HSBC HOLDINGS PLC
Form 20-F
February 26, 2015
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As filed with the Securities and Exchange Commission on February 26, 2015.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

For the transition period from N/A to N/A

Commission file number: 001-14930

HSBC Holdings plc

(Exact name of Registrant as specified in its charter)

N/A	**United Kingdom**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organisation)

8 Canada Square

London E14 5HQ

United Kingdom

(Address of principal executive offices)

Russell C Picot

8 Canada Square

London E14 5HQ

United Kingdom

Tel +44 (0) 20 7991 8888

Fax +44 (0) 20 7992 4880

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value US$0.50 each.	London Stock Exchange Hong Kong Stock Exchange Euronext Paris Bermuda Stock Exchange New York Stock Exchange*
American Depository Shares, each representing 5 Ordinary Shares of nominal value US$0.50 each.	New York Stock Exchange
6.20% Non-Cumulative Dollar Preference Shares, Series A	New York Stock Exchange*
American Depositary Shares evidenced by American Depositary receipts, each representing one-fortieth of a Share of 6.20% Non-Cumulative Dollar Preference Shares, Series A	New York Stock Exchange
5.10% Senior Unsecured Notes Due 2021	New York Stock Exchange
4.00% Senior Unsecured Notes Due 2022	New York Stock Exchange
4.875% Senior Unsecured Notes Due 2022	New York Stock Exchange
7.625% Subordinated Notes due 2032	New York Stock Exchange
7.35% Subordinated Notes due 2032	New York Stock Exchange
6.5% Subordinated Notes 2036	New York Stock Exchange

6.5% Subordinated Notes 2037	New York Stock Exchange
6.8% Subordinated Notes Due 2038	New York Stock Exchange
6.100% Senior Unsecured Notes due 2042	New York Stock Exchange
8.125% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Preference Shares	New York Stock Exchange
8.00% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Preference Shares, Series 2	New York Stock Exchange
4.250% Subordinated Notes due 2024	New York Stock Exchange
5.250% Subordinated Notes due 2044	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, nominal value US$0.50 each 19,217,874,260

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

þ Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes þ No.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board þ	Other ¨

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes þ No

* Not for trading, but only in connection with the registration of American Depositary Shares.

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HSBC HOLDINGS PLC ANNUAL REPORT AND ACCOUNTS 2014

Shareholder Information

Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC , the Group , we , us our refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People s Republic of China is referred to as Hong Kong . When used in the terms shareholders equity and total shareholders equity , shareholders means holders of HSBC Holdings ordinary shares a those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations US$m and US$bn represent millions and billions (thousands of millions) of US dollars, respectively.

Financial statements

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU. At 31 December 2014, there were no unendorsed standards effective for the year ended 31 December 2014 affecting these consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB.

We use the US dollar as our presentation currency because the US dollar and currencies linked to it form the major currency bloc in which we transact and fund our business. Unless otherwise stated, the information presented in this document has been prepared in accordance with IFRSs.

When reference to adjusted is made in tables or commentaries, the comparative information has been expressed at constant currency (see page 40), the impact of fair value movements in respect of credit spread charges on HSBC s own debt has been eliminated and the effects of other significant items have been adjusted as reconciled on page 44. Adjusted return on risk-weighted assets is defined and reconciled on page 62.

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Strategic Report

Who we are

HSBC is one of the largest

banking and financial

services organisations

in the world.

Customers:

51m

Served by:

266,000

employees (257,600 FTE)

Through four global businesses:

Retail Banking and Wealth Management

Commercial Banking

Global Banking and Markets

Global Private Banking

Located in:

73

countries and territories

Across five geographical regions:

Europe

Asia

Middle East and North Africa

North America

Latin America

Offices:

Over 6,100

Global headquarters:

London

Market capitalisation:

US$182bn

Listed on stock exchanges in:

London

Hong Kong

New York

Paris

Bermuda

Shareholders:

216,000 in 127

countries and territories

HSBC HOLDINGS PLC

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Strategic Report (continued)

Cautionary statement regarding forward-looking statements

The *Annual Report and Accounts 2014* contains certain forward-looking statements with respect to HSBC s financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about HSBC s beliefs and expectations, are forward-looking statements. Words such as expects , anticipates , intends , plans , believes , seeks , estimates , and reasonably possible , variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries;
adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;

changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and

factors specific to HSBC, including discretionary RWA growth and our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the DPA.

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Strategic Report (continued)

Highlights

Profit before tax was down 17% to US$18.7bn on a reported basis. Adjusted profit before tax, excluding the effect of significant items and currency translation, was broadly unchanged at US$22.8bn.

