates and joint	83	145	188	15	7	
Losses) before	258	645	869	16	(94)	
	%	%	%	%	%	
HSBC's						
Return on assets before tax	1.1	2.9	3.8	0.1	(0.4)	
Efficiency ratio	73.0	40.2	31.0		205.2	
Balance sheet data <sup>30</sup>						
	\$m	\$m	\$m	\$m	\$m	
Loans and advances						
to customers (net)	6,152	11,814	9,241		4	
Assets	7,016	13,776	39,302	64	3,340	(2,688)
Other accounts	18,771	12,402	7,432	1	77	

For footnotes, see page 99.

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**Table of Contents****North America**

**Our principal North American businesses are located in the US and Canada. Operations in the US are primarily conducted through HSBC Bank USA, N.A., and HSBC Finance, a national consumer finance company. HSBC Markets (USA) Inc. is the intermediate holding company of, *inter alia*, HSBC Securities (USA) Inc. Canadian operations are conducted through HSBC Bank Canada.**

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
Net interest income	<b>4,532</b>	5,015	5,742
Net fee income	<b>2,018</b>	1,940	2,143
Net trading income	<b>545</b>	411	948
Other income/(expense)	<b>562</b>	786	(30)
<b>Net operating income<sup>1</sup></b>	<b>7,657</b>	8,152	8,803
LICs <sup>34</sup>	<b>(544)</b>	(322)	(1,197)
<b>Net operating income</b>	<b>7,113</b>	7,830	7,606
Total operating expenses	<b>(6,501)</b>	(6,429)	(6,416)
<b>Operating profit</b>	<b>612</b>	1,401	1,190
Income from associates <sup>35</sup>	<b>2</b>	16	31
<b>Profit before tax</b>	<b>614</b>	1,417	1,221
Cost efficiency ratio	<b>84.9%</b>	78.9%	72.9%
RoRWA <sup>24</sup>	<b>0.3%</b>	0.6%	0.5%
Year-end staff numbers	<b>19,656</b>	20,412	20,871

*For footnotes, see page 99.*

*Country view of adjusted revenue*

	<b>2015</b>	2014
	<b>\$m</b>	\$m
US	<b>5,926</b>	6,083
Canada	<b>1,585</b>	1,663
Other	<b>244</b>	270
<b>Year ended 31 December</b>	<b>7,755</b>	8,016
<i>Profit before tax (\$m)</i>		



*Revenue (\$m)**Operating expenses (\$m)*

For details of significant items, see page 77.

*Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management</b>	<b>Commercial Banking</b>	<b>Global Banking &amp; Markets</b>	<b>Global Private Banking</b>	<b>Other</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
US	(736)	302	355	65	55	41
Canada	58	259	189		(21)	485
Other	33	12	49	(6)		88
<b>Year ended 31 December 2015</b>	<b>(645)</b>	<b>573</b>	<b>593</b>	<b>59</b>	<b>34</b>	<b>614</b>
US	513	400	(403)	82	(60)	532
Canada	96	514	242		(23)	829
Other	23	(1)	49	3	(18)	56
Year ended 31 December 2014	632	913	(112)	85	(101)	1,417
US	(358)	296	633	53	(350)	274
Canada	131	506	280		(3)	914
Other	20	(16)	16	4	9	33
Year ended 31 December 2013	(207)	786	929	57	(344)	1,221

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**Table of Contents****Report of the Directors: Financial Review** (continued)**2015 compared with 2014**

In North America, our operations reported a profit before tax of \$614m in 2015 compared with \$1.4bn in 2014. The effect of currency translation between years and net movement in significant items together had an adverse effect of \$0.4bn on the reported profit before tax. The movement in significant items included the effect of fines, penalties and charges in relation to legal matters, as well as a net loss on the sale of several tranches of real estate secured loans in our US CML portfolio.

Adjusted profit before tax was \$1.6bn or 22% lower than in 2014.

Adjusted **revenue** fell by \$261m or 3%. The reduction was mainly in our CML portfolio in RBWM and reflected lower average lending balances as we continued with our programme to run-off and sell tranches of the portfolio. Lower revenue was in part offset by growth in our GB&M business. This was mainly from an increase in income in Markets and Balance Sheet Management and in Capital Finance from volume growth.

Adjusted **LICs** increased by \$235m or 76%. This was mainly in our CMB business in the US and Canada and reflected an increase in both collectively and individually assessed allowances against our oil and gas exposures. In our US CML portfolio LICs were also higher than in 2014. This reflected lower favourable market value adjustments on underlying properties as improvements in housing market conditions were less pronounced in 2015. This was partly offset by a reduction in LICs from lower levels of newly impaired loans and lower lending balances from continued run-off and sales.

Adjusted **operating expenses** were \$72m or 1% lower. In RBWM, our costs fell reflecting the reduced size of our CML portfolio which resulted in lower support services, project and staff costs. In addition, 2014 included certain legal costs which did not recur. This reduction was offset by cost growth in our CMB businesses, primarily staff costs to support the expansion of our franchise.

**2014 compared with 2013**

Our operations in North America reported a profit before tax of \$1.4bn in 2014 compared with \$1.2bn in 2013. The effect of currency translation between years and net movement in significant items together contributed \$247m of the increase in reported profit before tax. The movement in significant items included a charge in relation to the settlement agreement with the Federal Housing Finance Authority.

Adjusted profit before tax was \$63m or 3% higher.

Adjusted revenue fell by \$1.1bn or 12%. This was primarily in our CML portfolio in RBWM and reflected lower average lending balances driven by the continued run-off and loan sales. In addition, our loan yields fell as we sold our higher yielding CML non-real estate personal loan portfolio. Revenue was also lower in our GB&M business, driven by a reduction in Balance Sheet Management income as we reported lower gains on sales of available-for-sale debt, and the adverse performance of economic hedges used to manage interest rate risk. Credit revenue also reduced, primarily in our legacy credit portfolio.

Adjusted LICs fell by 73% to \$322m. This was mainly in our CML portfolio in RBWM reflecting reduced levels of delinquency, new impaired loans and lower lending balances from the continued run-off and loan sales. This was partly offset by less favourable market value adjustments to underlying property prices because improvements in housing market conditions were less pronounced in 2014 than in 2013. LICs also fell in our Principal RBWM business due to lower levels of delinquency, and in Canada in CMB from lower individually and collectively assessed LICs.

Adjusted operating expenses decreased by \$285m. This reflected lower divestiture costs, as our former Cards business reached the end of the data separation process, and lower costs following continued run-off and loan sales in our CML portfolio. In addition, we achieved over \$185m of sustainable cost savings, primarily reflecting organisational effectiveness initiatives. Partly offsetting these reductions were higher legal costs and the growth in costs associated with regulatory programmes and compliance as we continued our investment in Global Standards.

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less losses							
financial							
ments			189		(42)		
end income	16	12	19	4	6		
insurance							
um income							
operating							
ne	(142)	53	76	(6)	1,804	(1,608)	
<b>operating</b>							
<b>ne</b>	2,580	2,003	2,390	332	1,960	(1,608)	7
insurance							
<sup>45</sup>							
<b>operating</b>							
<b>ne<sup>1</sup></b>	2,580	2,003	2,390	332	1,960	(1,608)	7
impairment							
ges)/recoveries							
ther credit risk							
sions	(159)	(323)	(68)	6			(
<b>operating</b>							
<b>ne</b>	2,421	1,680	2,322	338	1,960	(1,608)	7
operating							
ses	(3,066)	(1,109)	(1,729)	(279)	(1,926)	1,608	(6
<b>ating</b>							
<b>t/(loss)</b>	(645)	571	593	59	34		
of profit in							
ates and joint							
res		2					
<b>t/(loss) before</b>							
	(645)	573	593	59	34		
	%	%	%	%	%		
of HSBC s							
before tax	(3.4)	3.0	3.1	0.3	0.3		
efficiency ratio	118.8	55.4	72.3	84.0	98.3		8
<i>Balance sheet data</i> <sup>30</sup>							
	\$m	\$m	\$m	\$m	\$m		
s and advances							
tomers (net)	53,737	40,696	27,940	6,478			128
assets	62,127	47,009	282,201	8,629	14,489	(20,495)	393
mer accounts	51,685	45,475	24,182	13,807	3		135

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	2014						
	Retail Banking and Wealth Management \$m	Commercial Banking \$m	Global Banking and Markets \$m	Global Private Banking \$m	Other \$m	Inter- segment elimination <sup>44</sup> \$m	
<i>(loss) before</i>							
Interest income	2,645	1,455	587	204	157	(33)	5
Expense	497	572	775	130	(34)		1
Net income	(165)	34	302	13	3		
Interest income	7	1	183			33	
Expense/(expense) <sup>40</sup>	(158)	35	485	13	3	33	
Changes in fair value of long-term debt issued and derivatives					(99)		
Income from financial instruments							
Income/(expense) from financial instruments					(99)		
Less losses from financial instruments		15	237		5		

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end income	13	8	16	3	4	
insurance						
um income						
operating						
e	268	61	101	1	1,872	(1,719)
operating						
e	3,265	2,146	2,201	351	1,908	(1,719)
insurance						
,45						
operating						
e <sup>1</sup>	3,265	2,146	2,201	351	1,908	(1,719)
impairment						
es)/recoveries						
her credit risk						
ions	(117)	(148)	(63)	8	(2)	
operating						
e	3,148	1,998	2,138	359	1,906	(1,719)
operating						
ses	(2,516)	(1,101)	(2,250)	(274)	(2,007)	1,719
ting						
(loss)	632	897	(112)	85	(101)	
of profit in						
ates and joint						
es		16				
(loss) before	632	913	(112)	85	(101)	
	%	%	%	%	%	
of HSBC s						
before tax	3.4	4.9	(0.6)	0.5	(0.5)	
efficiency ratio	77.1	51.3	102.2	78.1	105.2	
ce sheet data <sup>30</sup>						
	\$m	\$m	\$m	\$m	\$m	
and advances						
omers (net)	60,365	41,966	21,110	6,346		129
assets	74,680	48,411	319,819	8,386	16,823	(31,260)
mer accounts	51,258	45,275	30,301	12,050		138

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Profit/(loss) before tax and balance sheet data North America (continued)*

	2013						Total \$m
	Retail Banking and Wealth Management \$m	Commercial Banking \$m	Global Banking and Markets \$m	Global Private Banking \$m	Other \$m	Inter- segment elimination <sup>44</sup> \$m	
<i>Profit/(loss)</i>							
<i>before tax</i>							
Net interest							
Income	3,483	1,430	582	195	89	(37)	5,742
Net fee							
Income	605	593	741	125	79		2,143
Trading							
Income							
Including							
Net interest							
Income	48	40	613	19	7		727
Net interest							
Income on							
Trading							
Activities	11	1	172			37	221
Net trading							
Income <sup>40</sup>	59	41	785	19	7	37	948
Changes in							
Fair value of							
Long-term							
Debt issued							
and related							
Derivatives					(288)		(288)
Net income							
from other							



Financial instruments designated at fair value							
Net expense from financial instruments designated at fair value					(288)		(288)
Gains less losses from financial investments	4		282		8		294
Dividend income	12	9	48	4	4		77
Net expense from insurance premium income	34						34
Other operating income/expense	(454)		229	1	1,829	(1,713)	(108)
Total operating income	3,743	2,073	2,667	344	1,728	(1,713)	8,842
Net expense from insurance claims <sup>45</sup>	(39)						(39)
Total operating income <sup>1</sup>	3,704	2,073	2,667	344	1,728	(1,713)	8,803
Loan impairment charges and other credit risk provisions	(950)	(223)	(20)	(4)			(1,197)
Total operating income	2,754	1,850	2,647	340	1,728	(1,713)	7,606
Total operating expenses	(2,960)	(1,096)	(1,718)	(283)	(2,072)	1,713	(6,416)
Total operating profit/(loss)	(206)	754	929	57	(344)		1,190
Share of profit/(loss) of associates and joint	(1)	32					31

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ntures							
ofit/(loss)							
efore tax	(207)	786	929	57	(344)		1,221
	%	%	%	%	%		%
hare of							
SBC s							
ofit before							
x	(0.9)	3.5	4.1	0.3	(1.6)		5.4
ost							
iciency							
tio	79.9	52.9	64.4	82.3	119.9		72.9
alance							
et data <sup>30</sup>	\$m	\$m	\$m	\$m	\$m		\$m
oans and							
lvances to							
ustomers							
et)	66,192	37,735	18,070	5,956			127,953
otal assets	82,530	45,706	313,701	8,542	13,211	(31,655)	432,035
ustomer							
counts	53,600	49,225	24,113	13,871			140,809

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Geographical regions (continued)****Latin America****Latin America**

**Our operations in Latin America principally comprise HSBC Bank Brasil S.A.-Banco Múltiplo and HSBC México, S.A. In addition to banking services, we operate insurance**

**businesses in Brazil, Mexico and Argentina. During the year our operations in Brazil were classified as held for sale.**

	2015			2014			2013		
	Total	Other		Total	Other	Total	Other		
	Latin	Latin	America	Latin	Latin	Latin	Latin	America	
	America	Brazil	America	America	Brazil	America	America	Brazil	America
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	4,318	2,225	2,093	5,310	3,040	2,270	6,186	3,542	2,644
Net fee income	1,131	560	571	1,415	741	674	1,701	862	839
Net trading income	664	370	294	856	452	404	936	469	467
Other income	479	429	50	691	584	107	1,745	491	1,254
<b>Net operating income<sup>1</sup></b>	<b>6,592</b>	<b>3,584</b>	<b>3,008</b>	<b>8,272</b>	<b>4,817</b>	<b>3,455</b>	<b>10,568</b>	<b>5,364</b>	<b>5,204</b>
LICs <sup>34</sup>	(1,495)	(965)	(530)	(2,124)	(1,500)	(624)	(2,666)	(1,712)	(954)
<b>Net operating income</b>	<b>5,097</b>	<b>2,619</b>	<b>2,478</b>	<b>6,148</b>	<b>3,317</b>	<b>2,831</b>	<b>7,902</b>	<b>3,652</b>	<b>4,250</b>
Total operating	(4,786)	(2,613)	(2,173)	(5,932)	(3,564)	(2,368)	(5,930)	(3,301)	(2,629)

expenses									
<b>Operating profit/(loss)</b>	<b>311</b>	<b>6</b>	<b>305</b>	216	(247)	463	1,972	351	1,621
Income from associates <sup>35</sup>	(1)	(1)							
<b>Profit/(loss) before tax</b>	<b>310</b>	<b>5</b>	<b>305</b>	216	(247)	463	1,972	351	1,621
Loans and advances to customers (net)	17,293		17,293	43,122	23,749	19,373	43,918	24,924	18,994
reported in held for sale <sup>22</sup>	17,001	17,001							
Customer accounts reported in held for sale <sup>22</sup>	21,470		21,470	48,588	23,204	25,384	51,389	23,999	27,390
Cost efficiency ratio	72.6%	72.9%	72.2%	71.7%	74.0%	68.5%	56.1%	61.5%	50.5%
RoRWA <sup>24</sup>	0.4%		0.8%	0.2%	(0.5%)	1.2%	2.0%	0.7%	3.7%
Year-end staff numbers	39,828	19,145	20,683	41,201	19,564	21,637	42,542	19,869	22,673

For footnotes, see page 99.

### Country view of adjusted revenue

	2015 \$m	2014 \$m
Argentina	1,036	940
Mexico	1,968	1,931
Other	3,552	3,511
included in Other: Brazil	3,550	3,443
<b>Year ended 31 December</b>	<b>6,556</b>	<b>6,382</b>

*Profit before tax (\$m)*

### Revenue (\$m)

*Operating expenses (\$m)*

*For details of significant items, see page 49.*

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**Table of Contents***Profit/(loss) before tax by country within global businesses*

	<b>Retail Banking and Wealth Management<sup>28</sup> \$m</b>	<b>Commercial Banking<sup>28</sup> \$m</b>	<b>Global Banking and Markets \$m</b>	<b>Global Private Banking \$m</b>	<b>Other \$m</b>	<b>Total \$m</b>
Argentina	43	152	125		(3)	317
Brazil	(344)	11	336	6	(4)	10
Mexico	73	(5)	(15)	(3)	(18)	32
Other	(12)	7	16		(55)	(42)
<b>Year ended December 2015</b>	<b>(240)</b>	<b>165</b>	<b>462</b>	<b>3</b>	<b>(80)</b>	<b>350</b>
Argentina	68	119	219		(22)	384
Brazil	(230)	(97)	115	(2)	(33)	(247)
Mexico	7	(23)	89	(2)	(20)	51
Other	(5)	8	27		(2)	28
<b>Year ended December 2014</b>	<b>(160)</b>	<b>7</b>	<b>450</b>	<b>(4)</b>	<b>(77)</b>	<b>216</b>
Argentina	112	127	170		(1)	408
Brazil	(209)	52	514	5	(11)	358
Mexico	138	(144)	115	(3)	11	117
Other	289	525	368	(1)	(85)	1,095
<b>Year ended December 2013</b>	<b>330</b>	<b>560</b>	<b>1,167</b>	<b>1</b>	<b>(86)</b>	<b>1,972</b>

*For footnote, see page 99.*

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**Report of the Directors: Financial Review** (continued)

**2015 compared with 2014**

In Latin America we reported a profit before tax of \$310m in 2015, an increase of \$94m or 44% compared with 2014. Reported profit before tax was reduced by restructuring costs of \$116m in 2014 and costs relating to the planned disposal of our operations in Brazil of \$110m in addition to costs-to-achieve of \$69m in 2015.

On an adjusted basis, profit before tax of \$0.5bn was \$0.1bn or 25% higher than in 2014.

Adjusted **revenue** of \$6.6bn was \$174m or 3% higher than in 2014, primarily from growth in our RBWM and CMB businesses. Revenue growth in RBWM was mainly in Mexico as our sales campaigns contributed to higher revenue across all core products, and in Argentina from higher deposit balances and wider spreads. In CMB, we increased revenue in Argentina from wider deposit spreads, growth in our deposit balances and higher fees in Payments and Cash Management. Growth in lending balances in Brazil also contributed. These increases were partly offset by lower revenue in GB&M. In Argentina, this reflected lower foreign exchange revenue as 2014 included a notably strong performance, while in Mexico our revenue from Rates decreased from valuation adjustments due to higher counterparty credit risk and wider spreads.

Our adjusted **LICs** of \$1.5bn were \$87m or 5% lower than in 2014. This was mainly due to lower individually assessed LICs in GB&M as 2014 included a significant charge related to a single exposure in Brazil. In addition, LICs decreased in our CMB business in Brazil and Mexico. By contrast, LICs in our RBWM business rose as delinquency rates increased in Brazil as the economy slowed.

Adjusted **operating expenses** of \$4.6bn were \$167m or 4% higher than in 2014. This was largely due to union-agreed salary increases and inflationary pressures in Brazil and Argentina. Notably, costs in Brazil were largely unchanged overall as the increases mentioned above were broadly offset by the cessation of amortisation costs following the classification of the business to held for sale.

**2014 compared with 2013**

In Latin America we reported a profit before tax of \$216m in 2014 compared with \$2.0bn in 2013. The reduction included the adverse effect of currency translation between the years and an adverse movement in significant items, which together reduced 2014 reported profit before tax by \$1.4bn. Significant items included the non-recurrence of a \$1.1bn gain on sale of our operations in Panama in 2013.

Adjusted profit before tax decreased by \$326m to \$324m.



Adjusted revenue increased by 2% to \$8.3bn. This was mainly in Argentina in our GB&M business from favourable trading results and higher revenue in Balance Sheet Management, and from higher insurance income in our RBWM business. In addition, RBWM and CMB revenue benefited from wider spreads as interest rates increased, and we grew our lending and deposit balances. By contrast, revenue in both Mexico and Brazil declined. In Mexico, this was primarily in our RBWM businesses from lower insurance sales volumes and continued repositioning. In Brazil, lower revenue reflected a change in the portfolio mix in our CMB business to reflect an increase in lower-yielding MMEs while, in GB&M, revenue reduced in Balance Sheet Management.

Adjusted LICs fell by 12% to \$2.1bn. This was primarily in Mexico and, to a lesser extent, in Brazil. In Mexico, our LICs improved due to lower individually assessed charges in CMB, in particular relating to certain homebuilders following a change in the public housing policy in 2013, and in GB&M due to the non-recurrence of a large specific provision booked in 2013.

In Brazil, the fall was driven by changes to the impairment model and assumption revisions for restructured loan account portfolios which occurred in 2013 in both RBWM and CMB. In addition, collectively assessed impairments reduced in CMB, notably in Business Banking, reflecting improved delinquency rates. This was partly offset by an increase in GB&M driven by an individually assessed impairment and a provision made against a guarantee.

Adjusted operating expenses increased by \$796m. This was largely due to union-agreed salary increases and inflationary pressures in Brazil and Argentina. In addition, we incurred higher transactional taxes in Argentina, and an accelerated depreciation charge and impairment of an intangible asset in RBWM in Brazil. Despite these factors, we generated sustainable cost savings of over \$155m.

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**Table of Contents****Report of the Directors: Geographical regions (continued)****Latin America***Profit/(loss) before tax and balance sheet data Latin America*

	2015					
	Retail Banking and Wealth Management <sup>28</sup>	Commercial Banking <sup>28</sup>	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Profit/(loss) before</i>						
Interest income	2,891	997	461	18	15	(64)
(expense)	724	253	133	23	(2)	
(expense)						
Operating net interest income	149	89	239	3	(7)	
Operating activities			124		3	64
Operating (expense) <sup>40</sup>	149	89	363	3	(4)	64
Operating profit before tax and derivatives income from financial instruments measured at fair value	439	134	2			

Income from							
Int							
Dividends							
Realized at fair							
	439	134	2				
Net losses							
Financial							
Impairment	14	1	56				
Goodwill	4	2	1				
Other							
Income	903	191	5				
Operating	83	32	12		236	(224)	
Operating	5,207	1,699	1,033	44	245	(224)	
Income							
Before	(1,129)	(279)	(4)				
Operating	4,078	1,420	1,029	44	245	(224)	
Income							
Before	(1,092)	(364)	(39)				
Operating	2,986	1,056	990	44	245	(224)	
Income							
Before	(3,226)	(890)	(528)	(41)	(325)	224	
Operating	(240)	166	462	3	(80)		
Income							
Before		(1)					
Operating	(240)	165	462	3	(80)		
Income							
Before	%	%	%	%	%		
Operating	(1.3)	0.9	2.4		(0.3)		
Income							
Before	79.1	62.7	51.3	93.2	132.7		
Operating							
Income							
Before							
Operating	\$m	\$m	\$m	\$m	\$m		
Income							
Before	5,935	6,719	4,592	47			
Operating	25,378	20,792	36,953	1,769	2,838	(1,468)	
Income							
Before	12,042	5,904	3,422	102			



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	2014					
	Retail Banking and Wealth Management <sup>28</sup>	Commercial Banking <sup>28</sup>	Global Banking and Markets	Global Private Banking	Other	Inter- segment elimination <sup>44</sup>
	\$m	\$m	\$m	\$m	\$m	\$m
Income (loss) before						
Interest income	3,671	1,181	490	19	9	(60)
Interest expense	939	301	147	28		
Other (expense)						
Operating net income	125	101	391	3	(1)	
Operating net income (expense)	1	4	174		(2)	60
Operating net income (expense) <sup>40</sup>	126	105	565	3	(3)	60
Income (loss) in fair value						
Income (loss) from long-term investments and derivatives						
Income (loss) from financial instruments measured at fair value	525	166				
Income (loss) from financial instruments measured at fair value	525	166				
Income (loss) from financial instruments measured at fair value						
Income (loss) from financial instruments measured at fair value						

Losses						
Financial			84			
Income	6	2	1			
Expense						
Operating	1,272	246	5			
Operating	61	40	19		213	(184)
Expense	6,600	2,041	1,311	50	219	(184)
Operating	(1,428)	(334)	(3)			
Operating	5,172	1,707	1,308	50	219	(184)
Impairment and other						
Provisions	(1,208)	(659)	(252)	(5)		
Operating	3,964	1,048	1,056	45	219	(184)
Operating	(4,124)	(1,041)	(606)	(49)	(296)	184
Operating	(160)	7	450	(4)	(77)	
Profit in						
ventures						
(loss) before	(160)	7	450	(4)	(77)	
	%	%	%	%	%	
HSBC's						
before tax	(0.8)		2.4		(0.5)	
Efficiency ratio	79.7	61.0	46.3	98.0	135.2	
Balance sheet						
	\$m	\$m	\$m	\$m	\$m	
and advances						
to customers (net)	13,266	19,118	10,642	96		
Assets	30,855	28,070	55,827	298	1,155	(851)
Other accounts	25,392	12,789	8,219	2,188		

For footnotes, see page 99.

