

# Value of the network

Connecting customers to opportunities

- 1 Reduce Group RWAs by c. \$290bn and re-deploy towards higher performing businesses; return GB&M to Group target profitability
- 2 Optimise global network
- 3 Rebuild NAFTA profitability
- 4 Set up UK Ring-Fenced Bank
- 5 Realise \$4.5-5.0bn cost savings, deliver an exit rate in 2017 equal to 2014 operating expenses
- 6 Revenue growth above GDP from our international network
- 7 Capture growth opportunities in Asia: Pearl River Delta, ASEAN, Asset Management, Insurance
- 8 Extend leadership in RMB internationalisation
- 9 Complete Global Standards implementation
- 10 Complete Headquarters review by year end

HSBC Holdings plc Annual Results 2015  
Presentation to Investors and Analysts



# Our highlights

## 2015 Full Year

**Reported PBT**  
(2014: \$18.7bn)

**\$18.9bn**

**Adjusted PBT**  
(2014: \$22.0bn)

**\$20.4bn**

**Reported RoE**  
(2014: 7.3%)

**7.2%**

**Adjusted Jaws**

**(3.7)%**

**Ordinary dividends**  
*In respect of the year*  
(2014: \$0.50)

**\$0.51**

**CET1 ratio**  
(2014: 11.1%)

**11.9%**

## 2015 Financial Performance

- Reported PBT up 1%: net favourable movement in significant items
- Adjusted PBT fell 7%:
  - Higher revenue of \$0.5bn (1%) from growth in client-facing GB&M (7%), CMB (3%) and Principal RBWM (2%)
  - Higher costs (up \$1.6bn) from increased bank levy (\$0.4bn), investment in growth (\$0.3bn) and regulatory programmes and compliance (\$0.7bn)
  - Higher LICs (up 17% or \$0.6bn) across a number of countries and industrial sectors, most notably oil and gas

## Capital and dividends

- Strong capital position with a common equity tier one ratio of 11.9% on an end point basis and a strong leverage ratio of 5.0%
- Progressive dividends in 2015 of \$0.51 per ordinary share; total dividends in respect of the year of \$10.0bn

## Strategy execution

- Clearly defined actions to capture value from our network and connecting our customers to opportunities
  - Progress on reducing Group RWAs with a \$124bn reduction from RWA initiatives or 45% of our rebased 2017 target achieved
  - Signed agreement to sell operations in Brazil<sup>1</sup>
  - Revenue from transaction banking products up 4% highlighting the value and potential of our international network
  - Development of Asia business gaining momentum – revenue growth in excess of GDP in seven out of eight of our priority Asia markets
  - 2H15 costs in line with 1H15 following tight cost control and the initial effect of our cost saving plans

# 2015 Key metrics

| Key financial metrics                                     | FY14   | FY15   | Target      |
|---|--------|--------|-------------|
| Return on average ordinary shareholders' equity           | 7.3%   | 7.2%   | >10%        |
| Jaws (adjusted)   | -      | (3.7)% | Positive    |
| Dividends per ordinary share in respect of the year       | \$0.50 | \$0.51 | Progressive |
| Earnings per share  | \$0.69 | \$0.65 | n/a         |
| Common equity tier 1 ratio (end point basis) <sup>2</sup> | 11.1%  | 11.9%  | n/a         |
| Return on average tangible equity                         | 8.5%   | 8.1%   | n/a         |
| Leverage ratio  | 4.8%   | 5.0%   | n/a         |
| Advances to deposit ratio                                 | 72.2%  | 71.7%  | n/a         |
| Net asset value per ordinary share (NAV)                  | \$9.28 | \$8.73 | n/a         |
| Tangible net asset value per ordinary share (TNAV)        | \$7.91 | \$7.48 | n/a         |

| Reported Income Statement, \$m |          |          |          |          | Adjusted Income Statement, \$m |         |          |          |          |
|--------------------------------|----------|----------|----------|----------|--------------------------------|---------|----------|----------|----------|
|                                | 4Q15     | vs. 4Q14 | 2015     | vs. 2014 |                                | 4Q15    | vs. 4Q14 | 2015     | vs. 2014 |
| Revenue                        | 11,772   | (18)%    | 59,800   | (2)%     | Revenue                        | 12,950  | (1)%     | 57,765   | 1%       |
| LICs                           | (1,645)  | (32)%    | (3,721)  | 3%       | LICs                           | (1,645) | (63)%    | (3,721)  | (17)%    |
| Costs                          | (11,542) | 3%       | (39,768) | 4%       | Costs                          | (9,959) | (2)%     | (36,182) | (5)%     |
| Bank levy <sup>3</sup>         | (1,465)  | (32)%    | (1,421)  | (34)%    | Bank levy <sup>3</sup>         | (1,465) | (32)%    | (1,421)  | (34)%    |
| Costs excl. bank levy          | (10,077) | 6%       | (38,347) | 5%       | Costs excl. bank levy          | (8,494) | 2%       | (34,761) | (4)%     |
| Associates                     | 557      | (2)%     | 2,556    | 1%       | Associates                     | 557     | 2%       | 2,556    | 3%       |
| PBT                            | (858)    | (150)%   | 18,867   | 1%       | PBT                            | 1,903   | (34)%    | 20,418   | (7)%     |

# Financial overview

## Reconciliation of Reported to Adjusted PBT

| \$m   | Discrete quarter |                |                | Full year      |                |                |
|---|------------------|----------------|----------------|----------------|----------------|----------------|
|   | 4Q14             | 4Q15           | vs. 4Q14       | 2014           | 2015           | vs. 2014       |
| <b>Reported profit before tax</b>   | <b>1,730</b>     | <b>(858)</b>   | <b>(2,588)</b> | <b>18,680</b>  | <b>18,867</b>  | <b>187</b>     |
| Includes  |                  |                |                |                |                |                |
| <b>Currency translation</b>   | <b>19</b>        | <b>-</b>       | <b>(19)</b>    | <b>853</b>     | <b>-</b>       | <b>(853)</b>   |
| <b>Significant items:</b>   |                  |                |                |                |                |                |
| Fair value gains / (losses) on own debt (credit spreads only)                       | 432              | (773)          | (1,205)        | 417            | 1,002          | 585            |
| Gain on the partial sale of shareholding in Industrial Bank                         | -                | -              | -              | -              | 1,372          | 1,372          |
| Gain / (loss) on sale of several tranches of real estate secured accounts in the US | 92               | (214)          | (306)          | 168            | (214)          | (382)          |
| Other revenue-related significant items <sup>4</sup>                                | (332)            | (190)          | 142            | (1,339)        | (125)          | 1,214          |
| <b>Revenue-related significant items</b>  | <b>192</b>       | <b>(1,177)</b> | <b>(1,369)</b> | <b>(754)</b>   | <b>2,035</b>   | <b>2,789</b>   |
| Settlements and provisions in connection with legal matters                         | (809)            | (370)          | 439            | (1,187)        | (1,649)        | (462)          |
| UK customer redress programmes  | (340)            | (337)          | 3              | (1,275)        | (541)          | 734            |
| Costs-to-achieve  | -                | (743)          | (743)          | -              | (908)          | (908)          |
| Other operating expenses-related significant items <sup>4</sup>                     | (193)            | (135)          | 58             | (933)          | (488)          | 445            |
| <b>Operating expenses-related significant items</b>                                 | <b>(1,342)</b>   | <b>(1,585)</b> | <b>(243)</b>   | <b>(3,395)</b> | <b>(3,586)</b> | <b>(191)</b>   |
| <b>Adjusted profit before tax</b>   | <b>2,862</b>     | <b>1,903</b>   | <b>(959)</b>   | <b>21,976</b>  | <b>20,418</b>  | <b>(1,558)</b> |

The remainder of the presentation, unless otherwise stated, is presented on an adjusted basis

# 4Q15 Profit before tax performance

Lower PBT driven by LICs and higher bank levy charge

## 4Q15 vs. 4Q14 PBT analysis

### Adjusted PBT by account line

|   | 4Q15            | vs. 4Q14     |              |
|---|-----------------|--------------|--------------|
|   |                 | adverse      | favourable   |
| Revenue   | \$12,950m       | (120)        | (1)%         |
| LICs  | \$(1,645)m      | (634)        | (63)%        |
| Operating expenses                                | \$(9,959)m      | (214)        | (2)%         |
| Bank levy   | \$(1,465)m      | (357)        | (32)%        |
| Operating expenses excl. bank levy                | \$(8,494)m      | 143          | 2%           |
| Share of profits in associates and joint ventures | \$557m          | 8            | 2%           |
| <b>Profit before tax</b>                          | <b>\$1,903m</b> | <b>(959)</b> | <b>(34)%</b> |

| Adjusted PBT by global business, \$m | 4Q14         | 4Q15         | vs. 4Q14     |
|--------------------------------------|--------------|--------------|--------------|
| RBWM                                 | 1,664        | 1,524        | (140)        |
| CMB                                  | 1,828        | 1,376        | (452)        |
| GB&M                                 | 845          | 1,271        | 426          |
| GPB                                  | 149          | 108          | (41)         |
| Other                                | (1,624)      | (2,376)      | (752)        |
| <b>Group</b>                         | <b>2,862</b> | <b>1,903</b> | <b>(959)</b> |

| Adjusted PBT by geography, \$m | 4Q14         | 4Q15         | vs. 4Q14     |
|--------------------------------|--------------|--------------|--------------|
| Europe                         | (1,123)      | (1,334)      | (211)        |
| Asia                           | 3,209        | 2,986        | (223)        |
| Middle East and North Africa   | 368          | 290          | (78)         |
| North America                  | 480          | 77           | (403)        |
| Latin America                  | (72)         | (116)        | (44)         |
| <b>Group</b>                   | <b>2,862</b> | <b>1,903</b> | <b>(959)</b> |

# 4Q15 Loan impairment charges

## Drivers of LICs

### Adjusted LICs by type

| Full Year                           | \$m                                       | 2014         | 2015         | vs. 2014     |
|-------------------------------------|---|--------------|--------------|--------------|
|                                     | <b>Personal</b>                           | <b>1,492</b> | <b>1,833</b> | <b>(341)</b> |
|                                     | Collective                                | 1,456        | 1,740        | (284)        |
|                                     | Specific                                  | 36           | 93           | (57)         |
|                                     | Personal LICs / gross loans and advances  | 0.46%        | 0.49%        | (0.03)ppt    |
|                                     | <b>Wholesale</b>                          | <b>1,881</b> | <b>1,758</b> | <b>123</b>   |
|                                     | Collective                                | 409          | 347          | 62           |
|                                     | Specific                                  | 1,472        | 1,411        | 61           |
|                                     | Wholesale LICs / gross loans and advances | 0.32%        | 0.27%        | 0.05ppt      |
|                                     | <b>Impairment on AFS debt securities</b>  | <b>(309)</b> | <b>(17)</b>  | <b>(292)</b> |
| <b>Other credit-risk provisions</b> | <b>104</b>                                | <b>147</b>   | <b>(43)</b>  |              |
| <b>Group</b>                        | <b>3,168</b>                              | <b>3,721</b> | <b>(553)</b> |              |
| Quarterly                           | \$m                                       | 4Q14         | 4Q15         | vs. 4Q14     |
|                                     | <b>Personal</b>                           | <b>281</b>   | <b>512</b>   | <b>(231)</b> |
|                                     | Collective                                | 279          | 495          | (216)        |
|                                     | Specific                                  | 2            | 17           | (15)         |
|                                     | <b>Wholesale</b>                          | <b>718</b>   | <b>994</b>   | <b>(276)</b> |
|                                     | Collective                                | 137          | 253          | (116)        |
|                                     | Specific                                  | 581          | 741          | (160)        |
|                                     | <b>Impairment on AFS debt securities</b>  | <b>(30)</b>  | <b>28</b>    | <b>(58)</b>  |
|                                     | <b>Other credit-risk provisions</b>       | <b>42</b>    | <b>111</b>   | <b>(69)</b>  |
|                                     | <b>Group</b>                              | <b>1,011</b> | <b>1,645</b> | <b>(634)</b> |