Reinforced HSBC s capital strength. Our CRD IV transitional common equity tier 1 ratio was 10.9% compared with 10.8% at the end of 2013.

Dividends to shareholders increased to US$9.6bn as capital strength created capacity for organic growth and allowed us to increase the dividends paid.

Profit before taxation	Capital strength	Dividends per ordinary share
(reported basis)	(CRD IV common equity tier 1 ratio transitional)[1]	(in respect of year)[3]
US$18.7bn	**10.9%**	**US$0.50**
£11.3bn		
HK$145bn	At 31 December	

Cost efficiency ratio	Return on average ordinary shareholders equity[4]	Share price
(reported basis)[2]		(at 31 December)
67.3%	7.3%	£6.09 HK$74.00 US$47.23 American Depositary Share

For a description of the difference between reported and adjusted performance, see page 40.

For footnotes, see page 39.

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Strategic Report (continued)

Group Chairman s Statement

HSBC s performance in 2014 reflected another year of consolidation in the reshaping and strengthening of the Group against a backdrop of geopolitical and economic headwinds, many of which could not have been foreseen at the outset of the year.

As economic activity in much of the world failed to reach the levels required to rebuild sustainable consumer confidence and prompt renewed investment expenditure, governments most impacted expanded their stimulus measures and the major central banks maintained interest rates at their unprecedented low levels. Concerns over deflationary trends, particularly in the eurozone, grew. Although China delivered growth which comfortably surpassed all other major economies, expectations of slower growth in the future weighed heavily on market sentiment and contributed to significant commodity price falls and further curtailment of global investment spending.

Unsurprisingly in this environment, revenue growth opportunities were strongest in our Asian businesses, with expansion in lending and debt capital financing. Cost progression continued globally in large part to implement regulatory change and enhance risk controls, notably around financial system integrity and conduct. Streamlining initiatives could only partly offset this cost expansion. Further customer redress costs and regulatory penalties around past failings reinforced the Board s continuing commitment to prioritise whatever further investment in systems and controls is necessary to mitigate future repetition.

It is clear now that societal, regulatory and public policy expectations of our industry are changing its long-term cost structure. Technological advancements around data analytics, including big data , are providing much more sophisticated tools to enhance our capabilities to protect the financial system from bad actors. Also, as more and more customers choose to transact online and through mobile devices, we are making the necessary investment to protect ourselves and our customers from cyber threats. Building the required analytical capabilities entails considerable investment in systems and in maintaining customer data which is accurate and up to date. Reconfiguring customer and transactional data to the digital age is no small endeavour given legacy systems and a multiplicity of historical data standards globally. The benefits, however, of enhanced customer due diligence capabilities and greater systems security essentially go to the core of our systemic role and allow us to be more proactive in fulfilling that role as a key gatekeeper to the financial system.

As our industry reshapes in response to public policy and regulatory directives, we now need to demonstrate, through clarity of our business model, the value to society of our scale and diversification. We must never forget that investors have choices where to invest and individuals have choices where to make their careers. Thus it is essential that we can demonstrate a positive contribution to the societies we serve in order to bolster the business friendly environment that all agree is essential for economic growth and prosperity.

For 150 years HSBC has been following trade and investment flows to serve customers as they fulfil their financial ambitions. In a world which has moved from being interconnected to being interdependent, our business model is increasingly relevant to companies of all sizes and to individuals whose financial future is linked to economic activity in multiple countries.

This can be seen most markedly in our Commercial Banking business, which delivered a record year buoyed by the expansion of supply chain management solutions and increasing cross-border payment flows. Our network coverage of the countries which originate more than 85% of the world s payment activity drives this key element of our business model. On the investment side, throughout our network we saw corporate flows continuing to target the higher growth emerging markets. At the same time, growth in outward investment from mainland China accelerated as its major companies sought diversification and access to both skill bases and markets. These trends played to HSBC s scale and presence in the key financial centres, allowing us to support customers with debt and equity financing solutions, offering tailored liquidity and transactional banking support and providing risk management solutions primarily against our clients interest rate and foreign exchange exposures. Success was evidenced by growing recognition in industry awards, the most important of which are referred to in the Group Chief Executive s Review. Finally, our Retail Banking and Wealth Management business continued its journey to build a sustainable customer focused business model, completing the removal of formulaic links between product sales and performance-related pay of our staff, and expanding our digital and mobile offerings.

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Strategic Report (continued)

Performance in 2014

Profit before tax of US$18.7bn on a reported basis was US$3.9bn or 17% lower than that achieved in 2013. This primarily reflected lower business disposal and reclassification gains and the negative effect, on both revenue and costs, of significant items including fines, settlements, UK customer redress and associated provisions. On the adjusted basis that is one of the key metrics used to assess current year management and business performance, profit before tax was US$22.8bn, broadly in line with 2013 on a comparable basis.