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**Table of Contents****Report of the Directors: Financial Review** (continued)*Profit/(loss) before tax and balance sheet data Latin America (continued)*

	2013					
	Retail Banking and Wealth Management \$m	Commercial Banking \$m	Global Banking and Markets \$m	Global Private Banking \$m	Other \$m	Inter- segment elimination <sup>44</sup> \$m
<i>Profit/(loss) before</i>						
Investment (expense)	4,245	1,359	775	24	(12)	(205)
Income	1,142	358	168	32	1	
(expense)						
Operating net income	144	111	456	4	(4)	
Investment (expense)						
Operating activities	(1)	1	20			205
Operating (expense) <sup>40</sup>	143	112	476	4	(4)	205
Income in fair value long-term investments and derivatives						
Income from financial instruments						
Income from investments at fair value	269	56	1			
Income from investments at fair value	269	56	1			

nts						
ed at fair						
ss losses						
ncial						
nts		1	81			
l income	6	2	1			
rance						
income	1,519	305	6			
erating						
	322	475	310	1	196	(189)
erating						
	7,646	2,668	1,818	61	181	(189)
rance						
	(1,345)	(269)	(3)			
ating						
	6,301	2,399	1,815	61	181	(189)
airment						
and other						
k						
ss	(1,835)	(779)	(52)			
ating						
	4,466	1,620	1,763	61	181	(189)
erating						
	(4,136)	(1,060)	(596)	(60)	(267)	189
g						
ss)	330	560	1,167	1	(86)	
profit in						
s and joint						
ss) before						
	330	560	1,167	1	(86)	
	%	%	%	%	%	
HSBC s						
Fore tax	1.4	2.5	5.2		(0.4)	
ciency ratio	65.6	44.2	32.8	98.4	147.5	
sheet						
	\$m	\$m	\$m	\$m	\$m	
d advances						
ners (net)	14,993	18,546	10,304	75		
ets	32,217	28,368	52,977	337	634	(534)
r account	27,089	13,447	8,994	1,859		

For footnotes, see page 99.

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**Report of the Directors: Other information**

**FuM / Disclosure philosophy / Taxes paid / Conduct-related matters**

**Other information**

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**Change in registrant's certifying accountant**

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**Funds under management  
and assets held in custody****Funds under management<sup>48</sup>**

	<b>2015</b>	2014
	<b>\$bn</b>	\$bn
<b>Funds under management</b>		
At 1 January	<b>954</b>	921
Net new money	<b>(3)</b>	38
Value change	<b>2</b>	40
Exchange and other	<b>(57)</b>	(45)
<b>At 31 December</b>	<b>896</b>	954
<b>Funds under management by business</b>		
Global Asset Management	<b>419</b>	445
Global Private Banking	<b>261</b>	275
Affiliates	<b>4</b>	5
Other	<b>212</b>	229
<b>At 31 December</b>	<b>896</b>	954

*For footnote, see page 99.*

Funds under management ( FuM ) represents assets managed, either actively or passively, on behalf of our customers. At 31 December 2015, FuM amounted to \$896bn, a decrease of 6% primarily due to adverse foreign exchange movements as the US dollar strengthened against all major currencies. Excluding currency translation, FuM was broadly unchanged compared with 31 December 2014 as a reduction in GPB and other FuM was broadly offset by an increase in Global Asset Management FuM.

Global Asset Management FuM decreased by 6% to \$419bn compared with 31 December 2014. Excluding currency translation, FuM increased by 2% as we attracted \$8bn of net new money, notably in fixed income products from our customers in Asia and net inflows into liquidity funds in North America and Europe.

GPB FuM decreased by 5% to \$261bn compared with 31 December 2014. Excluding currency translation, FuM decreased by 1%, reflecting the ongoing repositioning of our client base. This was partly offset by favourable market movements, principally in Europe, and from positive net new money in areas targeted for growth.

Other FuM, of which the main element is a corporate trust business in Asia, decreased by 7% to \$212bn, primarily due to net outflows.

**Assets held in custody<sup>48</sup> and under administration**

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 31 December 2015, we held assets as custodian of \$6.2 trillion, 3% lower than the \$6.4 trillion held at 31 December 2014.

This decrease was driven by adverse foreign exchange movements, primarily in Europe and Asia. Excluding this, assets held as custodian increased by 2% compared with 31 December 2014, due to incremental net asset inflows

in Asia and Europe, partly offset by adverse market movements, particularly in the second half of 2015.

Our Assets Under Administration business, which includes the provision of bond and loan administration services and the valuation of portfolios of securities and other financial assets on behalf of clients, complements the Custody business. At 31 December 2015, the value of assets held under administration by the Group amounted to \$3.2 trillion. This was broadly unchanged compared with 31 December 2014, which included adverse foreign exchange movements, primarily in Europe. Excluding the impact of currency translation, assets held under administration increased by 4% driven by net asset inflows in Europe and Asia.

### **Our disclosure philosophy**

**HSBC strives to maintain the highest standards of disclosure in our reporting.**

It has long been our policy to provide disclosures that help investors and other stakeholders understand the Group's performance, financial position and changes thereto.

In accordance with this policy, the information provided in the *Notes on the Financial Statements* and the *Report of the Directors* goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements and listing rules. In particular, we provide additional disclosures having regard to the recommendations of two Enhanced Disclosures Task Force reports. *Enhancing the Risk Disclosures of Banks*, issued in October 2012, aims to help financial institutions identify areas that investors had highlighted as needing better and more transparent information about banks' risks, and how these risks relate to performance measurement and reporting. We have complied with all 32 recommendations in this report and in our Pillar 3 Disclosures 2015 document. The *Risk*, *Capital* and *Corporate Governance* sections of this report and the financial statements are accompanied by detailed tables of contents to assist the reader to navigate through the disclosures. *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures*, issued in December 2015, provides further guidance on the application of the existing recommendations in the context of an Expected Credit Loss (ECL) framework which we have considered in developing the commentary under *Future accounting developments* on page 347. In addition, we continue to enhance our disclosures in line with good practice recommendations issued by relevant regulators and standard setters and in response to feedback received from users of our financial statements.

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**Table of Contents****Taxes paid by region and country**

The following tables reflect a geographical view of HSBC's operations.

*Breakdown of tax paid by region<sup>49</sup>*

	<b>2015</b>	2014
	<b>\$bn</b>	\$bn
<b>Region</b>		
UK	<b>2.5</b>	2.4
Rest of Europe	<b>1.1</b>	1.2
Asia	<b>2.8</b>	2.7
Middle East and North Africa	<b>0.4</b>	0.3
North America	<b>0.4</b>	(0.1)
Latin America	<b>1.2</b>	1.4
<b>Total</b>	<b>8.4</b>	7.9

*For footnote, see page 99.*

*Taxes paid by country<sup>49</sup>*

	<b>2015</b>	2014	2013
	<b>\$m</b>	\$m	\$m
<b>Asia</b>	<b>2,780</b>	2,687	2,536
Home and priority markets	<b>2,445</b>	2,399	2,185
Hong Kong	<b>1,415</b>	1,273	1,248
Mainland China	<b>277</b>	278	207
India	<b>285</b>	290	318
Australia	<b>173</b>	204	105
Malaysia	<b>92</b>	133	106
Indonesia	<b>70</b>	76	74
Singapore	<b>80</b>	101	88

Taiwan	53	44	39
Other markets	335	288	351
<b>Europe</b>	<b>3,660</b>	3,625	3,500
Home and priority markets	3,346	3,391	3,244
UK	2,526	2,363	2,107
France	620	790	844
Germany	108	131	151
Switzerland	92	107	142
Turkey	16	75	82
Other markets	298	159	174
<b>Middle East and North Africa</b>	<b>433</b>	294	321
Priority markets	407	246	283
Saudi Arabia	151	84	70
UAE	120	102	98
Egypt	136	60	115
Other markets	26	48	38
<b>North America</b>	<b>353</b>	(108)	414
Priority markets	353	(108)	410
US	127	(377)	125
Canada	226	269	285
Other markets			4
<b>Latin America</b>	<b>1,184</b>	1,384	1,836
Priority markets	431	534	643
Argentina	340	333	318
Mexico	91	201	325
Brazil	735	804	1,002
Other markets	18	46	191
<b>Total</b>	<b>8,410</b>	7,882	8,607

For footnote, see page 99.

## Conduct-related matters

### Conduct-related costs included in significant items

	2015 \$m	2014 \$m	2013 \$m
<b>Income statement</b>			
Net interest income	10	632	
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	10	632	
Operating expenses	2,362	3,077	1,687
Comprising:			
Legal proceedings and regulatory matters	1,821	1,802	352
charge in relation to the settlement agreement with the Federal Housing Finance Authority		550	
regulatory provisions in GBP	172	65	352
settlements and provisions in connection with legal matters	1,649	1,187	

Customer remediation	541	1,275	1,335
UK customer redress programmes	541	1,275	1,235
US customer remediation provisions relating to Card and Retail Services			100
<b>Total charge for the year relating to significant items</b>	<b>2,372</b>	3,709	1,687
Of which:			
Total provisions charge for the year	2,362	2,500	1,687
Total provisions utilised during the year	1,021	2,503	1,238
<b>Balance sheet at 31 December</b>			
Total provisions	3,926	2,545	2,793
legal proceedings and regulatory matters	2,729	1,154	657
customer remediation	1,197	1,391	2,136
Accruals, deferred income and other liabilities	168	379	

The table above provides a summary of conduct-related costs incurred and included within significant items (see pages 66 and 77).

HSBC defines conduct as ensuring that we deliver fair outcomes for our customers and that we do not disrupt the orderly and transparent operation of financial markets. The Board places a strong emphasis on conduct, requiring adherence to high behavioural standards and doing the right thing. This includes ensuring that the lessons of unexpected outcomes, mistakes and control failings are both acknowledged and responded to in a timely and effective manner.

Board oversight of conduct matters is provided by the Conduct & Values Committee, which oversees the promotion and embedding of HSBC Values and our required global conduct outcomes, and the Remuneration Committee, which

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**Report of the Directors: Other information** (continued)

**Carbon dioxide emissions / Property / Footnotes**

considers conduct and compliance-related matters relevant to remuneration. The reports of these committees may be found on pages 270 to 273.

An overview of our conduct framework is set out in page 41. The management of conduct of business and the steps taken to raise standards and deal with historical incidents are described on page 178.

Regulatory focus on conduct of business and financial crime is one of the Group's top and emerging risks which is discussed on page 112.

Total conduct-related costs within significant items were \$2.4bn, a decrease of \$1.3bn compared with 2014. Provisions raised in 2015 resulted from the on-going consequences of a small number of significant historical events.

Operating expenses included significant items related to conduct matters of \$2.4bn, including \$1.8bn in respect of legal proceedings and regulatory matters, of which \$0.2bn related to regulatory matters in our private banking operations and \$1.6bn was in respect of settlements and provisions in connection with legal matters. These are discussed in Note 40 on the Financial Statements.

Customer remediation costs charged to operating expenses included \$0.5bn in respect of the mis-selling of payment protection insurance (PPI). Cumulative PPI provisions made since the Judicial Review ruling in the first half of 2011 totalled \$4.7bn, of which \$3.6bn had been paid as at 31 December 2015 (see Note 29 on the Financial Statements).

**Carbon dioxide emissions**

HSBC's carbon dioxide emissions are calculated on the basis of the energy used in our buildings and employee business travel from over 28 countries (covering about 91% of our operations by FTE).

The data, gathered on energy consumption and distance travelled, are converted to carbon dioxide emissions using conversion factors from the following sources, if available, in order of preference:

1. electricity attribute certificates or equivalent instruments;
2. contracts for electricity, such as Power Purchase Agreements;



3. supplier/utility emission rates;
4. residual mix (sub-national or national);
5. other grid-average emission factors (sub-national or national); and
6. for other types of energy than electricity and travel, if no specific factors can be obtained, we use the latest available factors provided by the UK Department for Environment, Food and Rural Affairs and/or the Department of Energy and Climate Change in the UK.

This is the market-based methodology recommended by the revised guidelines of the Greenhouse Gas Protocol for 2015 disclosure onwards.

To incorporate all of the operations over which we have financial (management) control, the calculated carbon dioxide emissions are scaled up on the basis of the FTE coverage rate to account for any missing data (typically less than 10% of FTEs). In addition, emission uplift rates are applied to allow for uncertainty on the quality and coverage of emission measurement and estimation. The rates are 4% for electricity, 10% for other energy and 6% for business travel, based on the *Intergovernmental Panel on Climate Change Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories*, and our internal analysis of data coverage and quality.

#### *Carbon dioxide emissions in tonnes*

	2015	2014 <sup>50</sup>
Total	771,000	795,000
From energy	662,000	676,000
From travel	109,000	119,000

#### *Carbon dioxide emissions in tonnes per FTE*

	2015	2014 <sup>50</sup>
Total	2.97	3.08
From energy	2.54	2.62
From travel	0.42	0.46

*For footnote, see page 99.*

Our greenhouse gas reporting year runs from October to September. For the year from 1 October 2014 to 30 September 2015, carbon dioxide emissions from our global operations were 771,000 tonnes.

Independent assurance of our carbon dioxide emissions will be available in the first half of 2016 on our website.

#### **Property**

*At 31 December 2015, we operated from some 6,860 operational properties worldwide.*

Approximately 1,840 were located in Europe, 1,760 in Asia, 430 in North America, 2,590 in Latin America and 240 in Middle East and North Africa. These properties had an area of approximately 51.9m square feet (2014: 54.3m square feet).

Our freehold and long leasehold properties, together with all our leasehold land in Hong Kong, were valued in 2015. The value of these properties was \$11.3bn (2014: \$10.8bn) in excess of their carrying amount in the consolidated balance sheet on an historical cost based measure. In addition, properties with a net book value of \$1.4bn (2014: \$1.6bn) were held for investment purposes.

Our operational properties are stated at cost, being historical cost or fair value at the date of transition to IFRSs (their deemed cost) less any impairment losses, and are depreciated on a basis calculated to write off the assets over their estimated useful lives. Properties owned as a consequence of an acquisition are recognised initially at fair value.

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**Report of the Directors: Financial Review** (continued)

**Disclosure controls**

The Group Chief Executive and Group Finance Director, with the assistance of other members of management, carried out an evaluation of the effectiveness of the design and operation of HSBC Holdings' disclosure controls and procedures as at 31 December 2015. Based upon that evaluation, the Group Chief Executive and Group Finance Director concluded that our disclosure controls and procedures as at 31 December 2015 were effective to provide reasonable assurance that information required to be disclosed in the reports which the company files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

During the year it was determined that the control environment associated with IT privileged access required significant improvement. Deficiencies were noted in the design and operation of controls for the granting, release and monitoring of privileged access in a number of systems. For the identified deficiencies, management responded by implementing a programme to determine the scale and nature of the deficiencies, remediate identified control deficiencies and determine if privileged access had been misused during 2015. Management also identified and assessed the effectiveness of relevant IT, business, monitoring and period-end mitigating controls. Please see Effectiveness of Internal Controls on page 277.

There have been no changes in HSBC Holdings' internal control over financial reporting during the year ended 31 December 2015, that have materially affected, or are reasonably likely to materially affect, HSBC Holdings' internal control over financial reporting.

**Management's assessment of internal controls over financial reporting**

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and has completed an assessment of the effectiveness of the Group's internal controls over financial reporting for the year ended 31 December 2015. In making the assessment, management used the framework for internal control evaluation contained in the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014), as well as the criteria established by the Committee of Sponsoring Organisations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework (2013) .

Based on the assessment performed, management concluded that for the year ended 31 December 2015, the Group's internal controls over financial reporting were effective.

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31 December 2015, has also audited the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States) as stated in their report on pages 323 and 335.

#### **Change in registrant's certifying accountant**

In line with corporate governance practices and regulatory changes in Europe and elsewhere, in 2013 we conducted a tender process for HSBC Holdings plc and its subsidiaries (the Group) statutory audit contract. Following the tender in 2015 the engagement of KPMG Audit Plc (KPMG), HSBC's previous auditor, was not renewed, and PricewaterhouseCoopers LLP (PwC) became the Group's statutory auditor for the financial year ended 31 December 2015. This decision was taken by the Board of Directors on the recommendation of the Group Audit Committee, itself advised by a selection panel chaired by the Group Finance Director and including, among others, two members of the Group Audit Committee. The appointment of PwC was approved by the shareholders at the 2015 Annual General Meeting of the Company. KPMG resigned as the Group's auditor effective 31 March 2015, and PwC was formally engaged on 31 March 2015.

During the two years prior to 31 December 2014, (i) KPMG did not issue any reports on the financial statements of the Group or on the effectiveness of internal control over financial reporting that contained an adverse opinion or a disclaimer of opinion, nor were the auditors' reports of KPMG qualified or modified as to uncertainty, audit scope, or accounting principles, (ii) there was not any disagreement over any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to KPMG's satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its auditors' reports, or any reportable event as described in Item 16F(a)(1)(v) of Form 20-F.

Further, in the two years prior to 31 December 2014 we did not consult with PwC regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to the consolidated financial statements of the Group; or (ii) any matter that was the subject of a disagreement as that term is used in Item 16F(a)(1)(iv) of Form 20-F or a reportable event as described in Item 16F(a)(1)(v) of Form 20-F.

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**Report of the Directors: Financial Review** (continued)

HSBC has agreed to indemnify and hold KPMG harmless against and from any and all legal costs and expenses incurred by KPMG in successful defence of any legal action or proceeding that arises as a result of KPMG's consent to the inclusion (or incorporation by reference) of its audit report on the Company's past financial statements included (or incorporated by reference) herein or in any registration statement of HSBC Holdings on Form F-3 or Form S-8.

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Footnotes to pages 48 to 98

**Use of non-GAAP financial measures**

- 1 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*
- 2 *Own credit spread includes the fair value movements on our long-term debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.*

**Consolidated income statement/Group performance by income and expense item**

- 3 *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
- 4 *Dividends per ordinary share expressed as a percentage of basic earnings per share.*
- 5 *Net interest income includes the cost of internally funding trading assets, while the related external revenues are reported in Trading income . In our global business results, the cost of funding trading assets is included with Global Banking and Market s net trading income as interest expense.*
- 6 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ( AIEA ).*
- 7 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate paid on average interest-bearing funds.*
- 8 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
- 9 *Interest income on trading assets is reported as Net trading income in the consolidated income statement.*
- 10 *Interest income on financial assets designated at fair value is reported as Net income from financial instruments designated at fair value in the consolidated income statement.*
- 11 *Including interest-bearing bank deposits only.*
- 12 *Interest expense on financial liabilities designated at fair value is reported as Net income on financial instruments designated at fair value in the consolidated income statement, other than interest on own debt which is reported in Interest expense .*
- 13 *Including interest-bearing customer accounts only.*
- 14 *Trading income also includes movements on non-qualifying hedges. These hedges are derivatives entered into as part of a documented interest rate management strategy for which hedge accounting was not, nor could be,*

*applied. They are principally cross-currency and interest rate swaps used to economically hedge fixed rate debt issued by HSBC Holdings and floating rate debt issued by HSBC Finance. The size and direction of the changes in the fair value of non-qualifying hedges that 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 for both the instruments and the underlying economically hedged assets and liabilities if the derivative is held to maturity.*

- 15 *Net insurance claims and benefits paid and movement in liabilities to policyholders arise from both life and non-life insurance business. For non-life business, amounts reported represent the cost of claims paid during the year and the estimated cost of incurred claims. For life business, the main element of claims is the liability to policyholders created on the initial underwriting of the policy and any subsequent movement in the liability that arises, primarily from the attribution of investment performance to savings-related policies. Consequently, claims rise in line with increases in sales of savings-related business and with investment market growth.*
- 16 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

#### **Consolidated balance sheet**

- 17 *Net of impairment allowances.*
- 18 *On 1 January 2014, CRD IV came into force and the calculation of capital resources and risk-weighted assets for 2014 and 2015 are calculated and presented on this basis. 2011 to 2013 comparatives are on a Basel 2.5 basis.*
- 19 *Capital resources are total regulatory capital, the calculation of which is set out on page 234.*
- 20 *Including perpetual preferred securities, details of which can be found in Note 30 on the Financial Statements.*
- 21 *The definition of net asset value per ordinary share is total shareholders' equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue excluding shares the company has purchased and are held in treasury.*
- 22 *In the first half of 2015 our operations in Brazil were classified as held for sale. As a result, balance sheet accounts have been classified to Assets held for sale and Liabilities of disposal groups held for sale. There is no separate income statement classification.*
- 23 *France primarily comprises the domestic operations of HSBC Finance, HSBC Assurances Vie and the Paris branch of HSBC Bank plc.*

#### **Reconciliation of RoRWA measures**

- 24 *Pre-tax return on average risk-weighted assets ( RoRWA ) is calculated using pre-tax return and reported average RWAs. Adjusted RoRWA is calculated using adjusted pre-tax return and adjusted average RWAs.*
- 25 *Reported average risk-weighted assets ( average RWAs ) are calculated using an average of RWAs at quarter-ends on a Basel 2.5 basis for 31 December 2013 and a CRD IV end point basis from all periods from 1 January 2014. Adjusted average RWAs are calculated using reported average RWAs adjusted for the effects of currency translation differences and significant items.*
- 26 *Other includes treasury services related to the US Consumer and Mortgage Lending business and commercial operations in run-off. US CML includes loan portfolios within the run-off business that are designated held for sale.*
- 27 *Currency translation adjustment is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current year-end.*

#### **Global businesses and geographical regions**

*In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.*

- 29 *The main items reported under Other are the results of HSBC's holding company and financing operations, which includes net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, along with the costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries. The results also include fines and penalties as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanctions laws, the UK bank levy together with unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates and joint ventures and certain property transactions. In addition, Other also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the Group's movement on own debt is included in GB&M).*

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**Table of Contents****Report of the Directors: Other information / Risk****Footnotes / Managing risk**

- 30 *Assets by geographical region and global businesses include intra-HSBC items. These items are eliminated, where appropriate, under the heading Intra-HSBC items or Inter-segment elimination, as appropriate.*
- 31 *Amounts are non-additive across geographical regions and global businesses due to inter-company transactions within the Group.*
- 32 *Excludes items where there are substantial offsets in the income statement for the same year.*
- 33 *Other income in this context comprises where applicable net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net insurance premium income and other operating income less net insurance claims and benefits paid and movement in liabilities to policyholders.*
- 34 *Loan impairment charges and other credit risk provisions.*
- 35 *Share of profit in associates and joint ventures.*
- 36 *Investment distribution includes Investments, which comprises mutual funds (HSBC manufactured and third party), structured products and securities trading, and Wealth Insurance distribution, consisting of HSBC manufactured and third-party life, pension and investment insurance products.*
- 37 *Other personal lending includes personal non-residential closed-end loans and personal overdrafts.*
- 38 *Other mainly includes the distribution and manufacturing (where applicable) of retail and credit protection insurance.*
- 39 *Markets products, Insurance and Investments and Other includes revenue from Foreign Exchange, insurance manufacturing and distribution, interest rate management and GCF products.*
- 40 *Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within GB&M's net trading income as an interest expense. In the statutory presentation, internal interest income and expense are eliminated.*
- 41 *In 2015, Markets included a favourable fair value movement of \$202m on the widening of credit spreads on structured liabilities (2014: adverse fair value movement of \$15m; 2013: adverse fair value movement of \$66m).*
- 42 *Other in GB&M includes net interest earned on free capital held in the global business not assigned to products, allocated funding costs and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRSs basis, the offset to these tax credits are included within Other.*
- 43 *Client assets are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets were funds under management (\$261bn at 31 December 2015) which were not reported on the Group's balance sheet, and customer deposits (\$88bn at 31 December 2015), of which \$80bn was reported on the Group's balance sheet and \$8bn were off-balance sheet deposits.*

- 44 *Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within Other which are recovered from global businesses, and (ii) the intra-segment funding costs of trading activities undertaken within GB&M. HSBC's Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M's Net trading income on a fully funded basis, Net interest income and Net interest income/(expense) on trading activities are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.*
- 45 *Net insurance claims and benefits paid and movement in liabilities to policyholders.*
- 46 *Employee expenses comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the Other category is shown in Other operating expenses .*
- 47 *RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.*
- 48 *Funds under management and assets held in custody are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager, and these assets are consolidated as Structured entities (see Note 39 on the Financial Statements).*
- 49 *Taxes paid by HSBC relate to HSBC's own tax liabilities including tax on profits earned, employer taxes, bank levy and other duties/levies such as stamp duty. Numbers are reported on a cash flow basis.*
- 50 *Following the release of the new GHG Protocol Scope 2 Guidance, we decided to use the state-specific eGRID emission factors for our US operations until such time as we obtain supplier-specific emission factors. For 2014, therefore, our reported total carbon dioxide emissions have increased by 43,000 tonnes and our carbon dioxide emissions per FTE have increased by 0.16 tonnes.*

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**Report of the Directors: Financial Review (continued)**

**2014 compared with 2013**

51 *In 2013, we recorded a net gain on \$553m on the completion of the Ping An disposal. This represented the net effect of \$1,235m gain on derecognition of equity securities classified as available for sale and recorded in Gains less losses from financial investments, partly offset by \$682m on a contingent forward sale contract, recorded in Net trading income.*

52 *The operating results of these disposals and acquisitions were not removed from adjusted results as they were not significant.*

53 *Excludes items where there are substantial offsets in the income statement for the same year.*

**Average balance sheet**

54 *Interest income on trading assets is reported as Net trading income in the consolidated income statement.*

55 *Interest income on financial assets designated at fair value is reported as Net income from financial instruments designated at fair value in the consolidated income statement.*

56 *This includes interest-bearing bank deposits only. See page 63i for an analysis of all bank deposits.*

57 *Interest expense on financial liabilities designated at fair value is reported as Net income on financial instruments designated at fair value in the consolidated income statement, other than interest on own debt which is reported in Interest Expense.*

58 *This includes interest-bearing customer accounts only. See page 63m for an analysis of all customer accounts.*

59 *Net interest margin is calculated as net interest income divided by average interest earning assets.*

**Ratio of earnings to fixed charges**

60 *For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interests, plus fixed charges, and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.*

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**Table of Contents****Report of the Directors: Financial Review** (continued)**Regulation and supervision**

With listings of its ordinary shares in London, Hong Kong, New York, Paris and Bermuda, HSBC Holdings complies with the relevant requirements for listing and trading on each of these exchanges. In the UK, these are the Listing Rules of the Financial Conduct Authority ( FCA ) in its role as the UK Listing Authority; in Hong Kong, The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ( HKSE ); in the US, where the shares are traded in the form of ADS, HSBC Holdings' shares are registered with the US Securities and Exchange Commission ( SEC ). As a consequence of its US listing, HSBC Holdings is also subject to the reporting and other requirements of the US Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the New York Stock Exchange's ( NYSE ) Listed Company Manual, in each case as applied to foreign private issuers. In France and Bermuda, HSBC Holdings is subject to the listing rules of Euronext, Paris and the Bermuda Stock Exchange respectively, applicable to companies with secondary listings.

