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 2018 2017 US\$ m 30,489 49,609 US\$ m 28,176 40,995 Net interest income - interest income - interest expense (19,120) (12,819) Net fee incom – fee income 12.620 16,044 15,853 fee expense (3,424) (3,042) Net income from financial instruments held for trading or managed n a fair value basis Net income/(expense) from assets and liabilities of insurance 9,531 8,426 businesses, including related dervatives, measured at fair value through profit or loss (1,488)2,836 - Changes in fair value of long-term debt and related derivatives - Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss (97) 155 695 N/A Gains less losses from financial investments 218 1,150 106 9,779 Dividend income 75 Net insurance premium income 10,659 Other operating income/(expense) 885 337 **Total operating income** 63,587 63,776 Net insurance claims and benefits paid and movement in liabilities to policyholders Net operating income before change in expected credit losses and (9,807) (12,331) other credit impairment charges/Loan impairment charges and other credit risk provisions Change in expected credit losses and other credit impairment charges 53,780 51,445 (1,767) (1,769) Loan impairment charges and other credit risk provisions N/A Net operating income 52,013 49,676 Employee compensation and benefits General and administrative expenses (17,373) (15,353) (17,315 (15,707 Depreciation and impairment of property, plant and equipment (1,119) (1,166 Amortization and impairment of intangible assets (814) (696) Goodwill impairment of Global Private Banking - Europe Total operating expenses (34,659) (34,884) 17,354 **Operating profit** 14,792 Share of profit in associates and joint ventures 2,536 2,375 19,890 (4,865) 15,025 Profit before tax 17,167 (5,288 Tax expense Profit for the year 11,879 Attributable to - ordinary shareholders of the parent company 12,608 9,683 preference shareholders of the parent company 90 1,025 1,029 other equity holders - non-controlling interest 1,298 1,081 Profit for the year 15,025 11,879 Basic earnings per ordinary share Diluted earnings per ordinary share 0.63 0.48 0.48 0.63 **Consolidated Statement of Comprehensive Income** For the year ended 31 December 2017 2018 US\$ m US\$ m Profit for the year 15,025 11,879 Other comprehensive income/(expense) Items that will be reclassified subsequently to profit or loss when specific conditions are met: Available-for-sale investments N/A N/A N/A N/A 146 1,227 (1,033) 93 - fair value gains - fair value gains reclassified to the income statement - amounts reclassified to the income statement in respect of impairment losses (141)Debt instruments at fair value through other comprehensive income (243) (168) N/A N/A - fair value gain transferred to the income statement on disposal - expected credit losses recognised in the income statement - income taxes (95) (94) 114 N/A N/A N/A Cash flow hedges 19 (267) (192) (1,046) - fair value losses - fair value losses reclassified to the income statement - income taxes and other movements 317 (31) 833 21 Share of other comprehensive income/(expense) of associates and joint ventures – share for the year (43) (64) (64) Exchange differences (9,077) (7,156) konange cinterences foreign exchange gains reclassified to income statement on disposal of a foreign operation other exchange differences Income tax attributable to exchange differences (8,939) 138 (7,156) Items that will not be reclassified subsequently to profit or loss: Remeasurement of defined benefit asset/liability (329) (388) 59 2,419 3,440 (1,021) before income taxes income taxes Changes in fair value of financial liabilities designated at fair value upon 2,847 (2,024) nitial recognition arising from changes in own credit risk – before income taxes 3,606 (2,409) income taxes (759) 385 Equity instruments designated at fair value through other comprehensive incom – fair value losses N/A N/A (27) (71) - income taxes 44 N/A Effects of hyperinflation 283 N/A Other comprehensive income/(expense) for the year, net of tax (4,670) 9,383 Total comprehensive income/(expense) for the year Attributable to: – ordinary shareholders of the parent company – preference shareholders of the parent company of the servity helders 10,355 21,262 18,914 8,083 90 other equity holders 1,029 1,153 1,025 non-controlling interests 1,233 Total comprehensive income/(expenses) for the year 10,355 21,262 Loans and advances to customers (net) - By business For the year ended 31 December 2018 2017 US\$ m US\$ m Retail banking and wealth management 361,872 332,261 Commercial Banking 333,162 305,213 Global Banking and Markets 244,978 244,476 **Global Private Banking** 39,217 39,597

