

# The Hongkong and Shanghai Banking Corporation Limited

Incorporated in the Hongkong SAR with limited liability

## HSBC Holdings plc

Consolidated Income Statement		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
Net interest income	29,813	32,531
– interest income	42,414	47,189
– interest expense	(12,601)	(14,658)
Net fee income	12,777	14,705
– fee income	15,669	18,016
– fee expense	(2,892)	(3,311)
Net trading income	9,452	8,723
– trading income excluding net interest income	8,066	6,948
– net interest income on trading activities	1,386	1,775
Net income/(expense) from financial instruments designated at fair value	(2,666)	1,532
– changes in fair value of long-term debt and related derivatives	(3,975)	863
– net income from other financial instruments designated at fair value	1,309	669
Gains less losses from financial investments	1,385	2,068
Dividend income	95	123
Net insurance premium income	9,951	10,355
Other operating income/(expense)	(971)	1,055
<b>Total operating income</b>	<b>59,836</b>	<b>71,092</b>
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,870)	(11,292)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>47,966</b>	<b>59,800</b>
Loan impairment charges and other credit risk provisions	(3,400)	(3,721)
<b>Net operating income</b>	<b>44,566</b>	<b>56,079</b>
Employee compensation and benefits	(18,089)	(19,900)
General and administrative expenses	(16,473)	(17,662)
Depreciation and impairment of property, plant and equipment	(1,229)	(1,269)
Amortization and impairment of intangible assets	(777)	(937)
Goodwill impairment of Global Private Banking – Europe	(3,240)	–
<b>Total operating expenses</b>	<b>(39,808)</b>	<b>(39,768)</b>
<b>Operating profit</b>	<b>4,758</b>	<b>16,311</b>
Share of profit in associates and joint ventures	2,354	2,556
<b>Profit before tax</b>	<b>7,112</b>	<b>18,867</b>
Tax expense	(3,666)	(3,771)
<b>Profit for the year</b>	<b>3,446</b>	<b>15,096</b>
Attributable to:		
– ordinary shareholders of the parent company	1,299	12,572
– preference shareholders of the parent company	90	90
– other equity holders	1,090	860
– non-controlling interest	967	1,574
<b>Profit for the year</b>	<b>3,446</b>	<b>15,096</b>
	\$	\$
Basic earnings per ordinary share	0.07	0.65
Diluted earnings per ordinary share	0.07	0.64

Consolidated Statement of Comprehensive Income		
For the year ended 31 December	2016	2015
	US\$m	US\$m
Profit for the year	3,446	15,096
Other comprehensive income/(expense)		
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</b>		
Available-for-sale investments	(299)	(3,072)
– fair value gains/(losses)	475	(1,231)
– fair value gains reclassified to the income statement	(895)	(2,437)
– amounts reclassified to the income statement in respect of impairment losses	71	127
– income taxes	50	469
Cash flow hedges	(68)	(24)
– fair value (losses)/gains	(297)	704
– fair value losses/(gains) reclassified to the income statement	195	(705)
– income taxes	34	(23)
Share of other comprehensive income/(expense) of associates and joint ventures	54	(9)
– share for the year	54	(9)
– reclassified to income statement on disposal	–	–
Exchange differences	(8,092)	(10,945)
– foreign exchange gains reclassified to income statement on disposal of a foreign operation	1,894	–
– other exchange differences	(9,791)	(11,112)
– Income tax attributable to exchange differences	(195)	167
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Remeasurement of defined benefit asset/liability	7	101
– before income taxes	(84)	130
– income taxes	91	(29)
Other comprehensive income for the year, net of tax	(8,298)	(13,949)
<b>Total comprehensive income for the year</b>	<b>(4,952)</b>	<b>1,147</b>
Attributable to:		
– ordinary shareholders of the parent company	(6,968)	(490)
– preference shareholders of the parent company	90	90
– other equity holders	1,090	860
– non-controlling interests	836	687
<b>Total comprehensive income for the year</b>	<b>(4,952)</b>	<b>1,147</b>

Loans and advances to other Customers		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
Gross Loan Receivables	869,354	934,009
(Less) Individual Impairment	(4,932)	(5,402)
Collective Impairment	(2,918)	(4,153)
Net loans and receivables including those designated at fair value through profit or loss	861,504	924,454
(Less) Loans and receivables designated at fair value through profit or loss	–	–
Net loans and receivables	861,504	924,454