A statement of our compliance with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council and with the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited can be found in the Report of the Directors: Corporate Governance Codes on page 256.

Our operations throughout the world are regulated and supervised by over 400 different central banks and other regulatory authorities in those jurisdictions in which we have offices, branches or subsidiaries. These authorities impose a variety of requirements and controls designed to provide financial stability, transparency in financial markets and a contribution to economic growth. The regulations include capital requirements, disclosure standards and restrictions on certain types of products or transaction structures, requirements on recovery and resolutions, market liquidity, governance standards and financial crime.

The Prudential Regulation Authority ( PRA ) is the HSBC Group's consolidated lead regulator. The other UK regulator, the FCA, supervises 11 HSBC regulated entities in the UK, including six where the PRA is responsible for prudential supervision. The FCA also supervises the Group globally in relation to financial crime matters. Additionally, both the PRA and FCA have certain limited direct supervisory powers over our unregulated qualifying parent company HSBC Holdings, including (in the FCA's case) pursuant to the FCA Direction in connection with HSBC Holdings and HSBC North America Holdings, Inc. having entered into agreements as part of a global settlement with a number of US authorities in relation to the Group's failure to comply with anti-money laundering ( AML ) rules, US sanctions requirements and related matters. In addition, each operating bank, finance company or insurance operation within HSBC is regulated by local supervisors.

The Group's primary regulatory authorities are those in the UK, Hong Kong and the US, our principal jurisdictions of operation. However, and in addition, with the implementation of the EU's Single Supervisory Mechanism (SSM) in 2014, the European Central Bank (ECB) assumed direct supervisory responsibility for HSBC France and HSBC Malta as significant supervised entities within the eurozone for the purposes of the EU's SSM Regulation. Under the SSM, the ECB increasingly engages with the relevant National Competent Authorities in relation to HSBC's businesses in other eurozone countries and more widely with other HSBC regulators. It is therefore expected that we will continue to see changes in how the Group is regulated and supervised on a day-to-day basis in the eurozone and more generally as the ECB and other of our regulators develop their powers having regard to some of the regulatory initiatives highlighted in this report.

## **UK regulation and supervision**

The UK financial services regulatory structure is comprised of three regulatory bodies: the Financial Policy Committee (FPC), a committee of the Bank of England (BoE), the PRA, a subsidiary of the BoE, and the FCA.

The FPC is responsible for macro-prudential supervision, focusing on systemic risk that may affect the UK's financial stability. The PRA and the FCA are micro-prudential supervisors. The Group's banking subsidiaries such as HSBC Bank plc (our principal authorised institution in the UK) are dual-regulated firms, subject to prudential regulation by the PRA and to conduct regulation by the FCA. Other (generally smaller, non-bank) UK-based Group subsidiaries are solo regulated by the FCA (i.e. the FCA is responsible for both prudential and conduct regulation of those subsidiaries). HSBC Group is subject to consolidated supervision by the PRA.

UK banking and financial services institutions are subject to multiple regulations. The primary UK statute in this context is the Financial Services and Markets Act 2000 (FSMA), as amended by subsequent legislation. Other UK financial services legislation includes that derived from EU directives and regulations relating to banking, securities, insurance, investments and sales of personal financial services.

The PRA and FCA are together responsible for authorising and supervising all our operating businesses in the UK which require authorisation under FSMA. These include deposit-taking, retail banking, consumer credit, life and general insurance, pensions, investments, mortgages, custody and share-dealing businesses and treasury and capital markets activity. The FCA is also responsible for promoting effective competition in the interests of consumers and an independent subsidiary of the FCA, The Payment Systems Regulator, regulates payment systems in the UK.

PRA and FCA rules establish the minimum criteria for the authorisation of banks and other financial sector entities that carry out regulated activities. In the UK, the PRA and FCA have the right to object, on prudential grounds, to persons who hold, or intend to hold, 10% or more of the voting power or shares of a financial institution that it regulates, or of its parent undertaking. In its capacity as our

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supervisor on a consolidated basis, the PRA receives information on the capital adequacy of, and sets requirements for, the Group as a whole as well as conducting stress tests both on HSBC's UK entities and more widely on the Group, including in conjunction with other regulators. Individual banking subsidiaries in the Group are directly regulated by their local banking supervisors, who set and monitor, *inter alia*, their capital adequacy requirements.

The Group is subject to capital requirements as set out in CRD IV and implemented by the PRA. The regulatory capital framework has been, and continues to be, significantly enhanced. It is also envisaged that existing Pillar 1 and Pillar 2 capital requirements will be complemented by a specification of total loss absorbing capacity (TLAC). TLAC parallels European requirements for entities in the EU to meet minimum requirements for eligible liabilities, which can absorb losses in the event of a failure of a bank or be bailed in to provide additional capital resources.

On 29 January 2016, the FPC published a consultation on its proposed framework for the systemic risk buffer. It is proposed that it will apply to ring-fenced banks and large building societies and will be implemented from 1 January 2019. The buffer to be applied to HSBC's ring-fenced bank has yet to be determined. Details on the capital framework and regulatory developments on capital requirements can be found in the Capital section on page 239.

The PRA and FCA monitor authorised institutions through ongoing supervision and the review of routine and *ad hoc* reports relating to financial, prudential and conduct of business matters. They may also obtain independent reports from a skilled person on the adequacy of procedures and systems covering internal control and governing records and accounting. The PRA meet regularly with the Group's senior executives to discuss our adherence to the PRA's prudential guidelines. In addition, both the PRA and FCA regularly discuss fundamental matters relating to our business in the UK and internationally with relevant management, including areas such as strategic and operating plans, risk control, loan portfolio composition and organisational changes, including succession planning and recovery and resolution arrangements.

There are a substantial number of other ongoing regulatory initiatives affecting the Group driven by or from the UK. These include further changes to the UK bank levy, ongoing implementation of requirements regarding recovery and resolution plans (see further details outlined below under Recovery and resolution) and of the recommendations of the UK Independent Commission on Banking (ICB) and the Parliamentary Commission on Banking Standards (PCBS) in relation to the ring-fencing of retail banking activities.

We have started making changes to our corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, in order to remove operational dependencies (where one subsidiary bank provides critical services to another), we are in the process of transferring critical services from our subsidiary banks to a separately incorporated group of service companies (ServCo group).

The Group presented a ring-fencing project plan to regulators in January 2016. The plan provides for the transfer into a separate subsidiary of the HSBC Group, the qualifying components of HSBC Bank plc's UK RBWM, CMB and GPB businesses. The plan remains subject to the approval of the PRA, the FCA and other applicable regulators. Further reforms currently in the process of implementation as a result of ICB and PCBS proposals include the introduction of a new framework for individuals aimed at strengthening accountability in banking (including a new Senior Managers and Certification Regime) and remuneration rules intended to strengthen the alignment between risk and reward. In October 2015, HM Treasury announced that the Senior Managers and Certification Regime would be extended to all authorised firms by 2018. HSBC is actively engaged in the preparation for these new regimes.

Other relevant regulatory initiatives include a continued high level of focus by the FCA on the management of conduct of business and on customer outcomes.

The FCA is also involved (along with HM Treasury) in the implementation of the recommendations coming from the Fair and Effective Financial Markets Review. These were published in June 2015 and include recommendations to raise standards, professionalism and accountability of individuals, improve the quality, clarity and market-wide understanding of FICC trading practices, strengthen regulation of FICC markets in the UK and raise standards in global FICC markets, and promote fairer FICC market structures and forward-looking conduct risk identification and mitigation. The Review's Chairs will provide an implementation report by June 2016. During 2015, HM Treasury also launched the Financial Advice Market Review to examine how financial advice could work better for consumers. This review is being undertaken with the FCA and following a call for inputs in October 2015, is expected to report during the second quarter of 2016. In a similar vein, the UK Competition and Markets Authority (CMA) investigation into the supply of retail banking services to personal current account and to SME customers in the UK continues. The investigation is based on the CMA concerns that there are features of both sectors that (alone or in combination) it suspects prevent, restrict or distort competition. The CMA published provisional findings and possible remedies in October 2015 and the statutory deadline for the CMA's final report is 5 May 2016.

The FCA also continues to apply close scrutiny to the Group's financial crime control framework both generally in conjunction with the exercise of its wider powers under FSMA and more specifically under the FCA Direction as described above. This includes ongoing consideration of the Group's progress in meeting its obligations under the US DPA and other commitments outlined below.

### **Hong Kong regulation and supervision**

Banking in Hong Kong is subject to the provisions of the Banking Ordinance and to the powers, functions and duties ascribed by the Banking Ordinance to the Hong Kong Monetary Authority (the HKMA). The HKMA is the government authority in Hong Kong responsible for

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maintaining monetary and banking stability. One of the principal functions of the HKMA is to promote the stability and integrity of the financial system, including the banking system in Hong Kong. The HKMA is responsible for regulating and supervising banking business and the business of taking deposits in Hong Kong. Under the Banking Ordinance, the HKMA is the licensing authority responsible for the authorisation, suspension and revocation of authorised institutions. To provide checks and balances, the HKMA is required under the Ordinance to consult with the Financial Secretary on important authorisation decisions, such as suspension and revocation.

The HKMA follows international practices as recommended by the Basel Committee on Banking Supervision ( Basel Committee ) to supervise authorised institutions. The HKMA adopts a risk-based supervisory approach based on a policy of continuous supervision , through on-site examinations, off-site reviews, prudential meetings, co-operation with external auditors and sharing information with other supervisors. The HKMA requires all authorised institutions to have adequate systems of internal control and requires the institutions external auditors, upon request, to report on those systems and other matters such as the accuracy of information provided to the HKMA. In addition, the HKMA may from time to time conduct tripartite discussions with banks and their external auditors.

The HKMA has the power to serve a notice of objection on persons if they are no longer deemed to be fit and proper to be controllers of the bank, if they may otherwise threaten the interests of depositors or potential depositors, or if they have contravened any conditions specified by the HKMA. The HKMA may revoke authorisation in the event of an institution s non-compliance with the provisions of the Banking Ordinance. These provisions require, among other things, the furnishing of accurate reports.

To enhance the exchange of supervisory information and co-operation, the HKMA has entered into Memoranda of Understanding or other formal arrangements with a number of banking supervisory authorities within and outside Hong Kong.

The marketing of, dealing in and provision of advice and asset management services in relation to securities and futures in Hong Kong are subject to the provisions of the Securities and Futures Ordinance of Hong Kong. Entities engaging in activities regulated by the Ordinance are required to be licensed or registered with the Securities and Futures Commission ( SFC ). The HKMA is the frontline regulator for banks involved in the securities and futures business. Amongst other functions, the Securities and Futures Ordinance vested the SFC with powers to set and enforce market regulations, including investigating breaches of rules and market misconduct and taking appropriate enforcement action. The SFC is responsible for licensing and supervising intermediaries conducting SFC regulated activities, for example investment advisors, fund managers and brokers. Additionally, the SFC sets standards for the authorisation and regulation of investment products and reviews and authorises offering documents of retail investment products to be marketed to the public.

In November 2015, the Hong Kong Government gazetted the Financial Institutions (Resolution) Bill (the FIR Bill ). If passed by the Legislative Council in its gazetted form, the FIR Bill would establish a cross-sector resolution regime to allow authorities in Hong Kong to resolve an in-scope financial institution.

The FIR Bill contains five stabilisation options that may be exercised in respect of an in-scope financial institution: (i) transfer of all or part of the business of the entity, or its securities, to a private sector purchaser; (ii) transfer of all or part of the business of the entity, or its securities, to a bridge institution wholly or partially owned by the Hong Kong Government; (iii) transfer of all or part of the business of the entity to an asset management vehicle wholly or partially owned by the Hong Kong Government; (iv) bail-in; and (v) temporary public ownership of the entity. The exercise of the stabilisation options is subject to certain safeguards to which the relevant authorities must have regard.

## US regulation and supervision

The Group is subject to extensive federal and state supervision and regulation in the US. Banking laws and regulations of the Federal Reserve Board ( FRB ), the Office of the Comptroller of the Currency (the OCC ) and the Federal Deposit Insurance Corporation (the FDIC ) (collectively, the US banking regulators ) govern many aspects of our US business. Furthermore, since we have substantial operations outside the US which conduct many of their day-to-day transactions with the US, HSBC entities' operations outside the US are also subject to the extra-territorial effects of US regulation in many respects. The requirements of the US DPA entered into by HSBC in December 2012 and described in this section under Anti-money laundering and related regulation should also be noted in this context.

HSBC and its US operations are subject to supervision, regulation and examination by the FRB because HSBC is a bank holding company under the US Bank Holding Company Act of 1956, as a result of its control of HSBC Bank USA, N.A., McLean, Virginia ( HSBC Bank USA ); and HSBC Trust Company (Delaware), N.A., Wilmington, Delaware ( HTCD ). HSBC North America Holdings Inc. ( HNAH ) is also a bank holding company . Both HSBC and HNAH have elected to be financial holding companies pursuant to the provisions of the Gramm-Leach-Bliley Act (the GLB Act ) and, accordingly, may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature.

Under regulations implemented by the FRB, if any financial holding company, or any depository institution controlled by a financial holding company, ceases to meet certain capital or management standards, the FRB may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the FRB may require divestiture of the holding company's depository institutions or its affiliates engaged in broader

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financial activities in reliance on financial holding company status under the GLB Act if the deficiencies persist. The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act of 1977, the FRB must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. See page 113 for further information on the regulatory consent orders with which HSBC Bank USA must comply in accordance with the agreement entered into with the OCC in December 2012 (the GLBA Agreement).

The two US banks, HSBC Bank USA and HTCD, are subject to regulation and examination primarily by the OCC. HSBC Bank USA and HTCD are subject to additional regulation and supervision, secondly by the FDIC, and by the FRB and the Consumer Financial Protection Bureau (CFPB). Banking laws and regulations restrict many aspects of their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, payment of dividends and numerous other matters.

In July 2010, the US enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which provided a broad framework for significant regulatory changes extending to many areas of US financial regulation. The implementation of Dodd-Frank has required further detailed rulemakings by different US regulators, including the Department of the Treasury, the FRB, the FDIC, the SEC, the Commodity Futures Trading Commission (CFTC) and the CFPB. Although there remains some rule drafting to be completed, most of the extra-territorial provisions of Dodd-Frank have been enacted through rulemakings. The FRB, in consultation with the Financial Stability Oversight Council (FSOC) may take certain actions, including preventing mergers, restricting financial products offered, restricting or terminating activities, imposing conditions on activities or requiring the sale or transfer of assets, against any bank holding company with assets greater than \$50bn that is found to pose a grave threat to financial stability. The FSOC is supported by the Office of Financial Research (OFR) which may impose data reporting requirements on financial institutions. The cost of operating both the FSOC and OFR is paid for through an assessment on large bank holding companies.

In the US, parent company insolvencies are governed by the US Bankruptcy Code, 11 U.S.C. § 101 et seq. (the Bankruptcy Code). Chapter 7 of the Bankruptcy Code sets forth the procedures for liquidation of a debtor company's assets for distribution to creditors, whereas Chapter 11 permits the operation of the debtor's business while either negotiating a plan of reorganisation with the company's creditors or liquidating the business. Subsidiary banks are subject to the Federal Deposit Insurance Act (the FDIA). Under the FDIA, the FDIC has the authority as receiver to liquidate and wind-up a bank's affairs and to succeed to all rights, titles, powers, and privileges of the bank and relevant associated persons.

Under a special regime introduced by Title II of Dodd-Frank, the US Secretary of the Treasury has the authority to appoint the FDIC as receiver of certain qualifying parent companies and their subsidiaries under specified conditions. The FDIC's powers under what is referred to as the Orderly Liquidation Authority (OLA) incorporate elements of both the FDIA and the Bankruptcy Code and are intended to minimise the adverse effects of a complex financial group's failure on the financial stability of the US. In respect of a banking group with a parent company not organised under the laws of the US, any actions under the OLA would likely be directed at the US-based intermediate holding company.

In January 2014, the FRB implemented the Basel III capital framework for bank holding companies such as HNAH, which will be required to phase in many of the requirements, including a minimum supplementary leverage ratio of 3% and an effective minimum total risk-based capital ratio of 10.5% over a transition period from 2014 to 2019. The 10.5% ratio includes the capital conservation buffer which is not a minimum requirement, per se, but rather a necessary condition to allow capital distributions. A counter-cyclical capital buffer requirement, applicable to banking organisations that meet the advanced approaches thresholds, also applies to HNAH and HBUS, and the buffer has been currently set at 0%. Additionally, failure to maintain minimum regulatory ratios in simulated stress conditions, as required by the FRB's Comprehensive Capital Analysis and Review (CCAR) programme, would restrict HNAH from engaging in capital distributions such as dividends or share repurchases. In addition to the CCAR stress testing requirements, the Dodd-Frank Act Stress Test (DFAST) requires HNAH and HSBC Bank USA to undergo regulatory stress tests conducted by the FRB annually, and to conduct and publish the results of its own internal stress tests semi-annually.

Under the CCAR process, the FRB evaluates bank holding companies annually on their capital adequacy, internal capital adequacy assessment process and plans for capital distributions, and will provide a non-objection in relation to capital distributions only for companies that can demonstrate sufficient capital strength after making the capital distributions. HNAH submitted its latest CCAR capital plan and annual company-run DFAST results in January 2015. In July 2015, HNAH submitted its latest mid-cycle company-run DFAST results. HSBC Bank USA is subject to the OCC's DFAST requirements, which require certain banks to conduct annual company-run DFAST, and submitted its latest annual DFAST results in January 2015. The company run stress tests are forward looking exercises to assess the impact of hypothetical macroeconomic baseline, adverse and severely adverse scenarios provided by the FRB and the OCC for the annual exercise, and internally developed scenarios for both the annual and mid-cycle exercises, on the financial condition and capital adequacy of a bank-holding company or bank over a nine quarter planning horizon.

In late 2014, the FRB and OCC revised aspects of their rules pertaining to CCAR and DFAST. These revisions included, among other changes, a forward shift of the timeline for the submission of capital plans and stress tests for bank

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holding companies subject to CCAR and the company run stress tests for national banks subject to DFAST. Under these rules, for the 2016 capital plan cycle and going forward, bank holding companies will be required to submit their capital plans and stress testing results to the FRB one quarter later than in past years. National banks are similarly required to submit the results of their company-run stress tests to the OCC by 5 April. The final rule made certain other substantive changes to the capital plan and stress test regulations, including limiting a bank holding company's ability to make capital distributions (subject to certain exceptions) if its actual capital issuances in that quarter were less than the amount indicated in the capital plan. HNAH plans to submit its 2016 capital plan to the FRB, and HSBC Bank USA plans to submit the results of its company-run stress tests to the OCC, on or before 5 April 2016.

On 11 March 2015, the FRB informed HNAH that it did not object to HNAH's capital plan or the planned capital distributions included in its 2015 CCAR submission.

Large international banks, such as HSBC Holdings generally with regard to its US operations, are also required to file resolution plans describing what strategy would be followed to resolve the institution. If the FRB and the FDIC both determine that these resolution plans are not credible (which, although not defined, is generally believed to mean the regulators do not believe the plans are feasible or would otherwise allow for the rapid and orderly resolution of the US businesses in a way that protects systematically important functions without severe systematic disruption and without exposing taxpayers to loss), our failure to cure deficiencies in a resolution plan required by Dodd-Frank to be filed by HSBC Holdings would enable the FRB and the FDIC, acting jointly, to impose more stringent prudential limits or require the divestiture of assets or operations.

In March 2015, the FRB and the FDIC announced the completion of their reviews of the second round of resolution plans submitted in 2014 by three foreign banking organisations, including the HSBC Holdings resolution submitted in 2014 (the 2014 Plan). Although the agencies noted some improvements in the 2014 Plan, they jointly identified specific shortcomings that were to be addressed with the 2015 annual submission. In addition, the FDIC board of directors stated in a press release that the 2014 resolution plans submitted by these filers are not credible and do not facilitate an orderly resolution under the US Bankruptcy Code (although the FRB did not make such a determination or join in this public statement). In August 2014, the FRB and FDIC made these same determinations with respect to the plans filed in 2013 by the nine largest financial institutions required to submit resolution plans under Dodd-Frank. The FRB and FDIC requested that these filers reflect the requested improvements in their 2015 submissions. HSBC and HSBC Bank USA submitted their 2015 resolution plans to the FDIC and the FRB in December 2015.

In February 2014, the FRB finalised its rule requiring enhanced supervision of the US operations of non-US banks such as HSBC Holdings. The rule requires certain

large non-US banks with significant operations in the United States to establish a single intermediate holding company ( IHC ) to hold their US bank and non-bank subsidiaries. HSBC currently operates in the US through an IHC structure and HNAH will be designated its IHC. The implementation of this rule, from 1 July 2016, will not have a significant impact on HSBC s US operations. HNAH submitted its IHC implementation plan to the FRB on 31 December 2014, as required.

An IHC may calculate its capital requirements under the US standardised approach, even if it meets the asset thresholds that would require a bank holding company to use advanced approaches. HNAH received approval from the FRB to opt out of the advanced approaches in 2014, and HSBC Bank USA received approval from the OCC to opt out of the advanced approach in 2015. HNAH and HSBC Bank USA will, however, remain subject to the other capital requirements applicable to advanced approaches banking organisations such as: the supplementary leverage ratio, the countercyclical capital buffer, stress testing requirements, enhanced risk management standards, enhanced governance and stress testing requirements for liquidity management, and other applicable prudential standards. Most of these requirements will become effective on 1 July 2016.

The US banking regulators adopted a final rule in September 2014 that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee. The final rule establishes a liquidity coverage ratio ( LCR ), which is designed to ensure that a banking organisation maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario. The rule, which applies to HNAH, is more stringent than the Basel III LCR in several respects. Starting on 1 January 2015, covered companies, including HNAH and HSBC Bank USA, were required to maintain an LCR of 80%, increasing annually by 10% increments and reaching 100% on 1 January 2017.

