## The Hongkong and Shanghai Banking Corporation Limited

Incorporated in the Hongkong SAR with limited liability

#### **HSBC** Holdings plc

For the year ended 31 December	2015	2014
	US\$ m	US\$ m
Interest income	47,189	50,955
Interest expense	(14,658)	(16,250)
Net interest income	32,531	34,705
Fee income	18,016	19,545
Fee expense	(3,311)	(3,588)
Net fee income	14,705	15,957
Trading income excluding net interest income	6,948	4,853
Net interest income on trading activities	1,775	1,907
Net trading income	8,723	6,760
Changes in fair value of long-term debt issued and related derivatives	863	508
Net income from other financial instruments designated at fair value	669	1,965
Net income from financial instruments designated at fair value	1,532	2,473
Gains less losses from financial investments	2,068	1,335
Dividend income	123	311
Net insurance premium income	10,355	11,921
Other operating income	1,055	1,131
Total operating income	71,092	74,593
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,292)	(13,345)
Net operating income before loan impairment charges and other credit risk provisions	59,800	61 249
Loan impairment charges and other credit risk provisions	(3,721)	61,248 (3,851)
Net operating income	56,079	57,397
	(19,900)	
Employee compensation and benefits General and administrative expenses	(17,662)	(20,366) (18,565)
Depreciation and impairment of property, plant and equipment	(1,269)	(1,382)
Amortization and impairment of intangible assets	(937)	(936)
Total operating expenses	(39,768)	(41,249)
Operating profit	16,311	16,148
Share of profit in associates and joint ventures	2,556	2,532
Profit before tax	18,867	18,680
Tax expense	(3,771)	(3,975)
Profit for the year	15,096	14,705
Profit attributable to shareholders of the parent company	13,522	13,688
Profit attributable to non-controlling interests	1,574	1,017
	US\$	US\$
Basic earnings per ordinary share	0.65	0.69
	0.03	0.69

For the year ended 31 December	2015 US\$m	2014 US\$m
Profit for the year	15,096	14,705
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments  - fair value gains/(losses)  - fair value gains reclassified to the income statement  - amounts reclassified to the income statement in respect of impairment  losses	(3,072) (1,231) (2,437) 127	2,972 4,794 (1,672)
– income taxes Cash flow hedges – fair value gains – fair value gains reclassified to the income statement – income taxes	(24) 704 (705) (23)	188 1,512 (1,244 (80
Share of other comprehensive income/(expense) of associates and joint ventures – share for the year – reclassified to income statement on disposal	(9) (9) -	80 78 2
Exchange differences  – foreign exchange gains reclassified to income statement on disposal of a foreign operation  – other exchange differences  – Income tax attributable to exchange differences	(10,945) - (11,112) 167	(8,903) (21) (8,917) 35
Items that will not be reclassified subsequently to profit or loss: Remeasurement of defined benefit asset/liability – before income taxes – income taxes	101 130 (29)	1,985 2,419 (434)
Other comprehensive income for the year, net of tax	(13,949)	(3,678
Total comprehensive income for the year	1,147	11,027
Attributable to: – shareholders of the parent company – non-controlling interests	460 687	9,245 1,782
Total comprehensive income for the year	1,147	11,027

Loans and Receivables to Other Customers		
For the year ended 31 December	2015	2014
	US\$ m	US\$ m
Gross Loan Receivables	934,009	986,997
(Less): Individual Impairment	(5,402)	(6,195)
Collective Impairment	(4,153)	(6,142)
Net loans and receivables including those designated at fair value		
through profit or loss	924,454	974,660
(Less) Loans and receivables designated at fair value through		
profit or loss	-	-
Net loans and recivables	924,454	974,660

