

# 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 US\$ m	2017 US\$ m
Net interest income	30,489	28,176
– interest income	49,609	40,995
– interest expense	(19,120)	(12,819)
Net fee income	12,620	12,811
– fee income	16,044	15,853
– fee expense	(3,424)	(3,042)
Net income from financial instruments held for trading or managed on a fair value basis	9,531	8,426
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(1,488)	2,836
– Changes in fair value of long-term debt and related derivatives	(97)	155
– Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	695	N/A
Gains less losses from financial investments	218	1,150
Dividend income	75	106
Net insurance premium income	10,659	9,779
Other operating income/(expense)	885	337
<b>Total operating income</b>	<b>63,587</b>	<b>63,776</b>
Net insurance claims and benefits paid and movement in liabilities to policyholders	(9,807)	(12,331)
<b>Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions</b>	<b>53,780</b>	<b>51,445</b>
Change in expected credit losses and other credit impairment charges	(1,767)	N/A
Loan impairment charges and other credit risk provisions	N/A	(1,769)
<b>Net operating income</b>	<b>52,013</b>	<b>49,676</b>
Employee compensation and benefits	(17,373)	(17,315)
General and administrative expenses	(15,353)	(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	–	–
<b>Total operating expenses</b>	<b>(34,659)</b>	<b>(34,884)</b>
<b>Operating profit</b>	<b>17,354</b>	<b>14,792</b>
Share of profit in associates and joint ventures	2,536	2,375
<b>Profit before tax</b>	<b>19,890</b>	<b>17,167</b>
Tax expense	(4,865)	(5,288)
<b>Profit for the year</b>	<b>15,025</b>	<b>11,879</b>
Attributable to:		
– ordinary shareholders of the parent company	12,608	9,683
– preference shareholders of the parent company	90	90
– other equity holders	1,029	1,025
– non-controlling interest	1,298	1,081
<b>Profit for the year</b>	<b>15,025</b>	<b>11,879</b>
	\$	\$
Basic earnings per ordinary share	0.63	0.48
Diluted earnings per ordinary share	0.63	0.48

Consolidated Statement of Comprehensive Income		
For the year ended 31 December	2018 US\$ m	2017 US\$ m
Profit for the year	15,025	11,879
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	N/A	146
– fair value gains	N/A	1,227
– fair value gains reclassified to the income statement	N/A	(1,033)
– amounts reclassified to the income statement in respect of impairment losses	N/A	93
– income taxes	N/A	(141)
Debt instruments at fair value through other comprehensive income	(243)	N/A
– fair value losses	(168)	N/A
– fair value gain transferred to the income statement on disposal	(95)	N/A
– expected credit losses recognised in the income statement	(94)	N/A
– income taxes	114	–
Cash flow hedges	19	(192)
– fair value losses	(267)	(1,046)
– fair value losses reclassified to the income statement	317	833
– income taxes and other movements	(31)	–
Share of other comprehensive income/(expense) of associates and joint ventures	(64)	(43)
– share for the year	(64)	(43)
Exchange differences	(7,156)	(9,077)
– foreign exchange gains reclassified to income statement on disposal of a foreign operation	–	–
– other exchange differences	(7,156)	(8,939)
– Income tax attributable to exchange differences	–	138
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Remeasurement of defined benefit asset/liability	(329)	2,419
– before income taxes	(388)	3,440
– income taxes	59	(1,021)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	2,847	(2,024)
– before income taxes	3,606	(2,409)
– income taxes	(759)	385
Equity instruments designated at fair value through other comprehensive income	(27)	N/A
– fair value losses	(71)	N/A
– income taxes	44	N/A
Effects of hyperinflation	283	N/A
<b>Other comprehensive income/(expense) for the year, net of tax</b>	<b>(4,670)</b>	<b>9,383</b>
<b>Total comprehensive income/(expense) for the year</b>	<b>10,355</b>	<b>21,262</b>
Attributable to:		
– ordinary shareholders of the parent company	8,683	18,914
– preference shareholders of the parent company	90	90
– other equity holders	1,029	1,025
– non-controlling interests	1,153	1,233
<b>Total comprehensive income/(expenses) for the year</b>	<b>10,355</b>	<b>21,262</b>