### 2015 vs. 2014

Loan impairment charges in our wholesale book remain low

### 4Q15 vs. 4Q14

#### Wholesale 4Q15:

- Increase driven by charges in the oil and gas sector, both collective and specific (c. \$0.4bn); and
- specific impairment charges across a number of countries and sectors, albeit at similar levels to last year

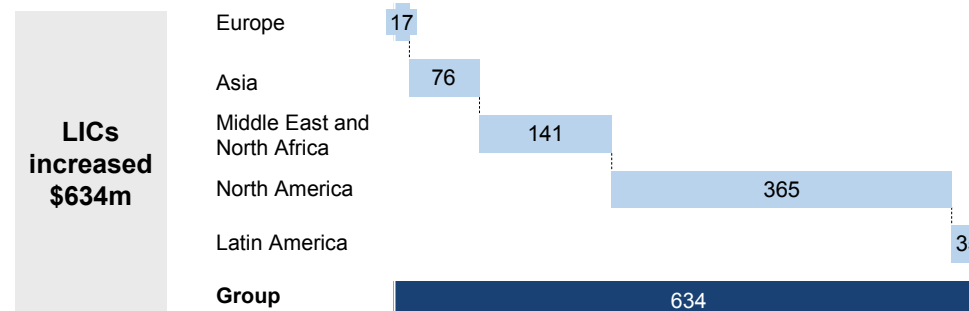
#### Personal 4Q15:

- Increase in collective impairments driven by Brazil (\$0.1bn) reflecting economic slowdown and in the US, from lower releases in the CML portfolio

#### Other credit-risk provisions:

- Increased partly due to higher provisions relating to the oil and gas sector

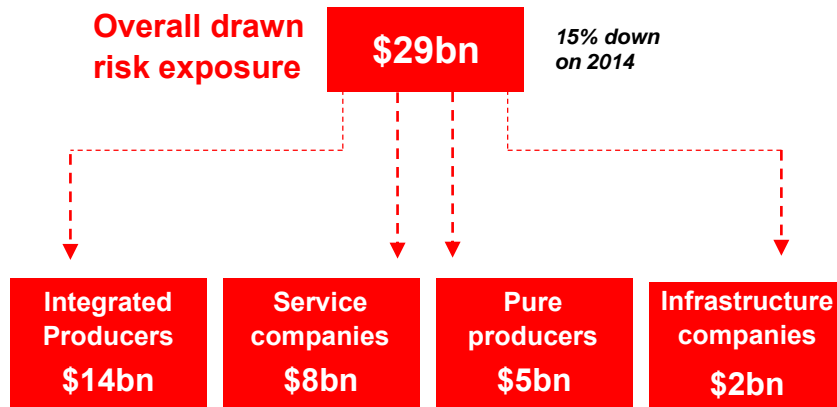
### 4Q15 vs. 4Q14 by region



# Oil and gas

Limited exposure to service companies and pure producers

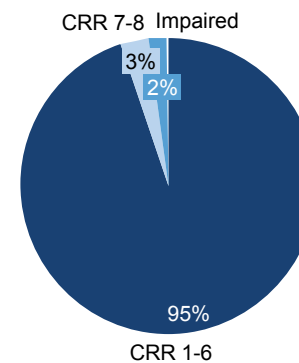
## Oil and gas<sup>5</sup>, \$bn



| Exposure by region           | \$bn      |
|------------------------------|-----------|
| Europe                       | 6         |
| Asia                         | 7         |
| Middle East and North Africa | 5         |
| North America                | 9         |
| Latin America                | 2         |
| <b>Group</b>                 | <b>29</b> |

- Overall exposure of \$29bn represents c. 2% of wholesale drawn risk exposures
- Large integrated producers remain resilient
- 3% of the portfolio is CRR 7-8, the majority of which is in service companies and pure producers
- 2% of the portfolio is impaired
- Loan impairment charges and other credit risk provisions of c. \$0.5bn in the year
  - Individually assessed charges of \$0.3bn and
  - collectively assessed charges of \$0.2bn (based on \$30 per barrel average for 2016)
- Past due but not impaired is insignificant
- Impairment allowances against the oil and gas portfolio of c. \$0.6bn

## Credit quality (%)



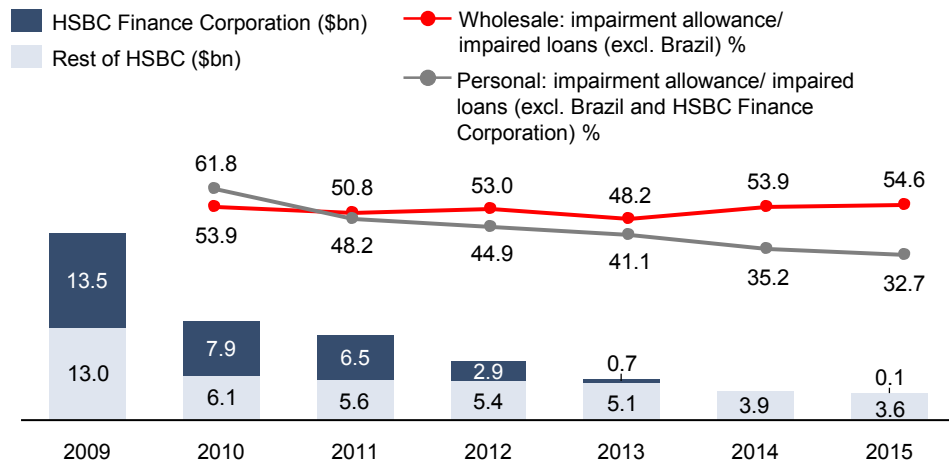
- CRR 1-6 Broadly equivalent to an external rating of B- or better
- CRR 7-8 Broadly equivalent to an external rating ranging from CCC+ to C

# Loan impairment charges and other credit risk provisions

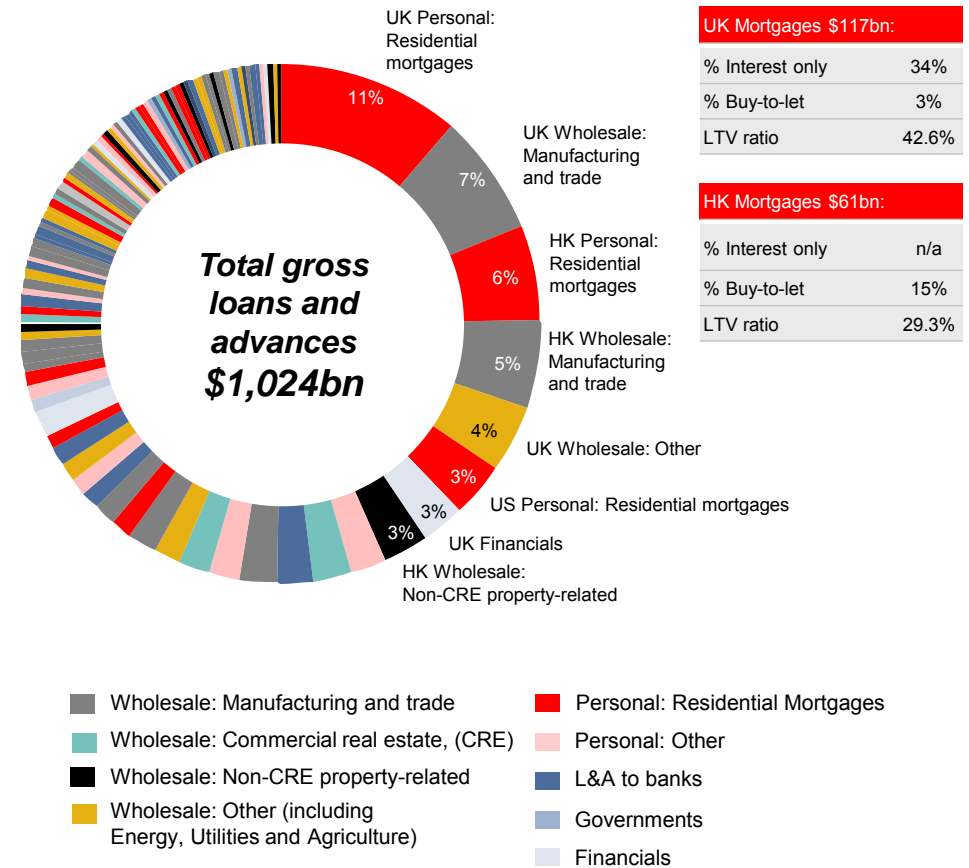
LICs remain at low levels; diversified portfolio

## LICs progress

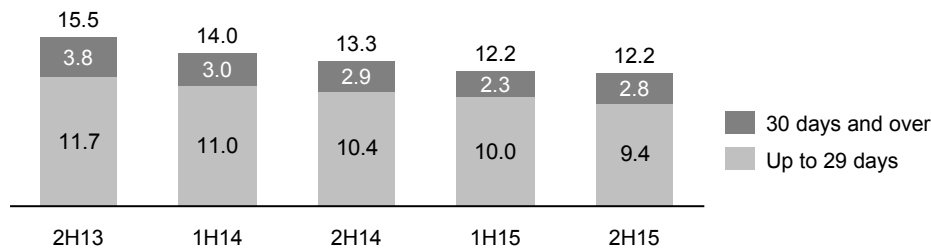
### Reported LICs and coverage %: *Loan impairments remain low*



### 2015 gross loans and advances: *Diversified lending portfolio*



### Reported past due but not impaired, \$bn: *Remain at low levels*





# 2015 Profit before tax performance

Progress on revenue and LICs remain at low levels; investments in growth, regulatory programmes and compliance and higher bank levy drive costs

## Full year PBT analysis

### Adjusted PBT by account line

|   | 2015             | vs. 2014       |            |             |
|---|------------------|----------------|------------|-------------|
|   |                  | adverse        | favourable |             |
| Revenue   | \$57,765m        | 538            |            | 1%          |
| LICs  | \$(3,721)m       | (553)          |            | (17)%       |
| Operating expenses                                | \$(36,182)m      | (1,606)        |            | (5)%        |
| Bank levy   | \$(1,421)m       | (358)          |            | (34)%       |
| Operating expenses excl. bank levy                | \$(34,761)m      | (1,248)        |            | (4)%        |
| Share of profits in associates and joint ventures | \$2,556m         | 63             |            | 3%          |
| <b>Profit before tax</b>                          | <b>\$20,418m</b> | <b>(1,558)</b> |            | <b>(7)%</b> |