	2015	2014
For the year ended 31 December	US \$ m	US \$ m
Cash flows from operating activities		
Profit before tax	18,867	18,680
Adjustment for	10,007	10,000
net gain from investing activities	(1,935)	(1,928)
share of profits in associates and joint ventures	(2,556)	(2,532)
(gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses	-	9
other non-cash items included in profit before tax	10,765	11,262
change in operating assets	65,828	25,877
change in operating liabilities	(106,762)	(93,814)
elimination of exchange differences	18,308	24,571
dividends received from associates	879	757
contributions paid to defined benefit plans	(664)	(681)
tax paid	(3,852)	(3,573)
Net cash generated from/(used in) operating activities	(1,122)	(21,372)
Cash flows from investing activities		
Purchase of financial investments	(438,376)	(384,199)
Proceeds from the sale and maturity of financial investments	399,636	382,837
Purchase of property, plant and equipment	(1,352)	(1,477)
Proceeds from the sale of property, plant and equipment	103	88
Net cash inflow/(outflow) from disposal of customer and loan portfolios	2,023	(1,035)
Net investment in intangible assets	(954)	(903)
Proceeds from disposal of Ping An	_	` _
Net cash inflow/(outflow) from disposal of other subsidiaries, business,		
associates and joint ventures	8	(272)
Net cash generated from/(used in) investing activities	(38,912)	(4,961)
Cash flows from financing activities		
Issue of ordinary share capital	147	267
Net sales/(purchases) of own shares for market-making and investment purposes	331	(96)
ssue of other equity instruments	3,580	5,681
Redemption of preference shares	(463)	(234)
Subordinated loan capital issued	3,180	3,500
Subordinated loan capital repaid	(2,157)	(3,163)
Dividends paid to shareholders of the parent company	(6,548)	(6,611)
Dividends paid to non-controlling interests	(697)	(639)
Dividends paid to holders of other equity instruments	(950)	(573)
Net cash used in financing activities	(3,577)	(1,868)
Net increase/(decrease) in cash and cash equivalents	(43,611)	(28,201)
Cash and cash equivalents at 1 January	301,301	346,281
	(12.027)	(16.770)
Exchange differences in respect of cash and cash equivalents	(13,827)	(16,779)

Movements in Individual and Collective Impairment of Loans and Receivables to Other Customers	luring the period of	
For the year ended 31 December	2015	2014
	US\$ m	US\$ m
Individual Impairment		
Opening Balance	6,195	7,072
Charge to income statement	1,516	1,776
Write-off during the year	(1,368)	(2,313)
Recoveries of loans and advances previously written off	86	114
Exchange and other movements	(1,027)	(454)
Closing Balance	5,402	6,195
Collective Impairment		
Opening Balance	6,142	8,071
Charge to income statement	2,087	2,275
Write-off during the year	(2,826)	(4,060)
Recoveries of loans and advances previously written off	722	841
Exchange and other movements	(1,972)	(985)
Closing Balance	4,153	6,142
Total Impairment	9,555	12,337

Loans and Receivables to Other Customers - by Product		
For the year ended 31 December	2015	2014
	US\$ m	US\$ m
Personal	374,082	393,554
- first lien residential mortgages	274,511	286,524
– other personal	99,571	107,030
Corporate and commercial	499,513	542,625
- manufacturing	95,858	106,986
- international trade and services	159,019	180,791
- commercial real estate	67,926	73,293
- other property-related	53,464	52,387
- government	7,455	6,143
- other commercial	115,791	123,025
Financial	60,414	50,818
–non-banking financial institutions	60,414	50,818
Total gross loans and receivables to customers	934,009	986,997

Consolidated Balance Sheet		
As at 31 December	2015	201
	US \$ m	US \$
Assets		
Cash and balances at central banks	98,934	129,95
Items in the course of collection from other banks	5,768	4,92
Hong Kong Government certificates of indebtedness	28,410	27,67
Trading assets	224,837	304,19
Financial assets designated at fair value	23,852	29,03
Derivatives	288,476	345,00
Loans and advances to banks	90,401	112,14
Loans and advances to customers	924,454	974,66
Reverse repurchase agreements - non-trading	146,255	161,71
Financial investments	428,955	415,40
Assets held for sale	43,900	7,64
Prepayments, accrued income and other assets	54,398	67,52
Current tax assets	1,221	1,30
Interests in associates and joint ventures	19,139	18,18
Goodwill and intangible assets	24,605	27,57
Deferred tax assets	6,051	7,1
	,	
Total assets at 31 December	2,409,656	2,634,13
Liabilities and equity		
Liabilities		25.0
Hong Kong currency notes in circulation	28,410	27,6
Deposits by banks	54,371	77,4
Customer accounts	1,289,586	1,350,6
Repurchase agreements - non-trading	80,400	107,4
Items in the course of transmission to other banks	5,638	5,9
Trading liabilities	141,614	190,5
Financial liabilities designated at fair value	66,408	76,1
Derivatives	281,071	340,6
Debt securities in issue	88,949	95,9
Liabilities of disposal groups held for sale	36,840	6,9
Accruals, deferred income and other liabilities	38,116	46,4
Current tax liabilities	783	1,2
Liabilities under insurance contracts	69,938	73,8
Provisions	5,552	4,9
Deferred tax liabilities	1,760	1,5
Subordinated liabilities	22,702	26,6
Total liabilities at 31 December	2,212,138	2,434,1
Equity		
Called up share capital	9,842	9,6
Share premium account	12,421	11,9
Other equity instruments	15,112	11,5
Other reserves	7,109	20,2
Retained earnings	143,976	137,1
Total shareholders' equity	188,460	190,4
Non-controlling interests	9,058	9,5
Total equity at 31 December	197,518	199,9
Total liabilities and equity at 31 December	2,409,656	2,634,1

