

23 February 2015

**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2014 CONSOLIDATED RESULTS – HIGHLIGHTS**

- Pre-tax profit HK\$111,189m (HK\$144,756m in 2013)
- Attributable profit HK\$86,428m (HK\$119,009m in 2013)
- Return on average shareholders' equity of 16.9% (25.9% in 2013)
- Assets up 7% to HK\$6,877bn (HK\$6,439bn at 31 December 2013)
- Common equity tier 1 ratio of 14.4%, total capital ratio of 15.7% (14.1% and 15.2% in 2013)
- Cost efficiency ratio of 42.1% (33.9% in 2013)

Reported results in 2013 included a net gain of HK\$30,747m on the disposal of our shareholding in Ping An Insurance (Group) Company of China, Limited ('Ping An') and an accounting gain on the reclassification of Industrial Bank Co., Limited ('Industrial Bank') of HK\$8,454m before tax (HK\$5,914m attributable profit). Excluding these two gains:

- Return on average shareholders' equity of 17.9% for 2013
- Cost efficiency ratio of 42.1% for 2013

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

In 2014, economic performance across Asia was mixed. A number of key markets including mainland China, Japan, Indonesia and Singapore experienced slower growth, whilst India, Malaysia and Korea saw increased economic activity.

In mainland China, slower growth reflected lower manufacturing investment and falling industrial production, and there were increasing pressures in the property market. However, infrastructure investment and consumption held up and measures to maintain stable growth were implemented including policy reforms, fiscal spending and monetary easing. We expect GDP growth of 7.3% in 2015. In Hong Kong, growth in retail sales was lower during 2014 and both domestic and external demand weakened. However, employment remained strong and increased demand from mainland China for Hong Kong's trade and services sectors will drive growth in 2015. In India, increased confidence following the decisive election result has yet to translate into meaningful investment growth, but lower inflation and commodity prices will benefit corporate balance sheets.

The Hongkong and Shanghai Banking Corporation Limited recorded profit before tax of HK\$111,189m in 2014, down 23% from 2013. Profit before tax for 2013 included the net gain on disposal of our shareholding in Ping An of HK\$30,747m and an accounting gain on the reclassification of Industrial Bank of HK\$8,454m. Excluding these significant items, profit before tax in 2014 was 5% higher than in 2013, as robust revenue growth was broadly offset by increased costs. We also continued to build a strong capital position, resulting in a common equity tier 1 ratio of 14.4% at the end of December 2014.

We increased loans and advances to customers and grew customer accounts during the year as we continued to support our customers' financing needs. Customer loans grew by 7% during the year, most notably in Hong Kong, mainland China, Taiwan and India. We also grew deposits, mainly in Hong Kong, mainland China, Taiwan and Singapore. At the end of 2014, the loans to deposits ratio stood at 62.8%.

Loan impairment charges increased from historically low levels, primarily due to a small number of individually assessed impairments in Commercial Banking ('CMB') and Global Banking and Markets ('GB&M') in Hong Kong and mainland China. However, overall asset quality remained resilient and overall loan impairment charges remained in line with expectations. We continued to invest in growth during the year, including hiring more people to support business expansion in CMB around the region. Spending on risk and compliance also increased in 2014. The cost efficiency ratio for the year was 42.1%.

Our market-leading position across a range of products and services was recognised through a string of awards in 2014. In particular, HSBC was named 'Best Bank in Asia' by *Euromoney*. We were also named 'International Retail Bank of the Year' by *Asian Banking and Finance*, 'Best Commercial Bank' by *Finance Asia* and 'Best Foreign Retail Bank' in mainland China by *The Asian Banker*. Our position as the leading bank for renminbi services was also reflected in our top ranking across all eight categories in *Asiamoney's* Offshore RMB poll 2014. This led to us being named Best Overall Offshore RMB Products and Services provider for the third successive year.

CMB continued to expand its balance sheet in 2014, and to identify opportunities for collaboration with GB&M in support of clients. We were ranked number one in the league tables for Asian high yield, convertibles and equity linked bonds. Customer loans grew by 8%, principally in Hong Kong and mainland China, with growth mainly in term lending. In India, trade-related lending increased and there was good growth in Payments and Cash Management deposits. In Australia, we launched

a AUD250m International Growth Fund to provide small and medium-sized enterprises with credit facilities to pursue their international ambitions. In Hong Kong, we were one of the first foreign banks to offer renminbi cross-border pooling capacity in the Shanghai Free Trade Zone. We also became one of the Hong Kong Monetary Authority's Primary Liquidity Providers for offshore renminbi services.

In GB&M, we continued to support our clients through our broad and integrated range of products. We maintained our market leadership in Hong Kong dollar bond issuance and Asian local currency bonds. We also continued to lead the market in offshore renminbi bond issuance in Hong Kong. We were involved in three of the five largest equity capital market transactions during the year, as well as the first Sukuk sovereign bond issuance in Hong Kong. In addition, we became the first foreign custodian bank to service renminbi qualified foreign institutional investors based in Singapore and South Korea and were approved as one of the first banks to trade renminbi, euro and Singaporean dollars in mainland China's interbank foreign exchange market. In Payments and Cash Management, we launched a Global Payments System to support all cross-border payments in and out of mainland China. In India, we advised on two of the largest M&A transactions in 2014.

In Retail Banking and Wealth Management ('RBWM') we maintained our leading market share in mortgages in Hong Kong and grew mortgage lending balances, with average LTV ratios of 47% on new drawdowns and an estimated 29% on the portfolio as a whole. Other personal lending also increased. We grew net fee income from higher unit trust volumes, credit card transactions and increased insurance premium income. In conjunction with the launch of the Hong Kong-Shanghai Stock Connect scheme in November, we launched new services enabling retail customers to trade and invest in eligible shares listed on the Shanghai Stock Exchange. Our Advance offering was re-launched in Hong Kong and in nine other regional markets. We also invested further in our branch network in 2014. In mainland China alone, we now have 173 HSBC outlets, 25 HSBC rural bank outlets and 50 Hang Seng Bank outlets. Finally, we implemented a new incentive framework for relationship managers during the year that removes the formulaic link between sales and remuneration.

