

News Release

22 February 2016

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

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

Reported results in 2015 included a gain of HK\$10,636m on the partial disposal of our shareholding in Industrial Bank Co., Limited ('Industrial Bank'). Excluding this:

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

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

Comment by Stuart Gulliver, Chairman

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

Against this mixed backdrop, The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax in 2015 of HK\$117,279m, which included a gain on partial disposal of Hang Seng Bank Limited's ('Hang Seng') shareholding in Industrial Bank of HK\$10,636m. Excluding this gain and the adverse foreign exchange impact, revenue was 3% higher than 2014 although profit before tax was 2% lower than 2014 driven by higher operating expenses and loan impairment charges. Operating expenses rose as staff costs increased due to inflation, and as we continued to invest in growth, regulatory programmes and compliance whilst achieving sustainable cost savings. The cost efficiency ratio for the year was 42.0%. Loan impairment charges of HK\$5bn were 3% higher than the prior year, but remained low in relation to both average loans and total income. Loan impairment charges were lower in Hong Kong and mainland China but increased in the Rest of Asia-Pacific, principally in Indonesia in Commercial Banking ('CMB').

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

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

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

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

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited Results by Geographic Region

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

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

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

Hong Kong

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

Hong Kong

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

Rest of Asia-Pacific

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

Rest of Asia-Pacific

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited Consolidated Income Statement

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

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

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

	2015										
	Share capital HK\$m	Other equity instruments ⁶ HK\$m	Retained profits and proposed dividend HK\$m	Other reserves					Total share- holders' equity HK\$m	Non- controlling interests HK\$m	Total equity HK\$m
				Property revaluation reserve ¹ HK\$m	Available- for-sale investment reserve ² HK\$m	Cash flow hedge reserve ³ HK\$m	Foreign exchange reserve ⁴ HK\$m	Other ⁵ HK\$m			
At 1 January	96,052	14,737	339,061	48,481	16,537	(166)	1,872	41,261	557,835	50,511	608,346
Profit for the year	–	–	89,533	–	–	–	–	–	89,533	10,450	99,983
Other comprehensive income (net of tax)	–	–	(929)	5,146	(11,657)	131	(18,863)	86	(26,086)	(5,235)	(31,321)
Available-for-sale investments	–	–	–	–	(12,032)	–	–	–	(12,032)	(5,636)	(17,668)
Cash flow hedges	–	–	–	–	–	131	–	–	131	1	132
Property revaluation	–	–	(238)	5,146	–	–	–	–	4,908	592	5,500
Actuarial losses on defined benefit plans	–	–	(690)	–	–	–	–	–	(690)	133	(557)
Share of other comprehensive income of associates and joint ventures	–	–	(1)	–	375	–	–	86	460	–	460
Exchange differences	–	–	–	–	–	–	(18,863)	–	(18,863)	(325)	(19,188)
Total comprehensive income for the year	–	–	88,604	5,146	(11,657)	131	(18,863)	86	63,447	5,215	68,662
Dividends paid ⁷	–	–	(37,405)	–	–	–	–	–	(37,405)	(4,053)	(41,458)
Movement in respect of share-based payment arrangements	–	–	7	–	–	–	–	345	352	4	356
Other movements	–	–	(4)	(14)	–	–	–	(10)	(28)	8	(20)
Transfers ⁸	–	–	(9,882)	(1,514)	–	–	–	11,396	–	–	–
At 31 December	96,052	14,737	380,381	52,099	4,880	(35)	(16,991)	53,078	584,201	51,685	635,886

For footnotes, see page 19.

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

For footnotes, see page 19.

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

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

1. Net interest income

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

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

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

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

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

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

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

2. Net fee income

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

3. Net trading income

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

4. Gains less losses from financial investments

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

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

5. Other operating income

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

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

6. Insurance income

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

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

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

A net loss from financial instruments designated at fair value was recorded in 2015, reflecting the unfavourable equity market performance in the second half of 2015. To the extent that revaluation is attributable to policyholders, there is an offsetting movement reported under ‘Net insurance claims and benefits paid and movement in liabilities to policyholders’.

Net insurance premium income decreased by 8%, mainly in Hong Kong due to a change in sales mix, with a corresponding decrease in ‘Net insurance claims and benefits paid and movement in liabilities to policyholders’.

6. Insurance income (continued)

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

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

7. Loan impairment charges and other credit risk provisions

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

8. Employee compensation and benefits

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

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

9. General and administrative expenses

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

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

10. Associates and joint ventures

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

11. Tax expense

The tax expense in the consolidated income statement comprises:

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

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

12. Dividends

Dividends to ordinary shareholders of the parent company

	Year ended 31 December 2015		Year ended 31 December 2014	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Ordinary dividends paid				
– fourth interim dividend in respect of the previous financial year, approved and paid during the year	0.37	14,250	0.44	15,000
– first interim dividend paid	0.20	7,500	0.27	9,250
– second interim dividend paid	0.20	7,500	0.24	9,250
– third interim dividend paid	0.20	7,500	0.24	9,250
	0.97	36,750	1.19	42,750

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

Distributions on other equity instruments

	Year ended 31 December 2015 HK\$m	Year ended 31 December 2014 HK\$m
Floating rate perpetual subordinated loans (interest rate at one year US dollar LIBOR plus 3.84%.)	655	–

13. Analysis of loans and advances to customers

The following analysis of loans and advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries.