Loans and advances to customers (net) - By business		
For the year ended 31 December	2018 US\$ m	2017 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
Corporate Centre	2,467	7,294
<b>Total</b>	<b>981,696</b>	<b>928,841</b>

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 share-holders' equity US\$ m	Non-controlling interests US\$ m	Total equity US\$ m	
				Financial assets at FVOCI US\$ m	Cash flow hedging reserve US\$ m	Foreign exchange reserve US\$ m				Merger and other reserve US\$ m
As at 31 December 2017	20,337	22,250	139,999	(350)	(222)	(19,072)	27,308	190,250	7,621	197,871
Impact on transition to IFRS 9	–	–	(585)	(1,021)	–	–	–	(1,606)	(41)	(1,647)
At 1 Jan 2018	20,337	22,250	139,414	(1,371)	(222)	(19,072)	27,308	188,644	7,580	196,224
Profit for the year	–	–	13,727	–	–	–	–	13,727	1,298	15,025
Other comprehensive income (net of tax)	–	–	2,765	(245)	16	(7,061)	–	(4,525)	(145)	(4,670)
– debt instruments at fair value through other comprehensive income	–	–	–	(245)	–	–	–	(245)	2	(243)
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(27)	(27)
– cash flow hedges	–	–	–	–	16	–	–	16	3	19
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	2,847	–	–	–	–	2,847	–	2,847
– re-measurement of defined benefit asset/liability	–	–	(301)	–	–	–	–	(301)	(28)	(329)
– share of other comprehensive income of associates and joint ventures	–	–	–	(64)	–	–	–	–	(64)	(64)
– effects of hyperinflation	–	–	283	–	–	–	–	283	–	283
– exchange differences	–	–	–	–	–	(7,061)	–	(7,061)	(95)	(7,156)
<b>Total comprehensive income for the year</b>	–	–	16,492	(245)	16	(7,061)	–	9,202	1,153	10,355
Shares issued under employee remuneration and share plans	721	–	(610)	–	–	–	–	111	–	111
Shares issued in lieu of dividends and amounts arising thereon	–	–	1,494	–	–	–	–	1,494	–	1,494
Capital securities issued	–	5,968	–	–	–	–	–	5,968	–	5,968
Dividends to shareholders	–	–	(11,547)	–	–	–	–	(11,547)	(710)	(12,257)
Redemption of securities	–	(5,851)	(237)	–	–	–	–	(6,088)	–	(6,088)
Transfers	–	–	(2,200)	–	–	–	2,200	–	–	–
Cost of share-based payment arrangements	–	–	450	–	–	–	–	450	–	450
Cancellation of shares	2,731	–	(4,998)	–	–	–	269	(1,998)	–	(1,998)
Other movements	–	–	(67)	84	–	–	–	17	(27)	(10)
<b>At 31 December 2018</b>	<b>23,789</b>	<b>22,367</b>	<b>138,191</b>	<b>(1,532)</b>	<b>(206)</b>	<b>(26,133)</b>	<b>29,777</b>	<b>186,253</b>	<b>7,996</b>	<b>194,249</b>

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

## 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

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)

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.