As Asia enters a period of lower demand and reduced growth, the prospects of higher US interest rates and continued dollar strength carry risks for the region. If sustained, low oil and commodities prices will also have mixed effects. In mitigation, many countries have good levels of foreign exchange reserves, plus improved regulation, and there is scope for further easing and fiscal stimulation measures in several markets, including the important economies of ASEAN, mainland China and Japan. In this environment, we continue to see opportunities to invest in growing our business to increase our ability to serve and support our customers. With our strong capital and liquidity, combined with our consistent and cautious risk appetite, we are well positioned to connect customers with opportunities, enable their businesses to thrive and help them to achieve their ambitions.

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 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
Net loss on reclassification of associates	–	(251)	–	(251)
Other operating income	10,872	1,944	(4,063)	8,753
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

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 2013				
Net interest income	45,682	41,729	(46)	87,365
Net fee income	28,794	15,129	(77)	43,846
Net trading income	11,156	5,375	46	16,577
Net income from financial instruments designated at fair value	2,008	467	–	2,475
Gains less losses from financial investments	323	119	–	442
Dividend income	1,165	10	–	1,175
Net insurance premium income	47,173	6,490	–	53,663
Net gain on reclassification of associates	–	8,157	–	8,157
Gain on sale of Ping An	–	34,070	–	34,070
Other operating income	13,803	2,186	(4,571)	11,418
Total operating income	150,104	113,732	(4,648)	259,188
Net insurance claims and benefits paid and movement in liabilities to policyholders	(50,960)	(5,632)	–	(56,592)
Net operating income before loan impairment charges and other credit risk provisions	99,144	108,100	(4,648)	202,596
Loan impairment charges and other credit risk provisions	(1,032)	(2,500)	–	(3,532)
Net operating income	98,112	105,600	(4,648)	199,064
Operating expenses	(38,845)	(34,531)	4,648	(68,728)
Operating profit	59,267	71,069	–	130,336
Share of profit in associates and joint ventures	524	13,896	–	14,420
Profit before tax	59,791	84,965	–	144,756
Share of profit before tax	41.3%	58.7%	–	100.0%
Cost efficiency ratio	39.2%	31.9%	–	33.9%
Net loans and advances to customers	1,500,758	1,118,487	–	2,619,245
Customer accounts	2,837,099	1,416,599	–	4,253,698

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

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 2013							
Net interest income/(expense)	24,687	13,406	10,380	116	(2,690)	(217)	45,682
Net fee income	15,749	7,473	5,405	105	62	–	28,794
Net trading income	1,045	1,417	8,334	78	66	216	11,156
Net income/(expense) from financial instruments designated at fair value	1,965	–	56	–	(14)	1	2,008
Gains less losses from financial investments	–	–	323	–	–	–	323
Dividend income	1	7	47	–	1,110	–	1,165
Net insurance premium income	43,530	3,659	–	–	–	(16)	47,173
Other operating income	4,799	706	591	–	9,856	(2,149)	13,803
Total operating income	91,776	26,668	25,136	299	8,390	(2,165)	150,104
Net insurance claims and benefits paid and movement in liabilities to policyholders	(46,730)	(4,230)	–	–	–	–	(50,960)
Net operating income before loan impairment charges and other credit risk provisions	45,046	22,438	25,136	299	8,390	(2,165)	99,144
Loan impairment (charges) /releases and other credit risk provisions	(1,065)	(122)	154	–	1	–	(1,032)
Net operating income	43,981	22,316	25,290	299	8,391	(2,165)	98,112
Operating expenses	(15,501)	(5,955)	(10,084)	(224)	(9,246)	2,165	(38,845)
Operating profit/(loss)	28,480	16,361	15,206	75	(855)	–	59,267
Share of profit in associates and joint ventures	518	2	4	–	–	–	524
Profit/(loss) before tax	28,998	16,363	15,210	75	(855)	–	59,791
Share of profit before tax	20.0%	11.3%	10.5%	–	(0.5)%	–	41.3%
Net loans and advances to customers	503,921	574,747	357,652	53,679	10,759	–	1,500,758
Customer accounts	1,655,211	753,600	275,489	150,580	2,219	–	2,837,099

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
Net loss on reclassification of associates	–	–	–	–	(251)	–	(251)
Other operating income	724	404	489	3	1,026	(702)	1,944
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

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 2013							
Net interest income	13,328	10,660	14,926	159	1,606	1,050	41,729
Net fee income/(expense)	5,411	4,304	5,398	143	(127)	–	15,129
Net trading income/(expense)	617	1,467	7,811	44	(3,514)	(1,050)	5,375
Net income from financial instruments designated at fair value	460	2	–	–	5	–	467
Gains less losses from financial investments	(8)	4	117	–	6	–	119
Dividend income	3	1	–	–	6	–	10
Net insurance premium income	5,053	1,452	–	1	–	(16)	6,490
Net gain on reclassification of associates	–	–	–	–	8,157	–	8,157
Gain on sale of Ping An	–	–	–	–	34,070	–	34,070
Other operating income	1,119	44	626	3	923	(529)	2,186
Total operating income	25,983	17,934	28,878	350	41,132	(545)	113,732
Net insurance claims and benefits paid and movement in liabilities to policyholders	(4,531)	(1,113)	–	(1)	–	13	(5,632)
Net operating income before loan impairment charges and other credit risk provisions	21,452	16,821	28,878	349	41,132	(532)	108,100
Loan impairment (charges)/ releases and other credit risk provisions	(1,635)	(970)	103	–	2	–	(2,500)
Net operating income	19,817	15,851	28,981	349	41,134	(532)	105,600
Operating expenses	(16,405)	(7,938)	(9,580)	(227)	(913)	532	(34,531)
Operating profit	3,412	7,913	19,401	122	40,221	–	71,069
Share of profit in associates and joint ventures	1,782	10,323	1,956	–	(165)	–	13,896
Profit before tax	5,194	18,236	21,357	122	40,056	–	84,965
Share of profit before tax	3.6%	12.6%	14.8%	0.1%	27.6%	–	58.7%
Net loans and advances to customers	362,710	378,115	345,024	30,828	1,810	–	1,118,487
Customer accounts	503,384	347,119	474,040	91,664	392	–	1,416,599