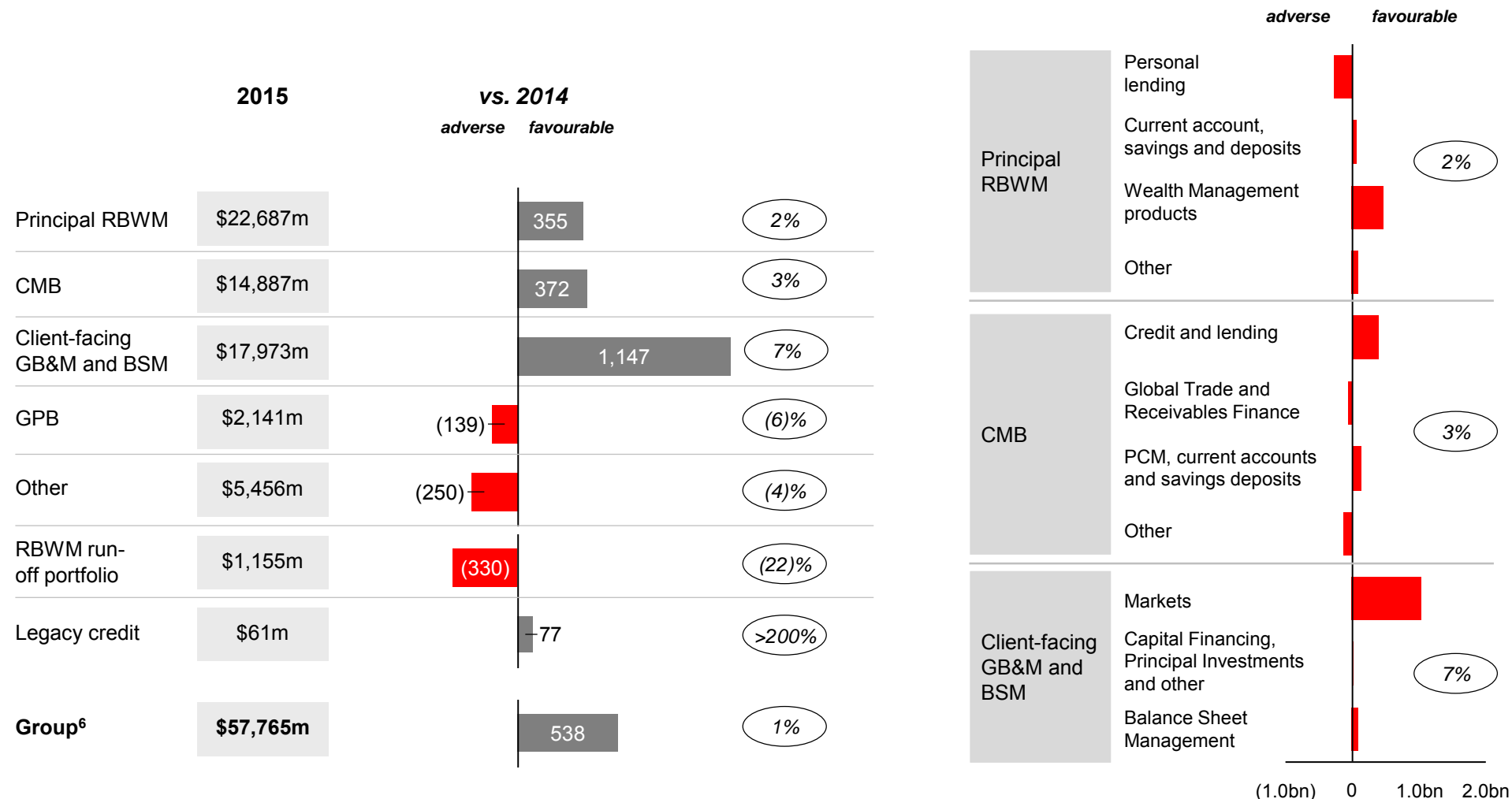
| PBT by global business, \$m | 2014          | 2015          | vs. 2014       |
|-----------------------------|---------------|---------------|----------------|
| RBWM                        | 7,555         | 6,830         | (725)          |
| CMB                         | 8,623         | 8,192         | (431)          |
| GB&M                        | 7,678         | 8,746         | 1,068          |
| GPB                         | 703           | 519           | (184)          |
| Other                       | (2,583)       | (3,869)       | (1,286)        |
| <b>Group</b>                | <b>21,976</b> | <b>20,418</b> | <b>(1,558)</b> |

| PBT by geography, \$m        | 2014          | 2015          | vs. 2014       |
|------------------------------|---------------|---------------|----------------|
| Europe                       | 3,496         | 2,392         | (1,104)        |
| Asia                         | 14,295        | 14,462        | 167            |
| Middle East and North Africa | 1,820         | 1,542         | (278)          |
| North America                | 1,999         | 1,563         | (436)          |
| Latin America                | 366           | 459           | 93             |
| <b>Group</b>                 | <b>21,976</b> | <b>20,418</b> | <b>(1,558)</b> |

# 2015 Revenue performance

Higher revenue driven by Client-facing GB&M, CMB and Principal RBWM

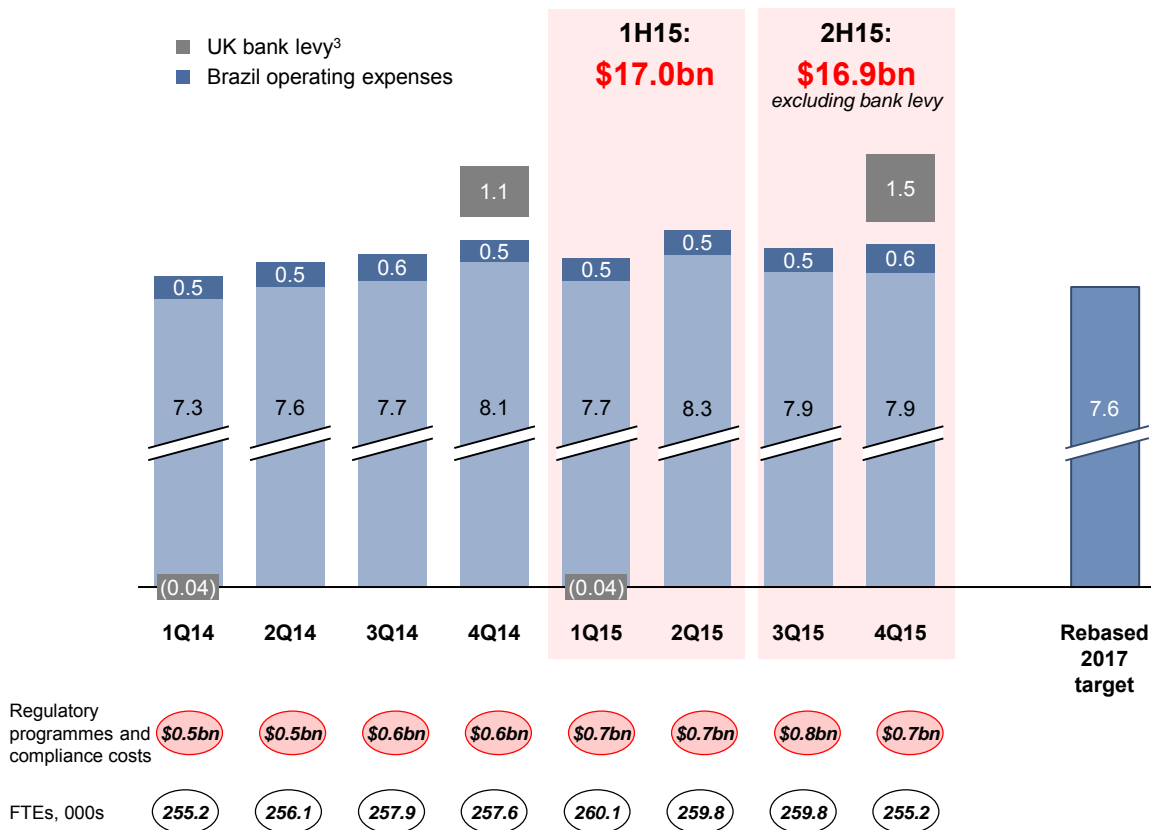
## 2015 vs. 2014 adjusted revenue analysis



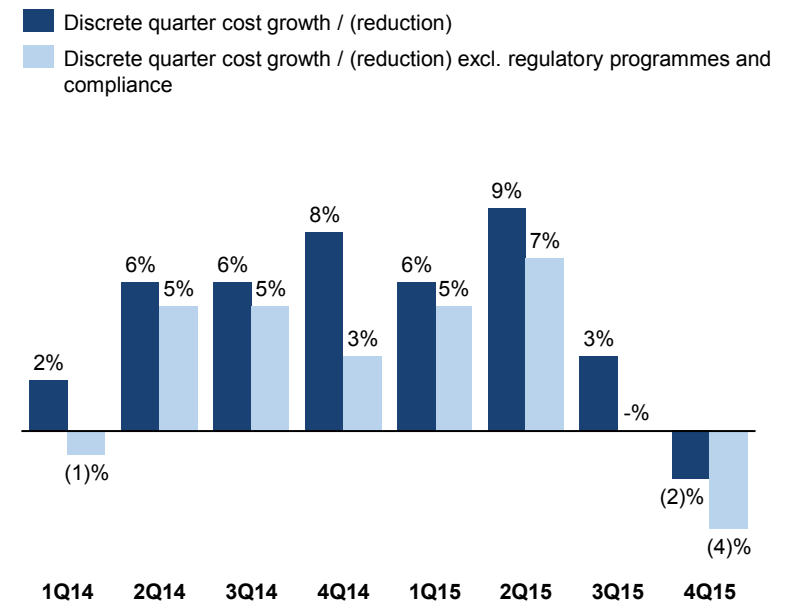
# 2015 operating expenses

2H15 costs in line with 1H15: tight cost control and initial effect of cost saving plans