Earnings per share were US$0.69, against US$0.84 in 2013. The Group s capital position remained strong with the transitional common equity tier 1 ratio standing at 10.9% at the end of the year, compared with 10.8% 12 months earlier, and our end point ratio at 11.1% compared with 10.9%. Based on this capital strength and the Group s capital generating capabilities, the Board approved a fourth interim dividend in respect of 2014 of US$0.20 per share, taking the total dividends in respect of the year to US$0.50 per share (US$9.6bn, US$0.4bn higher than in respect of 2013).

Taking into account this financial performance, together with the further progress made in reshaping the Group, responding to regulatory change and implementing Global Standards, the Board considered executive management to have made good progress during 2014 towards strengthening HSBC s long-term competitive position.

The Group Chief Executive s Review analyses in detail the important benchmarks and highlights of 2014.

Regulatory landscape becomes clearer but still much to do

A great deal of progress was made during 2014 to finalise the framework under which globally systemic banks like HSBC will be required to operate when it is fully implemented. This clarity is essential if we are to be able to position our global businesses to meet the return expectations of those who invest in us within an acceptable risk appetite.

In particular, major progress was made in addressing the challenge of too big to fail , largely through finalising proposals to augment existing loss absorbing capacity with bail-inable debt and through greater definition of how resolution frameworks

would operate in practice. In both cases, this involved the critical issue of how to address cross-border implications and home and host country regulatory responsibilities.

There is, however, still much to complete. The regulatory reform agenda for 2015 is very full with pending public policy decisions, regulatory consultations and impact studies in areas of far reaching influence to the structure of our industry. These include the conclusion of structural separation deliberations in Europe, further work on so called shadow banking including identifying non-bank systemically important institutions, addressing the resolution framework for central counterparties, finalising the calibration of the leverage ratio, calibrating the quantum of total loss absorbing capacity to be raised and settling the disposition of that capacity within global groups.

Restoration of trust in our industry remains a significant challenge as further misdeeds are uncovered but it is a challenge we must meet successfully.

In addition, further work will be undertaken on utilising standardised risk weights to overcome regulatory loss of confidence in internally modelled capital measures and a fundamental review of the trading book is also underway within the regulatory community to look again at capital support for this activity. These measures, which in aggregate are designed to make the industry structurally more stable, will take the next five or so years to implement, an indication of the scale of the transformation to be completed.

During 2014, the UK government also confirmed the permanence of the UK bank levy. This was introduced in 2010, in part to address the burden borne by taxpayers from failures during the global financial crisis; in 2014, the cost to HSBC of the levy was US$1.1bn, an increase of US$0.2bn over 2013. 58% of the levy we pay does not relate to our UK banking activity.

Rebuilding trust

Restoration of trust in our industry remains a significant challenge as further misdeeds are uncovered but it is a challenge we must meet successfully. We owe this not just to

society but to our staff to ensure they can be rightly proud of the organisation to which they have committed their careers. When commentators extrapolate instances of control failure or individual misconduct to question the culture of the firm it strikes painfully at the heart of our identity.

Swiss Private Bank

The recent disclosures around unacceptable historical practices and behaviour within the Swiss private bank remind us of how much there still is to do and how far society s expectations have changed in terms of banks responsibilities. They are also a reminder of the need for constant vigilance over the effectiveness of our controls and the imperative to embed a robust and ethical compliance culture.

We deeply regret and apologise for the conduct and compliance failures highlighted which were in contravention of our own policies as well as expectations of us.

In response to, and in parallel with, the tax investigations prompted by the data theft more than eight years ago, we have been completely overhauling our private banking business, putting the entire customer base through enhanced due diligence and tax transparency filters. Our Swiss Private Bank customer base and the countries we serve are now both about one-third of the size they were in 2007. In addition, HSBC is already working to implement the OECD s Common Reporting Standard and other measures to foster greater transparency. We cannot change the past. But, looking to the future, we can and must reinforce controls and provide demonstrable evidence of their effectiveness. This forms part of our commitment to Global Standards, to ensure that we will never knowingly do business with counterparties seeking to evade taxes or use the financial system to commit financial crime.

Banking standards

More broadly, following the publication in 2013 of the Parliamentary Commission on Banking Standards, considerable progress has been made in giving effect to its recommendations. The Financial Services (Banking Reform) Act of 2013 provided greater clarity on the accountabilities and responsibilities of management and the Board. We welcome the appointment of Dame Colette Bowe to lead the Banking Standards Review Council and have committed to support her fully in its work. The current Fair and Effective Markets

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Strategic Report (continued)

Review being conducted by the Bank of England, Her Majesty s Treasury and the Financial Conduct Authority is an extremely timely and important exercise to re-establish the integrity of wholesale financial markets.