	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
Net loss on reclassification of associates	–	–	–	–	(251)	–	(251)
Other operating income	4,001	735	973	13	9,571	(6,540)	8,753
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

	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 2013							
Net interest income/(expense)	38,015	24,066	25,278	275	(1,056)	787	87,365
Net fee income/(expense)	21,160	11,777	10,807	248	(146)	–	43,846
Net trading income/(expense)	1,662	2,884	16,145	122	(3,448)	(788)	16,577
Net income/(expense) from financial instruments designated at fair value	2,425	2	56	–	(9)	1	2,475
Gains less losses from financial investments	(8)	4	440	–	6	–	442
Dividend income	4	8	47	–	1,116	–	1,175
Net insurance premium income	48,583	5,111	–	1	–	(32)	53,663
Net gain on reclassification of associates	–	–	–	–	8,157	–	8,157
Gain on sale of Ping An	–	–	–	–	34,070	–	34,070
Other operating income	5,918	750	1,073	3	10,769	(7,095)	11,418
Total operating income	117,759	44,602	53,846	649	49,459	(7,127)	259,188
Net insurance claims and benefits paid and movement in liabilities to policyholders	(51,261)	(5,343)	–	(1)	–	13	(56,592)
Net operating income before loan impairment charges and other credit risk provisions	66,498	39,259	53,846	648	49,459	(7,114)	202,596
Loan impairment (charges)/ releases and other credit risk provisions	(2,700)	(1,092)	257	–	3	–	(3,532)
Net operating income	63,798	38,167	54,103	648	49,462	(7,114)	199,064
Operating expenses	(31,906)	(13,893)	(19,520)	(451)	(10,072)	7,114	(68,728)
Operating profit	31,892	24,274	34,583	197	39,390	–	130,336
Share of profit in associates and joint ventures	2,300	10,325	1,960	–	(165)	–	14,420
Profit before tax	34,192	34,599	36,543	197	39,225	–	144,756
Share of profit before tax	23.6%	23.9%	25.3%	0.1%	27.1%	–	100.0%
Net loans and advances to customers	866,631	952,862	702,676	84,507	12,569	–	2,619,245
Customer accounts	2,158,595	1,100,719	749,529	242,244	2,611	–	4,253,698

Hong Kong reported pre-tax profits of HK\$62,966m compared with HK\$59,791m in 2013, an increase of 5%. The increase in pre-tax profits was mainly due to disposal gains on our investment in Bank of Shanghai of HK\$3,320m and our interest in private equity funds of HK\$961m, partly offset by the impairment charge against our investment in Industrial Bank of HK\$2,103m in 2014. Excluding these disposal gains and impairment, pre-tax profits increased marginally.

Revenue increased by HK\$8,253m, or 8%, mainly reflecting the full year impact from the acquisition of Global Private Banking ('GPB') business and the disposal gains and impairment in 2014 as mentioned above. Excluding these factors, revenue rose primarily in CMB and RBWM and, to a lesser extent, in GB&M.

Revenue in CMB increased by 10%, mainly due to higher net interest income from growth in term lending across a range of sectors, higher average Payments and Cash Management deposit balances and higher fees from remittance volumes, as well as improved lending spreads.

Revenue in RBWM increased by 4% compared with 2013, driven by higher net interest income from increased average lending balances, mainly credit cards and other personal lending, and from growth in average deposit balances, though the benefit was partly offset by spread compression. Net fee income also increased, principally from volume growth in unit trusts, credit card transactions and securities brokerage. In our insurance operations, revenue growth mainly reflected higher premium income, which also contributed to growth in the debt securities portfolio; although this was partly offset by less positive movements in the present value of in-force long term insurance business ('PVIF') asset in 2014, compared with a larger increase in 2013 as a result of favourable interest rate assumption updates.

Revenue in GB&M increased by 5%, mainly in Balance Sheet Management due to portfolio growth and in Capital Financing from higher average term lending balances. This was partly offset by lower net fee income in Markets due to reduced client flows, and in Capital Financing reflecting fee compression and fewer large M&A mandates completed in 2014.

Loan impairment charges were HK\$2,478m compared with HK\$1,032m in 2013, primarily due to a rise in individually assessed impairment charges against a small number of GB&M and CMB customers in 2014.

Operating expenses rose by HK\$3,425m or 9% in 2014, reflecting investment in Regulatory programmes and Compliance initiatives. Cost growth also reflected the inclusion of our GPB business, wage inflation and additional headcount to support business growth, mainly in CMB, as well as increased marketing activity and higher premises and equipment spend including IT, facility maintenance and property rental.

Rest of Asia-Pacific reported pre-tax profits of HK\$48,223m compared with HK\$84,965m in 2013, a decrease of 43%. The decrease in pre-tax profits reflected a number of events in 2013, mainly the Ping An net disposal gain of HK\$30,747m, the accounting gain on reclassification of Industrial Bank of HK\$8,454m, and a net gain of HK\$685m following disposals of our non-core insurance business in Vietnam, South Korea, Taiwan and Singapore.

Revenue decreased by HK\$38,045m, or 35% compared to 2013, mainly due to the gains on disposals and reclassifications of investments as mentioned above. Excluding these, revenues increased mainly in mainland China, and to a lesser extent India and Australia, coupled with the inclusion of full-year financial results from our GPB business in Singapore, partly offset by a decrease in South Korea from the run-off of the RBWM business.