	2018 US\$ m	2017 US\$ m
Profit before tax Adjustments for non-cash items:	19,890	17,167
Depreciation and amortisation	1,933	1,862
Net (gain)/loss from investing activities	(126)	(1,152)
Share of profits in associates and joint ventures	(2,536)	(2,375)
(Gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures Change in expected credit losses gross of recoveries and other credit impairment charges	- 2,280	(79) N/A
oan impairment losses gross of recoveries and other credit impairment charges	2,200 N/A	2,603
Provisions including pensions	1,944	917
Share-based payment expense	450	500
Other non-cash items included in profit before tax	(1,303)	(381)
Elimination of exchange differences	7,299	(21,289)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	10,716	(10,901)
Change in loans and advances to banks and customers	(44,071)	(108,984)
Change in reverse repurchase agreements - non-trading Change in financial assets designated and otherwise mandatorily measured at fair value	(40,499) (1,515)	(37,281) (5,303)
Change in other assets	4,047	(6,570)
Change in deposits by banks and customer accounts	(5,745)	102,211
Change in repurchase agreements - non-trading	35,882	41,044
Change in debt securities in issue	18,806	(1,369)
Change in financial liabilities designated at fair value	4,500	8,508
Change in other liabilities	(2,644)	13,514
Dividends received from associates	910	740
Contributions paid to defined benefit plans	(332)	(685)
Tax paid	(3,417)	(3,175)
Net cash from operating activities	6,469	(10,478)
Purchase of financial investments	(383,454)	(357,264)
Proceeds from the sale and maturity of financial investments	370,357	418,352
Net cash flows from the purchase and sale of property, plant and equiptment	(1,196)	(1,167)
Net cash inflow from disposal of customer and loan portfolios	(204)	6,756
Net investment in intangible assets	(1,848)	(1,285)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	4	165
Net cash from investing activities	(16,341)	65,557
Issue of ordinary share capital and other equity instruments	6,001	5,196
Cancellation of shares Net sales/(purchases) of own shares for market-making and investment purposes	(1,998)	(3,000) (67)
Purchase of treasury shares		(07)
Redemption of preference shares and other equity instruments	(6,078)	_
Subordinated loan capital issued	-	-
Subordinated loan capital repaid	(4,077)	(3,574)
Dividends paid to shareholders of the parent company and non-controlling interests	(10,762)	(9,005)
Net cash from financing activities	(16,781)	(10,450)
Net increase/(decrease) in cash and cash equivalents	(26,653)	44,629
Cash and cash equivalents at 1 Jan	337,412	274,550
Exchange differences in respect of cash and cash equivalents Cash and cash equivalents at 31 Dec	(9,677) 301,082	18,233 337,412
Cash and cash equivalents at 51 Dec	301,082	337,412
 Cash and balances at central banks 	162,843	180,624
 items in the course of collection from other banks 	5,787	6,628
– loans and advances to banks of one month or less	47,878	82,771
- reverse repurchase agreements with banks of one month or less	59,602	58,850
- treasury bills, other bills and certificates of deposit less than three month	s 30,613	15,389
- less: items in the course of transmission to other banks	(5,641)	(6,850)
Cash and cash equivalents at 31 Dec	301,082	337,412
	nents in IFRS 9	are applied