In terms of our own governance of these areas, the Conduct & Values Committee of the Board that we created at the beginning of 2014 to focus on behavioural issues has established itself firmly as the central support to the Board in these important areas.

Board changes

Since we reported at the interim stage we have taken further steps to augment the skills and experience within the Board and to address succession to key roles.

On 1 January 2015, Phillip Ameen joined the Board and the Group Audit Committee as an independent non-executive Director. Phil was formerly Vice President, Comptroller and Principal Accounting Officer of General Electric Corp. He brings with him extensive financial and accounting experience gained in one of the world s leading international companies as well as a depth of technical knowledge from his long service in the accounting standard setting world. As a serving Director on HSBC s US businesses he also brings further detailed insight to Group Board discussions and enhances the strong links that already exist between the Group Board and its major subsidiaries.

Sir Simon Robertson had previously indicated his intention to retire from the Board at the upcoming AGM. I am delighted to report that Simon has agreed to stay on for at least a further

year as Deputy Chairman. He has been a considerable support to me and to Stuart Gulliver, in addition to his role leading the non-executives, and we are all delighted that we shall continue to benefit from his wisdom and experience.

150th anniversary

2015 marks the 150th anniversary of our founding back in Hong Kong and Shanghai as a small regional bank focused on trade and investment. All of us within HSBC owe a huge debt of gratitude and respect to our forebears who charted the course that has taken HSBC to one of the most important institutions serving the financial needs of this inter-dependent world.

Outlook

It is impossible not to reflect on the very broad range of uncertainties and challenges to be addressed in 2015 and beyond, most of which are outside our control, particularly against a backdrop of patchy economic recovery and limited policy ammunition. Unexpected outcomes arising from current geopolitical tensions, eurozone membership uncertainties, political changes, currency and commodity price realignments, interest rate moves and the effectiveness of central banks unconventional policies, to name but a few, all could materially affect economic conditions and confidence around investment and consumption decisions. One economic uncertainty stands out for a major financial institution headquartered in the UK, that of continuing UK membership of the EU. Today, we publish a major research study which concludes that working to complete the Single Market in services and reforming the EU to make it more competitive are far less risky than going it alone, given the importance of EU markets to British trade.

There are also many underlying positive trends that shape our thinking about the coming year. We are very encouraged by the trends in outward investment from China, the potential for further liberalisation and internationalisation of the renminbi and the reshaping of the Chinese economy from export dependence to domestic consumption. We are positive on the opportunities that will arise from Capital Markets Union within Europe and the declared focus of the incoming Commission on growth and jobs. The strength of the US economy and the benefits of lower oil prices should be positive drivers of growth. There is much to be gained from successful negotiation of the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership. Current attention on funding infrastructure investment globally is potentially of huge significance.

Finally, on behalf of the Board, I want again to express our thanks and gratitude to our 266,000 colleagues around the world who worked determinedly in 2014 to build an HSBC fit for the next 150 years.

D J Flint

Group Chairman

23 February 2015

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Strategic Report (continued)

Group Chief Executive s Review

2014 was a challenging year in which we continued to work hard to improve business performance while managing the impact of a higher operating cost environment.

Profits disappointed, although a tough fourth quarter masked some of the progress made over the preceding three quarters. Many of the challenging aspects of the fourth quarter results were common to the industry as a whole. In spite of this, there were a number of encouraging signs, particularly in Commercial Banking, Payments & Cash Management and renminbi products and services. We were also able to continue to grow the dividend.

Reported profit before tax in 2014 was US$18.7bn, US$3.9bn lower than in the previous year. This reflected lower gains from disposals and reclassifications, and the negative effect of other significant items, including fines, settlements, UK customer redress and associated provisions, totalling US$3.7bn.

Adjusted profit before tax, which excludes the year-on-year effects of currency translation differences and significant items, was US$22.8bn, broadly unchanged on 2013.

Asia continued to provide a strong contribution to Group profits. Middle East and North Africa reported a record profit before tax in 2014. Together, Asia and MENA generated more than 70% of adjusted Group profit before tax.

Commercial Banking also delivered a record reported profit, which is evidence of the successful execution of our strategy. Revenue in CMB continued to grow,

notably in our two home markets of Hong Kong and the UK.

Global Banking and Markets performed relatively well for the first three quarters of the year, but, like much of the rest of the industry, suffered a poor fourth quarter. Revenue was lower in 2014, particularly in our Markets businesses, but all other client-facing businesses delivered year-on-year growth.