In mainland China, we reported higher net interest income in GB&M from Balance Sheet Management due to portfolio growth and higher re-investment rates, coupled with a rise in average term lending balances. Additionally, trading income improved in Rates from higher interest income on debt securities and revaluation gains on trading bonds as yields fell, and in Foreign Exchange from increased client flows. Revenue in RBWM increased mainly from wider deposit spreads as market interest rates rose in the first half of 2014, while in CMB, revenue growth was mainly driven by higher average deposit and lending balances.

Elsewhere in Asia, revenue in India rose by 7% excluding the effect of foreign currency, primarily in GB&M from higher Rates trading income, coupled with higher net interest income from portfolio growth in Balance Sheet Management. In Australia, we achieved an increase in revenue of 6% after adjusting for the effect of foreign currency, predominantly in GB&M from higher trading income in Rates and Foreign Exchange. This was partly offset by lower revenue in South Korea following the run-off of our RBWM operations in 2013.

Loan impairment charges of HK\$2,447m decreased marginally compared with 2013, primarily due to the non-recurring charge arising from the review of our RBWM provisioning models in 2013, coupled with lower provisions in Malaysia and Australia in 2014. This was broadly offset by increases in GB&M and CMB, mainly arising from a small number of individually assessed impairment charges in mainland China; although New Zealand, Malaysia and Vietnam reported lower individually assessed impairment charges in 2014.

Operating expenses rose marginally by HK\$212m, following investments in Regulatory programmes and increase in compliance costs, as well as additional headcount supporting business growth notably in mainland China, coupled with wage inflation. These increases were partly offset by a reduction in South Korea due to the non-recurrence of a write-down of our insurance joint venture of HK\$558m, and restructuring provisions relating to the run-off of our RBWM operation in 2013.

Share of profit from associates and joint ventures rose by HK\$1,462m, mainly due to the impairment charge of HK\$819m on our banking associate in Vietnam in 2013. The increase was also due to a higher share of profits from Bank of Communications.

The Hongkong and Shanghai Banking Corporation Limited Consolidated Income Statement

	Year ended 31 December 2014	Year ended 31 December 2013
	HK\$m	HK\$m
Interest income	126,782	117,039
Interest expense	<u>(31,673)</u>	<u>(29,674)</u>
Net interest income	95,109	87,365
Fee income	50,662	50,187
Fee expense	<u>(6,040)</u>	<u>(6,341)</u>
Net fee income	44,622	43,846
Net trading income	20,220	16,577
Net income from financial instruments designated at fair value	4,048	2,475
Gains less losses from financial investments	2,389	442
Dividend income	1,374	1,175
Net insurance premium income	57,307	53,663
Net gain / (loss) on reclassification of associates	(251)	8,157
Gain on sale of Ping An	–	34,070
Other operating income	<u>8,753</u>	<u>11,418</u>
Total operating income	233,571	259,188
Net insurance claims and benefits paid and movement in liabilities to policyholders	<u>(60,182)</u>	<u>(56,592)</u>
Net operating income before loan impairment charges and other credit risk provisions	173,389	202,596
Loan impairment charges and other credit risk provisions	<u>(4,925)</u>	<u>(3,532)</u>
Net operating income	168,464	199,064
Employee compensation and benefits	(38,894)	(36,938)
General and administrative expenses	(28,278)	(26,127)
Depreciation of property, plant and equipment	(4,107)	(3,988)
Amortisation and impairment of intangible assets	<u>(1,671)</u>	<u>(1,675)</u>
Total operating expenses	(72,950)	(68,728)
Operating profit	95,514	130,336
Share of profit in associates and joint ventures	<u>15,675</u>	<u>14,420</u>
Profit before tax	111,189	144,756
Tax expense	<u>(19,012)</u>	<u>(15,701)</u>
Profit for the year	92,177	129,055
Profit attributable to shareholders of the parent company	86,428	119,009
Profit attributable to non-controlling interests	5,749	10,046

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Profit for the year	92,177	129,055
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	24,365	(6,456)
– fair value changes transferred to the income statement on disposal	(4,632)	(34,643)
– amounts transferred to the income statement on impairment	2,140	–
– fair value changes transferred to the income statement on hedged items	(311)	2,179
– income taxes	(1,378)	1,097
Cash flow hedges:		
– fair value changes taken to equity	3,870	5,778
– fair value changes transferred to the income statement	(4,429)	(5,789)
– income taxes	189	(6)
Share of other comprehensive income / (expense) of associates and joint ventures	326	(698)
Exchange differences	(8,033)	(5,981)
Items that will not subsequently be reclassified to the income statement:		
Property revaluation:		
– fair value changes taken to equity	4,510	5,687
– income taxes	(731)	(949)
Remeasurement of defined benefit:		
– before income taxes	(704)	2,281
– income taxes	41	(374)
Other comprehensive income/(expense) for the year, net of tax	<u>15,223</u>	<u>(37,874)</u>
Total comprehensive income for the year, net of tax	<u>107,400</u>	<u>91,181</u>
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	94,181	81,689
– non-controlling interests	<u>13,219</u>	<u>9,492</u>
	<u>107,400</u>	<u>91,181</u>