## Adjusted operating expenses (\$bn)



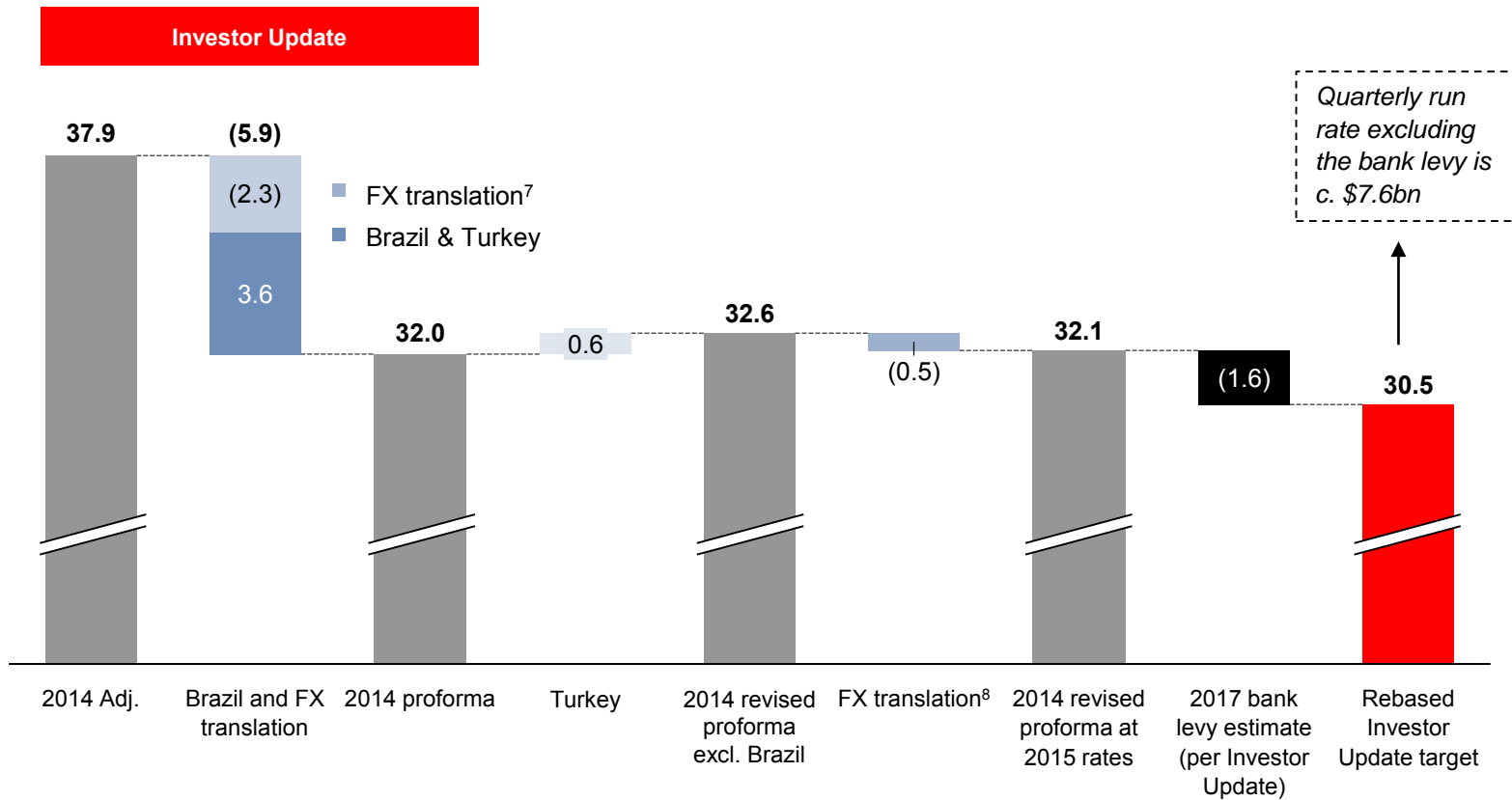
## Adjusted quarterly costs excl. bank levy vs. same quarter prior year, %



# Operating expenses

Rebased Investor update target

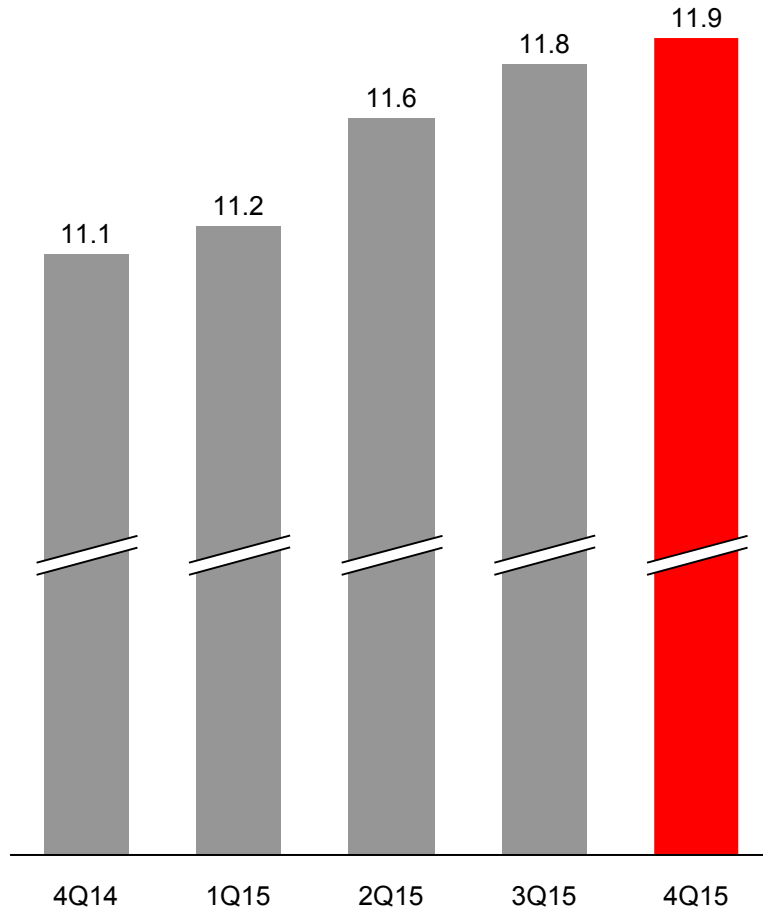
## Rebased Investor Update 2015 target (\$bn)



# Capital adequacy

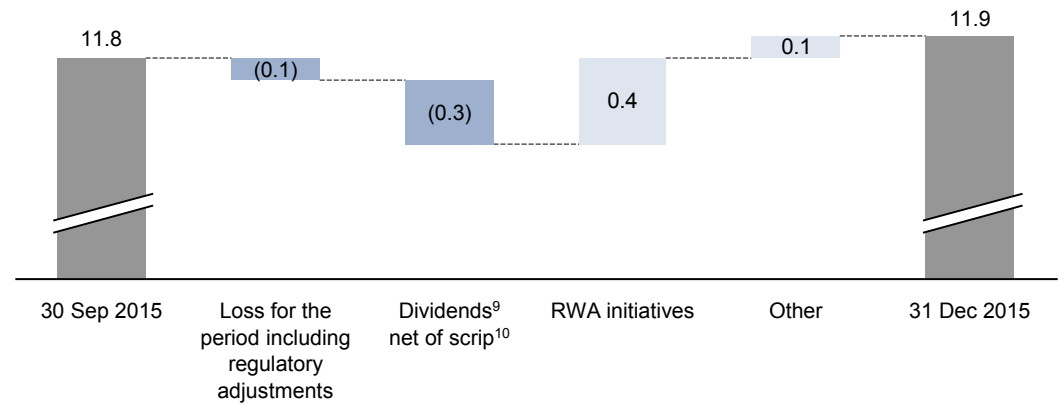
Strong capital base: common equity tier 1 ratio – 11.9%

Quarterly CET1 ratio<sup>2</sup> end-point basis progression, %

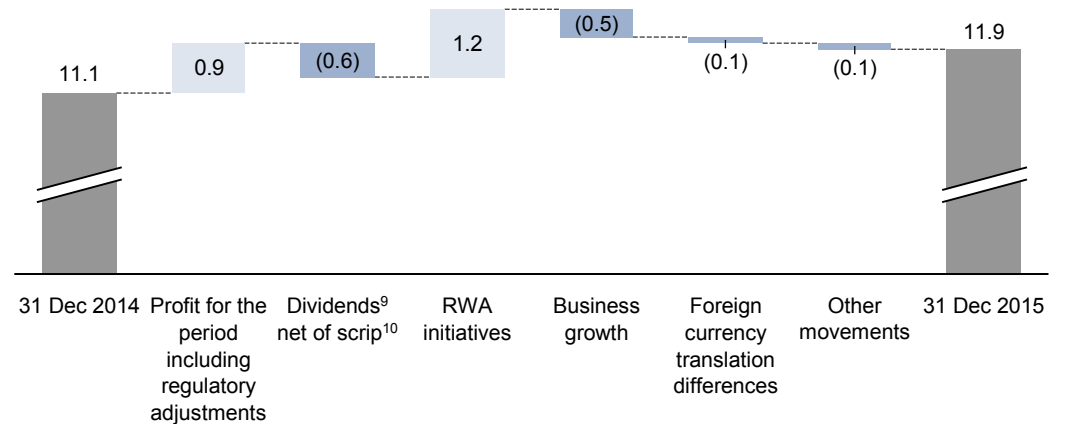


CET1 ratio<sup>2</sup> movement %

4Q15 movement in common equity tier 1 ratio



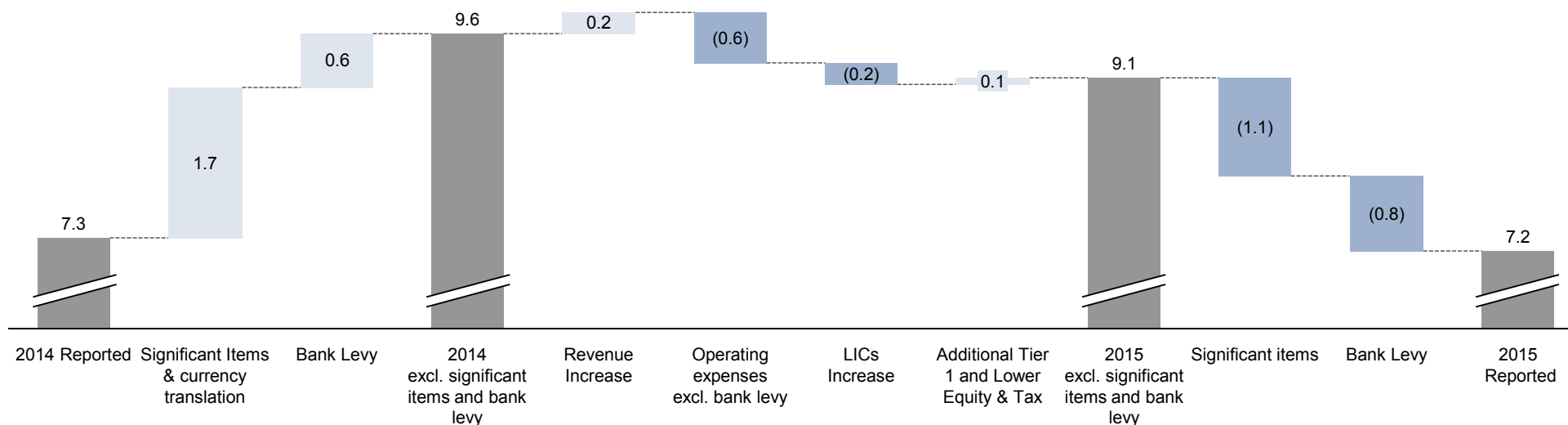
Full year movement in common equity tier 1 ratio



# Return metrics

## Drivers of returns

### Group ROE, %



### Group RoRWA

|  | 2014 | 2015 |
|--|------|------|
| Reported   | 1.5% | 1.6% |
| Adjusted <sup>11</sup>   | 1.9% | 1.7% |
| Adjusted excl. associates and run-off portfolios <sup>12</sup> | 2.1% | 1.9% |

### Adjusted RoRWA by global business (ex associates)

|                          | 2014 | 2015 | 2017 Target |
|--------------------------|------|------|-------------|
| Principal RBWM           | 5.0% | 4.5% | 6.3%        |
| CMB                      | 2.4% | 2.0% | 2.7%        |
| Client-facing GB&M & BSM | 1.7% | 2.0% | 2.7%        |
| GPB <sup>13</sup>        | 3.3% | 2.5% | 4.3%        |