Revenue was also lower in Retail Banking and Wealth Management, due primarily to the continuing repositioning of the business. However, in our Global Asset Management business we continued our strategy of strengthening collaboration across our global businesses, which helped to attract net new money of US$29bn.

Global Private Banking continues to undergo a comprehensive overhaul which was accelerated from 2011. As part of this overhaul, we are implementing tough financial crime, regulatory compliance and tax transparency measures. In order to achieve our desired business model and informed by our six filters process, we have also sold a number of businesses and customer portfolios, including assets in Japan, Panama and Luxembourg. The number of customer accounts in our Swiss Private Bank is now nearly 70% lower than at its peak. We continued to remodel the Private Bank in 2014, which included the sale of a customer portfolio in Switzerland to LGT Bank. One consequence of this remodelling was a reduction in revenue. We have also

grown the parts of the business that fit our new model, attracting US$14bn of net new money in 2014, mostly through clients of Global Banking & Markets and Commercial Banking.

Loan impairment charges were lower, reflecting the current economic environment and the changes we have made to our portfolio since 2011.

Operating expenses were higher due to increased regulatory and compliance costs, inflationary pressures and investment in strategic initiatives to support growth, primarily in Commercial Banking in Asia and Europe. Significant items, which include restructuring costs, were also higher than last year.

We agreed settlements in respect of inquiries by the UK Financial Conduct Authority and the US Commodity Futures Trading Commission into the foreign exchange market in 2014. HSBC was badly let down by a few individuals whose actions do not reflect the vast majority of employees who uphold the values and standards expected of the bank. This matter is now rightly in the hands of the Serious Fraud Office.

Our balance sheet remained strong, with a ratio of customer advances to customer accounts of 72%. Excluding the effects of currency translation, customer loans and advances grew by US$28bn during 2014.

The common equity tier 1 ratio on a transitional basis was 10.9% and on a CRD IV end point basis was 11.1% at 31 December 2014.

Connecting customers to opportunities

2015 is HSBC s 150th anniversary. Founded in Hong Kong in 1865 to finance local and international trade, the bank expanded rapidly to capture the increasing flow of commerce between Asia, Europe and North America. Our ability to connect customers across the world remains central to the bank s strategy today and in 2014 we continued to develop and grow the product areas that rely on international connectivity.

Our market-leading Global Trade and Receivables Finance business remains strong and we were voted best global trade finance bank and best trade finance bank in MENA in the *Global Trade Review* Leaders In Trade Awards.

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Strategic Report (continued)

In Payments and Cash Management, we increased customer mandates and improved client coverage. We were recognised as the best global cash management bank for the third successive year in the 2014 *Euromoney* Cash Management Survey.

Our share of the capital financing market continued to improve and we were ranked number one for debt capital markets in our home markets of the UK and Hong Kong, and number one for Equity Capital Markets in Hong Kong by *Dealogic*. HSBC was also named global bond house of the year, global derivatives house of the year and Asian bond house of the year in the *International Financing Review* Awards 2014.

We consolidated our leadership of the rapidly growing renminbi market in 2014. According to SWIFT, the renminbi is now the fifth most widely used payment currency in the world, up from 13th just two years ago. We increased revenue from renminbi products and retained our ranking as number one issuer of offshore renminbi bonds worldwide over the last twelve months. HSBC was also recognised as the best overall provider for products and services in Asiamoney s Offshore Renminbi Services Survey in 2014, and renminbi house of the year in the 2014 Asia Risk Awards.

Operating a global business

It is already clear that the regulatory costs of operating a global business model have increased since we announced our strategy for HSBC in 2011.

As the Group Chairman s Statement explains, the regulatory environment continues to evolve.

Our commitment to be the world s leading international bank means that improving our regulatory and compliance abilities and implementing Global Standards must remain priorities for HSBC. Our Compliance staff headcount has more than doubled since 2011 and there is more work still to do to strengthen the Group s compliance capability.

At the same time, the level of capital that we hold has increased by over 60% since before the financial crisis. Specifically, we have further strengthened our capital levels in response to increasing capital

requirements from the UK Prudential Regulation Authority.

Whilst we expected an increase in the amount of capital we were required to hold when setting targets for the Group in 2011, we could not have foreseen the full extent of the additional costs and capital commitment that would subsequently be asked of us. The pace of change has been exceptional. As a consequence, some of the targets that we set for the Group in 2011 are no longer realistic.

In recognition of that fact, we have set new medium-term targets that better reflect the ongoing operating environment.

We are setting a revised return on equity target of more than 10%. This target is modelled using a common equity tier 1 capital ratio on a CRD IV end point basis in the range of 12% to 13%.