Consolidated Statement of Cash Flows		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
<b>Profit before tax</b>	<b>7,112</b>	<b>18,867</b>
<b>Adjustments for non-cash items:</b>		
Depreciation, amortisation and impairment	5,212	2,181
Net gain from investing activities	(1,215)	(1,935)
Share of profits in associates and joint ventures	(2,354)	(2,556)
(Gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures	1,743	–
Loan impairment losses gross of recoveries and other credit risk provisions	4,090	4,546
Provisions including pensions	2,482	3,472
Share-based payment expense	534	757
Other non-cash items included in profit before tax	(207)	(191)
Elimination of exchange differences	15,364	18,308
<b>Changes in operating assets and liabilities</b>		
Change in net trading securities and derivatives	4,395	24,384
Change in loans and advances to banks and customers	52,868	32,971
Change in reverse repurchase agreements - non-trading	(13,138)	(3,011)
Change in financial assets designated at fair value	(1,235)	2,394
Change in other assets	(6,591)	9,090
Change in deposits by banks and customer accounts	(8,918)	(65,907)
Change in repurchase agreements - non-trading	8,558	(26,481)
Change in debt securities in issue	(23,034)	960
Change in financial liabilities designated at fair value	17,802	(10,785)
Change in other liabilities	8,792	(4,549)
Dividends received from associates	689	879
Contributions paid to defined benefit plans	(726)	(664)
Tax paid	(3,264)	(3,852)
<b>Net cash from operating activities</b>	<b>68,959</b>	<b>(1,122)</b>
Purchase of financial investments	(457,084)	(438,376)
Proceeds from the sale and maturity of financial investments	430,085	399,636
Net cash flows from the purchase and sale of property, plant and equipment	(1,151)	(1,249)
Net cash inflow/(outflow) from disposal of customer and loan portfolios	9,194	2,023
Net investment in intangible assets	(906)	(954)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	4,802	8
<b>Net cash from investing activities</b>	<b>(15,060)</b>	<b>(38,912)</b>
Issue of ordinary share capital and other equity instruments	2,024	3,727
Net sales/(purchases) of own shares for market-making and investment purposes	523	331
Purchase of treasury shares	(2,510)	–
Redemption of preference shares and other equity instruments	(1,825)	(463)
Subordinated loan capital issued	2,622	3,180
Subordinated loan capital repaid	(595)	(2,157)
Dividends paid to shareholders of the parent company and non-controlling interests	(9,157)	(8,195)
Net cash from financing activities	(8,918)	(3,577)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>44,981</b>	<b>(43,611)</b>
Cash and cash equivalents at 1 Jan	243,863	301,301
Exchange differences in respect of cash and cash equivalents	(14,294)	(13,827)
<b>Cash and cash equivalents at 31 Dec</b>	<b>274,550</b>	<b>243,863</b>

Movements in Individual and Collective Impairment during the period of Loans and Receivables to Other Customers		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
<b>Individual Impairment</b>		
Opening Balance	5,402	6,195
Charge to income statement	1,831	1,516
Write-off during the year	(1,831)	(1,368)
Recoveries of loans and advances previously written off	107	86
Exchange and other movements	(577)	(1,027)
Closing Balance	4,932	5,402
<b>Collective Impairment</b>		
Opening Balance	4,153	6,142
Charge to income statement	1,519	2,087
Write-off during the year	(1,607)	(2,826)
Recoveries of loans and advances previously written off	520	722
Exchange and other movements	(1,667)	(1,972)
Closing Balance	2,918	4,153
Total Impairment	7,850	9,555

Loans and advances to other customers - by Product		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
<b>Personal</b>	<b>339,798</b>	<b>374,082</b>
– first lien residential mortgages	249,778	274,511
– other personal	90,020	99,571
<b>Corporate and commercial</b>	<b>465,827</b>	<b>499,513</b>
– manufacturing	80,643	95,858
– international trade and services	150,042	159,019
– commercial real estate	64,171	67,926
– other property-related	55,638	53,464
– government	8,442	7,455
– other commercial	106,891	115,791
<b>Financial</b>	<b>63,729</b>	<b>60,414</b>
– non-banking financial institutions	63,729	60,414
<b>Total gross loans and receivables to customers</b>	<b>869,354</b>	<b>934,009</b>