In November 2015, the FSB issued final standards for TLAC requirements for global systemically important banks ( G-SIB s), which will apply to HSBC Holdings once implemented in the UK. The new standards also permit authorities in host jurisdictions to require internal TLAC to be prepositioned (issued by local entities to either parent entities or third parties). The purpose of these new standards is to ensure that G-SIBs have sufficient loss absorbing and recapitalisation capacity available to implement an orderly resolution with continuity of critical functions and minimal impact on financial stability and to ensure cooperation between home and host authorities during resolution. The new standards call for all G-SIBs to be subject to TLAC requirements starting 1 January 2019, to be fully phased in by 1 January 2022. In the US, the FRB published proposed rules on 30 November 2015 for implementing the FSB s TLAC standard in the US. The proposed rules require, among other things, the US intermediate holding companies of non US G-SIBs, including HNAH, to maintain minimum amounts of internal TLAC which would include minimum levels of tier

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1 capital and long-term debt satisfying certain eligibility criteria, and a related TLAC buffer commencing 1 January 2019. The TLAC proposal also includes clean holding company requirements that impose limitations on the types of financial transactions HSBC's US intermediate holding company, HNAH, could engage in. The FSB's TLAC standard and the FRB's TLAC proposal represent a significant expansion of the current regulatory capital framework that may, if adopted as proposed, require both HNAH and HSBC to make material modifications to the terms of outstanding debt instruments or to issue additional long-term debt.

HSBC Bank USA and HTCD are subject to risk-based assessments from the FDIC, which insures deposits generally to a maximum of \$250,000 per depositor for domestic deposits. Dodd-Frank changes the FDIC's risk-based deposit insurance assessment framework primarily by basing assessments on an FDIC-insured institution's total assets less tangible equity rather than US domestic deposits, which is expected to shift a greater portion of the aggregate assessments to large FDIC-insured institutions. In October 2015, the FDIC proposed an additional surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of \$10bn or more, including HSBC Bank USA. The new large bank pricing system will result in higher assessment rates for banks with high-risk asset concentrations, less stable balance sheet liquidity, or potentially higher loss severity in the event of failure.

HSBC's US consumer finance operations are subject to extensive state-by-state regulation in the US, and to laws relating to consumer protection (both in general, and in respect of sub-prime lending operations, which have been subject to enhanced regulatory scrutiny); discrimination in extending credit; use of credit reports; privacy matters; disclosure of credit terms; and correction of billing errors. These operations are subject to regulations and legislation that limit operations in certain jurisdictions.

In December 2013, US regulators finalised the Volcker Rule, which limits the ability of banking entities to sponsor or invest in certain private equity or hedge funds or to engage in certain types of proprietary trading. During 2015, the Group implemented its conformance plans related to its businesses and risk management and control frameworks both in the US and elsewhere, including establishing a defined Volcker compliance programme and related CEO attestation processes to ensure compliance with the final rule by the relevant effective dates.

Title VII of Dodd-Frank provides for an extensive framework for the regulation of over-the-counter (OTC) derivatives by the CFTC and the SEC, including mandatory clearing, exchange trading and public and regulatory transaction reporting of certain OTC derivatives, as well as rules regarding the registration of swap dealers and major swap participants, and related capital, margin, business conduct, record keeping and other requirements applicable to such entities.

The CFTC has adopted many of the most significant provisions of Title VII, which came into effect in 2013 and 2014. In particular, HSBC Bank USA and HSBC Bank plc are

provisionally registered as swap dealers with the CFTC. Because HSBC Bank plc is a non-US swap dealer, the CFTC generally limits its direct regulation of HSBC Bank plc to swaps with US persons and certain affiliates of US persons. However, the CFTC continues to consider whether to apply mandatory clearing, exchange trading, public transaction reporting, margin and business conduct rules to swaps with non-US persons arranged, negotiated or executed by US personnel or agents. The CFTC is also considering whether to apply regulatory transaction reporting requirements on all swaps entered into by a non-US swap dealer or instead to permit reliance on transaction reporting under comparable EU rules. The application of CFTC rules to HSBC Bank plc's swaps with non-US persons could have an adverse effect on the willingness of non-US counterparties to trade swaps with HSBC Bank plc and we continue to assess how developments in these areas will affect our business.

In June 2014, the SEC finalised rules regarding the cross-border application of the security-based swap dealer and major security-based swap participant definitions. These rules share many similarities with parallel guidance finalised by the CFTC in July 2013. In January 2015, the SEC also finalised rules regarding reporting and public dissemination requirements for security-based swap transaction data. In August 2015, the SEC also finalised rules for the registration of security-based swap dealers and major security-based swap participants. The SEC has not yet finalised the implementation dates for these rules or finalised several related Title VII rules. Because our equity and credit derivatives businesses are also subject to the CFTC's jurisdiction under Title VII, material differences between the final SEC rules and existing CFTC rules could materially increase our costs of compliance with Title VII by requiring the implementation of significant additional policies, procedures, documentation, systems and controls for those businesses.

In November 2015, the OCC, jointly with other US banking regulators, adopted final rules establishing margin requirements. The final margin rules will require HSBC Bank USA and HSBC Bank plc to collect and post initial and variation margin for certain non-cleared swaps and security-based swaps entered into with other swap dealers and financial end-users that exceed a minimum threshold of transactional activity. For certain non-cleared swaps and security-based swaps entered into with financial end-users that do not meet the minimum transactional activity threshold, HSBC Bank USA and HSBC Bank plc will only be required to collect and post variation margin (but not initial margin). The US banking regulators' final rules do not impose margin requirements for non-cleared swaps and security-based swaps entered into with non-financial end-users, certain sovereigns and multilateral development banks or qualifying hedging transactions with certain small depository institutions.

The final margin rules also limit the types of assets that are eligible to satisfy initial and variation margin requirements, require initial margin to be segregated at a third-party custodian, impose requirements on internal models used to calculate initial margin requirements and contain specific provisions for cross-border transactions and inter-

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affiliate transactions. The final margin rules follow a phased implementation schedule, with variation margin requirements coming into effect in September 2016 and March 2017 and initial margin requirements phased in on an annual basis from September 2016 through September 2020, with the relevant compliance dates depending on the transactional volume of the parties and their affiliates. These final rules, as well as parallel margin rules from the CFTC, the SEC, and certain non-US regulators will increase the costs and liquidity burden associated with trading non-cleared swaps and security-based swaps and may adversely affect our business in such products. In particular, the imposition of initial margin requirements on inter-affiliate transactions will significantly increase the cost of certain consolidated risk management activities and may adversely affect HSBC to a greater extent than some of our competitors.

Dodd-Frank also included a swaps push-out provision that would have effectively limited the range of OTC derivatives activities in which an insured depository institution, including HSBC Bank USA, could engage. The scope of this provision was significantly reduced in December 2014 and now effectively only restricts HSBC Bank USA's ability to enter into certain structured finance swaps after 16 July 2015 that are not entered into for hedging or risk mitigation purposes.

Dodd-Frank grants the SEC discretionary rule-making authority to modify the standard of care that applies to brokers, dealers and investment advisers when providing personalised investment advice to retail customers and to harmonise other rules applying to these regulated entities. Dodd-Frank also expands the extra-territorial jurisdiction of US courts over actions brought by the SEC or the US with respect to violations of the anti-fraud provisions in the Securities Act, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940. In addition, regulations which the FSOC, the CFPB or other regulators may adopt could affect the nature of the activities which our FDIC-insured depository institution subsidiaries may conduct, and may impose restrictions and limitations on the conduct of such activities.

The implementation of the remaining Dodd-Frank provisions, including those related to the recommended imposition of the fiduciary standard on broker-dealers, could result in additional costs or limit or restrict the way we conduct our business in the US.

**Global and regional prudential and other regulatory developments**

The Group is subject to regulation and supervision by a large number of regulatory bodies and other agencies. In addition to changes being pursued at a country level, changes are also being pursued globally through the actions of bodies such as the G-20, the FSB and Basel Committee, as well as regionally through the EU. Key areas include the work of the FSB on G-SIBs, the Basel Committee's ongoing consultations on revised standardised approaches across a number of risk areas, and the FSB's final standard for requirements for total loss

absorbing capacity. See further details in the Capital section on page 239.

We are also subject to regulatory stress testing in many jurisdictions. These have increased both in frequency and in the granularity of information required by supervisors. They include the programmes of the Bank of England, the FRB (as explained in the US regulation and supervision section), the OCC, the EBA, the ECB, the HKMA and other regulators. For further details, see Regulatory stress tests on page 116.

There are a number of consultations which have been issued by the Basel Committee and are yet to be finalised. These are likely to have an impact on the standardised approach for credit risk and operational risk and will determine whether the capital floor will be included in the Basel capital framework.

In January 2016, the Basel Committee published the final rules arising from the Fundamental Review of the Trading Book. The new regime includes amendments to the trading book boundary and new market risk capital calculations for both the modelled and standardised approaches. Basel implementation is planned for 2019. See further details in the Capital section on page 239.

In October 2014, the Basel Committee finalised their recommendations for the calculation of the net stable funding ratio ( NSFR ). The NSFR is a significant component of the Basel III reforms. It requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, thus reducing the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress. Further details on NSFR can be found on page 155.

In January 2016, the Basel Committee finalised its Fundamental Review of the Trading Book ( FRTB ) which is expected to increase market risk capital requirements once implemented by national regulators. Further details on the FRTB can be found on page 241.

All finalised Basel Committee proposals would need to be transposed into EU requirements before coming into effect.

## **Recovery and resolution**

Globally there have been a number of developments relating to banking structural reform and the introduction of recovery and resolution regimes.

As recovery and resolution planning has developed, some regulators and national authorities have also required changes to the corporate structures of banks. These include requiring the local incorporation of banks or ring-fencing of certain businesses.

We are working with our primary regulators to develop and agree a resolution strategy for HSBC. It is our view that a strategy by which the Group breaks up at a subsidiary bank level at the point of resolution (referred to as a multiple point of entry) is the optimal approach, as it is aligned to our existing legal and business structure. Similarly to all G-SIBs, we are working with our regulators to mitigate or remove critical inter-dependencies between our

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subsidiaries to further facilitate the resolution of the Group. In particular, in order to remove operational dependencies (where one subsidiary bank provides critical services to another), we are in the process of transferring critical services from our subsidiary banks to a separate internal ServCo group.

During 2015, more than 18,000 employees performing shared services in the UK were transferred to the ServCo group. Further transfers of employees, critical shared services and assets in the UK, Hong Kong and other jurisdictions will occur in due course.

**European regulation**

Through the UK's membership of the EU, HSBC is both directly and indirectly subject to European financial services regulation.

CRD IV implemented Basel III in the EU and, in the UK, the PRA rulebook CRR Firms Instrument 2013 transposed the various national discretions under CRD IV into UK law. CRD IV and the PRA requirements came into force on 1 January 2014.

Additionally, the EU is implementing its Banking Union to increase integration in the eurozone banking system. As part of this, in November 2014, the Single Supervisory Mechanism (SSM) established the ECB as the single supervisor for all banks in the eurozone with direct supervisory responsibility for larger and systemically important banks, including HSBC France and HSBC Malta. A Single Resolution Mechanism (SRM) was also established to apply to all banks covered by the SSM. This is intended to ensure that bank resolution is managed effectively through a Single Resolution Board and a Single Resolution Fund, financed by the banking sector. Non-eurozone countries within the EU may opt to join the Banking Union, but the UK has indicated that it will not do so.

In January 2014, the European Commission published legislative proposals on the structural reform of the European banking sector which would prohibit proprietary trading in financial instruments and commodities, and enable supervisors, at their discretion, to require trading activities such as market-making, complex derivatives and securitisation operations to be undertaken in a separate subsidiary from deposit taking activities. In June 2015, the European Council published its negotiating position on the regulation which will need to be agreed with the European Parliament before being finalised.

In the EU, BRRD was finalised and published in June 2014. This came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until 1 January 2016. Regardless of this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK. In January 2015, the PRA published a policy statement containing updated requirements for recovery

and resolution planning which revises PRA rules that have been in force since 1 January 2014. In addition, the EBA has produced a number of Regulatory Technical Standards, some of which are yet to be finalised, that will further inform the BRRD requirements.

The BRRD also introduces requirements for banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that is, liabilities that may be bailed in using the bail-in tool) known as the minimum requirements for eligible liabilities ( MREL ). In December 2015, the Bank of England issued a consultation paper on its approach to MREL for all UK banks, building societies and certain investment firms. Alongside the Bank of England's MREL consultation paper, the PRA published consultation paper on the interaction between MREL and capital buffers and how it would treat a breach of MREL.

The EU also continues to pursue the development of markets, and conduct-related EU regulations. This includes completing implementation of measures such as the European Markets Infrastructure Regulation. Additionally, a number of other EU market-related regulations have moved through the legislative process in 2015 and will be subject to significant implementation work in 2016. This includes the Markets in Financial Instrument Regulation/Directive ( MiFID II ), the Market Abuse Regulation, EU's Framework for Benchmarks and Indices, the Mortgage Credit Directive, the Packaged Retail Investment and Insurance Products Regulation, the Second Payment Services Directive, Money Markets Fund Regulation, the Payment Accounts Directive, and the Fourth Money Laundering Directive are all expected to progress further towards implementation during 2016. The Group continues to enhance and strengthen its governance and resourcing more generally around regulatory change management and the implementation of required measures, actively to address this ongoing and significant agenda of regulatory change.

#### **Anti-money laundering and sanctions regulation**

HSBC places a high priority on its obligations to deter money laundering and terrorist financing and to enforce global sanctions. The European Commission has published a Fourth Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. Member States are required to incorporate the Fourth Directive into national laws by 26 June 2017 and financial institutions are required to comply with these laws from this date. HSBC policy requires that all Group companies must adhere to the letter and spirit of all applicable laws and regulations and we have policies, procedures and training intended to ensure that our employees know and understand our criteria for deciding when a client relationship or business should be evaluated as higher risk.

Risk mitigation measures aimed at deterring money laundering, terrorist and proliferation (weapons) financing (collectively referred to as AML ) and enforcing sanctions have been focused in three key areas:

managing risk;

transitioning to a new operating and governance model; and

meeting HSBC's regulatory obligations.

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Revised global AML and sanctions policies were approved in 2014. During 2015, global businesses and countries introduced new AML and sanctions procedures arising from the new policies and focused on embedding the procedures required to effect these policies in our day-to-day business operations globally. This supported our ongoing effort to address the US DPA requirements. These actions were in line with our strategic target to implement the highest or most effective standards globally. The work of the Monitor, who was appointed to assess the effectiveness of our AML and sanctions compliance programme is discussed on page 116 and our progress on implementing Global Standards is detailed on page 21.

Conducting customer due diligence ( CDD ) is one of the fundamental ways in which we know our customers and understand and manage financial crime risk. Enhanced minimum standards for customer due diligence, including, as applicable, standards to determine beneficial ownership information, are continuing to be deployed across the four global businesses.

The AML and sanctions programmes are being better aligned to the three lines of defence model (described on page 177) with roles and accountability across all three lines clearly set out and embedded through employee awareness initiatives.

As part of our continuing evaluation of AML and sanctions risk, we also monitor activities relating to the countries subject to US economic sanctions programmes administered by OFAC, as well as those subject to United Nations, UK and EU sanctions, as well as complying with local lists as required in the jurisdictions in which we operate. HSBC policy requires all Group companies to comply to the extent applicable with US sanctions laws. This means that not only must US subsidiaries and US nationals comply with US sanctions, but that HSBC subsidiaries outside the US which are not US persons must not participate in transactions within US jurisdictions (including most US dollar transactions) that would contravene US sanctions. We do not consider that our business activities with counterparties with whom transactions are restricted or prohibited under US sanctions are material to our business, and such activities represented a very small part of the Group's total assets at 31 December 2015 and total revenues for the year ended 31 December 2015.

**Other**

HSBC Bank USA entered into a Consent Cease and Desist Order with the OCC, and HNAH entered into a Consent Cease and Desist Order with the FRB in October 2010. These Orders require improvement of our compliance risk management programme, including AML controls across our US businesses. Steps continue to be taken to address the requirements of these Orders and to ensure that compliance and effective policies and procedures are maintained.

**Disclosures pursuant to Section 13(r) of the Securities Exchange Act**

Section 13(r) of the Securities Exchange Act requires each issuer registered with the SEC to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions with persons or entities targeted by US sanctions programmes relating to Iran, terrorism, or the proliferation of weapons of mass destruction, even if those activities are not prohibited by US law and are conducted outside the US by non-US affiliates in compliance with local laws and regulations.

To comply with this requirement, HSBC Holdings plc (together with its affiliates, HSBC ) has requested relevant information from its affiliates globally. The following activities conducted by HSBC are disclosed in response to Section 13(r).

**Loans in repayment**

Between 2001 and 2005, the Project and Export Finance division of HSBC arranged or participated in a portfolio of loans to Iranian energy companies and banks. All of these loans were guaranteed by European and Asian export credit agencies and have varied maturity dates with final maturity in 2018. For those loans that remain outstanding, we continue to seek repayment in accordance with our obligations to the supporting export credit agencies. Details of these loans follow.

At 31 December 2015, we had 10 loans outstanding to an Iranian petrochemical company. These loans were supported by the official export credit agencies of the following countries: the UK, France, Germany, Spain, South Korea and Japan. We continue to seek repayments from the Iranian company under the outstanding loans in accordance with their original maturity profiles. Two repayments have been made under each of the ten loans in 2015.

Bank Melli acted as a sub-participant in two of the aforementioned loans to the Iranian petrochemical company. One repayment was made into a frozen account during the first quarter of 2015, and no further payments were made in 2015. One of the loans to the Iranian petrochemical company, supported by the Spanish Export Credit Agency, was fully repaid in 2015. Bank Saderat acted as a sub-participant on the loan and the final repayment due to the bank was paid into a frozen account.

We held a sub-participation in a loan provided by another international bank to Bank Tejarat with a guarantee from the Government of Iran, supported by the Italian Export Credit Agency. The facility matured in 2014 and the final claim for non-payment was paid by the Italian Export Credit Agency in the first quarter of 2015.

Estimated gross revenue to HSBC generated by the loans in repayment for 2015, which includes interest and fees, was approximately \$702,000 and net estimated profit was approximately \$545,000. While we intend to continue to seek repayment under the existing loans, all of which were

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**Report of the Directors: Financial Review** (continued)

entered into before the petrochemical sector of Iran became a target of US sanctions, we do not currently intend to extend any new loans.

**Legacy contractual obligations related to guarantees**

Between 1996 and 2007, we provided guarantees to a number of its non-Iranian customers in Europe and the Middle East for various business activities in Iran. In a number of cases, we issued counter indemnities in support of guarantees issued by Iranian banks as the Iranian beneficiaries of the guarantees required that they be backed directly by Iranian banks. The Iranian banks to which we provided counter indemnities included Bank Tejarat, Bank Melli, and the Bank of Industry and Mine.

We have worked with relevant regulatory authorities to obtain licences where required and ensure compliance with laws and regulations.

There was no measurable gross revenue in 2015 under those guarantees and counter indemnities. We do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure. We are seeking to cancel all relevant guarantees and counter indemnities and do not currently intend to provide any new guarantees or counter indemnities involving Iran. Two were cancelled in 2015 and approximately 20 remain outstanding.

**Other relationships with Iranian banks**

Activity related to US-sanctioned Iranian banks not covered elsewhere in this disclosure includes the following:

We maintain several frozen accounts in the UK for an Iranian-owned, UK-regulated financial institution. In April 2007, the UK government issued a licence authorising us to handle certain transactions (operational payments and settlement of pre-sanction transactions) for this institution. In December 2013, the UK government issued a new licence allowing HSBC to deposit certain cheque payments. There was some licensed activity in 2015. Estimated counter revenue in 2015 for this financial institution, which includes fees and/or commissions, was approximately \$56,900. This customer relationship has generated negative revenue, given the European Central Bank's negative interest rate. In the second quarter of 2015, the UK government issued a licence to HSBC to collect the negative interest rate from this institution, and we commenced the collection of the negative interest rate in the fourth quarter of 2015.



We acted as the trustee and administrator for a pension scheme involving two employees of a US-sanctioned Iranian bank in Hong Kong. Under the rules of this scheme, we accepted contributions from the Iranian bank each month and allocated the funds into the pension accounts of the Iranian bank's employees. We ran and operated this pension scheme in accordance with Hong Kong laws and regulations. Estimated gross revenue, which includes fees and/or commissions, generated by the pension scheme in 2015 was approximately \$3,100.

For the Iranian bank related-activity discussed in this section, we do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure. We currently intend to continue to wind down this activity, to the extent legally permissible, and not enter into any new such activity.

#### **Activity related to US Executive Order 13224**

We maintain a frozen personal account for an individual customer who was sanctioned under US Executive Order 13224, and by the UK and the UN Security Council. Activity in 2015 was permitted by a licence issued by the UK Government. We are in the process of exiting the customer relationship.

We maintained an account for an individual customer that was sanctioned under US Executive Order 13224 in the second quarter of 2015. We settled the outstanding credit balance due from the customer and closed the account in the second quarter of 2015.

We maintain an account for an individual customer sanctioned under US Executive Order 13224 in 2015. The account was frozen in the third quarter of 2015.

For activity related to US Executive Order 13224, there was no measurable gross revenue or net profit generated to HSBC in 2015.

#### **Activity related to US Executive Order 13382**

In the second quarter of 2015, we maintained non-US currency accounts for an individual customer sanctioned under Executive Order 13382. We exited the customer relationship in the second quarter of 2015. There was no measurable gross revenue or net profit to HSBC in 2015.

#### **Other activity**

We held a lease of branch premises in London which we entered into in 2005 and was due to expire in 2020. The landlord of the premises is owned by the Iranian government and is a specially designated national under US Sanctions programmes. We have exercised a break clause in the lease and have exited the property. We closed the branch in the third quarter of 2014 and terminated the relationship with the lessor in 2015.

We maintained an account for a corporate customer in Armenia for whom we received funds from an account at Bank Mellat CJSC Armenia for the sale of computer equipment during the first quarter of 2015.

We maintained an account for a corporate customer in Oman during the first quarter of 2015 for whom we processed a cheque payment drawn on an account at Bank Melli in Oman for the sale of carpet-related products and services.

We maintain an account for a corporate customer in France that made a payment to the Iranian Civil Aviation Authority to settle flight-related expenses during the second quarter of 2015. This activity was permitted by a licence issued by France.

We maintain an account for a corporate customer in the UAE for whom we processed a cheque payment from a hospital owned by the Government of Iran for the purchase of medical equipment in the first quarter of 2015.

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**Report of the Directors: Financial Review** (continued)

We maintain a corporate customer in the UK for whom we received a cheque payment in the second quarter of 2015 from Bank Saderat in London, UK for health and safety services.

For the activity in this section, there was no measurable gross revenue or net profit to HSBC in 2015.

**Frozen accounts and transactions**

We maintain several accounts that are frozen under relevant sanctions programmes and on which no activity, except as licensed or otherwise authorised, took place during 2015. In 2015, we also froze payments where required under relevant sanctions programmes. There was no gross revenue or net profit to HSBC in 2015 relating to these frozen accounts.

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1 *Appendix to Risk* risk policies and practices.

*For details of HSBC's policies and practices regarding risk management and governance see the Appendix to Risk on page 193.*

## **Managing risk**

All of our activities involve, to varying degrees, the measurement, evaluation and management of risk or combinations of risks.

## **Our conservative risk profile**

We maintain a conservative risk profile which encompasses the following:

### **Financial position**

Strong capital position, defined by regulatory and internal capital ratios.

Liquidity and funding management for each operating entity, on a stand-alone basis.

### **Operating model**

Returns generated in line with risk taken.

Sustainable and diversified earnings mix, delivering consistent returns for shareholders.

### **Business practice**

Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.

No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.

No appetite for inappropriate market conduct by a member of staff or by any Group business.

### **Risk management framework**

Managing risk effectively is fundamental to the delivery of our strategic priorities. In doing so, we employ a risk management framework at all levels of the organisation and across all risk types. It fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. It also ensures that we have a

consistent approach to risk management across the Group.

Our enterprise risk management framework is underpinned by our risk culture and is reinforced by the HSBC Values and our Global Standards. These are instrumental in aligning the behaviours of individuals with the Group's attitude to assuming and managing risk and helping to ensure that our risk profile remains in line with our risk appetite.