Our cost target will be to grow our revenue faster than costs (positive jaws) on an adjusted basis.

We are also restating our commitment to grow the dividend. To be clear, the progression of dividends should be consistent with the growth of the overall profitability of the Group and is predicated on our ability to meet regulatory capital requirements in a timely manner.

These targets offer a realistic reflection of the capabilities of HSBC in the prevailing operating environment.

Our employees

I am grateful for the hard work, dedication and professionalism of all of our employees in 2014.

Extensive work was required to prepare HSBC for stress tests in a number of jurisdictions throughout the year, the results of which confirmed the capital strength of the Group. HSBC will face additional stress testing in 2015.

We all have to work continuously to make sure that the Group remains compliant with anti-money laundering and sanctions legislation and this effort continued in 2014.

Management and staff across the Group continued to work very closely with the Monitor to deliver our commitments under the terms of our December 2012

settlement agreements with the US authorities and the UK Financial Conduct Authority. We have now received the second annual report from the Monitor. Whilst it confirmed that we continue to comply with the obligations we undertook in the Deferred Prosecution Agreement with the US Department of Justice, as we expected we still have substantial work to do.

Summary and outlook

The business remains in a good position structurally to capitalise on broader market trends and the macroeconomic backdrop remains favourable, notwithstanding the continuing low interest rate environment. There are still a number of historical issues left to resolve and we will make further progress on these in 2015. We will also continue the work we started in 2011 to simplify the Group to make it easier to manage and control.

Our 2014 results show a business powered by our continued strength in Hong Kong, with significant additional contributions from the rest of Asia and the Middle East and North Africa. The continuing success of Commercial Banking and the resilience of our differentiated Global Banking & Markets business illustrate the effectiveness of our strategy to bridge global trade and capital flows. Retail Banking & Wealth Management remains a work in progress, but we took considerable further steps to de-risk the business in 2014. Global Private Banking continues to attract net new money from clients in our other global businesses. We maintain a sharp focus on generating net savings to offset increased costs arising from inflation, and the cost of implementing global standards.

Our early 2015 performance has been satisfactory.

We continue to focus on the execution of our strategy and on delivering value to shareholders.

S T Gulliver

Group Chief Executive

23 February 2015

HSBC HOLDINGS PLC

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Strategic Report (continued)

Strategic objectives

Value creation

and long-term sustainability

We continue to follow the vision for HSBC we first outlined in 2011 along with the clear strategy that will help us achieve it. Our strategy guides where and how we seek to compete. We constantly assess our progress against this strategy and provide regular updates to stakeholders.

Through our principal activities making payments, holding savings, enabling trade, providing finance and managing risks we play a central role in society and in the economic system. Our target is to build and maintain a business which is sustainable in the long term.

How we create value

Banks, and the individuals within them, play a crucial role in the economic and social system, creating value for many parties in different ways.

We provide a facility for customers to securely and conveniently deposit their savings. We allow funds to flow from savers and investors to borrowers, either directly or through the capital markets. The borrowers use these loans or other forms of credit to buy goods or invest in businesses. By these means, we help the economy to convert savings which may be individually short-term into financing which is, in aggregate, longer term. We bring together investors and people looking for investment funding. We develop new financial products. We also facilitate personal and commercial transactions by acting as payment agent both within countries and internationally. Through these activities, we take on risks which we then manage and reflect in our prices.

Our direct lending includes residential and commercial mortgages and overdrafts, and term loan facilities. We finance importers and exporters engaged in international trade and provide advances to companies secured on amounts owed to them by their customers.

We also offer additional financial products and services including broking, asset management, financial advisory services, life insurance, corporate finance, securities services and alternative investments. We make markets in financial assets so that investors have confidence in efficient pricing and the availability of buyers and sellers. We provide these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises, high net worth individuals and retail customers. We help customers raise financing from external investors in debt and equity capital markets. We create liquidity and price transparency in these securities allowing investors to buy and sell them on the secondary market. We exchange national currencies, helping international trade.

We offer products that help a wide range of customers to manage their risks and exposures through, for example, life insurance and pension products for retail customers and receivables finance or

documentary trade instruments for companies. Corporate customers also ask us to help with managing the financial risks arising in their businesses by employing our expertise and market access.

An important way of managing risks arising from changes in asset and liability values and movements in rates is provided by derivative products such as forwards, futures, swaps and options. In this connection, we are an active market-maker and derivative counterparty. Customers use derivatives to manage their risks, for example, by:

- using forward foreign currency contracts to hedge their income from export sales or costs of imported materials;
- using an inflation swap to hedge future inflation-linked liabilities, for example, for pension payments;
- transforming variable payments of debt interest into fixed rate payments, or vice versa; or
- providing investors with hedges against movements in markets or particular stocks.