For the year ended 31 December	2015	2
	US\$ m	USS
Retail banking and wealth management	584,872	583,
Commercial Banking	361,701	361,
Global Banking and Markets	261,728	319,
Global Private Banking	80,404	85,
Other	881	
Total	1,289,586	1,350,

Group Performance Ratios (%)	2015 As at	2014 As at
	31 December	31 December
Tier 1 ratio	13.9	12.5
Total Capital ratio	17.2	15.6
Pre-tax return on average risk-weighted assets	1.6	1.5
Return on average ordinary shareholder's equity	7.2	7.3

*On 1 January 2015, CRD IV and presented on this basis.	came into force and the calculation of capita	l resources and risk-weighted	assets at 31 December 2015 are calculated

Consolidated Statement of Changes in Equity for the year ended 31 December 2015											
						Other	Reserves				
	Called-up share capital US\$m	Share premium US\$m	Other equity instru- ments US\$m	Retained earnings US\$m	Available- for-sale fair value reserve US\$m	Cash flow hedging reserve US\$m	Foreign exchange reserve US\$m	Merger reserve US\$m	Total share- holders equity US\$m	Non- controlling interests US\$m	Total equity US\$m
At 1 January 2015 Profit for the year Other comprehensive income (net of tax)	9,609 - -	11,918 - -	11,532	137,144 13,522 73	2,143 - (2,332)	58 - (24)	(9,265) - (10,779)	27,308 - -	190,447 13,522 (13,062)	9,531 1,574 (887)	199,978 15,096 (13,949)
available-for-sale investments     cash flow hedges     remeasurement of defined benefit asset/liability     share of other comprehensive income of associates and	- - -	- - -	-	- - 82	(2,332)	(24) -	- - -	-	(2,332) (24) 82	(740) - 19	(3,072) (24) 101
joint ventures – exchange differences		_		(9)	_	_	(10,779)		(9) (10,779)	(166)	(9) (10,945)
Total comprehensive income for the year  Shares issued under employee remuneration and share plans Shares issued in lieu of dividends and amounts arising	45	691	-	13,595 (589)	(2,332)	(24)	(10,779)	_	460 147	687	1,147
Capital securities issued Dividends to shareholders Cost of share-based payment arrangements Other movements	188 - - - -	(188) - - - -	3,580 - - -	3,162 (10,660) 757 567	- - - -	- - - -	- - - -	-	3,162 3,580 (10,660) 757 567	(697) - (463)	3,162 3,580 (11,357) 757 104
At 31 December 2015	9,842	12,421	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058	197,518

Financial assets	Held-for- trading- US\$m	Designated at fair value US\$m	Held-to- maturity securities US\$m	Available- for-sale securities US\$m	Financial assets and liabilities at amortised cost US\$	Derivatives designated as hedging instruments US\$m	Tota US\$1
Cash and balances at central banks					98,934		98,93
Items in the course of collection from other banks	_	_	_	_	5,768	-	5,76
	_	_	-	-	28,410	-	28,41
Hong Kong Government certificates of indebtedness Trading assets	224,837	_	_	_	20,410	-	224,83
Financial assets designated at fair value	224,037	23,852	_		_	_	23,85
Derivatives	285,678	23,632	_	_	_	2,798	288,47
Loans and advances to banks	265,076	_	_	_	90,401	2,798	90,40
Loans and advances to customers					924,454		924,45
Reverse repurchase agreements - non-trading	_	_		_	146,255		146.25
Financial investments	_		44,102	384,853	140,255	_	428.95
Accrued income and other financial assets	_	_		- 504,055	149,314	_	149,31
	510,515	23,852	44,102	384,853	1,443,536	2,798	2,409,65
Financial liabilities	510,515	23,852	44,102	364,653	1,443,530	2,/98	2,409,63
Hong Kong currency notes in circulation	_	_	_	_	28,410	_	28,41
Deposits by banks				_	54,371	_	54,37
Customer accounts	_	_	_	_	1,289,586	_	1,289,58
Repurchase agreements-non-trading	_	_	_	_	80,400	_	80,40
Items in the course of transmission to other banks	_	_	_	_	5,638	_	5,63
Trading liabilities	141,614	_	_	_		_	141,61
Financial liabilities designated at fair value	-	66,408	_	_	_	_	66,40
Derivatives	276,558		_	_	_	4,513	281.07
Debt securities in issue	_	_	_	_	88,949	_	88,94
Accruals and other financial liabilities	_	_	-	_	152,989	_	152,98
Subordinated liabilities		_	_	_	22,702	_	22,70
	418,172	66,408	-	_	1,723,045	4,513	2,212,13

# SUMMARY OF HSBC HOLDINGS PLC CORPORATE GOVERNANCE REPORT 2015

The information set out below and information incorporated by reference is a summary of the Corporate Governance Report of HSBC Holdings plc ('HSBC') contained on pages 249 to 280 of the Annual Report and Accounts 2015 (the 'Annual Report').