Our enterprise risk management framework is set out overleaf.

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### **Report of the Directors: Risk (continued)**

#### **Managing risk**

#### **Governance and structure**

##### **Corporate and risk governance**

Robust risk governance and accountability are embedded throughout the Group through an established framework that ensures appropriate oversight of and accountability for the effective management of risk.

The Board has ultimate responsibility for the effective management of risk and approves HSBC's risk appetite. The Board is advised on risk-related matters by the following committees:

The Group Risk Committee advises the Board on risk appetite and its alignment with strategy, risk governance and internal controls, and high-level risk related matters.

The Financial System Vulnerabilities Committee reports to the Board on matters relating to financial crime and financial system abuse and provides a forward-looking perspective on financial crime risk.

The Conduct & Values Committee oversees the design and application of HSBC's policies, procedures and standards to ensure that we conduct business responsibly and consistently adhere to HSBC Values, and advises the Board accordingly.

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of our risk management policies resides with the RMM, the Risk Management Meeting of the Group Management Board (GMB). Day-to-day risk management activities are the responsibility of senior managers of individual businesses, supported by global functions as described under 'Three lines of defence' below.

The consistency of governance structures across HSBC is enforced through risk management committees, as set out in our enterprise risk management framework, and adherence to consistent standards and risk management policies.

The executive and non-executive risk governance structures and their interactions are set out on page 193, with similar arrangements in place for major operating subsidiaries.

*The report of the Group Risk Committee is on page 266, of the Financial System Vulnerabilities Committee is on page 268, and of the Conduct & Values Committee is on page 272.*

## Risk appetite

The Group's Risk Appetite Statement ( RAS ) is the written articulation of the aggregated level and types of risk that we are willing to accept in our business activities in order

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to achieve our medium to long-term business objectives. It is a key component of our management of risk and is reviewed on an ongoing basis, with formal approval from the Board every six months on the recommendation of the Group Risk Committee.

The Group's actual risk appetite profile is reported to the RMM on a monthly basis to enable senior management to monitor the risk profile and guide business activity in order to balance risk and return, allowing risks to be promptly identified and mitigated, and inform risk-adjusted remuneration to drive a strong risk culture across the Group.

The RAS is established and monitored as part of the Global Risk Appetite Framework, which provides a globally consistent and structured approach to the management, measurement and control of risk by detailing the processes, governance and other features of how risk appetite is cascaded to drive day-to-day decision-making through policies, limits and the control framework.

Risk appetite informs the strategic and financial planning process, defining the desired forward-looking risk profile of the Group. It is also embedded in other enterprise risk tools such as top and emerging risks and stress testing, to ensure consistency in risk management.

Global businesses, geographical regions and strategic countries are required to have their own RASs, which are subject to assurance to ensure they remain directionally aligned to the Group's. All RASs and business activities are guided and underpinned by a set of qualitative principles, outlined in the Appendix to Risk on page 194. Additionally, quantitative metrics are defined along with appetite and tolerance thresholds for 10 risk areas.

### **Enterprise-wide risk management tools**

The following processes to identify, manage and mitigate risks are integral to risk management at HSBC, helping to ensure that we remain within our risk appetite.

#### **Risk map**

The risk map process provides a point-in-time view of the risk profile of the Group across a suite of risk categories including our material banking risks and insurance risks (see page 105). It assesses the potential for these risks to materially affect our financial results, reputation or business sustainability on current and projected bases.

The risk categories presented on the risk map are regularly assessed through our risk appetite profile, are stress tested and, where thematic issues arise, are considered for classification as top or emerging risks.

## Top and emerging risks

Identifying, managing and monitoring risks are integral to our approach to risk management. Our top and emerging risks process provides a forward-looking view of those risks which have the potential to threaten the execution of our strategy and our global operations. Top and emerging risks are generally described thematically, and may have an impact across multiple risk map categories, global businesses or regions.

We define a **top risk** as a thematic issue arising across any combination of risk map categories, regions or global businesses which has the potential to have a material effect on the Group's financial results, reputation or long-term business model, and which may form and crystallise between six months and one year. The risk impact may be well understood by senior management, with some mitigating actions already in place. Stress tests of varying granularity may also have been carried out to assess the effect.

An **emerging risk** is defined as a thematic issue that has large unknown components which may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a significant material effect on a combination of the Group's long-term strategy, profitability and reputation. Existing management action plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the impact.

Our top and emerging risk framework enables us to identify and manage current and forward-looking risks to ensure our risk appetite remains appropriate. The ongoing assessment of our top and emerging risks is informed by a comprehensive suite of risk factors (see page 108) and the results of our stress testing programme. When our top and emerging risks result in our risk appetite being exceeded, or have the potential to exceed, we take steps to mitigate them, including reducing our exposure to areas of stress.

*Our current top and emerging risks are discussed on page 110.*

## Stress testing

Our stress testing and scenario analysis programme examines the sensitivities of our capital plans and unplanned demand for regulatory capital under a number of scenarios and ensures that top and emerging risks are appropriately considered. These scenarios include, but are not limited to, adverse macroeconomic events, failures at country, sector and counterparty levels, geopolitical occurrences and a variety of projected major operational risk events.

At Board level, the Group Chief Risk Officer and the Group Finance Director are the two executive Directors jointly accountable for oversight of stress testing in HSBC. The Stress Testing Management Board, which is chaired by the Group Finance Director, is responsible for stress testing strategy and stewardship. Updates on stress testing are provided regularly to the RMM. The Group Risk Committee is informed and consulted on the bank's stress testing activities, as appropriate, and approves the key elements of the Bank of England concurrent stress test, including final results.

The development of macroeconomic scenarios is a critical part of the process. Potential scenarios are defined and generated by a panel of economic experts from various global teams, including Risk and Finance. Scenarios are translated into financial impacts, such as on our forecast profitability and RWAs, using a suite of stress testing models and methodologies. Models are subject to independent model review and go through a process of validation and approval. Model overlays may be considered where necessary.



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### **Report of the Directors: Risk (continued)**

#### **Managing risk**

Stress testing results are subject to a review and challenge process at regional, global business and Group levels and action plans are developed to mitigate identified risks. The extent to which these action plans would be implemented in the event of particular scenarios occurring depends on senior management's evaluation of the risks and their potential consequences, taking into account HSBC's risk appetite.

In addition to the Group-wide risk scenarios, each major HSBC subsidiary conducts regular macroeconomic and event-driven scenario analyses specific to their region. They also participate in local regulatory stress testing programmes, where required.

Stress testing is applied to risks such as operational risk, including market risk, liquidity and funding risk, credit risk and conduct to evaluate the potential effects of stress scenarios on portfolio values, structural long-term funding positions, income or capital.

Reverse stress testing is run annually on both Group and, where required, subsidiary entity bases. This stress test is conducted by assuming the business model is non-viable and works backwards to identify a range of occurrences that could bring that event about. Non-viability might occur before the bank's capital is depleted, and could result from a variety of events, including idiosyncratic or systemic events or combinations thereof. It could imply failure of the Group's holding company or one of its major subsidiaries. Reverse stress testing is used to strengthen our resilience by identifying potential stresses and vulnerabilities which the Group might face and helping to inform early-warning triggers, management actions and contingency plans designed to mitigate their effect, were they to occur.

HSBC participated in regulatory stress testing programmes in a number of jurisdictions during 2015, as outlined on page 116. In addition, we have conducted an internal stress test, incorporating the latest portfolio developments and business plan. For this exercise management considers that the Bank of England 2015 scenario reflects key risks which merit examination at this time. The results of this exercise are used for internal risk and capital management processes, including the Internal Capital Adequacy Assessment Process ( ICAAP ).

#### **Responsibilities**

##### **Three lines of defence**

We use the three lines of defence model to underpin our approach to strong risk management. It defines responsibilities for: identifying, assessing, measuring, managing, monitoring and mitigating risks; encouraging collaboration; and enabling efficient coordination of risk and control activities.

*For details of the three lines of defence model, see page 177.*

## People

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities and, as such, they are critical to the effectiveness of the three lines of defence.

Clear and consistent employee communication on risk conveys strategic messages and sets the tone from senior leadership. We deploy a suite of mandatory training on critical risk and compliance topics to embed skills and understanding and strengthen the risk culture within HSBC. It reinforces the attitude to risk in the behaviour expected of employees, as described in our risk policies. The training is updated regularly, describing technical aspects of the various risks assumed by the Group and how they should be managed effectively. A confidential disclosure line enables staff to raise concerns (see page 179).

Our risk culture is reinforced by our approach to remuneration. Individual awards, including those for executives, are based on compliance with HSBC Values and the achievement of financial and non-financial objectives which are aligned to our risk appetite and global strategy.

*For further information on risk and remuneration, see the Report of the Group Remuneration Committee on page 270.*

## Independent Risk function

Global Risk, headed by the Group Chief Risk Officer, is responsible for the enterprise risk management framework. This includes establishing global policy, monitoring risk profiles and forward-looking risk identification and management. Global Risk also has functional responsibility for risk management in support of HSBC's global businesses and regions through its Risk sub-functions, which are independent from the sales and trading functions of the Group's businesses. This independence ensures the necessary balance in risk/return decisions.

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**Processes**

**Banking and insurance risks**

The material risk types associated with our banking and insurance manufacturing operations are described in the tables below.

*Description of risks banking operations*

Risks	Arising from	Measurement, monitoring and management of risk
<p><b>Credit risk</b> (page 118)</p>		
<p><i>The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.</i></p>	<p>Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.</p>	<p>Credit risk is:</p> <p><b>measured</b> as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of derivatives, the measurement of exposure takes into account the current mark-to-market value to HSBC of the contract and the expected potential change in that value over time caused by movements in market rates;</p> <p><b>monitored</b> within limits approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which HSBC could be subjected should the customer or counterparty fail to perform its contractual obligations; and</p>



**managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

**Liquidity and funding risk** (page 154)

*The risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at excessive cost.*

Liquidity risk arises from mismatches in the timing of cash flows.

Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk is:

**measured** using internal metrics including stressed operational cash flow projections, coverage ratios and advances to core funding ratios;

**monitored** against the Group's liquidity and funding risk framework and overseen by regional Asset and Liability Management Committees (ALCOs), Group ALCO and the RMM; and

**managed** on a stand-alone basis with no reliance on any Group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.

**Market risk** (page 166)

*The risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.*

Exposure to market risk is separated into two portfolios:

trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.

non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale and held to

Market risk is:

**measured** in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables;

**monitored** using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange which are applied to the market risk positions within each risk type; and

**managed** using risk limits approved by the GMB for HSBC Holdings and our various global businesses. These units are allocated across business lines and to the Group's legal entities.

maturity, and  
exposures arising from  
our insurance  
operations (page 180).

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**Report of the Directors: Risk (continued)**

**Managing risk**

Risks	Arising from	Measurement, monitoring and management of risk
<p><b>Operational risk</b> (page 176)</p>		
<p><i>The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.</i></p>	<p>Operational risk arises from day to day operations or external events, and is relevant to every aspect of our business.</p> <p>Compliance risk and Fiduciary risk are discussed below. Other operational risks are covered in the Appendix to Risk (page 217).</p>	<p>Operational risk is:</p> <p><b>measured</b> using both the top risk analysis process and the risk and control assessment process, which assess the level of risk and effectiveness of controls;</p> <p><b>monitored</b> using key indicators and other internal control activities; and</p> <p><b>managed</b> primarily by global business and functional managers. They identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls utilising the operational risk management framework. Global Operational Risk is responsible for the framework and for overseeing the management of operational risks within global businesses and global functions.</p>
<p><b>Compliance risk</b> (page 178)</p>		
<p><i>The risk that we fail to observe the letter and spirit</i></p>	<p>Compliance risk is part of operational risk, and</p>	<p>Compliance risk is:</p>

*of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.*

arises from rules, regulations, other standards and Group policies, including those relating to anti-money laundering, anti-bribery and corruption, counter-terrorist and proliferation financing, sanctions compliance and conduct of business.

The US DPA is discussed on page 113 and the Monitor on page 116.

**measured** by reference to identified metrics, incident assessments (whether affecting HSBC or the wider industry), regulatory feedback and the judgement and assessment of compliance officers in our global businesses, regions and functions;

**monitored** against our compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, including the Financial Crime Compliance and Regulatory Compliance sub-functions, and the results of internal and external audits and regulatory inspections; and

**managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.

**Other material risks**

**Reputational risk** (page 189)

*The risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the Group. This may result in financial or non-financial impacts, loss of confidence, or other consequences.*

Primary reputational risks arise directly from an action or inaction by HSBC, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of another risk caused either by HSBC, its employees or associated third parties.

Reputational risk is:

**measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;

**monitored** through a reputational risk management framework that is integrated into the Group's broader risk taxonomy; and

**managed** by every member of staff and is covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating

reputational risk, including the Group Reputational Risk Policy Committee, the Global Risk Resolution Committee and reputational risk committees in the regions and global businesses.

**Fiduciary risk** (page 189)

*The risk of breaching our fiduciary duties, defined as any duty where HSBC holds, manages, oversees or has responsibilities for assets for a third party that involves a legal and/or regulatory duty to act with the highest standard of care and with utmost good faith.*

Fiduciary risk is part of operational risk, and arises from our business activities where we act in a fiduciary capacity ( designated businesses ) as Trustee, Investment Manager or as mandated by law or regulation.

Fiduciary risk is:

**measured** by each designated business monitoring against their own risk appetite statements and by the operational risk and control assessment process, which assesses the level of risk and the effectiveness of the key controls;

**monitored** through a combination of testing, key indicators and other metrics such as client and regulatory feedback; and

**managed** within the designated businesses via established governance frameworks, and comprehensive policies, procedures and training programmes.

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Risks	Arising from	Measurement, monitoring and management of risk
<p><b>Pension risk</b> (page 189)</p>		
<p><i>The risk that contributions from Group companies and members fail to generate sufficient funds to meet the cost of accruing benefits for the future service of active members, and the risk that the performance of assets held in pension funds is insufficient to cover existing pension liabilities.</i></p>	<p>Pension risk arises from investments delivering an inadequate return, economic conditions leading to corporate failures, adverse changes in interest rates or inflation, or members living longer than expected (longevity risk). Pension risk includes operational risks listed above.</p>	<p>Pension risk is:</p> <ul style="list-style-type: none"> <li><b>measured</b> in terms of the schemes ability to generate sufficient funds to meet the cost of their accrued benefits;</li> <li><b>monitored</b> through the specific risk appetite that has been developed at both Group and regional levels; and</li> <li><b>managed</b> locally through the appropriate pension risk governance structure and globally through the RMM.</li> </ul>
<p><b>Sustainability risk</b> (page 190)</p>		
<p><i>The risk that financial services provided to customers by the Group indirectly result in unacceptable impacts on people or on the environment.</i></p>	<p>Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the</p>	<p>Sustainability risk is:</p> <ul style="list-style-type: none"> <li><b>measured</b> by assessing the potential sustainability effect of a customer s activities and assigning a Sustainability Risk Rating to all high risk transactions;</li> </ul>

environment.

**monitored** quarterly by the RMM and monthly by Group Sustainability Risk; and

**managed** using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially high environmental or social impacts.

Our insurance manufacturing subsidiaries are separately regulated from our banking operations. Risks in the insurance entities are managed using methodologies and processes appropriate to insurance activities, but remain subject to oversight at Group level. Our insurance

operations are also subject to the operational risks and the other material risk types presented above in relation to the banking operations, and these are covered by the Group's risk management processes.

*Description of risks – insurance manufacturing operations*

Risks	Arising from	Measurement, monitoring and management of risk
<b>Financial risks</b> (page 183)		
<p><i>Our ability to effectively match the liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks such as market, credit and liquidity risks, and the extent to which these risks are borne by the policyholders.</i></p>	<p>Exposure to financial risks arises from:</p> <ul style="list-style-type: none"> <li>market risk of changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;</li> </ul>	<p>Financial risks are:</p> <ul style="list-style-type: none"> <li><b>measured</b> separately for each type of risk:                             <ul style="list-style-type: none"> <li>market risk is measured in terms of exposure to fluctuations in key financial variables;</li> <li>credit risk is measured as the amount which could be lost if a customer or counterparty fails to make repayments; and</li> </ul> </li> </ul>

*Liabilities to policyholders under unit-linked contracts move in line with the value of the underlying assets, and as such the policyholder bears the majority of the financial risks.*

credit risk and the potential for financial loss following the default of third parties in meeting their obligations; and

liquidity risk is measured using internal metrics including stressed operational cash flow projections.

**monitored** within limits approved by individuals within a framework of delegated authorities; and

*Contracts with DPF share the performance of the underlying assets between policyholders and the shareholder in line with the type of contract and the specific contract terms.*

liquidity risk of entities not being able to make payments to policyholders as they fall due as there are insufficient assets that can be realised as cash.

**managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers. Subsidiaries manufacturing products with guarantees are usually exposed to falls in market interest rates and equity prices to the extent that the market exposure cannot be managed by utilising any discretionary participation (or bonus) features within the policy contracts they issue.

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**Report of the Directors: Risk (continued)**

**Risks managed by HSBC**

Risks	Arising from	Measurement, monitoring and management of risk
<p><b>Insurance risk</b> (page 188)</p> <p><i>The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.</i></p>	<p>The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.</p>	<p>Insurance risk is:</p> <p><b>measured</b> in terms of life insurance liabilities;</p> <p><b>monitored</b> by the RBWM Risk Management Committee, which checks the risk profile of the insurance operations against a risk appetite for insurance business agreed by the GMB; and</p> <p><b>managed</b> both centrally and locally using product design, underwriting, reinsurance and claims-handling procedures.</p>

**Risks incurred in our business activities**

The chart below provides a high level guide to how our business activities are reflected in our risk measures and in the Group's balance sheet. The third-party assets and

liabilities indicate the contribution each business makes to the balance sheet, while RWAs illustrate the relative size of the risks incurred in respect of each business.

*Exposure to risks arising from the business activities of global businesses*

*For footnote, see page 191.*

**Risk factors**

We have identified a comprehensive suite of risk factors which covers the broad range of risks our businesses are exposed to.

A number of the risk factors have the potential to affect the results of our operations or financial condition, but may not necessarily be deemed as top or emerging risks. However, they inform the ongoing assessment of our top and emerging risks. The risk factors are:

**Macroeconomic and geopolitical risk**

Current economic and market conditions may adversely affect our results.

We are subject to political and economic risks in the countries in which we operate, including the risk of government intervention.

We may suffer adverse effects as a result of the interaction between market perceptions surrounding mainland China's slowdown, the course of global monetary policies, economic conditions in the eurozone and damage from plummeting oil prices, all of which may result in further capital outflows from emerging markets.

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Changes in foreign currency exchange rates may affect our results.

Macro-prudential, regulatory and legal risks to our business model

Failure to implement and adhere to our obligations under the deferred prosecution agreements could have a material adverse effect on our results and operations.

We may fail to effectively manage affiliate risk.

Failure to comply with certain regulatory requirements could have a material adverse effect on our results and operations.

We may fail to meet the requirements of regulatory stress tests.

We are subject to a number of legal and regulatory actions and investigations, the outcomes of which are inherently difficult to predict.

We are subject to unfavourable legislative or regulatory developments and changes in the policy of regulators or governments.

We may fail to comply with all applicable regulations, particularly any changes thereto.

We and our UK subsidiaries may become subject to stabilisation provisions under the Banking Act 2009, as amended, in certain significant stress situations.

Structural separation of banking and trading activities proposed or enacted in a number of jurisdictions could have a material adverse effect on us.

We are subject to tax-related risks in the countries in which we operate.

**Risks related to our business, business operations, governance and internal control systems**

The delivery of our strategic actions is subject to execution risk.

We may not achieve any of the expected benefits of our strategic initiatives.

We may fail to increase the cross-selling and/or business synergies required to achieve our growth strategy.

We operate in markets that are highly competitive.

Our risk management measures may not be successful.  
Operational risks are inherent in our business.

Our operations are subject to the threat of fraudulent activity.

Our operations are subject to disruption from the external environment.

Our operations utilise third-party suppliers and service providers.

Our operations are highly dependent on our information technology systems.

We may not be able to meet regulatory requests for data.

Our operations have inherent reputational risk.

We may suffer losses due to employee misconduct.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel.

Our financial statements are based in part on judgements, estimates and assumptions which are subject to uncertainty.

We could incur losses or be required to hold additional capital as a result of model limitations or failure.

Third parties may use us as a conduit for illegal activities without our knowledge.

We have significant exposure to counterparty risk.

Market fluctuations may reduce our income or the value of our portfolios.

Liquidity, or ready access to funds, is essential to our businesses.

Any reduction in the credit rating assigned to HSBC Holdings, any subsidiaries of HSBC Holdings or any of their respective debt securities could increase the cost or decrease the availability of our funding and adversely affect our liquidity position and interest margin.

Risks concerning borrower credit quality are inherent in our businesses.

Our insurance businesses are subject to risks relating to insurance claim rates and changes in insurance customer behaviour.

HSBC Holdings is a holding company and, as a result, is dependent on loan payments and dividends from its subsidiaries to meet its obligations, including obligations with respect to its debt securities, and to provide profits for payment of future dividends to shareholders.

We may be required to make substantial contributions to our pension plans.

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**Report of the Directors: Financial Review** (continued)

**Risk factors**

**Macroeconomic and geopolitical risk**

Current economic and market conditions may adversely affect our results

Our earnings are affected by global and local economic and market conditions. Economic growth remained weak in 2015, with a number of headwinds adversely affecting both developed and emerging market countries. Oil and gas prices continued to fall sharply in 2015 and in early 2016 while the slowdown of the mainland Chinese economy dampened global trade and caused volatility in currency and global stock markets. Uncertainties remain concerning the outlook and the future economic environment and there can be no assurance that the global economy as a whole will improve significantly or at all.

The uncertain and at times volatile economic conditions continue to create a challenging operating environment for financial services companies such as HSBC. In particular, we may face the following challenges to our operations and operating model in connection with these factors:

the demand for borrowing from creditworthy customers may diminish if economic activity slows or remains subdued;

as capital flows are increasingly disrupted, some emerging markets have imposed protectionist measures that could affect financial institutions and their clients, and others may be tempted to follow suit;

European banks may come under renewed stress as subdued economic conditions raise asset quality worries, particularly in the EU, and uncertainties about the new EU bank resolution regime raise funding costs;

geopolitical risks, which remain elevated in many parts of the world, directly affect the economies of the countries in which we operate and present a clear risk of disruption to the global economy due to links to the global resources supply chain;

the prolonged period of low, or negative, interest rates constrains, for example, through margin compression and low returns on assets, the net interest income we earn from investing our excess deposits;

our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption, for example, in the event of contagion from stress in the eurozone sovereign and financial sectors; and

market developments may depress consumer and business confidence beyond expected levels. If economic growth remains subdued, for example, asset prices and payment patterns may be adversely affected, leading to greater than expected increases in our delinquencies, default rates, write-offs and loan impairment charges.

The occurrence of any of these events or circumstances could have a material adverse effect on our business prospects, financial condition, customers and results of operations.

We are subject to political and economic risks in the countries in which we operate, including the risk of government intervention

We operate through an international network of subsidiaries and affiliates in over 70 countries and territories around the world. Our results are, therefore, subject to the risks of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies. These may take the form of expropriation, restrictions on international ownership, interest-rate caps, limits on dividend flows and tax in the jurisdictions in which we operate.

In the Middle East, the intervention of Russia and the rise of the terrorist group, Daesh, has added to an already complex and divisive civil war in Syria and further destabilised Iraq. The lifting of sanctions following a deal between Iran and the five permanent members of the UN Security Council on the country's nuclear programme has done little to calm regional tensions. Conflict in Ukraine has continued, despite a ceasefire agreement being signed in early 2015.

European states are experiencing heightened political tension, reflecting concerns over migration, fears of terrorism and the possibility that the UK may vote to exit the EU following a referendum expected to occur within the lifetime of the current Parliament, and as early as mid-2016. An exit could have a significant impact on UK, European and global macroeconomic conditions, as well as substantial political ramifications.

In Asia, territorial disputes between Japan and mainland China and other states have strained diplomatic relations and are testing the resolve of the US to defend freedom of navigation.