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
ASSETS		
Cash and sight balances at central banks	156,475	158,879
Items in the course of collection from other banks	21,122	16,346
Hong Kong Government certificates of indebtedness	214,654	195,554
Trading assets	407,026	311,400
Derivatives	389,934	388,727
Financial assets designated at fair value	98,195	90,146
Reverse repurchase agreements – non-trading	218,901	150,584
Placings with and advances to banks	488,313	564,521
Loans and advances to customers	2,815,216	2,619,245
Financial investments	1,456,493	1,379,771
Amounts due from Group companies	191,694	161,975
Interests in associates and joint ventures	116,654	107,852
Goodwill and intangible assets	45,078	41,882
Property, plant and equipment	104,679	101,240
Deferred tax assets	1,436	2,294
Other assets	150,876	148,939
Total assets	6,876,746	6,439,355
LIABILITIES		
Hong Kong currency notes in circulation	214,654	195,554
Items in the course of transmission to other banks	31,331	34,240
Repurchase agreements – non-trading	28,379	6,312
Deposits by banks	226,713	231,358
Customer accounts	4,479,992	4,253,698
Trading liabilities	215,812	195,032
Derivatives	367,128	365,052
Financial liabilities designated at fair value	48,834	41,715
Debt securities in issue	45,297	52,334
Retirement benefit liabilities	5,606	4,856
Amounts due to Group companies	135,814	91,797
Other liabilities and provisions	87,731	88,809
Liabilities under insurance contracts	310,182	276,180
Current tax liabilities	2,927	3,722
Deferred tax liabilities	18,586	16,051
Subordinated liabilities	12,832	13,107
Preference shares	36,582	47,314
Total liabilities	6,268,400	5,917,131
EQUITY		
Share capital	96,052	85,319
Other equity instruments	14,737	–
Other reserves	107,985	89,564
Retained profits	324,811	290,926
Proposed dividend	14,250	15,000
Total shareholders' equity	557,835	480,809
Non-controlling interests	50,511	41,415
Total equity	608,346	522,224
Total equity and liabilities	6,876,746	6,439,355

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Share capital		
At beginning of year	85,319	58,969
Issued during the year	<u>10,733</u>	<u>26,350</u>
	96,052	85,319
Other equity instruments		
At beginning of year	-	-
Issued during the year	<u>14,737</u>	<u>-</u>
	14,737	-
Retained profits and proposed dividend		
At beginning of year	305,926	244,640
Dividends paid	(42,750)	(47,000)
Movement in respect of share-based payment arrangements	(141)	(355)
Other movements	6	7
Transfers	(9,478)	(11,826)
Comprehensive income for the year	<u>85,498</u>	<u>120,460</u>
	339,061	305,926
Other reserves		
Property revaluation reserve		
At beginning of year	46,336	43,451
Transfers	(1,395)	(1,387)
Comprehensive income for the year	<u>3,540</u>	<u>4,272</u>
	48,481	46,336
Available-for-sale investment reserve		
At beginning of year	3,280	40,580
Other movements	(1)	(7)
Transfers	3	-
Comprehensive income/(expense) for the year	<u>13,255</u>	<u>(37,293)</u>
	16,537	3,280
Cash flow hedging reserve		
At beginning of year	197	210
Comprehensive expense for the year	<u>(363)</u>	<u>(13)</u>
	(166)	197
Foreign exchange reserve		
At beginning of year	9,619	15,193
Comprehensive expense for the year	<u>(7,747)</u>	<u>(5,574)</u>
	1,872	9,619
Other reserves		
At beginning of year	30,132	34,356
Movement in respect of share-based payment arrangements	261	240
Other movements	-	(17,514)
Transfers	10,870	13,213
Comprehensive expense for the year	<u>(2)</u>	<u>(163)</u>
	41,261	30,132

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Total shareholders' equity		
At beginning of year	480,809	437,399
Shares issued	10,733	26,350
Other equity instruments issued	14,737	–
Dividends paid	(42,750)	(47,000)
Movement in respect of share-based payment arrangements	120	(115)
Other movements	5	(17,514)
Comprehensive income for the year	94,181	81,689
	557,835	480,809
Non-controlling interests		
At beginning of year	41,415	35,679
Dividends paid	(3,981)	(3,836)
Movement in respect of share-based payment arrangements	5	11
Other movements	(147)	69
Comprehensive income for the year	13,219	9,492
	50,511	41,415
Total equity		
At beginning of year	522,224	473,078
Issue of ordinary shares	10,733	26,350
Other equity instruments issued	14,737	–
Dividends paid	(46,731)	(50,836)
Movement in respect of share-based payment arrangements	125	(104)
Other movements	(142)	(17,445)
Total comprehensive income for the year	107,400	91,181
	608,346	522,224

During 2014, the Bank issued new capital instruments that qualify as Basel III compliant additional tier 1 capital under the Banking (Capital) Rules.

The 'other movements' within Other Reserves in 2013 represented the purchase premium paid on the acquisition of the private banking business.

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Operating activities		
Cash generated from operations	61,780	158,886
Interest received on financial investments	14,891	13,222
Dividends received on financial investments	1,466	1,087
Dividends received from associates	4,765	4,468
Taxation paid	(17,546)	(16,182)
Net cash inflow from operating activities	65,356	161,481
Investing activities		
Purchase of financial investments	(403,722)	(350,187)
Proceeds from sale or redemption of financial investments	385,353	267,382
Purchase of property, plant and equipment	(2,864)	(8,419)
Proceeds from sale of property, plant and equipment and assets held for sale	180	1,003
Purchase of other intangible assets	(1,546)	(1,502)
Net cash outflow in respect of the purchase of interests in business portfolios	–	(1,792)
Net cash inflow/(outflow) from the sale of interests in business portfolios	2,882	(2,670)
Proceeds from the sale of interests in associates	–	2,840
Net cash outflow from investing activities	(19,717)	(93,345)
Net cash inflow before financing	45,639	68,136
Financing		
Issue of ordinary share capital	10,733	26,350
Issue of other equity instruments	14,737	–
Issue of subordinated liabilities	12,409	–
Redemption of preference shares	(10,733)	(36,042)
Repayment of subordinated liabilities	(6,010)	(338)
Ordinary dividends paid	(42,750)	(47,000)
Dividends paid to non-controlling interests	(3,981)	(3,836)
Interest paid on preference shares	(1,108)	(2,294)
Interest paid on subordinated liabilities	(1,056)	(829)
Net cash outflow from financing	(27,759)	(63,989)
Increase in cash and cash equivalents	17,880	4,147

1. Net interest income

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Net interest income	95,109	87,365
Average interest-earning assets	4,977,727	4,512,319
Net interest margin	1.91%	1.94%
Net interest spread	1.79%	1.81%

Net interest income rose by HK\$7,744m, or 9% compared with 2013, primarily from growth in customer lending, deposit and from Balance Sheet Management in Hong Kong and mainland China, partly offset by a reduction in the net interest margin.