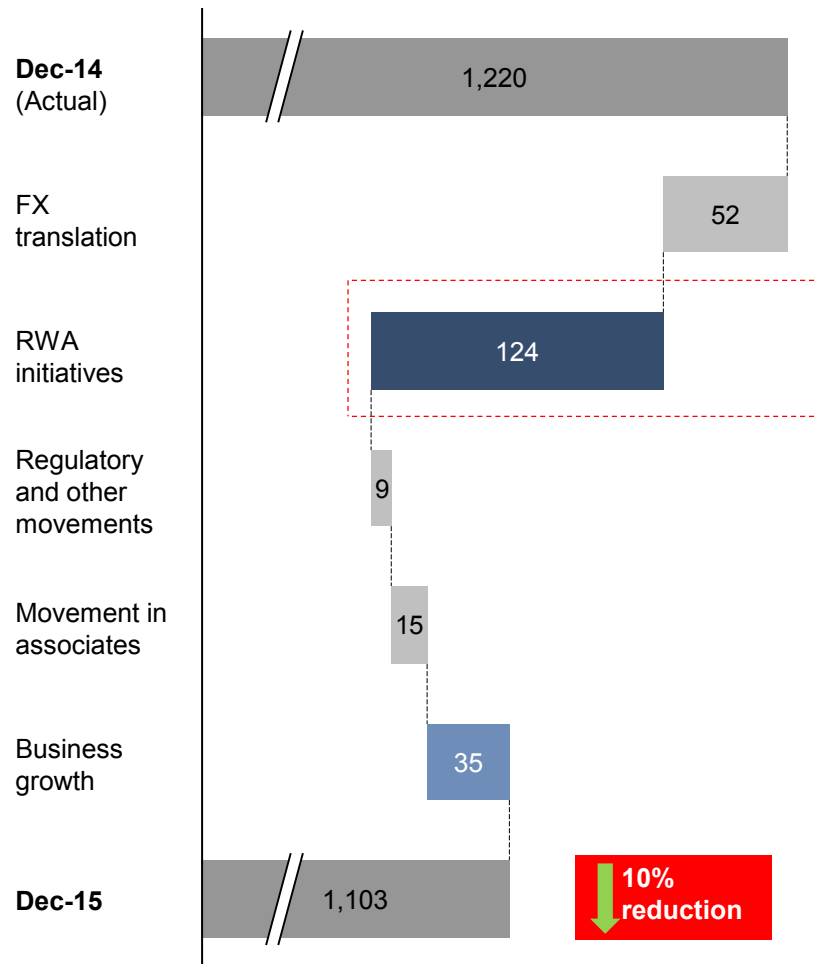
# Progress on our actions to capture value

| Strategic actions  | Targeted outcome by 2017  | Progress during 2015   |
|--|---|--|
| <b>Actions to re-size and simplify</b>                       |   |  |
| <b>Reduce Group RWAs by c.\$290bn</b>                        | <ul style="list-style-type: none"> <li>Group RWA reduction: \$290bn</li> <li>GB&amp;M &lt;1/3 of Group RWAs</li> </ul>      | <ul style="list-style-type: none"> <li>45% of our rebased target achieved; \$124bn reduction through management initiatives</li> </ul>   |
| <b>Optimise global network</b>                               | <ul style="list-style-type: none"> <li>Reduced footprint</li> </ul>   | <ul style="list-style-type: none"> <li>Signed agreement to sell operations in Brazil<sup>1</sup> subject to regulatory approval</li> <li>Presence reduced to 71 countries and territories</li> </ul>   |
| <b>Rebuild NAFTA profitability</b>                           | <ul style="list-style-type: none"> <li>US PBT c. \$2bn</li> <li>Mexico PBT c. \$0.6bn</li> </ul>                            | <ul style="list-style-type: none"> <li>US Principal: PBT of \$0.5bn (up 6% on 2014); Revenue: \$4.8bn (up 4% on 2014)</li> <li>Mexico: PBT of \$0.1bn (down 1% on 2014); Revenue: \$2.0bn (up 2% on 2014)</li> </ul>   |
| <b>Set up UK ring-fenced bank</b>                            | <ul style="list-style-type: none"> <li>Completed by 2018</li> </ul>   | <ul style="list-style-type: none"> <li>Confirmed Birmingham as head office location for HSBC UK</li> </ul>   |
| <b>Deliver \$4.5-5.0bn cost savings</b>                      | <ul style="list-style-type: none"> <li>2017 exit rate to equal 2014 operating expenses</li> </ul>                           | <ul style="list-style-type: none"> <li>2H15 costs in line with 1H15 costs following tight cost control and the initial impact of our cost saving plans</li> <li>4.6k reduction in FTE since June 2015</li> </ul>   |
| <b>Actions to redeploy capital and invest</b>                |   |  |
| <b>Deliver growth above GDP from international network</b>   | <ul style="list-style-type: none"> <li>Revenue growth of international network above GDP</li> </ul>                         | <ul style="list-style-type: none"> <li>Transaction banking revenue: \$15.7bn (up 4% on 2014 driven by FX, PCM and HSS)</li> <li>Revenue synergies: \$11.6bn (up 6% on 2014)</li> </ul>   |
| <b>Pivot to Asia – prioritise and accelerate investments</b> | <ul style="list-style-type: none"> <li>Market share gains</li> <li>c. 10% growth p.a. in assets under management</li> </ul> | <ul style="list-style-type: none"> <li>Pearl River Delta: applied to establish a majority-owned joint venture securities company, allowing us to engage in the full spectrum of securities business in mainland China</li> <li>Insurance manufacturing new business premiums: \$2.0bn (up 7% on 2014)</li> <li>Development of Asia business gaining momentum: revenue growth in excess of GDP in seven out of eight priority markets</li> <li>ASEAN revenue: \$3.2bn (up 5% on 2014);</li> <li>Asset Mgt. AUM distributed in Asia: \$129bn (up 13% on 2014)</li> </ul> |
| <b>RMB internationalisation</b>                              | <ul style="list-style-type: none"> <li>\$2.0-2.5bn revenue</li> </ul>   | <ul style="list-style-type: none"> <li>Renminbi internationalisation revenue: \$1.7bn (up 3% on 2014)</li> </ul>   |
| <b>Global standards</b>                                      | <ul style="list-style-type: none"> <li>Completed implementation</li> </ul>  | <ul style="list-style-type: none"> <li>Updated procedures across all markets to comply with new AML and sanctions policies</li> <li>Enhanced infrastructure, transaction monitoring and screening</li> </ul>   |
| <b>Domicile</b>  |   |  |
| <b>Headquarters review</b>                                   | <ul style="list-style-type: none"> <li>Completed review by end of 2015</li> </ul>   | <ul style="list-style-type: none"> <li>Review completed: decision announced to remain headquartered in the UK</li> </ul>   |

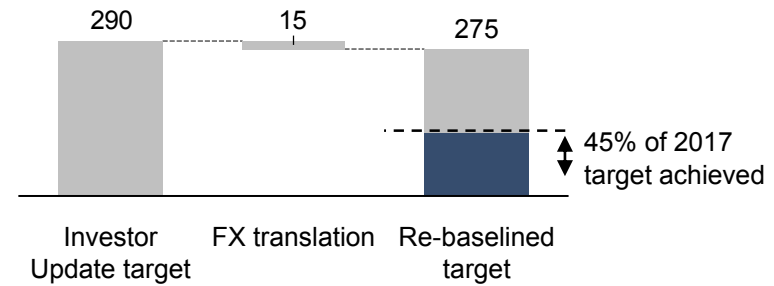
# Reduce RWAs by \$290bn

45% of our rebased target achieved

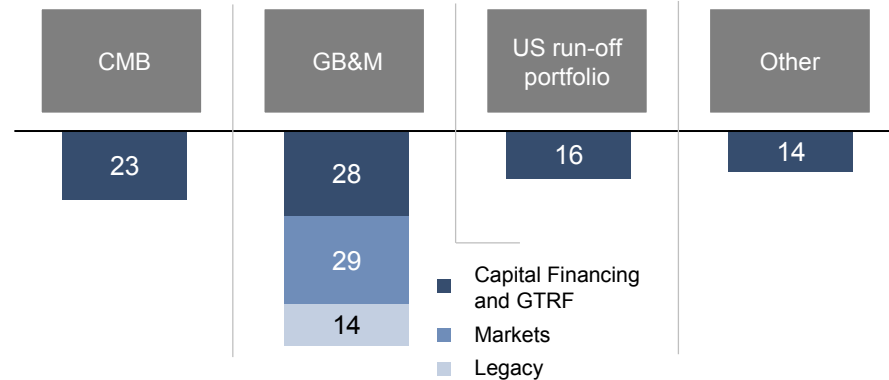
## Key movements in Group RWAs (\$bn)



### RWA initiatives YTD vs. Investor Update target



### 2015 RWA initiatives<sup>14</sup>





# Revenue growth from our international network

Growth above GDP from our international network

## Transaction Banking<sup>15</sup>

Revenue growth 2015 vs 2014



## Revenue Synergies<sup>16,17</sup>

Revenue growth 2015 vs 2014

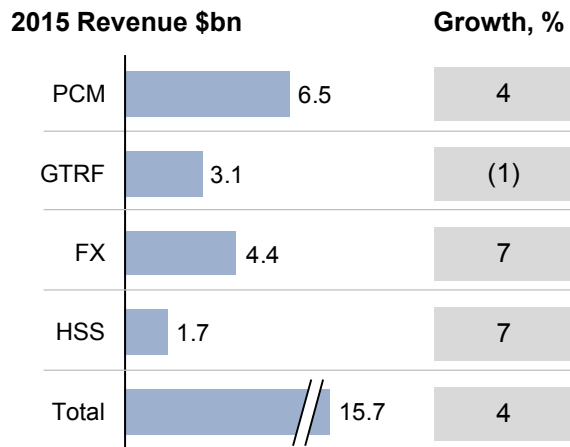


## International Client Revenue<sup>18</sup>

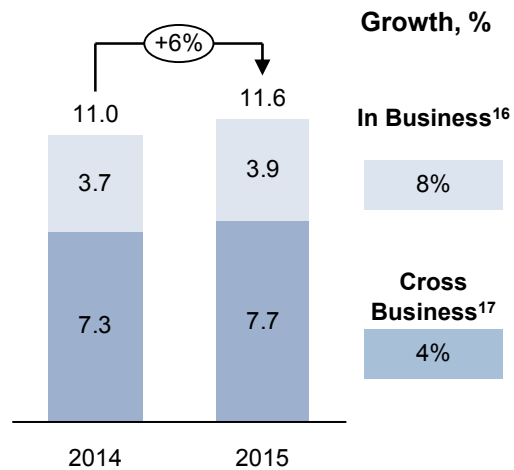
Revenue growth 2015 vs 2014



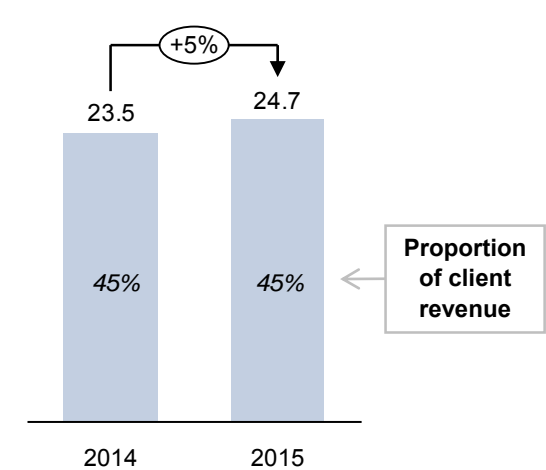
### Transaction Banking Products



### Revenue Synergies, \$bn



### International Client Revenue, \$bn



# Outlook

Invest selectively, achieve cost target, optimise capital

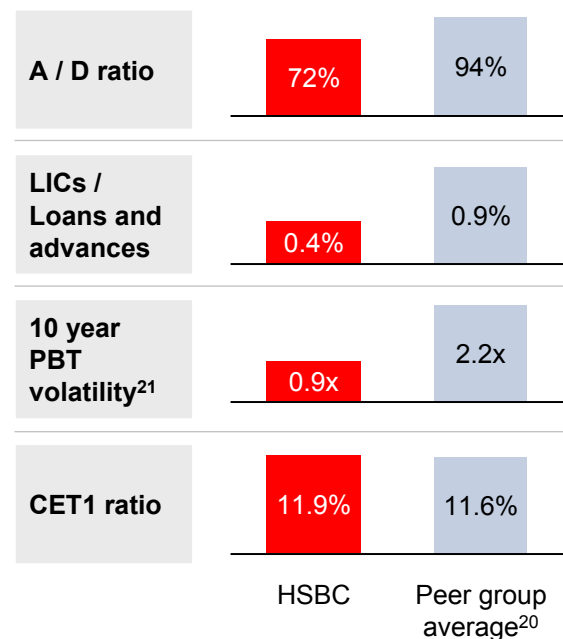
## Group financial targets

|          |                           |
|----------|---------------------------|
| ROE      | > 10%                     |
| Jaws     | Positive (adjusted basis) |
| Dividend | Progressive <sup>19</sup> |