**Board of Directors** 

The Board of Directors of HSBC Holdings (the 'Board') aims to promote the long-term success of the Company and deliver sustainable value to its shareholders. Led by the Group Chairman, the Boards sets the strategy and risk appetite for the Group and approves capital and operating plans presented by management for the achievement of the strategic objectives. Implementation of the strategy is delegated to the Group Chief Executive.

#### Powers of the Board

The Board is responsible for overseeing the management of HSBC globally and, in so doing, may exercise its powers, subject to any relevant laws and regulations and to the Articles. The adopted terms of reference which are available at www.hsbc.com/about-hsbc/leadership. The Board reviews its terms of reference annually.

# Group Management Board (GMB)

The Group Management Board (GMB) chaired by the Group CEO, is a management forum providing recommendations and advice requested by the Group CEO, to assist him in his management of the day to day operations of HSBC Holdings plc and its subsidiaries pursuant to the authority delegated to him by the Board of Directors.

The Group Chief Risk officer, operating under the delegated authority of the Group CEO, chairs regular Risk Management Meetings of the GMB (RMM'). The RMMs provide strategic direction and oversight of enterprise-wide management of all risks and establish, maintain and periodically review the policy and guidelines for the management of risk within the Group.

### **Group Audit Committee (GAC)**

The Group Audit Committee is responsible for monitoring the integrity of financial statements, overseeing the internal control systems relating to financial reporting and monitoring and reviewing the effectiveness of the Global Internal Audit function. As a part of its role, it is responsible for reviewing the Company's financial and accounting policies and practices, oversight

and remuneration of the external auditor and making recommendations to the Board on the appointment of the external auditor and reviewing with management steps for recovery and resolution planning.

### Group Risk Committee (GRC)

The GRC is responsible for advising the Board on high level risk-related matters and risk governance, including current and forward looking risk exposures, future risk strategy and management of risk within the Group.

It is responsible for advising the Board on risk appetite and risk tolerance, reviewing the effectiveness of the Group's risk management systems framework and internal control systems (other than internal financial control systems which is the responsibility of the GAC), monitoring executive control and management of risk including top and emerging risks, and advising the Group Remuneration Committee on the alignment of remuneration with risk appetite.

### **Group Remuneration Committee**

The Group Remuneration Committee is responsible for setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and remuneration of executive Directors and other senior Group employees.

As part of its role, it regularly reviews the effectiveness of the remuneration policy of the Company and its subsidiaries in the context of consistent and effective risk management. No Directors are involved in deciding their own remuneration.

### **Nomination Committee**

The Committee regularly reviews the structure, size and composition of the Board including the balance of skills, knowledge, experience and diversity. It has non-executive responsibility for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board.

#### **Conduct and Values Committee**

The Conduct & Values Committee is responsible for policies, procedures and standards to ensure that the Group conducts business responsibly and consistently adheres to HSBC Values. The committee will also ensure that in the conduct of its business, the Group treats customers fairly and openly, does business with the right clients and in the right way, is a responsible employer, acts responsibly towards the communities in which it operates and treats other stakeholders fairly.

### Internal Control

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the aggregate level and types of risks it is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and PRA Handbook, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication. These procedures can only provide reasonable but not absolute assurance against material mis-statement, errors, losses or fraud.

# Financial Reporting

The Group's financial reporting process for preparing the consolidated Annual Report and Accounts 2015 is controlled using documented accounting policies and reporting formats, supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Group Finance to all reporting entities within HSBC in advance of each reporting period end. The submission of financial information from each reporting entity to Group Finance is subject to certification by the responsible financial officer, and analytical review procedures at reporting entity and Group levels.

#### Disclosure Committee

The Disclosure Committee reviews material public disclosures made by HSBC Holdings for any material errors, misstatements or omissions. The membership of the Disclosure Committee, which is chaired by the Group Company Secretary, includes the heads of Finance, Legal, Risk Communications and Investor Relations. The integrity of disclosures is underpinned by structures and processes within the Global Finance and Global Risk functions that support expert and rigorous analytical review of financial reporting complemented by certified reviews by heads of global businesses, global functions and certain legal entities.



The Hongkong and Shanghai Banking Corporation Limited - Sri Lanka is a licensed commercial bank supervised by the Central Bank of Sri Lanka. Issued by The Hongkong and Shanghai Banking Corporation Limited - Sri Lanka.

MOODY'S STANDARD & POOR'S RATING OUTLOOK RATING OUTLOOK RATING OUTLOOK Stable HSBC Holdings plc Shorter Term P-1