Strategic Report (continued)

We charge customers a spread, representing the difference between the price charged to the customer and the theoretical cost of executing an offsetting hedge in the market. We retain that spread at maturity of the transaction if the risk management of the position has been effective.

We then use derivatives along with other financial instruments to constrain the risks arising from customer business within risk limits. Normally, our customers both buy and sell relevant instruments, in which case our focus is on managing any residual risks through transactions with other dealers or professional counterparties. Where we do not fully hedge the residual risks we may gain or lose money as market movements affect the net value of the portfolio.

Stress tests and other risk management techniques are also used to ensure that potential losses remain within our risk appetite under a wide range of potential market scenarios.

In addition, we manage risks within HSBC, including those which arise from the business we do with customers.

For further information on our risks, see page 21, and on how we manage them, see page 24.

Long-term sustainability

At HSBC, we understand that the continuing financial success of our business is closely connected to the economic, environmental and social landscape in which we operate. For us, sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive, reward shareholders and employees, pay taxes and duties in

the countries in which we operate and contribute to the health and growth of communities. Achieving a sustainable return on equity and long-term profit growth is built on this foundation.

How we do business is as important as what we do: our responsibilities to our customers, employees and shareholders as well as to wider society go far beyond simply being profitable. These include our consistent implementation of the highest standards everywhere we operate to detect, deter and protect against financial crime.

Sustainability underpins our strategic priorities and enables us to fulfil our purpose. Our ability to identify and address environmental, social and ethical developments which present risks or opportunities for the business contributes to our financial success. Sustainable decision-making shapes our reputation, drives employee engagement and affects the risk profile of the business and can help reduce costs and secure new revenue streams.

Our international presence and the long-established position of many of our businesses in HSBC s home and priority growth markets, when combined with our wide-ranging portfolio of products and services, differentiate HSBC from our competitors and give our business and operating models an inherent resilience. This has enabled the Group to remain profitable through the most turbulent of times for our industry, and we are confident that the models will continue to stand us in good stead in the future and will underpin the achievement of our strategic priorities.

Our business and operating models are described in more detail on page 12. For further information about sustainability at HSBC, see page 36.

HSBC Values

Embedding HSBC Values in every decision and every interaction with customers and with each other is a top priority for the Group and is shaping the way we do business.

The role of HSBC Values in daily operating practice is fundamental to our culture, and is particularly important in light of developments in regulatory policy, investor confidence and society s expectations of banks. HSBC Values are integral to the selection, assessment, recognition, remuneration and training of our employees. We expect our executives and employees to act with courageous integrity in the execution of their duties in the following ways:

HSBC Values

Be dependable and do the right thing

- stand firm for what is right, deliver on commitments, be resilient and trustworthy;
- take personal accountability, be decisive, use judgement and common sense, empower others.

Be open to different ideas and cultures

- communicate openly, honestly and transparently, value challenge, learn from mistakes;
- listen, treat people fairly, be inclusive, value different perspectives.

Be connected with our customers, communities, regulators and each other

- build connections, be externally focused, collaborate across boundaries;
- care about individuals and their progress, show respect, be supportive and responsive.

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Strategic Report (continued)

Our strategy

Long-term trends

Our strategy is aligned to two long-term trends:

The world economy is becoming ever more interconnected, with growth in world trade and cross-border capital flows continuing to outstrip growth in average gross domestic product. Over the next decade we expect growth in trade and capital flows to outstrip GDP growth and 35 markets to generate 85% of world trade growth with a similar degree of concentration in cross-border capital flows.

Of the world s top 30 economies, we expect those of Asia, Latin America, the Middle East and Africa to have increased by around four-fold in size by 2050, benefiting from demographics and urbanisation. By this time they will be larger than those of Europe and North America combined. By 2050, we expect 18 of the 30 largest economies will be from Asia, Latin America or the Middle East and Africa.

Competitive advantages

What matters in this environment is:

having an international network and global product capabilities to capture international trade and movements in capital; and

being able to take advantage of organic investment opportunities in the most attractive growth markets and maintaining the capacity to invest.

HSBC s competitive advantages come from:

our meaningful presence in and long-term commitment to our key strategic markets;

our business network, which covers over 85% of global trade

A two-part approach

Responding to these long-term trends, we have developed a two-pronged approach that reflects our competitive advantages:

A network of businesses connecting the world. HSBC is well positioned to capture growing international trade and capital flows. Our global reach and range of services place us in a strong position to serve clients as they grow from small enterprises into large multi-nationals through our Commercial Banking and Global Banking & Markets businesses.