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
At 31 December 2015			
Residential mortgages	472,324	260,901	733,225
Credit card advances	56,791	22,180	78,971
Other personal	132,234	84,092	216,326
Total personal	661,349	367,173	1,028,522
Commercial, industrial and international trade	419,589	405,594	825,183
Commercial real estate	186,463	64,420	250,883
Other property-related lending	207,448	65,412	272,860
Government	6,292	2,484	8,776
Other commercial	133,718	145,632	279,350
Total corporate and commercial	953,510	683,542	1,637,052
Non-bank financial institutions	64,050	42,414	106,464
Settlement accounts	1,099	682	1,781
Total financial	65,149	43,096	108,245
Gross loans and advances to customers	1,680,008	1,093,811	2,773,819
Individually assessed impairment allowances	(2,165)	(4,875)	(7,040)
Collectively assessed impairment allowances	(1,979)	(2,510)	(4,489)
Net loans and advances to customers	1,675,864	1,086,426	2,762,290
At 31 December 2014			
Residential mortgages	439,451	283,042	722,493
Credit card advances	54,943	24,863	79,806
Other personal	122,613	79,670	202,283
Total personal	617,007	387,575	1,004,582
Commercial, industrial and international trade	416,759	440,967	857,726
Commercial real estate	201,103	75,631	276,734
Other property-related lending	203,850	62,810	266,660
Government	6,613	2,654	9,267
Other commercial	150,314	151,930	302,244
Total corporate and commercial	978,639	733,992	1,712,631
Non-bank financial institutions	61,264	42,747	104,011
Settlement accounts	3,887	625	4,512
Total financial	65,151	43,372	108,523
Gross loans and advances to customers	1,660,797	1,164,939	2,825,736
Individually assessed impairment allowances	(2,411)	(3,888)	(6,299)
Collectively assessed impairment allowances	(2,103)	(2,118)	(4,221)
Net loans and advances to customers	1,656,283	1,158,933	2,815,216
Allowances as a percentage of gross loans and advances to customers:			
	At 31 December 2015	At 31 December 2014	
- Individually assessed	0.25%	0.22%	
- Collectively assessed	0.16%	0.15%	
Total allowances	0.41%	0.37%	

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

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

In the Rest of Asia-Pacific, gross loans and advances to customers decreased by HK\$71bn, or 6%, due to an unfavourable foreign exchange impact of HK\$85bn. Excluding the impact from foreign exchange, gross customer advances increased by HK\$14bn, mainly in residential mortgages from business growth in mainland China and Australia.

14. Movement in impairment allowances against loans and advances to customers

	Individually assessed allowances HK\$m	Collectively assessed allowances HK\$m	Total HK\$m
At 1 January 2015	6,299	4,221	10,520
Amounts written off	(1,505)	(3,109)	(4,614)
Recoveries of loans and advances written off in previous years	305	978	1,283
Net charge to income statement	2,316	2,656	4,972
Unwinding of discount of loan impairment	(210)	(67)	(277)
Exchange and other adjustments	(165)	(190)	(355)
At 31 December 2015	<u>7,040</u>	<u>4,489</u>	<u>11,529</u>

15. Overdue and rescheduled loans and advances to customers

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

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

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

16. Other assets

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

17. Customer accounts

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

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

18. Other liabilities and provisions

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

19. Contingent liabilities and commitments

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

20. Capital adequacy

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base as contained in the 'Capital Adequacy Ratio' return submitted to the Hong Kong Monetary Authority ('HKMA') on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules.

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

Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies and the capital invested by the group in these subsidiaries is deducted from regulatory capital.

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

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

20. Capital adequacy (continued)

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

¹ Includes the revaluation surplus on investment properties which is reported as part of retained profits and adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.

20. Capital adequacy (continued)

The following table shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the balance sheet at 31 December 2015; it is not a projection. On this pro-forma basis, the group's CET1 ratio is 13.6% (2014: 10.7%), which is above the Basel III minimum requirement plus expected regulatory capital buffer requirements.

Reconciliation of capital from transitional basis to a pro-forma Basel III end point basis

	At 31 December 2015 HK\$m	At 31 December 2014 HK\$m
CET1 capital on a transitional basis	393,819	389,745
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	(51,774)	(100,676)
Excess AT1 deductions	–	1,588
CET1 capital end point basis	342,045	290,657
AT1 capital on a transitional basis	24,939	–
Grandfathered instruments:		
Perpetual non-cumulative preference shares	(25,213)	(25,229)
Transitional provisions:		
Allowable non-controlling interests in AT1 capital	(9,494)	(5,389)
Significant capital investments in unconsolidated financial sector entities	25,887	50,338
Excess AT1 deductions	–	(1,588)
AT1 capital end point basis	16,119	18,132
Tier 2 capital on a transitional basis	50,105	35,292
Grandfathered instruments:		
Perpetual cumulative preference shares	(3,100)	(3,102)
Cumulative term preference shares	(8,138)	(8,143)
Perpetual subordinated debt	(6,204)	(9,337)
Term subordinated debt	(1,607)	(6,787)
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	25,887	50,338
Tier 2 capital end point basis	56,943	58,261

21. Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those described in the *Annual Report and Accounts 2015*. A number of amendments to Hong Kong Financial Reporting Standards became effective in 2015 and none has a material impact on the group.

22. Statutory accounts

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

Certain financial information in this document is extracted from the financial statements for the year ended 31 December 2015, which were approved by the Board of Directors on 22 February 2016 and will be delivered to the Registrar of Companies and the HKMA. The Auditors expressed an unqualified opinion on those financial statements in their report dated 22 February 2016. The Annual Report and Accounts for the year ended 31 December 2015, which include the financial statements, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and will be made available on our website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

23. Ultimate holding company

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

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