Continued unfavourable political developments could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may suffer adverse effects as a result of the interaction between market perceptions surrounding mainland China's slowdown, the course of global monetary policies, economic conditions in the eurozone and damage from plummeting oil prices, all of which may result in further capital outflows from emerging markets

Market confidence in mainland Chinese growth and the adequacy of policymaking is waning, causing heightened volatility. The authorities have to find a difficult balance between socio-economic stability and the pursuit of financial system liberalisation. A scenario where the government includes a sharp devaluation in a package of measures to stimulate the economy could prompt large capital outflows and have a negative knock-on impact on the world economy.

With regard to the FRB's monetary policy, the prevailing market view is that a course of gradually tightening economic conditions will be pursued against the backdrop of subdued inflation. Should the FRB instead tighten monetary policy more quickly, the consequent realignment of market expectations would likely accelerate capital outflows from emerging markets. Alternatively, the FRB could be forced by poor economic performance into a policy reversal, which would increase market volatility.

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Oil prices have fallen precipitously since mid-2014 as a result of increasing uncertainty surrounding the mainland Chinese economy as well as the backdrop of an oversupplied oil market. Consequently, any recovery in oil prices may be gradual. This may complicate policymakers' tasks of raising inflation, and could potentially threaten the stability of some oil-exporting countries.

Economic conditions in the eurozone continue to be uncertain. Any default on the sovereign debt of Greece or any eurozone nation and the resulting impact on other eurozone countries could have a material adverse effect on us, including (a) significant market dislocation, (b) heightened counterparty risk and (c) an adverse effect on the management of market risk.

Moreover, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by eurozone nations that are under severe financial stress. Should any of those nations default on their debt or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in, among other things, significant disruptions in financial activities.

Any significant changes in UK government policies or political structure could have an impact on our business. Uncertainty over the forthcoming EU referendum, which must be held in the UK before 31 December 2017, could worsen global market conditions. The outcome of this referendum, or any other major UK political developments, could affect the fiscal, monetary and regulatory landscape to which we are subject.

Unfavourable market conditions and global monetary policies could have a material adverse effect on our business, prospects, financial condition and results of operations.

Changes in foreign currency exchange rates may affect our results

We prepare our accounts in US dollars because the US dollar and currencies linked to it form the major currency bloc in which we transact and fund our business. A substantial portion of our assets, liabilities, assets under management, revenues and expenses are denominated in other currencies. Changes in foreign exchange rates, including those which may result from a currency becoming de-pegged from the US dollar, have an effect on our reported income, cash flows and shareholders' equity and could have a material adverse effect on our business, prospects, financial condition and results of operations.

**Macro-prudential, regulatory and legal risks to our business model**

Failure to implement and adhere to our obligations under the deferred prosecution agreement could have a material adverse effect on our results and operations

An independent compliance monitor ( the Monitor ) was appointed in 2013 under the 2012 agreements entered into with the US DoJ and the UK FCA to produce annual

assessments of the effectiveness of our AML and sanctions compliance programme. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the US FRB. HSBC Bank USA is also subject to an agreement entered into with the OCC in December 2012, the Gramm-Leach-Bliley Act ( GLBA ) Agreement and other consent orders. In January 2016, the Monitor delivered his second annual follow-up review report as required by the US DPA. The Monitor's report is discussed on page 116 of the *Annual Report and Accounts 2015*.

The design and execution of AML and sanctions remediation plans are complex and require major investments in people, systems and other infrastructure. This complexity creates significant execution risk, which could affect our ability to effectively identify and manage financial crime risk and remedy AML and sanctions compliance deficiencies in a timely manner. This could, in turn, impact our ability to satisfy the Monitor or comply with the terms of the US DPA and related agreements and consent orders, and may require us to take additional remedial measures in the future.

Under the terms of the US DPA, upon notice and an opportunity to be heard, the DoJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences.

Breach of the US DPA or related agreements and consent orders could have a material adverse effect on our business, financial condition and results of operations, including loss of business and withdrawal of funding, restrictions on performing dollar-clearing functions through HSBC Bank USA or revocation of bank licences. Even if we are not determined to have breached these agreements, but the agreements are amended or their terms extended, our business, reputation and brand could suffer materially.

We may fail to effectively manage affiliate risk

HSBC Bank USA, as the primary US dollar correspondent bank for the Group, is subject to heightened financial crime risk arising from business conducted on behalf of clients as well as its non-US HSBC affiliates. If HSBC Bank USA fails to conduct adequate due diligence on clients, including its affiliates, or otherwise inappropriately processes US dollar payments on behalf of non-US HSBC affiliates, it could be in breach of applicable US AML and sanctions laws and regulations, become subject to legal or regulatory enforcement actions by OFAC or other US agencies and be required to pay substantial fines or penalties. In addition, any such breaches of US legislation would likely constitute a breach of the US DPA, leading to the potential consequences

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described under Failure to implement and adhere to our obligations under the deferred prosecution agreement could have a material adverse effect on our results and operations. In particular, any such breaches could result in legal judgements that may compel HSBC to restructure its operations or cease to offer certain products or services, which could potentially include a suspension or restriction of HSBC Bank USA's ability to process US dollar payment transactions, all of which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with certain regulatory requirements would have a material adverse effect on our results and operations

As reflected in the agreement entered into with the OCC in December 2012 (the GLBA Agreement), the OCC has determined that HSBC Bank USA is not in compliance with the requirements that a national bank, and each depository institution affiliate of the national bank, must be both well capitalised and well managed in order to own or control a financial subsidiary. As a result, HSBC Bank USA and its parent holding companies, including HSBC Holdings, do not meet the qualification requirements for financial holding company status. If all of our affiliate depository institutions are not in compliance with these requirements within the time periods specified in the GLBA Agreement, as they may be extended, HSBC could be required either to divest HSBC Bank USA or to divest or terminate any financial activities conducted in reliance on financial holding company status under the GLBA. Similar consequences could result for financial subsidiaries of HSBC Bank USA that engage in activities in reliance on expanded powers provided for in the GLBA. Any such divestiture or termination of activities would have a material adverse effect on our business, prospects, financial condition and results of operation.

We may fail to meet the requirements of regulatory stress tests

We are subject to regulatory stress testing in many jurisdictions. These exercises are designed to assess the resilience of banks to adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on our data provision, stress testing capability and internal management processes and controls.

During 2015, we participated in the regulatory stress test programmes of the PRA, the FRB and the OCC among others, which are described on page 116 of the *Annual Report and Accounts 2015*.

Failure to meet quantitative or qualitative requirements of regulatory stress test programmes, or the failure by regulators to approve our stress results and capital plans, could have a material adverse effect on our prospects, financial condition and results of operations.

We are subject to a number of legal and regulatory actions and investigations, the outcomes of which are inherently difficult to predict

We face significant legal and regulatory risks in our business. The volume and amount of damages claimed in litigation, regulatory proceedings and other adversarial proceedings against financial institutions are increasing for many reasons, including a substantial increase in the number of regulatory changes taking place globally, increased media attention and higher expectations from regulators and the public. In addition, criminal prosecutions of financial institutions for, among other things, alleged conduct, breaches of AML and sanctions regulations, antitrust violations, market manipulation, aiding and abetting tax evasion and providing unlicensed cross-border banking services, have become more commonplace and may increase in frequency due to increased media attention and higher expectations from prosecutors and the public. Any such prosecution of HSBC or one or more of its subsidiaries could result in substantial fines, penalties and/or forfeitures and could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation, including the potential loss of key licences, requirement to exit certain businesses and withdrawal of funding from depositors and other stakeholders.

Additionally, we continue to be subject to a number of material legal proceedings, regulatory actions and investigations (including criminal) as described in Note 40 on the Financial Statements. It is inherently difficult to predict the outcome of many of the legal, regulatory and other adversarial proceedings involving our businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. Moreover, we may face additional legal proceedings, investigations or regulatory actions in the future, including in other jurisdictions and/or with respect to matters similar to, or broader than, the existing legal proceedings, investigations or regulatory actions. An unfavourable result in one or more of these proceedings could have a material adverse effect on our business, prospects, financial condition, reputation and/or results of operations.

We are subject to unfavourable legislative or regulatory developments and changes in the policy of regulators or governments

Our businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the US, Hong Kong, the EU and the other markets in which we operate. This is particularly so in the current environment, where we expect government and regulatory intervention in the banking sector to continue to remain high for the foreseeable future. Additionally, many of these changes increasingly have an effect beyond the country in which they are enacted as regulators either deliberately enact

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regulation with extra-territorial impact or our operations mean that the Group is obliged to give effect to local laws and regulations on a wider basis.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry to improve financial stability, and the ways in which business is conducted. Measures include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes, changes in compensation practices and adjustments to how business is conducted. The US Government, the UK Government, our regulators in the UK, US, Hong Kong, the EU or elsewhere may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect us.

HSBC has been classified by the Financial Stability Board (FSB) as a global systemically important bank (G-SIB) and therefore is subject to what the FSB refers to as a multi-pronged and integrated set of policies. These include proposals that would place additional capital and total loss absorbing capacity (TLAC) requirements on the Group and require enhanced reporting. In December 2015, the PRA reconfirmed that HSBC is a designated global systemically important institution (G-SII), the EU equivalent of G-SIB, subject to a 2.5% CET1 buffer requirement from 2019. The FRB's rules implementing the G-SIB surcharge in the US would only apply to US G-SIBs and would not impose additional capital requirements on HNAH. For further details on the FRB's TLAC proposal in the US, see page 100f.

Separately, the Bank Recovery Resolution Directive (BRRD) introduces requirements for European banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that is, liabilities that may be bailed in using the bail-in tool), known as the minimum requirements for eligible liabilities (MREL). The TLAC proposals from the FSB address many of the same issues. The PRA is consulting on the application of MREL regulations as required by the EU, whilst at the same time considering their compatibility with the TLAC proposals. The extent to which the detail of the implementation may create issues remains uncertain.

More stringent regulatory requirements, including enhanced capital, liquidity and funding requirements and those governing the development of parameters applied in, and controls around, models used for measuring risk can give rise to changes that may adversely affect our business, including increases in capital requirements.

There may be changes in laws, rules or regulations, or in their interpretation or enforcement, or in how new laws, rules or regulations are implemented. Further, there may be uncertainty and lack of international regulatory coordination as enhanced supervisory standards are developed and implemented. These developments are expected to continue to change the way in which we are regulated and supervised and could affect the manner in which we conduct our business activities, capital requirements, risk management or how the Group is structured; which could

have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

We may fail to comply with all applicable regulations, particularly any changes thereto.

Authorities in many jurisdictions have the power to bring administrative or judicial proceedings against us which could result in, among other things, the suspension or revocation of our licences, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action.

Areas where changes could have an adverse effect on our business, prospects, financial condition or results of operations include, but are not limited to:

general changes in government, central bank or regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which we operate;

the structural separation of banking and trading activities proposed or enacted in a number of jurisdictions (see above);

requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities, which may have different effects in different countries;

the implementation of extra-territorial laws, including initiatives to share tax information such as the Common Reporting Standard introduced by the OECD;

the implementation of CRD IV, notably the UK application of the capital buffer framework and its interaction with Pillar 2 and the PRA buffer;

the implementation of the BRRD's minimum requirements for eligible liabilities, MREL, by the Bank of England and its interaction with TLAC requirements for G-SIBs in other jurisdictions;

the international developments on non-modelled, standardised requirements for credit and operational risk, and the use of capital floors;

the implementation, particularly in the US and Hong Kong, of TLAC requirements established by the FSB which require G-SIBs to hold minimum levels of capital and TLAC at the level of each resolution entity and material subgroup. Under the FSB Standard, G-SIBs are required to meet the TLAC requirement alongside the minimum regulatory capital requirements set out in the Basel III framework. Specifically, they will be required to meet a minimum TLAC requirement of at least 16% of the resolution group's risk-weighted assets (TLAC RWA minimum) from 1 January 2019 and at least 18% from 1 January 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator from 1 January 2019 and at least 6.75% from 1 January 2022;

the increasing focus by regulators on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and

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orderly/transparent markets, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets;

restrictions on the structure of remuneration and increasing requirements to detail management accountability within the Group (e.g. the requirements of the Senior Managers and Certification Regime in the UK);

the continued focus in the UK on matters relating to institutional culture, employee conduct and obligations more generally such as whistleblowing;

the implementation of any measures as a result of regulators' increased focus on conduct matters, including measures resulting from ongoing thematic work into the workings of the retail, SME and wholesale banking sectors and the provision of financial advice to consumers;

external bodies applying or interpreting standards or laws differently to us;

further requirements relating to financial reporting, corporate governance and employee compensation; and

expropriation, nationalisation, confiscation of assets and changes in legislation or regulations relating to foreign ownership.

We and our UK subsidiaries may become subject to stabilisation provisions under the Banking Act 2009, as amended, in certain significant stress situations

The Banking Act 2009, as amended (the Banking Act) implements Directive 2014/59/EU establishing the framework for the recovery and resolution of credit institutions and investment firms (the BRRD) in the UK and creates a special resolution regime (the SRR). Under the SRR, the HM Treasury, the Bank of England and the PRA and FCA (together, the Authorities) are granted substantial powers to resolve and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part 4A of the FSMA that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 55B of the FSMA) where it is in the public interest to do so. The SRR presently consists of five stabilisation options: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a bridge



bank wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write down and conversion of the relevant entity's equity, capital

instruments and liabilities; and (v) temporary public ownership of the relevant entity. These tools may also be applied to a parent company or affiliate of a relevant entity where certain conditions are met. The SRR provides for modified insolvency and administration procedures for relevant entities too. It also confers ancillary powers on the Authorities, including the power to modify or override certain contractual arrangements in certain circumstances. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

There is considerable uncertainty about how the Authorities may exercise the powers granted to them under the Banking Act. However, if we are at or approaching the point of non-viability such as to require regulatory intervention, any exercise of any resolution regime powers by the Authorities may result in holders of our ordinary shares losing all or a part of their shareholdings and/or in the rights of holders of our ordinary shares being adversely affected, including by the dilution of their percentage ownership of our share capital, and/or could have a material adverse effect on the market price of our ordinary shares and/or holders of other instruments being adversely affected.

Structural separation of banking and trading activities proposed or enacted in a number of jurisdictions could have a material adverse effect on us

In December 2013, the UK Financial Services (Banking Reform) Act 2013 received Royal Assent. It implements the recommendations of the Independent Commission on Banking which, among other things, establish a framework for ring-fencing UK retail banking in separately incorporated banking entities ( ring-fenced banks ) from trading activities. Secondary legislation has also been finalised. The PRA has finalised the first phase of the rules on UK ring-fenced banks, covering legal structures, governance and operations. The PRA has also published a consultation on the second phase of ring-fencing rules in relation to prudential requirements, intra-group arrangements and use of financial market infrastructure. Finalised rules are expected to be published in the second half of 2016, with the implementation of ring-fencing in 2019.

The proposed separation of retail and SME banking in the UK would be a material change to the structure of HSBC Bank plc. Considerable uncertainty remains over the likely cost of implementing structural separation at this time, although we expect it to be material.

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In January 2014, the European Commission published legislative proposals on the structural reform of the European banking sector which would prohibit proprietary trading in financial instruments and commodities, and enable supervisors to require trading activities such as market-making, complex derivatives and securitisation operations to be undertaken in a separate subsidiary from deposit taking activities. The proposals are currently subject to discussion in the European Parliament and the Council. The implementation date for any separation under the final rules would depend upon the date on which the final legislation is agreed.

We are subject to tax-related risks in the countries in which we operate

HSBC is subject to the substance and interpretation of tax laws in all countries in which we operate and is subject to routine review and audit by tax authorities in relation thereto. We provide for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters. Changes to tax law, tax rates and penalties for failure to comply could have a material adverse effect on our business, prospects, financial condition and results of operations.

**Risks related to our business, business operations, governance and internal control systems**

The delivery of our strategic actions is subject to execution risk

At our Investor Update in June 2015, HSBC set out 10 strategic actions to be completed by 2017. Nine of these are business-led initiatives, while one is expected to be completed by the Board of Directors. The work required to execute these actions is substantial. Alongside the strategic actions, we continue to implement a number of externally driven regulatory programmes. The magnitude and complexity of the projects required to meet these demands has resulted in heightened execution risk. The cumulative impact of the collective change initiatives underway within the Group is significant and has direct implications on resourcing and our people. A failure to successfully complete our ten strategic actions or other regulatory programmes could have a significant impact on financial condition, profitability, prospects and share price, as well as wider reputational and regulatory implications.

There also remains heightened risk around the execution of a number of disposals across the Group in line with our strategy. The potential risks of disposals include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation. They can have both financial and reputational implications and could also adversely affect the successful delivery of our strategic priorities.

We may not achieve any of the expected benefits of our strategic initiatives

The Group's strategy (see pages 12 to 13), is built around two trends, the continued growth of international trade and capital flows, and wealth creation, particularly in faster-growing markets. We have analysed those trends, and have developed criteria to help us better deploy capital in response thereto. The development and implementation of our strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in various parts of the world. We may fail to correctly identify the trends we seek to exploit and the relevant factors in making decisions as to capital deployment and cost reduction.

Our ability to execute our strategy may also be limited by our operational capacity and the increasing complexity of the regulatory environment in which we operate. We continue to pursue our cost management initiatives, though they may not be as effective as expected and we may be unable to meet our cost saving targets. In addition, factors beyond our control, including but not limited to, the economic and market conditions and other challenges discussed in detail above, could limit our ability to achieve any of the expected benefits of these initiatives.

Failure to achieve any of the expected benefits of our strategic initiatives could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may fail to increase the cross-selling and/or business synergies required to achieve our growth strategy

Increasing the number of HSBC products held by our customers through cross-selling and driving business synergies across our global businesses is key to our ability to grow revenue and earnings, particularly in the current environment of slow economic growth and regulatory reform initiatives. In RBWM many of our competitors also focus on cross-selling, notably in retail banking and investment products and mortgage lending. A key opportunity to drive business synergies arises between CMB and GB&M, which is an area where many of our competitors also focus. In both instances, this may limit our ability to cross-sell additional products to our customers or may influence us to sell our products at lower prices, reducing our net interest income and revenue from our fee-based products. It could also affect our ability to retain existing customers. Failure to deliver cross-selling and/or business synergies required to achieve our growth strategy could have a material adverse effect on our business, prospects, financial condition and results of operations.

We operate in markets that are highly competitive

We compete with other financial institutions in a highly competitive industry that is undergoing significant changes as a result of financial regulatory reform and increased public scrutiny stemming from the financial crisis and continued challenging economic conditions.

We target internationally mobile clients who need sophisticated global solutions and generally compete on the basis of the quality of our customer service, the wide variety of products and services that we can offer our customers and the ability of those products and services to satisfy our customers' needs, the extensive distribution channels available for our customers, our innovation, and

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our reputation. Continued and increased competition in any one or all of these areas may negatively affect our market share and/or cause us to increase our capital investment in our businesses in order to remain competitive. Additionally, our products and services may not be accepted by our targeted clients.

In many markets, there is increased competitive pressure to provide products and services at current or lower prices. Consequently, our ability to reposition or reprice our products and services from time to time may be limited and could be influenced significantly by the actions of our competitors who may or may not charge similar fees for their products and services. Any changes in the types of products and services that we offer our customers and/or the pricing for those products and services could result in a loss of customers and market share.

Further, new entrants to the market or new technologies could require us to spend more to modify or adapt our products to attract and retain customers. We may not respond effectively to these competitive threats from existing and new competitors and may be forced to increase our investment in our business to modify or adapt our existing products and services or develop new products and services to respond to our customers' needs.

Any of these factors may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our risk management measures may not be successful

The management of risk is an integral part of all our activities. Risk constitutes our exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty including retail and wholesale credit risk, market risk, operational risk, non-traded market risk, insurance risk, concentration risk, liquidity and funding risk, litigation risk, reputational risk, strategic risk, pension obligation risk and regulatory risk. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a significant effect on our business prospects, financial condition and results of operations.

Operational risks are inherent in our business

We are exposed to many types of operational risk that are inherent in banking operations including fraudulent and other criminal activities (both internal and external),

breakdowns in processes or procedures and systems failure or non-availability. These risks apply equally when we rely on outside suppliers or vendors to provide services to us and our customers. These operational risks could have a

material adverse effect on our business, prospects, financial condition and results of operations.

Our operations are subject to the threat of fraudulent activity

Fraudsters may target any of our products, services and delivery channels including lending, internet banking, payments, bank accounts and cards. This may result in financial loss to the bank, an adverse customer experience, reputational damage and potential regulatory action depending on the circumstances of the event which could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations are subject to disruption from the external environment

HSBC operates in many geographical locations, which are subject to events that are outside our control. These events may be acts of God, such as natural disasters and epidemics, geopolitical risks, including acts of terrorism and social unrest, and infrastructure issues such as transport or power failure. These risk events may give rise to disruption to our services, result in physical damage and/or loss of life, which and could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations utilise third-party suppliers and service providers

HSBC relies on third parties to supply goods and services. Global regulators have increased their scrutiny of the use of third-party service providers by financial institutions, including with respect to how outsourcing decisions are made and how key relationships are managed. Risks arising from the use of third-parties may be less transparent and therefore more challenging to manage. The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and client expectations. This may lead to a range of effects, including regulatory censure, civil penalties, or damage both to shareholder value and to our reputation, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations are highly dependent on our information technology systems

The reliability and security of our information and technology infrastructure and our customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the HSBC brand. The proper functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are critical to our operations.

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Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to our ability to service our clients, could breach regulations under which we operate and could cause long-term damage to our business and brand that could have a material adverse effect on our business, prospects, financial condition and results of operations.

Cyber and information security incidents are routinely monitored for and investigated. In most instances these are not significant and are managed within normal operating processes.

However, HSBC remains susceptible to a wide range of cyber risks that impact and/or are facilitated by technology. The threat from cyber attacks is a concern for our organisation and failure to protect our operations from internet crime or cyber attacks may result in financial loss and/or loss of customer data or other sensitive information which could undermine our reputation and our ability to attract and keep customers.

For example, in 2015 a case was detected in which a former HSBC employee exposed online details of 86,000 US consumer mortgage customers, and pay details for 2,000 current and former HSBC employees. The regulators were notified, and customers contacted and offered credit protection services.

Moreover, during 2015, we were subjected to 23 denial of service attacks on our external facing websites across the Group. A denial of service attack is the attempt to intentionally disrupt, paralyse and potentially extract data from a computer network by flooding it with data sent simultaneously from many individual computers.

Although the cyber-attacks in 2015 had a negligible effect on our customers, services or firm, future cyber attacks could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

We may not be able to meet regulatory requests for data

The volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands. Financial institutions that fail to comply with the principles for effective risk data aggregation and risk reporting as set out by the Basel Committee by the required deadline may face supervisory measures. Any of these failures could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our operations have inherent reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated, that might cause stakeholders

to form a negative view of the Group. This may result in financial or non-financial impacts, loss of confidence or other consequences.

Modern technologies, in particular online social media channels and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the effect of damaging information and allegations. It could also arise from negative public opinion about the actual, or perceived, manner in which we conduct our business activities, or financial performance, as well as actual or perceived practices in banking and the financial services industry generally. Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and retain and motivate staff, and could have a material adverse effect on our business, prospects, financial condition, reputation and results of operations.

We may suffer losses due to employee misconduct

Our businesses are exposed to risk from potential non-compliance with policies, including HSBC Values and related behaviours, and employee misconduct such as fraud or negligence, all of which could result in regulatory sanctions or reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of rogue traders or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective. Employee misconduct could have a material adverse effect on our business, prospects, financial condition and results of operations.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel

The demands being placed on the human capital of the Group are unprecedented. The cumulative workload arising from a regulatory reform programme that is often extra-territorial and still evolving consumes significant human resources, placing increasingly complex and conflicting demands on a workforce where the required expert capabilities are in short supply and globally mobile.

Our continued success depends in part on the retention of key members of our management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of our strategy. The successful implementation of our growth strategy depends on the availability and skilled management in each of our global businesses and global functions. If global businesses or global functions fail to staff their operations appropriately or lose one or more

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of their key senior executives and fail to replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the Group's strategy, our business prospects, financial condition and results of operations, including control and operational risks, could be materially adversely affected.

Our financial statements are based in part on judgements, estimates and assumptions which are subject to uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements, assumptions and models are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgements and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, deferred tax assets, provisions and interests in associates, which are discussed in detail in [Critical accounting estimates and judgements](#) on page 64.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments, future outcomes may differ materially from those assumed using information available at the reporting date. The effect of these differences on the future results of operations and the future financial position of the Group may be material. For further details, see [Critical accounting estimates and judgements](#) on page 64.