## Delivering our strategy

- **Strong capital generation**, well funded, very liquid balance sheet; resilient business model
- Revenue opportunities in targeted areas; we continue to **invest for growth**
- Consistent risk appetite; maintain **credit risk standards**; deliver **Global Standards**
- **Deliver \$4.5 – 5.0bn cost savings**
- **Deliver \$290bn RWA reduction**; strategic redeployment, Asia Pivot
- **Dividend growth** dependent on long-term profitability and further release of less efficiently deployed capital. Actions to address these points are core elements of our **Investor Update** in June 2015

## Low-risk model with low earnings volatility



**Diversified business, low earnings volatility and strong capital generation**

# Appendix



# Appendix

## Currency translation and significant items

| \$m   | 4Q14           | 4Q15           | 2014           | 2015           |
|---|----------------|----------------|----------------|----------------|
| <b>Currency translation</b>   | <b>19</b>      | <b>-</b>       | <b>853</b>     | <b>-</b>       |
| <b>Significant items:</b>   |                |                |                |                |
| <b>Revenue</b>  |                |                |                |                |
| Gain / (Loss) on sale of several tranches of real estate secured accounts in the US             | 92             | (214)          | 168            | (214)          |
| Gain on the partial sale of shareholding in Industrial Bank                                     | -              | -              | -              | 1,372          |
| (Adverse) / Favourable debit valuation adjustment on derivative contracts                       | (53)           | (186)          | (332)          | 230            |
| (Adverse) / Favourable fair value movements on non-qualifying hedges                            | (200)          | 26             | (541)          | (327)          |
| Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | (51)           | (12)           | (632)          | (10)           |
| Favourable / (Adverse) movements on own credit spread   | 432            | (774)          | 417            | 1,002          |
| Gain on sale of shareholding in Bank of Shanghai  | -              | -              | 428            | -              |
| Impairment of our investment in Industrial Bank   | -              | -              | (271)          | -              |
| Brazil disposal costs   | -              | (18)           | -              | (18)           |
| Acquisition, disposals and dilutions  | (28)           | -              | 9              | -              |
|   | <b>191</b>     | <b>(1,177)</b> | <b>(754)</b>   | <b>2,035</b>   |
| <b>Operating expenses</b>   |                |                |                |                |
| Charge in relation to settlement agreement with Federal Housing Finance Authority               | -              | -              | (550)          | -              |
| Regulatory provisions in GBP  | (65)           | (18)           | (65)           | (172)          |
| Settlements and provisions in connection with legal matters                                     | (809)          | (370)          | (1,187)        | (1,649)        |
| UK customer redress programmes  | (340)          | (337)          | (1,275)        | (541)          |
| Restructuring and other related costs   | (128)          | -              | (278)          | (117)          |
| Costs-to-achieve  | -              | (743)          | -              | (908)          |
| Costs to establish UK ring-fenced bank  | -              | (61)           | -              | (89)           |
| Brazil disposal costs   | -              | (55)           | -              | (110)          |
| Acquisition, disposals and dilutions  | -              | -              | (40)           | -              |
|   | <b>(1,342)</b> | <b>(1,585)</b> | <b>(3,395)</b> | <b>(3,586)</b> |
| <b>Currency translation and significant items</b>   | <b>(1,132)</b> | <b>(2,762)</b> | <b>(3,296)</b> | <b>(1,551)</b> |

# Appendix

## Reported Consolidated Income statement

| \$m   | 4Q14          | 4Q15           | 2014          | 2015          |
|---|---------------|----------------|---------------|---------------|
| Net interest income   | 8,547         | 8,059          | 34,705        | 32,531        |
| Net fee income  | 3,718         | 3,471          | 15,957        | 14,705        |
| Net trading income  | 1,190         | 1,408          | 6,760         | 8,723         |
| Net income from financial instruments designated at fair value                              | 557           | (250)          | 2,473         | 1,532         |
| Gains less losses from financial investments  | 420           | 20             | 1,335         | 2,068         |
| Dividend income   | 22            | 27             | 311           | 123           |
| Net insurance premium income  | 2,605         | 2,255          | 11,921        | 10,355        |
| Other operating income  | 270           | (52)           | 1,131         | 1,055         |
| <b>Total operating income</b>   | <b>17,329</b> | <b>14,938</b>  | <b>74,593</b> | <b>71,092</b> |
| Net insurance claims and benefits paid and movements in liabilities to policyholders        | (3,023)       | (3,166)        | (13,345)      | (11,292)      |
| <b>Net operating income before loan impairment charges and other credit risk provisions</b> | <b>14,306</b> | <b>11,772</b>  | <b>61,248</b> | <b>59,800</b> |
| Loan impairment charges and other credit risk provisions                                    | (1,250)       | (1,645)        | (3,851)       | (3,721)       |
| <b>Net operating income</b>   | <b>13,056</b> | <b>10,127</b>  | <b>57,397</b> | <b>56,079</b> |
| Total operating expenses  | (11,892)      | (11,542)       | (41,249)      | (39,768)      |
| <b>Operating profit</b>   | <b>1,164</b>  | <b>(1,415)</b> | <b>16,148</b> | <b>16,311</b> |
| Share of profit in associates and joint ventures  | 567           | 557            | 2,532         | 2,556         |
| <b>Profit before tax</b>  | <b>1,731</b>  | <b>(858)</b>   | <b>18,680</b> | <b>18,867</b> |
| <b>Cost efficiency ratio %</b>  | <b>83.1</b>   | <b>98.0</b>    | <b>67.3</b>   | <b>66.5</b>   |

# Appendix

## Reported Consolidated Income statement by global business

\$m

|   | RBWM          |               | CMB           |               | GB&M          |               | GPB          |              | Other          |                | Total <sup>22</sup> |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|----------------|----------------|---------------------|---------------|
|   | 2014          | 2015          | 2014          | 2015          | 2014          | 2015          | 2014         | 2015         | 2014           | 2015           | 2014                | 2015          |
| Net interest income   | 17,130        | 15,926        | 10,158        | 9,859         | 7,022         | 6,931         | 994          | 870          | (501)          | (710)          | 34,705              | 32,531        |
| Net fee income  | 6,836         | 6,218         | 4,570         | 4,190         | 3,560         | 3,375         | 1,056        | 959          | (65)           | (37)           | 15,957              | 14,705        |
| Net trading income  | (17)          | 521           | 616           | 555           | 5,861         | 7,169         | 294          | 325          | (92)           | (192)          | 6,760               | 8,723         |
| Other income  | 1,200         | 851           | 404           | 266           | 1,335         | 758           | 33           | 18           | 7,023          | 8,543          | 3,826               | 3,841         |
| <b>Net operating income before loan impairment charges and other credit risk provisions</b> | <b>25,149</b> | <b>23,516</b> | <b>15,748</b> | <b>14,870</b> | <b>17,778</b> | <b>18,233</b> | <b>2,377</b> | <b>2,172</b> | <b>6,365</b>   | <b>7,604</b>   | <b>61,248</b>       | <b>59,800</b> |
| Loan impairment charges and other credit risk provisions                                    | (1,936)       | (1,939)       | (1,558)       | (1,770)       | (365)         | -             | 8            | (12)         | -              | -              | (3,851)             | (3,721)       |
| <b>Net operating income</b>   | <b>23,213</b> | <b>21,577</b> | <b>14,190</b> | <b>13,100</b> | <b>17,413</b> | <b>18,233</b> | <b>2,385</b> | <b>2,160</b> | <b>6,365</b>   | <b>7,604</b>   | <b>57,397</b>       | <b>56,079</b> |
| Total operating expenses  | (18,030)      | (17,020)      | (6,981)       | (6,744)       | (12,028)      | (10,834)      | (1,778)      | (1,832)      | (8,601)        | (9,933)        | (41,249)            | (39,768)      |
| <b>Operating profit</b>   | <b>5,183</b>  | <b>4,557</b>  | <b>7,209</b>  | <b>6,356</b>  | <b>5,385</b>  | <b>7,399</b>  | <b>607</b>   | <b>328</b>   | <b>(2,236)</b> | <b>(2,329)</b> | <b>16,148</b>       | <b>16,311</b> |
| Share of profit in associates and joint ventures  | 398           | 410           | 1,605         | 1,617         | 504           | 511           | 19           | 16           | 6              | 2              | 2,532               | 2,556         |
| <b>Profit before tax</b>  | <b>5,581</b>  | <b>4,967</b>  | <b>8,814</b>  | <b>7,973</b>  | <b>5,889</b>  | <b>7,910</b>  | <b>626</b>   | <b>344</b>   | <b>(2,230)</b> | <b>(2,327)</b> | <b>18,680</b>       | <b>18,867</b> |