Summary of financial instruments to which the impairment require		
Summary of financial instruments to which the impairment require	201 As a	at As
Summary of financial instruments to which the impairment require	As a 31 December	er 1 Janua
Summary of financial instruments to which the impairment require	As a 31 Decembr Allowance fo	er 1 Janua or Allowance f
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Loans and advances to customers at amortised cost – personal – coporate and commercial – non-bank financial institutions Loans and advances to banks at amortised cost Other financial assets measured at amortised cost	As 31 December Allowance fr EC USS 1 (8,62 (2,94 (5,55 (12) (12) (12) (12) (12) (13) (14) (15) (14) (15	er 1 Janua or Allowance f C Ec m US\$ 25) (9,34 37) (3,04 52) (6,05 26) (24 33) (2 55) (11
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As at 31 December	2018	20
	US\$ m	US\$
Assets		
Cash and balances at central banks	162,843	180,6
Items in the course of collection from other banks	5,787	6,6
Hong Kong Government certificates of indebtedness	35,859	34,1
Trading assets	238,130	287,9
Financial assets designated and otherwise mandatorily measured at fair		
value through profit or loss	41,111	N
Financial assets designated at fair value	N/A	29,4
Derivatives	207,825	219,8
Loans and advances to banks	72,167	90,3
Loans and advances to customers	981,696	962,9
Reverse repurchase agreements - non-trading	242,804	201,5
Financial investments	407,433	389,0
Prepayments, accrued income and other assets	110,571	67,1
Current tax assets	684 22.407	1,0
Interests in associates and joint ventures Goodwill and intangible assets	22,407 24,357	22,7 23,4
Deferred tax assets	4,450	23,4
Total assets	2,558,124	2,521,7
Liabilities and equity		
Liabilities		
Hong Kong currency notes in circulation	35,859	34,1
Deposits by banks	56,331	69,9
Customer accounts	1,362,643	1,364,4
Repurchase agreements - non-trading	165,884	130,0
Items in the course of transmission to other banks	5,641	6,8
Trading liabilities	84,431	184,3
Financial liabilities designated at fair value Derivatives	148,505 205,835	94,4
Defivatives Debt securities in issue	205,835 85,342	216,8 64,5
Accruals, deferred income and other liabilities	97,380	45,9
Current tax liabilities	718	43,5
Liabilities under insurance contracts	87,330	85,6
Provisions	2,920	4,0
Deferred tax liabilities	2,619	1,9
Subordinated liabilities	22,437	19,8
Total liabilities	2,363,875	2,323,9
Equity		
Called up share capital	10,180	10,1
Share premium account	13,609	10,1
Other equity instruments	22,367	22,2
Other reserves	1,906	7,6
Retained earnings	138,191	139,9
Total shareholders' equity	186,253	190,2
Non-controlling interests	7,996	7,6
Total equity	194,249	197,8
Total liabilities and equity	2,558,124	2,521,7
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Customers Accounts - by Business		
or the year ended 31 December	2018	20
of the year ended of December	US\$ m	US\$
	0.10.004	639,5
	640,924	
Retail banking and wealth management Commercial Banking	357,596	362,9
Retail banking and wealth management Commercial Banking Global Banking and Markets	357,596 290,914	283,9
Retail banking and wealth management Commercial Banking	357,596 290,914 64,658	283,9 66,5
Retail banking and wealth management Commercial Banking Slobal Banking and Markets Slobal Private Banking	357,596 290,914	