Consolidated Statement of Cash Flows		
For the year ended 31 December	2018 US\$ m	2017 US\$ m
<b>Profit before tax</b>	<b>19,890</b>	<b>17,167</b>
<b>Adjustments for non-cash items:</b>		
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	–	(79)
Change in expected credit losses gross of recoveries and other credit impairment charges	2,280	N/A
Loan impairment losses gross of recoveries and other credit risk provisions	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)
<b>Changes in operating assets and liabilities</b>		
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	(40,499)	(37,281)
Change in financial assets designated and otherwise mandatorily measured at fair value	(1,515)	(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)
<b>Net cash from operating activities</b>	<b>6,469</b>	<b>(10,478)</b>
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 equipment	(1,196)	(1,167)
Net cash inflow from disposal of customer and loan portfolios	1,024	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
<b>Net cash from investing activities</b>	<b>(16,341)</b>	<b>65,557</b>
Issue of ordinary share capital and other equity instruments	6,001	5,196
Cancellation of shares	(1,998)	(3,000)
Net sales/(purchases) of own shares for market-making and investment purposes	133	(67)
Purchase of treasury shares	–	–
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)
<b>Net cash from financing activities</b>	<b>(16,781)</b>	<b>(10,450)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(26,653)</b>	<b>44,629</b>
Cash and cash equivalents at 1 Jan	337,412	274,550
Exchange differences in respect of cash and cash equivalents	(9,677)	18,233
<b>Cash and cash equivalents at 31 Dec</b>	<b>301,082</b>	<b>337,412</b>

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied		
	2018 As at 31 December US\$ m	2018 As at 1 January US\$ m
Loans and advances to customers at amortised cost	(8,625)	(9,343)
– personal	(2,947)	(3,047)
– corporate and commercial	(5,552)	(6,053)
– non-bank financial institutions	(126)	(243)
Loans and advances to banks at amortised cost	(13)	(23)
Other financial assets measured at amortised cost	(55)	(114)
– cash and balances at central banks	(2)	(3)
– items in the course of collection from other banks	–	–
– Hong Kong Government certificates of indebtedness	–	–
– reverse repurchase agreements - non-trading	–	–
– financial investments	(18)	(16)
– prepayments, accrued income and other assets	(35)	(95)
<b>Total gross carrying amount on-balance sheet</b>	<b>(8,693)</b>	<b>(9,480)</b>
Loans and other credit-related commitments	(325)	(376)
– personal	(13)	(14)
– corporate and commercial	(305)	(355)
– non-bank financial institutions	(7)	(7)
Financial guarantees	(93)	(97)
– personal	(1)	(4)
– corporate and commercial	(85)	(89)
– non-bank financial institutions	(7)	(4)
<b>Total nominal amount off-balance sheet</b>	<b>(418)</b>	<b>(473)</b>
	(9,111)	(9,953)

Consolidated Balance Sheet		
As at 31 December	2018 US\$ m	2017 US\$ m
<b>Assets</b>		
Cash and balances at central banks	162,843	180,624
Items in the course of collection from other banks	5,787	6,628
Hong Kong Government certificates of indebtedness	35,859	34,186
Trading assets	238,130	287,995
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	41,111	N/A
Financial assets designated at fair value	N/A	29,464
Derivatives	207,825	219,818
Loans and advances to banks	72,167	90,393
Loans and advances to customers	981,696	962,964
Reverse repurchase agreements - non-trading	242,804	201,553
Financial investments	407,433	389,076
Prepayments, accrued income and other assets	110,571	67,191
Current tax assets	684	1,006
Interests in associates and joint ventures	22,407	22,744
Goodwill and intangible assets	24,357	23,453
Deferred tax assets	4,450	4,676
<b>Total assets</b>	<b>2,558,124</b>	<b>2,521,771</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Hong Kong currency notes in circulation	35,859	34,186
Deposits by banks	56,331	69,922
Customer accounts	1,362,643	1,364,462
Repurchase agreements - non-trading	165,884	130,002
Items in the course of transmission to other banks	5,641	6,850
Trading liabilities	84,431	184,361
Financial liabilities designated at fair value	148,505	94,429
Derivatives	205,835	216,821
Debt securities in issue	85,342	64,546
Accruals, deferred income and other liabilities	97,380	45,