# Appendix

## Reported Consolidated Balance Sheet

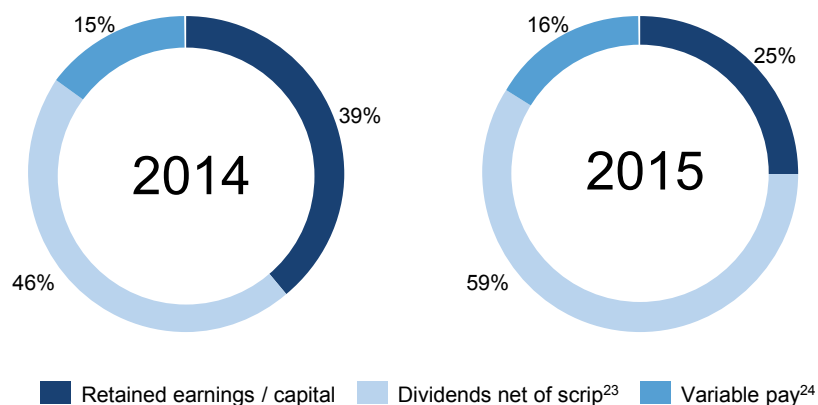
| \$m   | At 31 Dec 2014   | At 30 Jun 2015   | At 31 Dec 2015   |
|---|------------------|------------------|------------------|
| <b>Assets</b>   |                  |                  |                  |
| Cash and balances at central banks                          | 129,957          | 144,324          | 98,934           |
| Trading assets  | 304,193          | 283,138          | 224,837          |
| Financial assets designated at fair value                   | 29,037           | 25,168           | 23,852           |
| Derivatives   | 345,008          | 296,942          | 288,476          |
| Loans and advances to banks                                 | 112,149          | 109,405          | 90,401           |
| Loans and advances to customers                             | 974,660          | 953,985          | 924,454          |
| Reverse repurchase agreements – non trading                 | 161,713          | 149,384          | 146,255          |
| Financial investments                                       | 415,467          | 404,682          | 428,955          |
| Assets held for sale  | 7,647            | 60,929           | 43,900           |
| Other assets  | 154,308          | 143,756          | 139,592          |
| <b>Total assets</b>   | <b>2,634,139</b> | <b>2,571,713</b> | <b>2,409,656</b> |
| <b>Liabilities</b>  |                  |                  |                  |
| Deposits by banks   | 77,426           | 71,140           | 54,371           |
| Customer accounts   | 1,350,642        | 1,335,800        | 1,289,586        |
| Repurchase agreements – non trading                         | 107,432          | 81,506           | 80,400           |
| Trading liabilities   | 190,572          | 181,435          | 141,614          |
| Financial liabilities designated at fair value              | 76,153           | 69,485           | 66,408           |
| Derivatives   | 340,669          | 289,984          | 281,071          |
| Debt securities in issue                                    | 95,947           | 102,656          | 88,949           |
| Liabilities under insurance contracts                       | 73,861           | 69,494           | 69,938           |
| Liabilities of disposal groups held for sale                | 6,934            | 53,226           | 36,840           |
| Other liabilities   | 114,525          | 115,605          | 102,961          |
| <b>Total liabilities</b>                                    | <b>2,434,161</b> | <b>2,370,331</b> | <b>2,212,138</b> |
| <b>Equity</b>   |                  |                  |                  |
| Total shareholders' equity                                  | 190,447          | 192,427          | 188,460          |
| Non-controlling interests                                   | 9,531            | 8,955            | 9,058            |
| <b>Total equity</b>   | <b>199,978</b>   | <b>201,382</b>   | <b>197,518</b>   |
| <b>Total equity and liabilities</b>                         | <b>2,634,139</b> | <b>2,571,713</b> | <b>2,409,656</b> |
| <b>Net assets value per ordinary share (NAV) - \$</b>       | <b>9.28</b>      | <b>9.11</b>      | <b>8.73</b>      |
| <b>Tangible assets value per ordinary share (TNAV) - \$</b> | <b>7.91</b>      | <b>7.81</b>      | <b>7.48</b>      |

# Where the profit goes

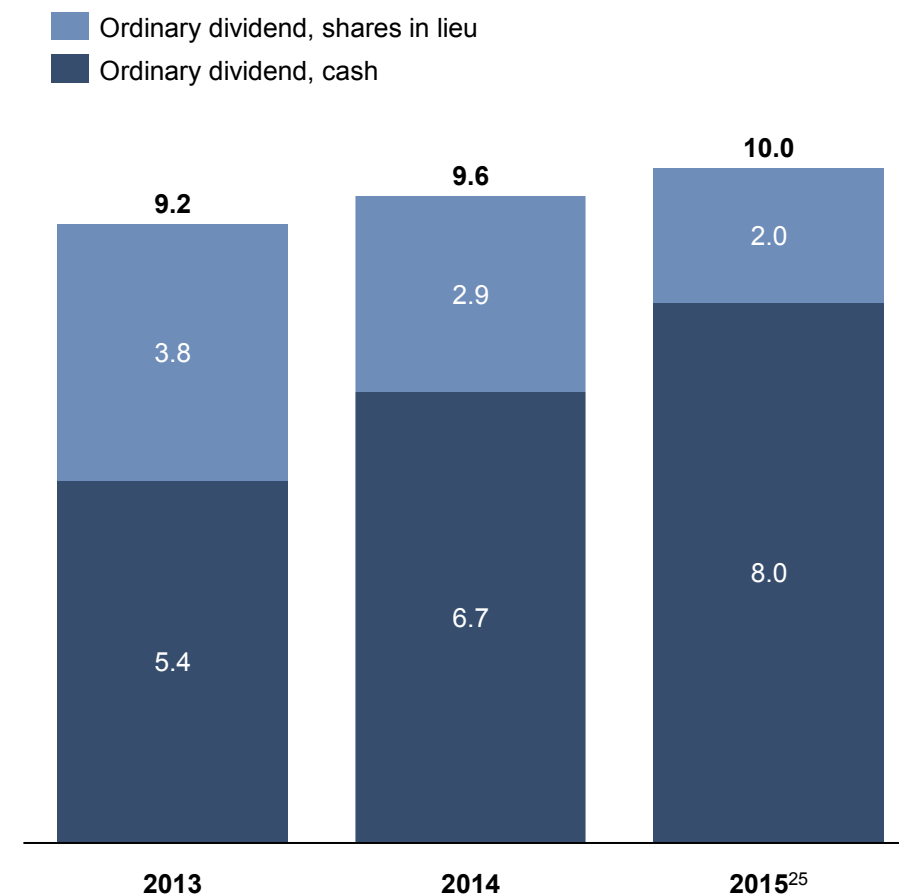
## Pre-tax variable pay

| \$m  | Group |       | GB&M  |       |
|--|-------|-------|-------|-------|
|  | 2014  | 2015  | 2014  | 2015  |
| Total variable pay pool  | 3,660 | 3,462 | 1,120 | 1,086 |
| Variable compensation incentive pool as a % of pre-tax profit (pre-variable pay) | 16%   | 16%   | 15%   | 12%   |
| Proportion of variable pay pool deferred (%)                                     | 14%   | 15%   | 25%   | 26%   |

## Pro-forma post-tax profits allocation



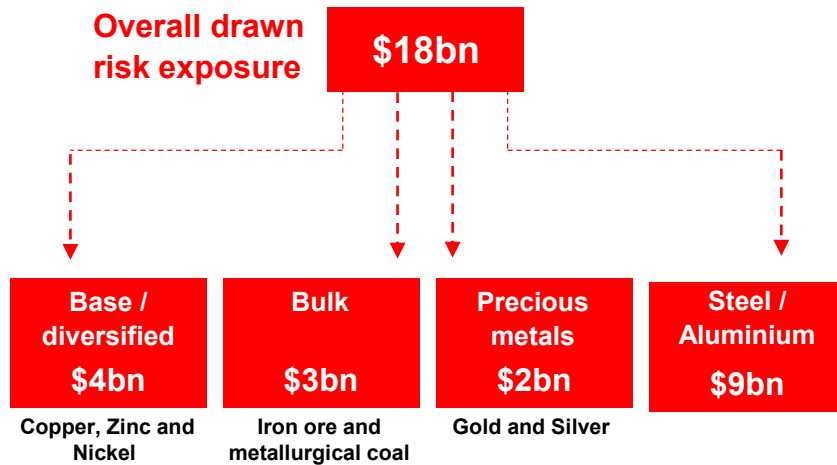
## Growing ordinary dividends (in respect of the year), \$bn





# Metals and mining sector

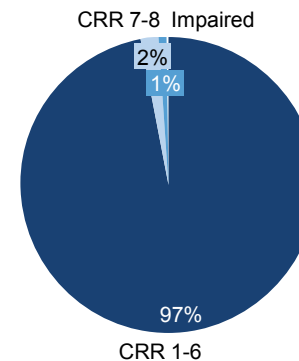
## Metals and mining, \$bn



| Exposure by region           | \$bn      |
|------------------------------|-----------|
| Europe                       | 3         |
| Asia                         | 9         |
| Middle East and North Africa | 1         |
| North America                | 5         |
| Latin America                | -         |
| <b>Group</b>                 | <b>18</b> |

- \$18bn represents c.1.5% of wholesale drawn risk exposure
- Precious metals, copper, nickel and zinc prices are generally forecast to improve slightly in 2016
- The outlook for steel, aluminium and bulk metals is more negative due to a combination of oversupply and reduction in demand
- 3% of the portfolio is CRR 7 or worse
- Loan impairment charges of c. \$0.1bn during 2015

## Credit quality (%)

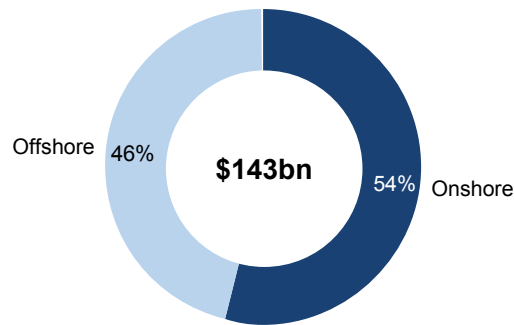


- CRR 1-6 Broadly equivalent to an external rating of B- or better
- CRR 7-8 Broadly equivalent to an external rating ranging from CCC+ to C

# Mainland China

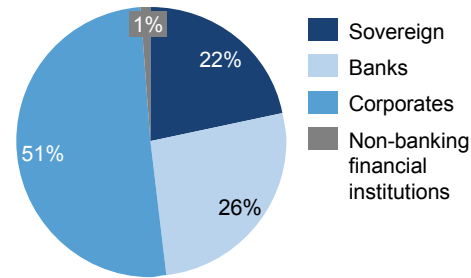
Portfolio continues to perform well

## Mainland China drawn risk exposure<sup>26</sup>

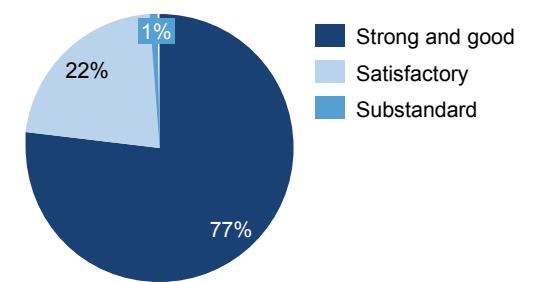


## Wholesale lending

Wholesale lending type (%)

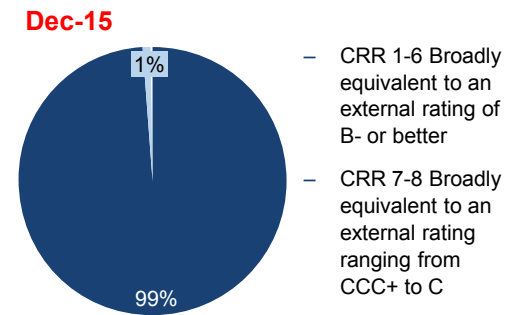
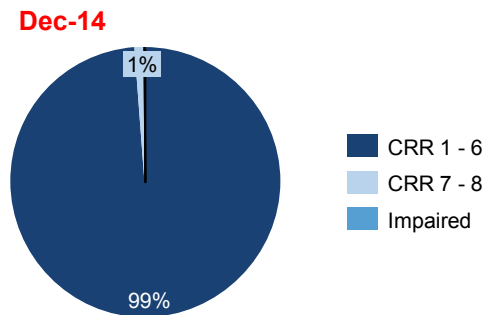


Corporate real estate credit quality (%)



- 99% of the banks are investment grade
- Our Corporate lending is diversified with real estate the largest sector comprising just over 20% of the portfolio (\$15bn)

Corporate quality (%)



- CRR 1-6 Broadly equivalent to an external rating of B- or better
- CRR 7-8 Broadly equivalent to an external rating ranging from CCC+ to C