Consolidated Balance Sheet		
As at 31 December	2016	2015
	US\$ m	US\$ m
<b>Assets</b>		
Cash and balances at central banks	128,009	98,934
Items in the course of collection from other banks	5,003	5,768
Hong Kong Government certificates of indebtedness	31,228	28,410
Trading assets	235,125	224,837
Financial assets designated at fair value	24,756	23,852
Derivatives	290,872	288,476
Loans and advances to banks	88,126	90,401
Loans and advances to customers	861,504	924,454
Reverse repurchase agreements - non-trading	160,974	146,255
Financial investments	436,797	428,955
Assets held for sale	4,389	43,900
Prepayments, accrued income and other assets	59,520	54,398
Current tax assets	1,145	1,221
Interests in associates and joint ventures	20,029	19,139
Goodwill and intangible assets	21,346	24,605
Deferred tax assets	6,163	6,051
<b>Total assets at 31 December</b>	<b>2,374,986</b>	<b>2,409,656</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Hong Kong currency notes in circulation	31,228	28,410
Deposits by banks	59,939	54,371
Customer accounts	1,272,386	1,289,586
Repurchase agreements - non-trading	88,958	80,400
Items in the course of transmission to other banks	5,977	5,638
Trading liabilities	153,691	141,614
Financial liabilities designated at fair value	86,832	66,408
Derivatives	279,819	281,071
Debt securities in issue	65,915	88,949
Liabilities of disposal groups held for sale	2,790	36,840
Accruals, deferred income and other liabilities	41,501	38,116
Current tax liabilities	719	783
Liabilities under insurance contracts	75,273	69,938
Provisions	4,773	5,552
Deferred tax liabilities	1,623	1,760
Subordinated liabilities	20,984	22,702
<b>Total liabilities at 31 December</b>	<b>2,192,408</b>	<b>2,212,138</b>
<b>Equity</b>		
Called up share capital	10,096	9,842
Share premium account	12,619	12,421
Other equity instruments	17,110	15,112
Other reserves	(1,234)	7,109
Retained earnings	136,795	143,976
Total shareholders' equity	175,386	188,460
Non-controlling interests	7,192	9,058
<b>Total equity at 31 December</b>	<b>182,578</b>	<b>197,518</b>
<b>Total liabilities and equity at 31 December</b>	<b>2,374,986</b>	<b>2,409,656</b>

Due to Other Customers - by Product		
For the year ended 31 December	2016	2015
	US\$ m	US\$ m
Retail banking and wealth management	590,502	584,872
Commercial Banking	341,729	361,701
Global Banking and Markets	256,095	261,728
Global Private Banking	69,850	80,404
Other	14,210	881
<b>Total</b>	<b>1,272,386</b>	<b>1,289,586</b>

Group Performance Ratios (%)		
	2017	2016
	As at 30 June	As at 31 December
Common equity tier 1 ratio	14.7	13.6
Total capital ratio	21.0	20.1
Pre-tax return on average risk-weighted assets*	2.4	0.7
Return on average ordinary shareholder's equity*	8.8	0.8

\*The 2017 pre-tax return on average risk-weighted assets and return on average ordinary shareholder's equity are calculated on an annualised basis.

Consolidated Statement of Changes in Equity for the year ended 31 December										
	Called-up share capital and share premium US\$m	Other equity instruments US\$m	Retained earnings US\$m	Other Reserves				Total shareholders' equity US\$m	Non-controlling interests US\$m	Total equity 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			
<b>At 1 January 2016</b>	22,263	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058	197,518
Profit for the year	–	–	2,479	–	–	–	2,479	967	3,446	3,446
Other comprehensive income (net of tax)	–	–	59	(271)	(61)	(7,994)	–	(8,267)	(131)	(8,398)
– available-for-sale investments	–	–	–	(271)	–	–	–	(271)	(28)	(299)
– cash flow hedges	–	–	–	–	(61)	–	–	(61)	(7)	(68)
– remeasurement of defined benefit asset/liability	–	–	5	–	–	–	–	5	2	7
– share of other comprehensive income of associates and joint ventures	–	–	–	–	–	–	–	–	–	–
– foreign exchange reclassified to income statement on disposal of a foreign operation	–	–	54	–	–	–	–	54	–	54
– exchange differences	–	–	–	–	–	–	–	–	–	–
<b>Total comprehensive income for the year</b>	–	–	2,538	(271)	(61)	(7,994)	–	(5,788)	836	(4,952)
Shares issued under employee remuneration and share plans	452	–	(425)	–	–	–	–	27	–	27
Shares issued in lieu of dividends and amounts arising thereon	–	–	3,040	–	–	–	–	3,040	–	3,040
Net increase in treasury shares	–	–	(2,510)	–	–	–	–	(2,510)	–	(2,510)
Capital securities issued	–	1,998	–	–	–	–	–	1,998	–	1,998
Dividends to shareholders	–	–	(11,279)	–	–	–	–	(11,279)	(919)	(12,198)
Cost of share-based payment arrangements	–	–	534	–	–	–	–	534	–	534
Other movements	–	–	921	(17)	–	–	–	904	(1,783)	(879)
<b>At 31 December 2016</b>	<b>22,715</b>	<b>17,110</b>	<b>136,795</b>	<b>(477)</b>	<b>(27)</b>	<b>(28,038)</b>	<b>27,308</b>	<b>175,386</b>	<b>7,192</b>	<b>18</b>