Average interest-earning assets increased by HK\$465bn or 10% compared with 2013. Average customer lending grew by 12% notably in term lending and mortgages, while financial investments increased by 6%.

Net interest margin decreased by three basis points to 1.91% compared with 2013. The net interest spread decreased by two basis points, while the contribution from net free funds dropped by one basis point. The decrease in net interest margin resulted from compressed spreads on customer lending, coupled with an increase in the commercial surplus deployed in lower yielding assets following the acquisition of the GPB business in Hong Kong and Singapore in late 2013.

In **Hong Kong**, the Bank recorded a decrease in net interest margin of four basis points from reduced asset spreads on customer lending, notably on term lending, coupled with narrower deposit spreads.

At **Hang Seng Bank**, the net interest margin increased by three basis points and the net interest spread increased by two basis points. The spread on customer lending improved, mainly on term lending, although the benefit was partly offset by narrower deposit spreads in Hong Kong in a competitive deposit market.

In the **Rest of Asia-Pacific**, the net interest margin decreased by 13 basis points from compressed asset spreads on customer lending, notably in mortgages and term lending, while deposit spreads remained relatively stable.

2. Net fee income

	Year ended 31 December 2014	Year ended 31 December 2013
	HK\$m	HK\$m
Brokerage	7,697	7,344
Cards	7,082	7,146
Unit trusts	6,531	5,672
Import/export	4,968	4,986
Funds under management	4,193	4,114
Remittances	3,508	3,364
Credit facilities	2,997	3,176
Account services	2,925	2,782
Underwriting	1,949	1,908
Insurance	1,400	1,401
Other	7,412	8,294
Fee income	50,662	50,187
Fee expense	(6,040)	(6,341)
	44,622	43,846

3. Net trading income

	Year ended 31 December 2014	Year ended 31 December 2013
	HK\$m	HK\$m
Dealing profits	13,674	15,104
Net loss from hedging activities	(6)	(37)
Net interest income on trading assets and liabilities	5,168	3,859
Dividend income from trading securities	1,384	974
Ping An contingent forward sale contract	-	(3,323)
	20,220	16,577

4. Gains less losses from financial investments

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Gain on sale of Ping An	—	34,070
Gains on disposal of available-for-sale securities	4,608	470
Impairment of available-for-sale equity investments	(2,219)	(28)
	2,389	442

Gains on disposal of available-for-sale securities in 2014 included the disposal of our investment in Bank of Shanghai and the intercompany sale of private equity funds.

In 2014, an impairment charge of HK\$2,103m was made on our shareholding in Industrial Bank.

5. Other operating income

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Gain on reclassification of Industrial Bank	—	8,454
Loss on reclassification of Yantai Bank	—	(297)
Loss on reclassification of Techcom Bank	(251)	—
Net gain / (loss) on reclassification of associates	(251)	8,157
Movement in present value of in-force insurance business	3,581	4,735
Gains on investment properties	670	1,389
Gain on disposal of property, plant and equipment, and assets held for sale	61	299
Gain on disposal of subsidiaries, associates and business portfolios	104	758
Rental income from investment properties	422	312
Other	3,915	3,925
	8,753	11,418

6. Insurance income

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

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Net interest income	9,439	8,702
Net fee income	2,083	1,864
Net trading loss	(512)	(349)
Net income from financial instruments designated at fair value	4,159	2,426
Net insurance premium income	57,307	53,663
Movement in present value of in-force business	3,581	4,735
Other operating income	<u>173</u>	<u>1,052</u>
	76,230	72,093
Net insurance claims and benefits paid and movement in liabilities to policyholders	<u>(60,182)</u>	<u>(56,592)</u>
Total insurance income	<u>16,048</u>	<u>15,501</u>

Net interest income increased by 8% driven by growth in the debt securities portfolio, reflecting net inflows from new and renewal insurance business.

Net income from financial instruments designated at fair value was HK\$4,159m compared with HK\$2,426m in 2013, reflecting improved equity market performance and increased bond prices. To the extent that revaluation is attributed 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 rose by 7% as a result of increases in new business premiums from sales of deferred annuity products and a high net-worth product, as well as renewals. These were partly offset by lower unit-linked insurance premiums. The growth in premiums resulted in a corresponding increase in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

The movement in present value of in-force business decreased by HK\$1,154m, mainly due to a gain from the favourable interest rate assumption updates in 2013. Excluding the impact from the annual assumption updates for both years, the movement in present value of in-force business increased by HK\$1,000m from a favourable investment market conditions update and an increase in the value of new business.

Other operating income in 2013 included the gains on sale of our interests in Bao Viet Holdings and Hana HSBC Life Insurance Company Limited, offset by the disposal loss on the life insurance business in Taiwan.

7. Loan impairment charges and other credit risk provisions

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Individually assessed impairment charges:		
New charges	4,202	2,433
Releases	(1,420)	(1,426)
Recoveries	(156)	(198)
	<u>2,626</u>	<u>809</u>
Collectively assessed impairment charges	2,272	2,602
Other credit risk provisions	27	121
Loan impairment charges and other credit risk provisions	<u>4,925</u>	<u>3,532</u>

Individually assessed impairment charges increased in 2014, primarily in CMB and GB&M, comprising charges against a small number of customers in Hong Kong and mainland China.

There were no impairment losses or provisions against available-for-sale debt securities included in other credit risk provisions (2013: nil), or relating to held-to-maturity investments (2013: nil).