If the judgement, estimates and assumptions we use in preparing our consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition, prospects and results of operations.

We could incur losses or be required to hold additional capital as a result of model limitations or failure

HSBC uses models for a range of purposes in managing our business, including regulatory and economic capital calculations, stress testing, granting credit, pricing and financial reporting, including the valuation of financial instruments measured at fair value, as explained above. HSBC could face adverse consequences as a result of decisions, which may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, supervisory



concerns over the internal models and assumptions used by banks in the calculation of regulatory capital have led to the imposition of risk weight and loss given default floors, which have the potential to increase our capital requirement. Risks arising from the use of models could have a material adverse effect on our business, prospects, financial condition, results of operations, minimum capital requirements and reputation.

Third parties may use us as a conduit for illegal activities without our knowledge

We are required to comply with applicable AML laws and regulations and have adopted various policies and procedures, including internal control and know your customer procedures, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime. A major focus of US and UK government policy relating to financial institutions in recent years has been combating money laundering and enforcing compliance with US and EU economic sanctions, and this prioritisation is evidenced by our agreements with US and UK authorities relating to various investigations regarding past inadequate compliance with AML and sanctions laws. Certain US subsidiaries of HSBC Holdings have entered into a consent cease and desist order with the OCC and a similar consent order with the FRB which require the implementation of improvements to compliance procedures regarding obligations under the US Bank Secrecy Act (the BSA ), FCA Direction and AML rules. These consent orders do not preclude additional enforcement actions by bank regulatory, governmental or law enforcement agencies or private litigation.

A number of the remedial actions taken or being taken as a result of the matters to which the US DPA relates are intended to ensure that the Group's businesses are better protected in respect of these risks. However, there can be no assurance that the steps that continue to be taken to address the requirements of the US DPA will be completely effective. Breach of the US DPA or related agreements and consent orders could have a material adverse effect on our business, financial condition and results of operations, including loss of business and withdrawal of funding, restrictions on performing dollar-clearing functions through HSBC Bank USA or revocation of bank licences.

In relevant situations, and where permitted by regulation, we may rely upon certain counterparties to maintain and properly apply their own appropriate AML procedures. While permitted by regulation, such reliance may not be effective in preventing third parties from using us (and our relevant counterparties) as a conduit for money laundering including illegal cash operations without our knowledge (and that of our relevant counterparties). Becoming a party to money laundering, association with, or even accusations of being associated with, money laundering will damage our reputation and could make us subject to fines, sanctions and/or legal enforcement (including being added to blacklists that would prohibit certain parties from engaging in transactions with us). Any one of these outcomes could have a material adverse effect on our business, prospects, financial condition and results of operations.

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We have significant exposure to counterparty risk

We are exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including brokers and dealers, central clearing counterparties, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.

Mandatory central clearing of OTC derivatives, including under Dodd-Frank and the EU's European Market Infrastructure Regulation, brings risks to HSBC. As a clearing member, we will be required to underwrite losses incurred at Central Counterparty ( CCP ) by the default of other clearing members and their clients. Hence central clearing brings with it a new element of interconnectedness between clearing members and clients which we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to CCPs and it is unclear at present how, at a time of stress, regulators and resolution authorities will intervene.

Where bilateral counterparty risk has been mitigated by taking collateral, our credit risk may remain high if the collateral we hold cannot be realised or has to be liquidated at prices which are insufficient to recover the full amount of our loan or derivative exposure. There is a risk that collateral cannot be realised, including situations where this arises by change of law that may influence our ability to foreclose on collateral or otherwise enforce contractual rights.

The Group also has credit exposure arising from mitigants such as credit default swaps ( CDSs ), and other credit derivatives, each of which is carried at fair value. The risk of default by counterparties to CDSs and other credit derivatives used as mitigants affects the fair value of these instruments depending on the valuation and the perceived credit risk of the underlying instrument against which protection has been purchased. Any such adjustments or fair value changes may have a material adverse effect on our financial condition and results of operations.

Market fluctuations may reduce our income or the value of our portfolios

Our businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity,

bond and property prices, and the risk that our customers

act in a manner inconsistent with our business, pricing and hedging assumptions.

Market movements will continue to significantly affect us in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates, yield curves and spreads affect the interest rate spread realised between lending and borrowing costs. A declining interest rate environment could increase prepayment activity which reduces the weighted average lives of our interest-earning assets and could have a material adverse effect on us. The potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our pension scheme assets include equity and debt securities, the cash flows of which change as equity prices and interest rates vary.

Our insurance businesses are exposed to the risk that market fluctuations will cause mismatches to occur between product liabilities and the investment assets which back them. Market risks can affect our insurance products in a number of ways depending upon the product and associated contract. For example, mismatches between assets and liability yields and maturities give rise to interest rate risk. Some of these risks are borne directly by the customer and some are borne by the insurance businesses, with their excess capital invested in the markets. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance businesses will bear some of the cost of such guarantees and options. The performance of the investment markets will thus have a direct effect upon the value embedded in the insurance and investment contracts and our operating results, financial condition and prospects.

It is difficult to predict with any accuracy changes in market conditions, and such changes may have a material adverse effect on our business, prospects, financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our businesses

Our ability to borrow on a secured or unsecured basis and the cost of so doing can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to HSBC or the banking sector, including our perceived or actual creditworthiness.

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing. Although deposits have been, over time, a stable source of funding, this may not continue.

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**Report of the Directors: Financial Review** (continued)

We also access wholesale markets in order to provide funding for entities that do not accept deposits, to align asset and liability maturities and currencies and to maintain a presence in local markets. In 2015, we issued the equivalent of \$22bn of debt securities in the public capital markets in a range of currencies and maturities from a number of Group entities, including \$7bn of subordinated securities issued by HSBC Holdings. An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have a substantial adverse effect on our liquidity. Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge our ability to raise funds to support or expand our businesses.

If we are unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected and we might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts, or to fund new loans, investments and businesses. We may need to liquidate unencumbered assets to meet our liabilities. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at depressed prices, which in either case could materially adversely affect our business, prospects, financial condition and results of operations.

Any reduction in the credit rating assigned to HSBC Holdings, any subsidiaries of HSBC Holdings or any of their respective debt securities could increase the cost or decrease the availability of our funding and adversely affect our liquidity position and net interest margin

Credit ratings affect the cost and other terms upon which we are able to obtain market funding. Rating agencies regularly evaluate HSBC Holdings and certain of its subsidiaries, as well as their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of HSBC or of the relevant entity, as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain HSBC's or the relevant entity's current ratings or outlook, particularly given the rating agencies' current review of their bank rating methodologies and the potential impact on HSBC's or its subsidiaries' ratings.

At the date hereof, HSBC Holdings' long-term debt was rated AA-, A and A1 by Fitch, Standard & Poor's (S&P) and Moody's, respectively. Ratings outlooks by Fitch, S&P and Moody's were stable. Any reductions in these ratings and outlook could increase the cost of our funding, limit access to capital markets and require additional collateral to be placed and, consequently, materially adversely affect our interest margins and our liquidity position.

Under the terms of our current collateral obligations under derivative contracts, we could be required to post additional collateral as a result of a downgrade in HSBC's

credit rating as described on page 164 of the *Annual Report and Accounts 2015*.

Risks concerning borrower credit quality are inherent in our businesses

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties (e.g. reinsurers and counterparties in derivative transactions) are inherent in a wide range of our businesses. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems could reduce the recoverability and value of our assets and require an increase in our loan impairment charges.

We estimate and recognise impairment allowances for credit losses inherent in our credit exposure. This process, which is critical to our results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how the economic conditions might impair the ability of our borrowers to repay their loans and the ability of other counterparties to meet their obligations. As is the case with any such assessments, we may fail to estimate accurately the effect of factors that we identify or fail to identify relevant factors. Further, the information we use to assess the creditworthiness of our counterparties may be inaccurate or incorrect. Any failure by us to accurately estimate the ability of our counterparties to meet their obligations may have a material adverse effect on our business, prospects, financial conditions and results of operations.

Our insurance businesses are subject to risks relating to insurance claim rates and changes in insurance customer behaviour

We provide various insurance products for customers with whom we have a banking relationship, including several types of life insurance products. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity rates, lapse and surrender rates and, if the policy has a savings element, the performance of assets to support the liabilities. Adverse developments in any of these factors may materially adversely affect our financial condition and results of operations.

HSBC Holdings is a holding company and, as a result, is dependent on loan payments and dividends from its subsidiaries to meet its obligations, including obligations with respect to its debt securities, and to provide profits for payment of future dividends to shareholders

HSBC Holdings is a non-operating holding company and, as such, its principal source of income is from operating subsidiaries which hold the principal assets of HSBC. As a separate legal entity, HSBC Holdings relies on remittance of its subsidiaries' loan interest payments and dividends in order to be able to pay obligations to debt holders as they fall due and to pay dividends to its shareholders. The ability of HSBC Holdings subsidiaries and affiliates to pay dividends could be restricted by changes in regulation, exchange controls and other requirements.

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We may be required to make substantial contributions to our pension plans

We operate a number of pension plans throughout the world, including defined benefit plans. Pension scheme obligations fluctuate with changes in long-term interest rates, inflation, salary levels and the longevity of scheme members. The level of contributions we make to our pension plans has a direct effect on our cash flow. To the extent plan assets are insufficient to cover existing liabilities, higher levels of contributions will be required. As a result, deficits in those pension plans may have a material adverse effect on our business, prospects, financial condition and results of operations.

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**Report of the Directors: Risk** (continued)

**Top and emerging risks**

**Top and emerging risks**

Our approach to identifying and monitoring top and emerging risks is described on page 103. Our current top and emerging risks are as follows:

**Externally driven**

Economic outlook and capital flows

Geopolitical risk

Turning of the credit cycle

Regulatory developments with adverse impact on business model and profitability

Regulatory focus on conduct of business and financial crime

Dispute risk

Regulatory commitments and consent orders

Cyber threat and unauthorised access to systems

**Economic outlook and capital flows**

Economic growth remained subdued in 2015, with a number of headwinds adversely affecting both developed and emerging market countries.

The slowdown of the mainland Chinese economy has dampened global trade flows and caused volatility in currency and global stock markets. Market concerns persist as to the scale of the slowdown and the potential for further depreciation of the renminbi and emerging market currencies.

Oil and gas prices fell further during 2015 and early 2016 as a result of continuing global supply and demand imbalances, raising the risk that any recovery in oil prices over the medium term will be even more gradual than currently expected. Although oil importers benefit from low prices, low oil prices increase fiscal and financing challenges for exporters and accentuate deflationary risks.

Emerging market economies have been affected by falling commodity prices, the economic slowdown in mainland China and a vulnerability to monetary policy normalisation in the US. This has led to steep depreciation in several key emerging market currencies against the US dollar and substantial capital outflows.

The economic recovery in the eurozone remains fragile, driven by a combination of low oil prices, a weak euro, slowing growth and loose monetary policy. Populist parties are in the ascendancy in several EU countries, helped by the subdued economic backdrop as well as other issues such as migration. A referendum on the UK's EU membership is expected to occur within the lifetime of the current Parliament, and may be held as early as mid-2016 (see Geopolitical risk below). While the risk of Greece exiting the EU has faded, the implementation of required structural reforms could prove politically challenging.

### **Potential impact on HSBC**

We earn a significant proportion of our profits from our operations in Asia. Our results could be adversely affected by a prolonged or severe slowdown in regional economic growth or contraction in global trade and capital flows as a consequence.

HSBC's results could be impacted by a prolonged period of low oil prices, particularly in conjunction with a low inflation environment and/or low or negative interest rates.

The intensification of fragmentation risks in the EU could have both political and economic consequences for Europe.

### **Mitigating actions**

We closely monitor economic developments in key markets and sectors with the aim of ensuring trends are identified, the implications for specific customers, customer segments or portfolios are assessed, and appropriate mitigating action – which may include revising key risk appetite metrics or limits – is taken as circumstances evolve.

We use internal stress testing and scenario analysis as well as regulatory stress test programmes to evaluate the impact of macroeconomic shocks on our businesses and portfolios. Analyses undertaken on our oil and gas portfolio and mainland China exposures are discussed on page 117.

### **Geopolitical risk**

Our operations and portfolios are exposed to risks arising from political instability, civil unrest and military conflict in many parts of the world.

In the Middle East, the intervention of Russia and the rise of the terrorist group, Daesh, have added to an already complex civil war in Syria and further destabilised Iraq. These are conflicts which show few signs of resolution.



Daesh has proved capable of carrying out attacks in neighbouring countries and further afield. The lifting of sanctions following a deal between Iran and the five permanent members of the UN Security Council on the country's nuclear programme has done little to calm regional tensions.

Violence in Ukraine has abated but the conflict in the east of the country has not been resolved. Sanctions imposed by the US and EU against the Russian government, institutions and individuals have damaged the Russian economy.

European states are experiencing heightened political tension, reflecting concerns over migration, fears of terrorism and the possibility that the UK may vote to exit the EU following a referendum. An exit could have a significant impact on UK, European and global macroeconomic conditions, as well as substantial political ramifications.

In Asia, territorial disputes between Japan and China and other states have strained diplomatic relations and are testing the resolve of the US to defend freedom of navigation.

### **Potential impact on HSBC**

Our results are subject to the risk of loss from physical conflicts or terrorist attacks, unfavourable political developments, currency fluctuations, social instability and changes in government policies in the jurisdictions in which we operate.

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Physical conflicts or terrorist attacks could expose our staff to physical risk and/or result in physical damage to our assets and disruption to our operations.

The effect of a UK exit from the EU on HSBC would depend on the manner in which the exit occurs. A disorderly exit could force changes to HSBC's operating model, affect our ability to access ECB and high value euro payments, and affect our transaction volumes due to possible disruption to global trade flows.

### **Mitigating actions**

We continuously monitor the geopolitical outlook, in particular in countries where we have material exposures and/or a physical presence.

Our internal credit risk ratings of sovereign counterparties take geopolitical factors into account and drive our appetite for conducting business in those countries. Where necessary, we adjust our country limits and exposures to reflect our risk appetite and mitigate risks as appropriate.

We run internal stress tests and scenario analyses, including reverse stress tests, on our portfolios that take into account geopolitical scenarios, such as conflicts in countries where we have a significant presence, or political developments that could disrupt our operations, including the potential effect of a UK exit on our business model.

### **Turning of the credit cycle**

The long-anticipated move by the US Federal Reserve Board (FRB) to raise interest rates and the slowdown in mainland China's economy, which is expected to continue, have increased risk aversion in global markets. This tendency has deepened since the turn of 2016, with market volatility increasing. In 2015, emerging markets experienced net capital outflows for the first time since 1988, with several major currencies at decade-plus lows against the US dollar and global corporate defaults rose to the highest since 2009. 2016 could see an intensification of these trends and the appearance of stress in a wide array of credit segments, particularly if monetary policy is tightened quickly, sentiment regarding China worsens and oil prices fail to recover. The combination of these factors with substantial amounts of external refinancing being due in emerging markets in 2016-18 increases the risk of sharper and more protracted volatility.

### **Potential impact on HSBC**

Impairment allowances or losses could begin to rise from their historical lows in 2014 and 2015 if the credit quality of our customers is affected by less favourable global economic conditions in some markets.

There may be impacts on the delinquency and losses in some portfolios which may be impacted by worsening macroeconomic conditions and their possible effects on particular geographies or industry sectors.

Particular portfolios such as oil and gas may come under particular strain which is partly cyclical and partly driven by geopolitical concerns.

#### **Mitigating actions**

We closely monitor economic developments in key markets and sectors, taking portfolio actions where necessary including enhanced monitoring or reducing limits and exposures.

We stress test those portfolios of particular concern to identify sensitivity to loss, with management actions taken to control appetite where necessary.

Where customers are either individually or collectively assessed, regular portfolio reviews are undertaken for sensitive portfolios to ensure that individual customer or portfolio risks are understood and that the level of facilities offered and our ability to manage through any downturn are appropriate.

#### **Regulatory developments with adverse impact on business model and profitability**

Financial service providers continue to face stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, financial crime, operational structures and the integrity of financial services delivery. Government intervention and control over financial institutions both on a sector-wide basis and individually, together with measures to reduce systemic risk, may significantly affect the competitive landscape locally, regionally and/or globally for some or all of the Group's businesses. These measures may be introduced with different, potentially conflicting requirements and to differing timetables by different regulatory regimes. Regulatory changes may affect our activities, both of the Group as a whole and of some or all of our principal subsidiaries. These changes include:

the UK's Financial Services (Banking Reform) Act 2013, which requires the ring-fencing of our UK retail banking activities from wholesale banking, together with the structural separation of other activities required by US legislation and rules (including the Volcker Rule implemented in December 2013 under the Dodd-Frank Act), and potential further changes under the European Commission's Banking Structural Reform Regulation which proposes similar structural reform for larger EU banks as well as structural changes in other jurisdictions;

revisions in the regime for the operation of capital markets, notably mandatory central clearing of over the counter (OTC) derivatives and mandatory margin requirements for non-cleared derivatives under the Dodd-Frank Act, the EU's European Market Infrastructure Regulation (EMIR) and similar local measures being progressed in Hong Kong, Singapore and Canada;

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**Report of the Directors: Risk (continued)**

**Top and emerging risks**

those arising from the Markets in Financial Instruments Regulation/Directive ( MiFID II ), which includes mandatory trading of derivatives on organised venues, enhanced transparency and reporting requirements, controls on high frequency and algorithmic trading, changes to the use of dealing commissions and potential future restrictions on the ability of non-EU Group companies to provide certain services to EU based clients. Aspects of MiFID II also further enhance protections for investors in line with many regulators' focus on the wider conduct of business and delivery of fair outcomes for customers;

changes aimed at promoting effective competition in the interests of consumers, including investigations ordered by the UK Competition and Markets Authority and work to increase competition more generally;

the recommendations arising out of the *Final Report on the Fair and Effective Financial Markets Review* undertaken by the Bank of England, which include changes to market conduct rules and forward looking supervision in the operation of wholesale financial markets in the UK;

continued focus in the UK and elsewhere on matters relating to management accountability, institutional culture, employee conduct and increased obligations on market abuse and whistleblowing. In the UK, this includes implementing the individual accountability regime and wider recommendations made by the Parliamentary Commission on Banking Standards and the activities of the Banking Standards Board;

the Basel Committee on Banking Supervision ( Basel Committee ) initiatives to enhance the risk sensitivity and robustness of the standardised approaches, to minimise reliance on internal models, and to incorporate capital floors in the Basel capital framework;

the implementation of the Capital Requirements Directive ( CRD IV ), notably the UK application of the capital framework and its interaction with Pillar 2;

proposals from the Financial Stability Board for global systemically important banks ( G-SIB s) to hold minimum levels of capital and debt as total loss absorbing capacity ( TLAC ), together with the Bank of England's consultation on UK implementation of MREL (for further details, see Capital on page 239);

requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities, which may have different effects in different countries; and

the continued risk of further changes to regulation relating to taxes affecting financial service providers, including financial transaction taxes and ongoing implementation of initiatives to share tax information such as the Common Reporting Standard introduced by the Organisation for Economic Co-operation and Development ( OECD ).

### **Potential impact on HSBC**

Proposed changes in and/or the implementation of regulations including mandatory central clearing of OTC derivatives, EMIR, ring-fencing and similar requirements, MiFID II, the Volcker Rule, recovery and resolution plans, tax information sharing initiatives and findings from competition orientated enquiries and investigations may affect the manner in which we conduct our activities and how the Group is structured.

Requirements for higher levels of capital or TLAC may increase the funding costs for the Group and reduce our return on equity.

Mandatory central clearing of OTC derivatives also brings new risks to HSBC in its role as a clearing member, as we will be required to underwrite losses incurred by central clearing counterparties from the default of other clearing members and their clients. Hence central clearing brings with it a new element of interconnectedness between clearing members and clients which we believe may increase rather than reduce our exposure to systemic risk.

Increased regulatory scrutiny of conduct of business and management accountability may affect the industry in areas such as employee recruitment and retention, product pricing and profitability in both retail and wholesale markets. HSBC's businesses may be affected by these developments.

These measures have the potential to increase our cost of doing business and curtail the types of business we can carry out, which may adversely affect future profitability.

### **Mitigating actions**

We are engaged closely with governments and regulators in the countries in which we operate to help ensure that the new requirements are considered properly and can be implemented in an effective manner.

We have enhanced our governance around central clearing counterparties and appointed specialists to manage the associated liquidity and collateral risks.

We continue to enhance and strengthen governance and resourcing more generally around regulatory change management and the implementation of required measures to actively address this ongoing and significant agenda of regulatory change.

**Regulatory focus on conduct of business and financial crime**

Financial service providers are at risk of regulatory sanctions or fines related to conduct of business and financial crime. The incidence of regulatory proceedings against financial service firms has become more common-place and may increase in frequency due to increased media attention and higher expectations from prosecutors and the public, with a consequent increase also in civil litigation arising from or relating to issues which are subject to regulatory investigation, sanction or fine.

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Regulators in the UK and other countries have continued to increase their focus on conduct matters relating to fair outcomes for customers and orderly and transparent operations in financial markets. For further details, see [Compliance risk](#) on page 178.

### **Potential impact on HSBC**

HSBC may face regulatory censure or sanctions including fines and/or be exposed to legal proceedings and litigation.

Regulators in the UK and other countries may identify future industry-wide mis-selling, market conduct or other issues that could affect the Group. This may lead from time to time to significant direct costs or liabilities and/or changes in the practices of such businesses. Also, decisions taken by the Financial Ombudsman Service in the UK (or similar overseas bodies) could, if applied to a wider class or grouping of customers, have a material adverse effect on the operating results, financial condition and prospects of the Group.

### **Mitigating actions**

We have taken a number of steps including introduction of new global policies, enhancement to the product governance processes, establishment of a global conduct programme and review of sale processes and incentive schemes (see [Compliance risk](#) on page 178).

#### **[US deferred prosecution agreement and related agreements and consent orders](#)**

An independent compliance monitor (the Monitor) was appointed in 2013 under the 2012 agreements entered into with the US Department of Justice (DoJ) and the UK Financial Conduct Authority (FCA) to produce annual assessments of the effectiveness of our AML and sanctions compliance programme. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the FRB. HSBC Bank USA is also subject to an agreement entered into with the Office of the Comptroller of the Currency (OCC) in December 2012, the Gramm-Leach-Bliley Act Agreement and other consent orders. In January 2016, the Monitor delivered his second annual follow-up review report as required by the US DPA. The Monitor's report is discussed on page 116.

### **Potential impact on HSBC**



The design and execution of AML and sanctions remediation plans are complex and require major investments in people, systems and other infrastructure. This complexity creates significant execution risk, which could affect our ability to effectively identify and manage financial crime risk and remedy AML and sanctions compliance deficiencies in a timely manner. This could, in turn, impact our ability to satisfy the Monitor or comply with the terms of the US DPA and related agreements and consent orders, and may require us to take additional remedial measures in the future.

Under the terms of the US DPA, upon notice and an opportunity to be heard, the DoJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, an extension of the agreement, including its monitorship, or the criminal prosecution of HSBC, which could, in turn, entail further financial penalties and collateral consequences.

Breach of the US DPA or related agreements and consent orders could have a material adverse effect on our business, financial condition and results of operations, including loss of business and withdrawal of funding, restrictions on performing dollar-clearing functions through HSBC Bank USA or revocation of bank licences. Even if we are not determined to have breached these agreements, but the agreements are amended or their terms extended, our business, reputation and brand could suffer materially.

#### **Mitigating actions**

We are continuing to take concerted action to remedy AML and sanctions compliance deficiencies and to implement Global Standards. We are also working to implement the agreed recommendations flowing from the Monitor's 2013 and 2014 reviews, and will implement the agreed recommendations from the 2015 review.

During 2015, we continued to make progress toward putting in place a robust and sustainable AML and sanctions compliance programme, including continuing to build a strong Financial Crime Compliance sub-function, rolling out improved systems and infrastructure to manage financial crime risk and improve transaction monitoring and enhancing internal audits.

#### **Dispute risk**

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Further details are provided in Note 40 on the Financial Statements.

#### **Potential impact on HSBC**

Dispute risk may give rise to potential financial loss as well as significant reputational damage. This in turn could adversely affect customer, investor and other stakeholder confidence.

#### **Mitigating actions**

We continue to focus on identifying emerging regulatory and judicial trends, and sharing globally lessons learned in an effort to avoid or limit future litigation exposure and regulatory enforcement action.

We continue to review and enhance our financial crime and regulatory compliance controls and resources.