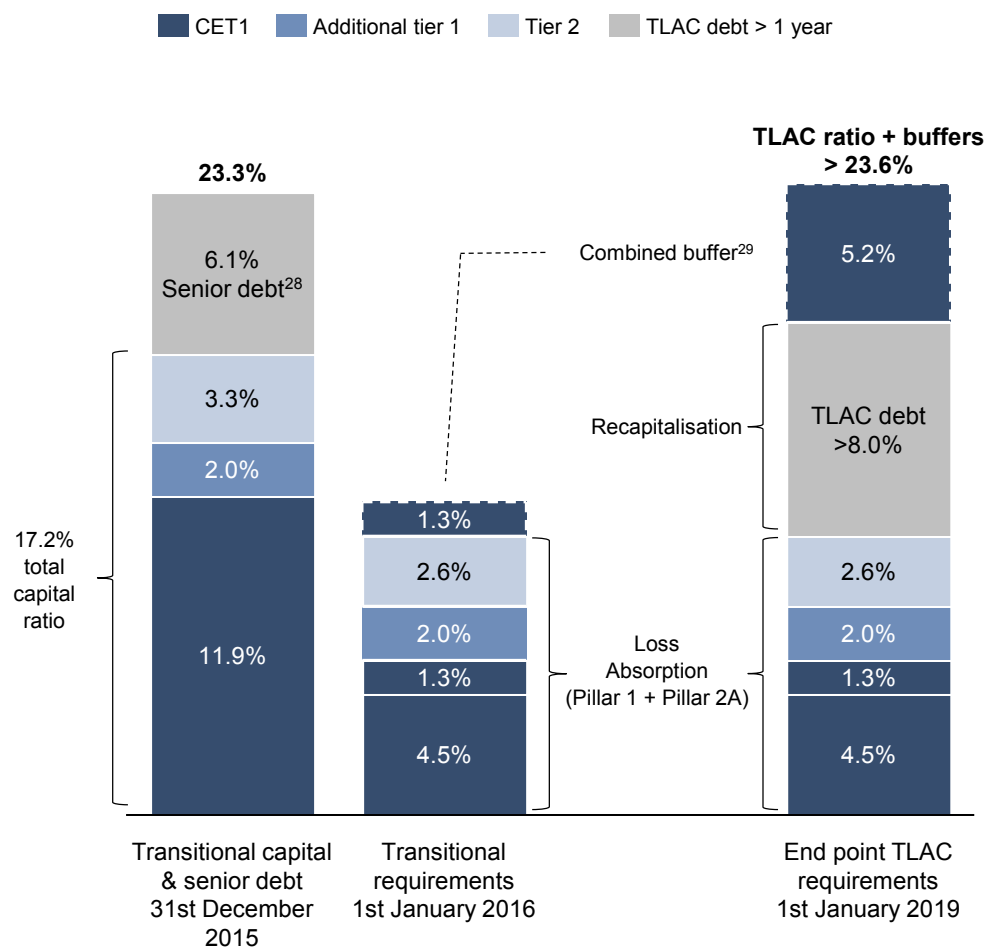
### Key characteristics

- Wholesale: \$135bn; Retail: \$8bn
- HSBC's market share is 0.2% which allows us to be selective in our lending
- Losses remain low (onshore loan impairment charges of c \$0.1bn)
- Impaired loans and days past due trends are also stable

# Group capital structure

Progressing to end state capital structure

## Evolution of Group capital structure in % of RWA<sup>27</sup>



## End point requirements 2019 - assumptions

- Loss absorption Pillar 1 and capital buffer requirements per CRD IV; Pillar 2A requirements as currently communicated by the PRA (held constant for illustration)
- BoE expected to align MREL with TLAC, with recapitalisation amount to be confirmed upon assessment of our resolution strategy
- MPE resolution groups local requirements expected to be no higher than group consolidated (SPE) requirement

## TLAC issuance

- HSBC plans to raise USD60 - 80bn<sup>27</sup> of TLAC debt over the period 2016-18 to meet these requirements. Total senior debt redemptions from the HSBC Group entities during that period will amount to c.USD51bn<sup>28</sup>
- Per the TLAC finalised principles<sup>27</sup> HSBC will be required to accumulate additional TLAC debt of 2% of RWAs by 1 January 2022
- In 2016 HSBC Holdings plc will be the sole issuer of external TLAC debt for the Group
- TLAC debt will be downstreamed in a form compliant with local regulations

# Appendix

## Footnotes

1. We plan to maintain a corporate presence in Brazil to serve our international clients
2. From 1 January 2015 the CRD IV transitional CET1 and end-point CET1 capital ratios became aligned for HSBC Holdings plc due to recognition of unrealised gains on investment property and available-for-sale securities
3. Net bank levy charge was \$1,421m in 2015 and \$1,063m in 2014; 1Q14 and 1Q15 included credits relating to the prior year's bank levy charge of \$45m and \$44m respectively
4. Other revenue and operating expenses-related significant items include:

| \$m   | 4Q14         | 4Q15         | 2014           | 2015         |
|---|--------------|--------------|----------------|--------------|
| <b>Revenue</b>  |              |              |                |              |
| (Adverse) / favourable debit valuation adjustment on derivative contracts                       | (53)         | (186)        | (332)          | 230          |
| (Adverse) / favourable fair value movements on non-qualifying hedges                            | (200)        | 26           | (541)          | (327)        |
| Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | (51)         | (12)         | (632)          | (10)         |
| Gain on sale of shareholding in Bank of Shanghai  | -            | -            | 428            | -            |
| Impairment of our investment in Industrial Bank   | -            | -            | (271)          | -            |
| Brazil disposal costs   | -            | (18)         | -              | (18)         |
| Acquisition, disposals and dilutions  | (28)         | -            | 9              | -            |
|   | <b>(332)</b> | <b>(190)</b> | <b>(1,339)</b> | <b>(125)</b> |
| <b>Operating expenses</b>   |              |              |                |              |
| Charge in relation to settlement agreement with Federal Housing Finance Authority               | -            | -            | (550)          | -            |
| Regulatory provisions in GBP  | (65)         | (18)         | (65)           | (172)        |
| Restructuring and other related costs   | (128)        | -            | (278)          | (117)        |
| Costs to establish UK ring-fenced bank  | -            | (61)         | -              | (89)         |
| Brazil disposal costs   | -            | (55)         | -              | (110)        |
| Acquisition, disposals and dilutions  | -            | -            | (40)           | -            |
|   | <b>(193)</b> | <b>(135)</b> | <b>(933)</b>   | <b>(488)</b> |

For a complete list, refer to slide 20

5. Excludes Brazil
6. Group also includes \$6.6bn of intersegment elimination

# Appendix

## Footnotes

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7. Effect of translating the 2014 adjusted operating expenses to 1Q15 foreign exchange rates as per Investor Update 2015
  8. Effect of translating the Investor Update target to 2015 foreign exchange rates
  9. This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity
  10. Dividends net of scrip includes fourth interim dividends net of planned 20% scrip take-up
  11. Adjusted RoRWAs are calculated using annualised adjusted PBT and reported RWAs at constant currency, adjusted for significant items
  12. Run-off portfolios mainly comprise GB&M Legacy Credit and RBWM US run-off portfolios
  13. Due to the nature of its business, GPB measures the performance of its business through other measures including Net New Money and Return on Assets
  14. Enhanced processes during Q4 resulted in the retrospective recognition of \$6.7bn of RWA initiatives and \$4.8bn Business growth from prior quarters
  15. Includes revenue from our Payments and Cash Management, Global Trade and Receivables Finance, Foreign Exchange and Securities Services businesses across all global businesses
  16. In business synergies include separately managed operations (Securities Services, Asset Management and Life Insurance (manufacturing)) that are reported within a global business line. Revenue from Asset management products to GB&M, CMB and GPB customers that are included in cross-business synergies are excluded from manufacturing revenues in in-business synergies
  17. Cross-business synergies are presented as gross revenue and do not reflect any revenue sharing arrangement between Global Businesses. The principal components of cross-business synergies are (i) in GB&M: PCM and GTRF solutions from CMB, and Asset management products from RBWM; (ii) in CMB: FX, derivatives, and capital financing from GB&M, Investment and insurance, and Asset management products from RBWM; (iii) in RBWM: Global Markets products for retail and business banking customers and (iv) in GPB: referrals from other global businesses, Global Markets products to private clients and Insurance and Asset Management products from RBWM
  18. Revenue from International Clients is an estimate based on information held in our client system applied to adjusted revenue. Client Revenue is defined as Group adjusted revenue excluding Other Global Business / Inter-segment, BSM, Principal Investments, Legacy Credit and US CML Run Off. International clients are businesses and individuals with an international presence
  19. Progression of dividends should be consistent with the growth of the overall profitability of the Group, and is predicated on the ability to meet all capital requirements in a timely manner
  20. Peer group average calculated using latest available reported financials for sample set of 5 global banks (JP Morgan, BNP Paribas, Citigroup, Deutsche Bank, Standard Chartered) and 5 regional banks (DBS, Santander, Itau, ICBC and Barclays)
  21. Calculated as average of the PBT range divided by average PBT for the last 10 years for the peers defined
  22. Amounts are non-additive across global businesses due to intercompany transactions within the Group
  23. Inclusive of dividends to holders of other equity instruments and net of scrip issuance based on an assumption of scrip take up for the fourth quarter of 2015 of 20%. Dividends per ordinary share declared in respect of 2015 were \$0.51, an increase of 2% compared with 2014. The post-tax profits allocation figures shown in the Annual Report and Accounts 2014 in respect of that year assumed a scrip take up of 20%. The figures shown above in relation to 2014 have been calculated based on an actual scrip take up of 52%
  24. Total variable pay pool net of tax and portion to be delivered by the award of HSBC shares
  25. Includes fourth interim dividend with scrip estimated at 20%
  26. Retail drawn exposures represent retail lending booked in mainland China; wholesale drawn exposures represents wholesale lending where the ultimate parent or beneficial owner is Chinese
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# Appendix

## Footnotes

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27. Based on our interpretation of the Financial Stability Board's ('FSB') 'Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution' (published in November 2015). Estimate is based on the higher of 16% of Group consolidated third party RWAs (excluding associates) and twice the Basel III Tier 1 leverage ratio of 3% (these increase to 18% and 6.75%, respectively, by 1 January 2022). HSBC is subject to BRRD firm-specific MREL requirements; the BoE is currently consulting on its implementation in the UK. Final implementation of the rules could differ from FSB. Further, prospective regulatory RWA changes may increase the TLAC requirement
  28. Senior debt includes senior unsecured and structured notes issued to external investors with size above \$250m equivalent and with more than 18 months maturity at the time of issue
  29. The combined buffer is comprised of a Capital Conservation Buffer (CCB) of 2.5%; a G-SII buffer currently set at 2.5%; and a Countercyclical Capital Buffer (CCyB) dependent on the buffer rates set by regulators – the Group CCyB rate on 1 January 2016 is approximately nil; the 2019 CCyB estimate of approximately 0.2% is based on announced and confirmed rates as of 31 December 2015 (future increases in the CCyB rate, where not formally confirmed, have not been included in our numbers). The G-SII and CCB are phased-in from 1 January 2016 to 1 January 2019. The G-SII buffer, CCyB buffer and Pillar 2A requirements are subject to change over time
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# Appendix

## Important notice and forward-looking statements

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### Important notice

The information set out in this presentation and subsequent discussion does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

### Forward-looking statements

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This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at [www.hsbc.com](http://www.hsbc.com).

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**Photography:** Getty Images