8. Employee compensation and benefits

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Wages and salaries	35,476	33,761
Social security costs	1,046	970
Retirement benefit costs	2,372	2,207
	<u>38,894</u>	<u>36,938</u>
Staff numbers by region – year end full-time equivalent		
Hong Kong	29,368	28,134
Rest of Asia-Pacific	38,926	38,887
Total	<u>68,294</u>	<u>67,021</u>

9. General and administrative expenses

	Year ended 31 December 2014 HK\$m	Year ended 31 December 2013 HK\$m
Premises and equipment		
– Rental expenses	3,546	3,428
– Other premises and equipment	4,161	3,971
	<u>7,707</u>	<u>7,399</u>
Marketing and advertising expenses	3,983	3,565
Other administrative expenses	16,588	15,163
	<u>28,278</u>	<u>26,127</u>

10. Associates and joint ventures

At 31 December 2014, we performed an impairment review of our investment in Bank of Communications and concluded that it was not impaired at the year end, based on our value in use calculation (see note on associates in the *Annual Report and Accounts 2014* for further details).

11. Tax expense

The tax expense in the consolidated income statement comprises:

	Year ended 31 December 2014	Year ended 31 December 2013
	HK\$m	HK\$m
Current income tax		
– Hong Kong profits tax	8,862	8,479
– Overseas taxation	8,696	8,158
Deferred taxation	1,454	(936)
	19,012	15,701
Effective tax rate	17.1%	10.8%

The low effective tax rate in 2013 was largely due to non-taxable gains arising from the reclassification of Industrial Bank and the disposal of Ping An.

12. Dividends

	Year ended 31 December 2014		Year ended 31 December 2013	
	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	0.44	15,000	0.85	20,000
– first interim dividend paid	0.27	9,250	0.38	9,000
– second interim dividend paid	0.24	9,250	0.38	9,000
– third interim dividend paid	0.24	9,250	0.38	9,000
	1.19	42,750	1.99	47,000

The Directors have declared a fourth interim dividend in respect of the financial year ended 31 December 2014 of HK\$14,250m (HK\$0.37 per ordinary share).

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 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
At 31 December 2013			
Residential mortgages	416,857	296,860	713,717
Credit card advances	49,843	29,824	79,667
Other personal	103,593	68,558	172,151
Total personal	570,293	395,242	965,535
Commercial, industrial and international trade	423,536	432,984	856,520
Commercial real estate	196,621	71,348	267,969
Other property-related lending	151,554	58,937	210,491
Government	5,728	2,190	7,918
Other commercial	112,939	131,788	244,727
Total corporate and commercial	890,378	697,247	1,587,625
Non-bank financial institutions	41,578	31,460	73,038
Settlement accounts	1,989	559	2,548
Total financial	43,567	32,019	75,586
Gross loans and advances to customers	1,504,238	1,124,508	2,628,746
Individually assessed impairment allowances	(1,349)	(3,658)	(5,007)
Collectively assessed impairment allowances	(2,131)	(2,363)	(4,494)
Net loans and advances to customers	1,500,758	1,118,487	2,619,245
Allowances as a percentage of gross loans and advances to customers:			
	At 31 December 2014	At 31 December 2013	
- Individually assessed	0.22%	0.19%	
- Collectively assessed	0.15%	0.17%	
Total allowances	0.37%	0.36%	

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

Gross loans and advances to customers in Hong Kong increased by HK\$157bn, or 10%, during 2014 largely from growth in corporate and commercial lending of HK\$88bn, reflecting our continued support to customers. Residential mortgage lending and other personal lending increased by HK\$23bn and HK\$19bn respectively.

In Rest of Asia-Pacific, gross loans and advances to customers increased by HK\$40bn, or 4%. Excluding the unfavourable foreign exchange translation effects of HK\$46bn, the underlying increase of HK\$86bn was mainly from growth in corporate and commercial lending of HK\$62bn from business growth in mainland China, Taiwan, India and Singapore.

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 2014	5,007	4,494	9,501
Amounts written off	(1,366)	(3,356)	(4,722)
Recoveries of loans and advances written off in previous years	156	1,029	1,185
Net charge to income statement	2,626	2,272	4,898
Unwinding of discount of loan impairment	(136)	(79)	(215)
Exchange and other adjustments	12	(139)	(127)
At 31 December 2014	<u>6,299</u>	<u>4,221</u>	<u>10,520</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 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)	
Rescheduled loans and advances to customers	431	0.0	2,298	0.2	2,729	0.1
At 31 December 2013						
Gross amounts which have been overdue with respect to either principal or interest for:						
– more than three months but less than six months	402	0.0	1,836	0.2	2,238	0.1
– more than six months but less than one year	223	0.0	1,300	0.1	1,523	0.1
– more than one year	1,956	0.1	2,449	0.3	4,405	0.2
	2,581	0.1	5,585	0.6	8,166	0.4
Individually assessed impairment allowances made in respect of amounts overdue	(1,132)		(2,698)		(3,830)	
Rescheduled loans and advances to customers	464	0.0	1,928	0.2	2,392	0.1

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

16. Other assets

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Current taxation recoverable	2,418	2,034
Assets held for sale	148	4,476
Prepayments and accrued income	3,821	3,578
Accrued interest receivable	18,370	15,898
Acceptances and endorsements	31,200	34,239
Other	94,919	88,714
	<u>150,876</u>	<u>148,939</u>

Assets held for sale at 31 December 2013 mainly represented our investment in Bank of Shanghai.

17. Customer accounts

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Current accounts	919,343	862,138
Savings accounts	2,379,651	2,246,618
Other deposit accounts	1,180,998	1,144,942
	<u>4,479,992</u>	<u>4,253,698</u>

The group's advances-to-deposits ratio remained steady at 62.8% at 31 December 2014 (2013: 61.6%).