	2018	201
	As at	As
	31 December	31 Decembe
Common equity tier 1 ratio	14.0	14
Tier 1 ratio	16.6	16
Total capital ratio	19.4	18
Pre-tax return on average risk-weighted assets	2.3	2
Return on average ordinary shareholder's equity	7.7	5
Return on average tangible equity	8.6	6

consolidated Statement of Changes in Equity for the year ended 31 December							Analysis of Financial Assets and Liabilities by Measurement Basis As at 31 December 2018								
			Other a:		Other F Cash flow	Other Reserves		Total r share-	Non-			Amortised cost US\$ m	Fair value through profit or loss US\$ m	Fair value through other comphrehensive income US\$ m	Tota US\$ r
	and share premium US\$ m	equity instruments US\$ m	Retained earnings US\$ m	FVOCI reserve US\$ m	hedging reserve US\$ m	exchange reserve US\$ m	and other reserve US\$ m	holders' equity US\$ m	controlling interests US\$ m	Total equity US\$ m	Financial assets Cash and balances at central banks Items in the course of collection from other banks Hong Kong Government certificates of indebtedness	162,843 5,787 35,859			162,843 5,78 35,855
As at 31 December 2017 Impact on transition to IFRS 9 At 1 Jan 2018 Profit for the year	20,337 20,337 	22,250 22,250 	(585)	(350) (1,021) (1,371)	(222) 	(19,072) 	27,308 27,308 	190,250 (1,606) 188,644 13,727	7,621 (41) 7,580 1,298	197,871 (1,647) 196,224 15,025	Trading assets Financial assets designated and otherwise mandatorily measured at fair value through profit or loss Derivatives	238,130	41,111 207,825		238,13 41,11 207.82
Other comprehensive income (net of tax) – debt instruments at fair value through other comprehensive income – equity instruments designated at fair value through		-	2,765	(245)	- 16	(7,061)	-	(4,525)	(145)	(4,670)	Loans and advances to banks Loans and advances to customers Reverse repurchase agreements - non-trading Financial investments	72,167 981,696 242,804 407,433			72,16 981,69 242,80 407,43
other comprehensive income – cash flow hedges – changes in fair value of financial liabilities designated		=	=	-	_ 16		-	_ 16	(27) 3	(27) 19	Prepayments, accrued income and other assets Current tax assets Interests in associates and joint ventures Goodwill and intancible assets	110,571 684 22,407 24,357			110,5 6 22,4 24,3
at fair value upon initial recognition arising from changes in own credit risk – remeasurement of defined benefit asset/liability – share of other comprehensive income of associates and	_	-	2,847 (301)	-	-		-	2,847 (301)	(28)	2,847 (329)	Deferred tax assets	4,450 2,309,188	248,936		2,558,1
joint ventures – effects of hyperinflation – exchange differences		-	(64) 283 -			(7,061)		(64) 283 (7,061)	_ _ (95)	(64) 283 (7,156)	Hong Kong currency notes in circulation Deposits by banks Customer accounts	35,859 56,331 1,362,643			35,8 56,3 1,362,6
Total comprehensive income for the year Shares issued under employee remuneration and share plans Shares issued in lieu of dividends and amounts arising thereon	721	-	16,492 (610) 1,494	(245)	- 16	(7,061)		9,202 111 1,494	1,153	10,355 111 1,494	Repurchase agreements-non-trading Items in the course of transmission to other banks Trading liabilities Financial liabilities designated at fair value	165,884 5,641	84,431	148,505	165,88 5,64 84,43 148,50
Shares issued in lieu of dividends and amounts arising thereon Capital securities issued Dividends to shareholders Redemption of securities		_ 5,968 _ (5,851)	(11,547) (237)					1,494 5,968 (11,547) (6,088)	_ _ (710) _	5,968 (12,257) (6,088)	Derivatives Debt securities in issue Accruals, deferred income and other liabilities Current tax liabilities	205,835 85,342 97,380			205,83 85,34 97,31 7
Transfers Cost of share-based payment arrangements Cancellation of shares	_ _ 2,731		(2,200) 450 (4,998)			- - -	2,200 269	450 (1,998)		450 (1,998)	Current tax liabilities Liabilities under insurance contracts Provisions Deferred tax liabilities	718 87,330 2,920 2,619			7 87,3 2,9 2.6
Other movements At 31 December 2018	23,789		(67) 138,191	84 (1,532)	(206)	(26,133)	 29,777	17 186,253	(27) 7,996	(10) 194,249	Subordinated liabilities	22,437 2,130,939	84.431	148,505	22,4

The financial information summarised above has been extracted from HSBC Holdings plc annual report for the year ended 31 December 2018

2,467

928,841

981,696

SUMMARY OF HSBC HOLDINGS PLC CORPORATE GOVERNANCE REPORT 2018

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 152 to 165 of the Annual Report and Accounts 2018 (the 'Annual Report').

Board of Directors

Corporate Centre

Total

The Board aims to promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the Group Chairman, the Board sets the Group's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives, on the recommendation of management.