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### **Report of the Directors: Risk (continued)**

#### **Top and emerging risks**

##### **Cyber threat and unauthorised access to systems**

Like other public and private organisations, we continue to be a target of cyber attacks which, in some cases, disrupt services including the availability of our external facing websites, compromise organisational and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

##### **Potential impact on HSBC**

A major cyber attack, which could result from unauthorised access to our systems, may result in financial loss as well as significant reputational damage which could adversely affect customer and investor confidence in HSBC. Any loss of customer data would also trigger regulatory breaches which could result in fines and penalties being incurred.

##### **Mitigating actions**

The security of our information and technology infrastructure is crucial for maintaining our banking applications and processes and protecting our customers and the HSBC brand. We continue to strengthen our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks by enhancing our governance and controls framework and technology infrastructure, processes and controls.

We took part in the PRA's Cyber Vulnerability Testing exercise during 2015 and are making further enhancements to improve our resilience to, and ability to recover from, cyber attacks.

We have realigned the responsibilities and accountabilities for cyber and information risk management to align with the operational risk lines of defence operational model and instigated a number of security improvement programmes within IT.

##### **Internally driven**

People risk

Execution risk

Third-party risk management

Model risk

Data management

### People risk

Significant demands continue to be placed on our staff. The cumulative workload arising from regulatory reform and remediation programmes together with those related to the delivery of our strategy is hugely consumptive of human resources, placing increasingly complex and conflicting demands on a workforce in a world where expertise is often in short supply and globally mobile.

### Potential impact on HSBC

Changes in remuneration policy and practice resulting from CRD IV regulations, European Banking Authority (EBA) Guidelines and PRA remuneration rules apply on a Group-wide basis for any material risk takers. This presents significant challenges for HSBC because a significant number of our material risk takers are based outside the EU.

The Senior Managers and Certification regimes and the related Rules of Conduct, which come into force in 2017 for other employees, set clear expectations of the accountabilities and behaviour of both senior and more junior employees.

Organisational changes to support the Group's strategy and/or implement regulatory reform programmes have the potential to lead to increased staff turnover.

### Mitigating actions

The changes in remuneration under the CRD IV regulations, EBA guidelines and PRA remuneration rules have necessitated a review of our remuneration policy, especially the balance between fixed and variable pay, to ensure we can remain globally competitive on a total compensation basis and retain our key talent.

We continue to increase the level of specialist resource in key areas, and to engage with our regulators as they finalise new regulations.

Risks related to organisational change and disposals are subject to close management oversight, especially in those countries where staff turnover is particularly high.

### Execution risk

Execution risk heightened during 2015 due to a number of factors. Significant programmes are under way to deliver nine business actions to capture value from our global presence, announced at the Investor Update in June 2015. These, along with the regulatory reform agenda and our commitments under the US DPA require the management of complex projects that are resource demanding and time sensitive. In addition, the risks arising from the disposal of our business in Brazil require careful management.

### **Potential impact on HSBC**

Risks arising from the number, magnitude and complexity of projects underway to meet these demands may include financial losses, reputational damage or regulatory censure.

The potential risks of disposals include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation. They can have both financial and reputational implications.

### **Mitigating actions**

We have strengthened our prioritisation and governance processes for significant projects, which are monitored by the GMB.

We have invested in our project implementation and IT capabilities and increased our focus on resource management.

Risks relating to disposals are carefully assessed and monitored and are subject to close management oversight.

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### **Third-party risk management**

HSBC, in common with peers in the financial services industry, utilises third parties for the provision of a range of goods and services. Global regulators have raised concerns regarding the dependency on third parties, and expect firms to be able to demonstrate adequate control over the selection, governance and oversight of their third parties (including affiliates). Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence.

### **Potential impact on HSBC**

Any deficiency in the management of third-party risk could affect our ability to meet strategic, regulatory and client expectations. This may lead to a range of consequences including regulatory censure, civil penalties or reputational damage.

### **Mitigating actions**

HSBC is undertaking a multi-year strategic plan to enhance its third-party risk management capability. We are implementing a programme that will provide a holistic view of third-party risks. This will enable the consistent risk assessment of any third-party service against key criteria, along with the associated control monitoring, testing and assurance throughout the third-party lifecycle.

The Group's most critical third parties were identified and subjected to enhanced risk assessment, with remediation plans agreed where necessary. Plans are in place to extend the assessment to a broader group of third parties.

In addition, the highest priority third-party vendors in the US went through enhanced risk assessment with findings remediated in 2015. A risk monitoring solution was implemented for all vendors and a due diligence solution is in the process of being implemented.

### **Model risk**

We use models for a range of purposes in managing our business, including regulatory and economic capital calculations, stress testing, credit approvals, pricing, financial crime and fraud risk management and financial

reporting. Model risk is the potential for adverse consequences as a result of decisions based on incorrect model outputs and reports or the use of such information for purposes for which it was not designed. This risk can arise from models that are poorly developed, implemented or used, or from the modelled outcome being misunderstood and acted upon inappropriately by management. The regulatory environment and supervisory concerns over banks' use of internal models to determine regulatory capital is also considerable, and further contributes to model risk.

### **Potential impact on HSBC**

HSBC could incur losses, be required to hold additional capital, fail to meet regulatory standards or incur higher operating expenses due to the use of inappropriate models or poor model risk management.

Supervisory concerns over the internal models and assumptions used by banks in the calculation of regulatory capital have led to the imposition of floors in risk weight and model parameters such as the loss given default. Such changes have the potential to increase our capital requirement and/or make it more volatile.

Our reputation may be questioned due to our inability to comply with specific modelling and model risk management requirements.

### **Mitigating actions**

We have strengthened our model risk governance framework by establishing global model oversight committees and implementing policies and standards in accordance with key regulatory requirements.

We have strengthened our governance over the development, usage and validation of models including the creation of centralised global analytical functions with necessary subject-matter expertise.

We have hired additional subject matter experts as part of our independent model review function and empowered the function to ensure appropriate challenge and feedback are given to models prior to and as part of their ongoing use.

### **Data management**

Regulators require more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis. As a G-SIB, HSBC must comply with the principles for effective risk data aggregation and risk reporting set out by the Basel Committee.

### **Potential impact on HSBC**

Ineffective data management capabilities could impact our ability to aggregate and report complete, accurate and consistent data to regulators, investors and senior management on a timely basis.

Financial institutions that fail to meet their Basel Committee data obligations by the required deadline may face supervisory measures.

### **Mitigating actions**

We have set a data strategy for the Group and defined Group-level principles, standards and policies to enable consistent data aggregation, reporting and management. We continue to focus on enhancing data governance, quality and architecture to support our objectives of ensuring reliability of information used in support of internal controls and external financial reporting.

A number of key initiatives and projects to implement our data strategy and work towards meeting our Basel Committee data obligations are in progress.

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### **Report of the Directors: Risk (continued)**

#### **Areas of special interest**

#### **Areas of special interest**

During 2015, we considered a number of particular areas because of the effect they may have on the Group. Whilst these areas may already have been identified in top and emerging risks, further details of the actions taken during the year are provided below.

#### **Financial crime compliance and regulatory compliance**

We continued to experience increased levels of compliance risk as regulators and other agencies pursued investigations into historical activities. Examples include continued engagement with respect to compliance with AML and sanctions law (historical investigations gave rise to the US DPA and related FCA Direction), on-going interaction with regulators relating to mis-selling of the PPI policies and allegations of pressure selling in the UK, investigations in relation to conduct in the foreign exchange market, and benchmark interest rate and commodity price setting. Details of these investigations and legal proceedings may be found in Note 40 on the Financial Statements. The work of the Monitor, who was appointed to assess the effectiveness of our AML and sanctions compliance programme, is discussed below.

The level of inherent compliance risk remained high in 2015 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision.

*For further information about the Group's compliance risk management, see page 178.*

#### **The Monitor**

Under the agreements entered into with the DoJ and the FCA in 2012, including the five-year US DPA, the Monitor was appointed to produce annual assessments of the effectiveness of the Group's AML and sanctions compliance programme.

In January 2016, the Monitor delivered his second annual follow-up review report based on various thematic and country reviews he had conducted over the course of 2015. In his report, the Monitor concluded that, in 2015, HSBC made progress in developing an effective and sustainable financial crime compliance programme. However, he expressed significant concerns about the pace of that progress, instances of potential financial crime and systems and controls deficiencies, whether HSBC is on track to meet its goal to the Monitor's satisfaction within the five-year period of the US DPA and, pending further review and discussion with HSBC, did not certify as to HSBC's implementation of and adherence to remedial measures specified in the US DPA. The US deferred prosecution agreement and related agreements and consent orders are discussed in top and emerging risks on page 113.

## Regulatory stress tests

Stress testing is an important tool for regulators to assess vulnerabilities in the banking sector and in individual banks, the results of which could have a significant effect on minimum capital requirements, risk and capital management practices and planned capital actions, including the payment of dividends, going forward.

We are subject to regulatory stress testing in many jurisdictions. These have increased both in frequency and in the granularity of information required by supervisors. They include the programmes of the Bank of England ( BoE ), the FRB, the OCC, the EBA and the Hong Kong Monetary Authority and other regulators. Assessment by regulators is on both quantitative and qualitative bases, the latter focusing on portfolio quality, data provision, stress testing capability, forward-looking capital management processes and internal management processes.

In 2015, the Group took part in the BoE's concurrent stress test exercise involving major UK banks. The 2015 stress scenario incorporates a global recession in which disinflationary pressures and weakening expectations of growth lead to diminished risk appetite, falling commodity prices and lower market liquidity. Several emerging economies are adversely affected, as is the eurozone, where the rate of deflation increases. The UK experiences a downturn as the global recession affects exports and as financial linkages and weaker confidence affects other parts of the economy.

### *Selected key economic variables for the BoE 2015 concurrent stress test, as specified by the BoE*

	<b>GDP growth<sup>1</sup> %</b>	<b>Unemploy- ment<sup>2</sup> %</b>	<b>House Price Index %</b>	<b>Equity prices<sup>3</sup> %</b>
Hong Kong	<b>(5.6)</b>	<b>5.8</b>	<b>40</b>	<b>65</b>
China	<b>1.7</b>		<b>35</b>	
UK	<b>(3.1)</b>	<b>9.2</b>	<b>20</b>	<b>36</b>

1 Worst quarter (percentage quarter on quarter year earlier).

2 Peak percentage.

3 Price fall percentage (start to trough).

The results were published by the BoE alongside the *Financial Stability Report* on 1 December 2015. The stressed CET1 capital ratio of HSBC was deemed by the BoE to fall to a minimum of 7.7%, taking into account management mitigating actions accepted by the BoE for this exercise. This was above the hurdle ratio of 4.5% set for this exercise. The leverage ratio fell to a minimum of 3.7% after management actions, also above the minimum hurdle ratio of 3%.

HSBC North America Holdings Inc. ( HNAH ) participated in the 2015 Comprehensive Capital Analysis and Review ( CCAR ) and the annual Dodd-Frank Act Stress Test ( DFAST ) programmes as required by the FRB. In addition, HSBC Bank USA N.A. ( HSBC Bank USA ) participated in the OCC's 2015 DFAST programme. The CCAR and DFAST submissions were made on 5 January 2015 and their results publically disclosed on 5 March 2015. On 11 March 2015, HNAH received notice that the FRB did not object to its 2015 Capital Plan – a key component of the CCAR submission. Under DFAST, HNAH is also required to conduct a company-run mid-cycle stress test, the results of which were disclosed on 16 July 2015. Under this test HNAH maintained capital levels in excess of regulatory minimums; specifically, the stressed common equity tier 1 ratio fell to a minimum of 7.5% compared with a required level of 4.5%.

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Other entities in the Group, including The Hongkong and Shanghai Banking Corporation Limited and HSBC Bank plc, continue to participate in regulatory stress tests conducted at a subsidiary level by local regulators.

In October 2015, the BoE published details of its medium-term approach to stress testing the UK banking system. Key features of the approach include an annual cyclical stress test and a biennial exploratory stress test, starting in 2017.

The EBA plan to conduct stress tests in 2016. Details of their proposed approach were published by them in November 2015.

### **Oil and gas prices**

Oil and commodity prices have remained low since the middle of 2014 as a result of existing global supply and demand imbalances, with significant price declines in late 2015 and early 2016. Continued lower oil prices cause increased credit risks within oil-related industries together with fiscal and financing challenges for energy exporters.

The overall portfolio of exposures directly exposed to oil and gas companies had drawn risk exposures amounting to about \$29bn (2014: \$34bn) with sub-sectoral distributions as follows: integrated producers 48%, service companies 28%, pure producers 17% and infrastructure companies 7%.

The credit quality distribution of the oil and gas portfolio was as follows: strong and good categories made up 56% of the portfolio, satisfactory 35%, sub-standard 7% and impaired 2%. The majority of the exposures were located in North America, Asia and Europe.

Oil and gas related counterparties have responded rapidly to the changing economic outlook, cutting back on capital expenditure as well as reducing operating expenses in order to manage cash flows and sustain profitability.

Large integrated producers remained resilient. Within the pure producers sector, the higher cost entities such as shale and oil sands producers showed more evidence of stress, resulting in credit grade deterioration. Similarly, service companies continued to be more vulnerable as producers curtailed capital expenditures.

Individually assessed loan impairment charges in 2015 remained contained at approximately \$0.3bn. Oil prices are now predicted to remain lower for longer and the oil price recovery is dependent on the removal of the excess supply that currently exists in the market. In view of these factors collective allowances for exposures related to oil and gas were increased by \$0.2bn at the end of the year. Total allowances in respect of the oil and gas portfolio were \$0.6bn.

The sector remains under enhanced monitoring with risk appetite and new lending has been significantly curtailed.

## Metals and mining

Metals prices declined during 2015 although the pace and extent of the price decline was more gradual than for oil and gas.

Precious metals, copper, nickel and zinc prices are generally forecast to improve slightly in 2016. The outlook for steel, aluminium and bulk metals is more negative due to a combination of oversupply and reduction in demand. The low oil and gas prices benefit most metals and mining customers given that they are large consumers of energy.

Our total drawn risk exposure to metals and mining was \$18bn (steel and aluminium \$9bn, copper, nickel and zinc \$4bn, iron ore and metallurgical coal \$3bn, precious metals \$2bn). Individually assessed loan impairments were \$0.1bn.

Given the pressures in metals prices the metals and mining sector is under heightened management review.

## Mainland China exposures

Mainland China's economic growth rate slowed in 2014 and 2015 with a gross domestic product of 6.9% in 2015 compared with 7.3% in 2014 (2013: 7.7%). China's economic growth rate remains very strong when compared with developed western economies. Although the largest foreign bank in China, HSBC's overall lending market share is very small at about 0.2%. This allows us to be selective in our lending to mainland China-related exposures, targeting high quality lending centred around specific priority sectors. The portfolio has continued to perform well with loan impairment charges remaining at their existing low levels.

The total mainland China portfolio had drawn risk exposures of \$143bn, of which \$77bn was booked onshore, with the remainder mainly booked in Hong Kong. Retail lending amounted to \$8bn, focused primarily on residential mortgages in selected geographical areas. Wholesale lending amounted to \$135bn. 51% of the wholesale portfolio was corporate lending with 26% to banks and the remainder to China sovereign. The lending to banks was 99% investment grade. The corporate portfolio was also of high quality with 62% of the portfolio of investment grade. Only 2% of the corporate portfolio was rated substandard which compares favourably with the Group as a whole. The corporate portfolio was well diversified with less than 40% of lending to state owned enterprises. The corporate real estate portfolio amounted to about \$15bn. This portfolio which is primarily focused on tier 1 and tier 2 cities and the Pearl River Delta, was managed carefully under a series of caps ensuring that the lending to this sector remained within our risk appetite.

Our resultant ability to be selective in our lending and apply our traditionally strong underwriting standards means we have a high quality portfolio which we would expect to be resilient even in a situation where mainland China's growth rate slows further.

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**Report of the Directors: Risk** (continued)

**Credit risk**

**Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There have been no material changes to the policies and practices for the management of credit risk in 2015.

*A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 193.*

Our maximum exposure to credit risk is presented on page 122 and credit quality on page 125. While credit risk arises across most of our balance sheet, losses have typically been incurred on loans and advances and securitisation exposures and other structured products. As a result, our disclosures focus primarily on these two areas.

Our exposures to mainland China and the effects of the decline in metals and mining and oil and gas prices are provided in Areas of special interest on page 116.

In 2015, reported gross loans and advances declined by \$75bn, mainly due to foreign exchange effects reducing balances by \$51bn and the reclassification of Brazilian assets as Assets held for sale reducing balances by a further \$31bn. Additional details relating to the Brazilian reclassification are provided on page 121. Excluding foreign exchange movements and the reclassification, both wholesale and personal lending grew.

Loan impairment charges reduced by \$0.5bn or 11% compared with 2014 with notable decreases in Latin America from favourable foreign exchange effects.

Information on constant currency movements is provided on page 148. While tables are presented on a reported basis, the commentary that follows in this summary section excludes the effects of the Brazilian reclassification and is on a constant currency basis.

**Summary of credit risk**

	<b>2015</b>	2014	Page
	<b>\$bn</b>	\$bn	
<b>At year-end</b>			
Maximum exposure to credit risk			
total assets subject to credit risk	<b>2,234</b>	2,434	
off-balance sheet commitments subject to credit risk	<b>713</b>	699	
	<b>2,947</b>	3,133	123
Gross loans and advances			
personal lending	<b>374</b>	393	143
wholesale lending	<b>650</b>	706	136
	<b>1,024</b>	1,099	124
Impaired loans			
personal lending	<b>12</b>	15	128
wholesale lending	<b>12</b>	14	128
	<b>24</b>	29	128
Impaired loans as a % of gross loans and advances			
personal lending	<b>3.1%</b>	3.9%	
wholesale lending	<b>1.9%</b>	2.0%	
total	<b>2.3%</b>	2.7%	
	<b>\$bn</b>	\$bn	
Impairment allowances			
personal lending	<b>2.9</b>	4.6	135
wholesale lending	<b>6.7</b>	7.8	136
	<b>9.6</b>	12.4	134
Loans and advances net of impairment allowances	<b>1,015</b>	1,087	
<b>For year ended 31 December</b>			
Loan impairment charge	<b>3.6</b>	4.1	133
personal lending	<b>1.8</b>	1.8	132
wholesale lending	<b>1.8</b>	2.3	132
Other credit risk provisions	<b>0.1</b>	(0.2)	
	<b>3.7</b>	3.9	

*For footnote, see page 191.*

In 2015, wholesale and personal gross loans and advances grew by \$0.5bn and \$7bn, respectively.

In wholesale lending, Asia balances decreased by \$9.6bn and were partly offset by an increase of \$7.5bn in North America and \$3.2bn in Europe. Middle East and North Africa decreased \$1.2bn and Latin America remained relatively unchanged.

In personal lending, Asia balances grew by \$7.4bn across both its mortgage and other personal lending, and there was a \$1.9bn increase in the Premier mortgage portfolio in the US and Canada. The increase was partly offset by a \$5.0bn reduction in the US CML portfolio as a result of the ongoing run-off of the portfolio and continued loan sales.

Loan impairment charges increased by \$0.2bn compared with 2014, notably in Middle East and North Africa and North America.



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*Gross loans to customers and banks over five years (\$bn)*

*Loan impairment charge over five years (\$bn)*

*Loan impairment charges by geographical region (\$bn)*

*Loan impairment charges by industry (\$bn)*

*Loan impairment allowances over five years*

**Assets held for sale**

*(Audited)*

During 2015, gross loans and advances and related impairment allowances arising in our Brazilian operations were reclassified from Loans and advances to customers and Loans and advances to banks to Assets held for sale in the balance sheet.

Disclosures relating to assets held for sale are provided in the following credit risk management tables, primarily where the disclosure is relevant to the measurement of these financial assets:

Maximum exposure to credit risk (page 122);

Distribution of financial instruments by credit quality (page 125);

Past due but not impaired gross financial instruments by geographical region (page 127); and

Ageing analysis of days past due but not impaired gross financial instruments (page 127).

Although there was a reclassification on the balance sheet, there was no separate income statement reclassification. As a result, charges for loan impairment losses shown in the credit risk disclosures include loan impairment charges relating to financial assets classified as Assets held for sale .

*Loans and advances to customers and banks measured at amortised cost**(Audited)*

	<b>Total gross loans and advances \$m</b>	<b>Impairment allowances on loans and advances \$m</b>
As reported	<b>1,024,428</b>	<b>(9,573)</b>
Reported in Assets held for sale	<b>24,544</b>	<b>(1,454)</b>
<b>At 31 December 2015</b>	<b>1,048,972</b>	<b>(11,027)</b>

At 31 December 2014, the gross loans and advances and related impairment allowances of our Brazilian operations were \$31bn and \$1.7bn, respectively. Gross loans and advances reduced by \$8.5bn, mainly as a result of foreign exchange movements.

Lending balances held for sale continue to be measured at amortised cost less allowances for impairment; such carrying amounts may differ from fair value. Any difference between the carrying amount and the sales price, which is the fair value at the time of sale, would be recognised as a gain or loss at the time of sale.

*See Note 23 on the Financial Statements for the carrying amount and the fair value at 31 December 2015 of loans and advances to banks and customers classified as held for sale.*

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**Table of Contents****Report of the Directors: Risk** (continued)**Credit risk**

*Gross loans and impairment allowances on loans and advances to customers and banks reported in Assets held for sale*

*(Audited)*

	<b>Brazil \$m</b>	<b>Other \$m</b>	<b>Total \$m</b>
Gross loans			
Loans and advances to customers	<b>18,103</b>	<b>2,042</b>	<b>20,145</b>
personal	<b>5,571</b>	<b>40</b>	<b>5,611</b>
corporate and commercial	<b>12,532</b>	<b>2,002</b>	<b>14,534</b>
Financial	<b>4,399</b>		<b>4,399</b>
non-bank financial institutions	<b>331</b>		<b>331</b>
banks	<b>4,068</b>		<b>4,068</b>
<b>At 31 December 2015</b>	<b>22,502</b>	<b>2,042</b>	<b>24,544</b>
Impairment allowances			
Loans and advances to customers	<b>(1,433)</b>	<b>(21)</b>	<b>(1,454)</b>
personal	<b>(664)</b>		<b>(664)</b>
corporate and commercial	<b>(769)</b>	<b>(21)</b>	<b>(790)</b>
Financial			
non-bank financial institutions			
banks			
<b>At 31 December 2015</b>	<b>(1,433)</b>	<b>(21)</b>	<b>(1,454)</b>

The table below analyses the amount of LICs arising from assets held for sale. The held for sale assets primarily relate to the Brazilian operations.

*Loan impairment charges and other credit risk provisions*

*(Audited)*

	2015 \$m
LICs arising from:	
assets held for sale	965
assets not held for sale	2,757
<b>Year ended 31 December</b>	
<b>Credit exposure</b>	<b>3,722</b>

### Maximum exposure to credit risk

(Audited)

*The table on page 123 provides information on balance sheet items, offsets and loan and other credit-related commitments. Commentary on balance sheet movements is provided on page 62.*

The offset in derivatives decreased in line with the decrease in maximum exposure amounts.

The offset on corporate and commercial loans to customers decreased by \$15bn. This reduction was mainly related to corporate overdraft balances where a small number of clients benefited from the use of net interest arrangements across overdrafts and deposits. As a result, while net risk exposures are generally stable, gross balances can be volatile.

### Maximum exposure to credit risk table (page 123)

The table presents our maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

### Other credit risk mitigants

While not disclosed as an offset in the Maximum exposure to credit risk table, other arrangements are in place which reduce our maximum exposure to credit risk. These include a charge over collateral over borrowers specific assets



such as residential properties. Other credit risk mitigants include short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominantly borne by the policyholder. In addition, we hold collateral in the form of financial instruments that are not recognised on the balance sheet.

*See Note 32 and from page 139 and page 147 respectively on the Financial Statements for further details on collateral in respect of certain loans and advances and derivatives.*

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**Table of Contents***Maximum exposure to credit risk**(Audited)*

	2015			2014		
	Maximum exposure \$m	Offset \$m	Net \$m	Maximum exposure \$m	Offset \$m	Net \$m
Cash and balances at central banks	<b>98,934</b>		<b>98,934</b>	129,957		129,957
Items in the course of collection from other banks	<b>5,768</b>		<b>5,768</b>	4,927		4,927
Hong Kong Government certificates of indebtedness	<b>28,410</b>		<b>28,410</b>	27,674		27,674
Trading assets	<b>158,346</b>					