18. Other liabilities and provisions

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Accruals and deferred income	26,435	26,021
Provisions for liabilities and charges	1,141	1,723
Acceptances and endorsements	31,200	34,239
Share-based payment liability to HSBC Holdings plc	2,186	2,303
Other liabilities	26,769	24,523
	<u>87,731</u>	<u>88,809</u>

19. Contingent liabilities and commitments

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Contract amount:		
Contingent liabilities	248,127	254,799
Commitments	1,896,242	1,701,733
	<u>2,144,369</u>	<u>1,956,532</u>

20. Changes in presentation

There have been some changes in the presentation of various balance sheet items in 2014. From 1 January 2014, non-trading reverse repurchase agreements and repurchase agreements are presented as separate lines in the balance sheet. The group has also changed the balance sheet line item, 'Cash and short-term funds' to 'Cash and sight balances at central banks'. Short-term funds included 'Treasury and other eligible bills' and 'Placings with banks with remaining maturity of one month or less', which are now included within 'Financial Investments' and 'Placings with and advances to banks' respectively.

Comparative figures have been re-presented accordingly. Please refer to *Note 1c 'Changes in presentation'* in the *Annual Report and Accounts 2014* for further details.

21. Capital adequacy

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base as contained in the 'Capital Adequacy Ratio' return required to be 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 2014 %	At 31 December 2013 %
Capital ratios		
Common Equity Tier 1 (CET1) capital ratio	14.4	14.1
Tier 1 capital ratio	14.4	14.1
Total capital ratio	15.7	15.2
Risk-weighted assets by risk type		
	HK\$m	HK\$m
Credit risk	2,064,687	1,882,551
Counterparty credit risk	209,703	191,318
Market risk	143,199	134,035
Operational risk	290,342	274,450
	<u>2,707,931</u>	<u>2,482,354</u>

The following table sets out the composition of the group's capital base under Basel III at 31 December 2014.

21. Capital adequacy (continued)

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
Common Equity Tier 1 ('CET1') capital		
Shareholders' equity	491,545	436,529
Shareholders' equity per balance sheet	557,835	480,809
Revaluation reserve capitalisation issue	(1,454)	(1,454)
Other equity instruments	(14,737)	–
Unconsolidated subsidiaries	(50,099)	(42,826)
Non-controlling interests	27,971	24,464
Non-controlling interests per balance sheet	50,511	41,415
Non-controlling interests in unconsolidated subsidiaries	(4,873)	(4,237)
Surplus non-controlling interests disallowed in CET1	(17,667)	(12,714)
Regulatory deductions to CET1 capital	(129,771)	(109,888)
Valuation adjustments	(2,030)	(2,473)
Goodwill and intangible assets	(14,683)	(15,943)
Deferred tax assets net of deferred tax liabilities	(1,485)	(2,350)
Cash flow hedging reserve	182	(197)
Changes in own credit risk on fair valued liabilities	(596)	(1,117)
Defined benefit pension fund assets	(89)	(110)
Significant capital investments in unconsolidated financial sector entities	(28,866)	(875)
Property revaluation reserves ¹	(52,657)	(50,073)
Regulatory reserve	(27,959)	(22,563)
Excess AT1 deductions	(1,588)	(14,187)
Total CET1 capital	389,745	351,105
Additional Tier 1 ('AT1') capital		
Total AT1 capital before regulatory deductions	48,750	38,866
Perpetual subordinated loans	14,737	–
Perpetual non-cumulative preference shares	25,229	30,651
Allowable non-controlling interests in AT1 capital	8,784	8,215
Regulatory deductions to AT1 capital	(48,750)	(38,866)
Significant capital investments in unconsolidated financial sector entities	(50,338)	(53,053)
Excess AT1 deductions	1,588	14,187
Total AT1 capital	–	–
Total Tier 1 capital	389,745	351,105
Tier 2 capital		
Total Tier 2 capital before regulatory deductions	88,802	82,915
Perpetual cumulative preference shares	3,102	8,413
Cumulative term preference shares	8,143	8,141
Perpetual subordinated debt	9,337	9,346
Term subordinated debt	25,400	19,463
Property revaluation reserves ¹	24,350	23,187
Impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital	14,957	13,519
Allowable non-controlling interests in Tier 2 capital	3,513	846
Regulatory deductions to Tier 2 capital	(53,510)	(55,910)
Significant capital investments in unconsolidated financial sector entities	(53,510)	(55,910)
Total Tier 2 capital	35,292	27,005
Total capital	425,037	378,110

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.

21. 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 2014 and therefore it is not a projection. On this pro-forma basis, the group's CET1 ratio is 10.7% (2013: 10.4%), which is above the Basel III minimum requirement, including the capital conservation buffer.

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

	At 31 December 2014 HK\$m	At 31 December 2013 HK\$m
CET1 capital on a transitional basis	389,745	351,105
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	(100,676)	(106,106)
Excess AT1 deductions	1,588	14,187
CET1 capital end point basis	290,657	259,186
AT1 capital on a transitional basis	–	–
Grandfathered instruments:		
Perpetual Non-cumulative preference shares	(25,229)	(30,651)
Transitional provisions:		
Allowable non-controlling interests in AT1 capital	(5,389)	(5,884)
Significant capital investments in unconsolidated financial sector entities	50,338	53,053
Excess AT1 deductions	(1,588)	(14,187)
AT1 capital end point basis	18,132	2,331
Tier 2 capital on a transitional basis	35,292	27,005
Grandfathered instruments:		
Perpetual cumulative preference shares	(3,102)	(8,413)
Cumulative term preference shares	(8,143)	(8,141)
Perpetual subordinated debt	(9,337)	(9,346)
Term subordinated debt	(6,787)	(13,260)
Transitional provisions:		
Significant capital investments in unconsolidated financial sector entities	50,338	53,053
Tier 2 capital end point basis	58,261	40,898

22. Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those described in the *2014 Annual Report and Accounts*. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2014. None has a material impact on the group.

23. Events after the balance sheet date

On 13 February 2015, Hang Seng Bank Limited completed the disposal of 952,616,838 ordinary shares of Industrial Bank, representing approximately half of their holding in Industrial Bank. It is estimated that the net disposal gain will be approximately HK\$2.8 bn.

24. 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 2014, which were approved by the Board of Directors on 23 February 2015 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 23 February 2015. The Annual Report and Accounts for the year ended 31 December 2014, 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.

25. 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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