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, regulations and HSBC Holdings' Articles of Association (the 'Articles of Association'). Certain matters are reserved for the Board for its approval. These include: the review and approval of annual operating plans; risk appetite; performance targets; credit or market risk limits; acquisitions; disposals; investments; capital expenditure or realisation or creation of a new venture that exceed certain thresholds; specified senior appointments; and any substantial change in balance sheet management policy.

Group Management Board (GMB)

The Group Management Board is a forum chaired by the Group Chief Executive to provide him with recommendations and advice, and assist him in his day-to-day management of HSBC and its subsidiaries as delegated by the Board. There are special meetings of the GMB that provide oversight of risk matters (the Risk Management Meeting, chaired by the Group Chief Risk Officer) and of financial crime risk (the Financial Crime Risk Management Meeting, chaired by the Group Head of Financial Crime Risk).

Group Audit Committee (GAC)

HSBC

The GAC has responsibility, delegated to it from the Board, for overseeing all matters relating to external financial reporting. This responsibility encompasses the Annual Report and Accounts, quarterly reporting, analyst presentations and Pillar 3 disclosures.

Group Risk Committee (GRC)

The Group Risk Committee has non-executive responsibility for the oversight of enterprise risk management, risk governance and internal control systems (other than internal financial controls volraeabilities Committee ('FSVC') which is the Board committee responsible for overseeing risks relating to financial crime, anti-bribery and corruption. The FSVC reports second order risks to the GRC. Appropriate linkages and information flows between these committees are further enhanced by cross-membership and close engagement of the members and the committee attendees. In April 2018, the GRC assumed responsibility for the oversight of cyber-crime risk and information security risk from the FSVC and people risk and employee conduct from the Conduct & Values Committee.

Financial System Vulnerabilities Committee (FSVC)

The Committee has non-executive responsibility for the oversight of matters related to financial crime and system abuse, in particular anti-money laundering, sanctions, terrorist financing and proliferation financing, anti-bribery and corruption and cybersecurity. It is also responsible for monitoring, reviewing and advising the Board on the effectiveness of the policies and procedures established by management to ensure that HSBC meets its obligations to regulatory and law enforcement agencies.

Group Remuneration Committee

The Committee is responsible for setting the over-arching principles, parameters and governance framework of the Group's remuneration policy, and the remuneration of executive Directors and other senior Group employees. The Committee regularly reviews the Group's remuneration policy in the context of consistent and effective risk management and the regulatory requirements of multiple jurisdictions. No Directors are involved in deciding their own remuneration

Nomination and Corporate Governance Committee

The Committee leads the Board appointment process, agrees the criteria for any appointments and engages independent external search consultants, as required. At the conclusion of this process, the Committee will nominate potential candidates for appointment to the Board. In discharging its responsibilities, the Committee regularly reviews the Board's structure, size and composition, including skills, knowledge, independence and diversity represented on the Board so as to ensure it is

aligned with the Group's strategic priorities. The Committee now oversees the Group's corporate governance framework, providing recommendations to the Board to ensure the framework rer robust and reflects best practice.

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 the Group is willing to take in achieving its strategic objectives. To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Handbook, procedures have been designed for safeguarding assets against unauthorized 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 assurance against material mis-statement, errors, losses or fraud.

Financial Reporting

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

Disclosure Committee

The Disclosure Committee, which is chaired by the Group Company Secretary, supports the discharge of the Group's obligations under relevant legislation and regulation including the UK and Hong Kong Listing Rules, the Market Abuse Regulation and SEC rules. In so doing the Committee is empowered to (i) determine whether a new event or circumstances should be disclosed, including the form and timing of such disclosure and (ii) review all material disclosures made or to be made by the Group. The integrity of disclosures is underpinned by structures and processes within the Global Finance and Global Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records.

		FITCH		MOOD	″S	STANDARD & POOR'S		
		RATING	OUTLOOK	RATING	OUTLOOK	RATING	OUTLOOK	
HSBC Holdings plc	Long Term/Senior	AA-	Rating watch Negative	A2	Stable	А	Stable	
	Shorter Term	F1+	P-1		A-1			