Wealth management and retail with local scale. We aim to capture opportunities arising from social mobility and wealth creation in our priority growth markets across Asia, Latin America and the Middle East, through our Premier proposition and Global Private Banking business. We expect to invest in and capital flows;

our balanced business portfolio centred on our global client franchise;

our strong ability to add to our capital base while also providing competitive rewards to our staff and good returns to our shareholders;

our stable funding base, with about US$1.4 trillion of customer accounts of which 72% has been advanced to customers; and

our local balance sheet strength and trading capabilities in the most relevant financial hubs.

full scale retail businesses only in markets where we can achieve profitable scale.

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Strategic Report (continued)

Business model

Market presence

Our business model is based on an international network connecting and serving a cohesive portfolio of markets.

Our comprehensive range of banking and related financial services is provided by operating subsidiaries and associates. Services are primarily delivered by domestic banks, typically with local deposit bases.

The UK and Hong Kong are our home markets, and a further 19 countries form our priority growth markets (see below). These 21 markets accounted for over 90% of our profit before tax in 2014, and are the primary focus of capital deployment. Network markets are markets with strong international relevance which serve to complement our international presence, operating mainly through Commercial Banking and Global Banking and Markets. Our combination of home, priority growth and network markets covers around 85% of all international trade and financial flows.

The final category, small markets, includes those where our operations are of sufficient scale to operate profitably, or markets where we maintain representative offices.

Our legal entities are regulated by their local regulators and on a Group-wide basis we are regulated from the UK by the Prudential Regulation Authority (PRA) for prudential matters (safety and soundness) and by the Financial Conduct Authority (FCA) for conduct (consumer and market protection).

HSBC s markets

Investment criteria

We use six filters to guide our decisions about when and where to invest. The first two international connectivity and economic development determine whether the business is strategically relevant. The next three profitability, efficiency and liquidity determine whether the financial position of the business is attractive. The sixth filter the risk of financial crime governs our activities in high risk jurisdictions, and is applied to protect us by restricting the scope of our business where appropriate.

Decisions over where to invest additional resources have three components:

Strategic: we will only invest in businesses aligned to our strategy, mostly in our home and priority growth markets and in target businesses and clients;

Financial: the investment must be value accretive for the Group, and must meet minimum returns, revenue and cost hurdles; and

Risk: the investment must be consistent with our risk appetite.

We conduct an annual geographic and business portfolio review following the six filter approach to update our market and business priorities.

Using the six filters in decision-making

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Strategic Report (continued)

Organisation

Our operating model is based on a matrix management structure comprising global businesses, geographical regions and global functions.

The matrix is overlaid on a legal entity structure headed by HSBC Holdings plc.

Holding company

HSBC Holdings, the holding company of the Group, is the primary source of equity capital for its subsidiaries and provides non-equity capital to them when necessary.

Under authority delegated by the Board of HSBC Holdings, the Group Management Board (GMB) is responsible for the management and day-to-day running of the Group, within the risk appetite set by the Board. GMB works to ensure that there are sufficient cash resources to pay dividends to shareholders, interest to bondholders, expenses and taxes.

HSBC Holdings does not provide core funding to any banking subsidiary, nor is it a lender of last resort and does not carry out any banking business in its own right. Subsidiaries operate as separately capitalised entities implementing the Group strategy.

Global management structure

The following table lists our four global businesses, five geographical regions and 11 global functions, and summarises their responsibilities under HSBC s management structure.

For details of our principal subsidiaries see Note 22 on the Financial Statements. A simplified Group structure chart is provided on page 462.

Global management structure

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Strategic Report (continued)

Structural Reform

Banking structural reform and recovery and resolution planning Globally there have been a number of developments relating to banking structural reform and the introduction of recovery and resolution regimes.

As recovery and resolution planning has developed, some regulators and national authorities have also required changes to the corporate structures of banks. These include requiring the local incorporation of banks or ring-fencing of certain businesses. In the UK, ring-fencing legislation has been enacted requiring the separation of retail and small and medium-sized enterprise (SME) deposits from trading activity (see below). Similar requirements have been introduced or are in the process of being introduced in other jurisdictions.

Policy background to recovery and resolution

Following the financial crisis, G20 leaders requested that the Financial Stability Board (FSB) establish more effective arrangements for the recovery and resolution of 28 (now 30) designated Global Systemically Important Banks (G-SIBs), resulting in a series of policy recommendations in relation to recovery and resolution planning, cross-border co-operation agreements and measures to mitigate obstacles to resolution.

In December 2013, the PRA set out rules for the recovery and resolution of UK banks and international banks operating in the UK. These rules were modified as part of the implementation of the EU Bank Recovery and Resolution Directive from January 2015.

HSBC resolution strategy and corporate structure changes

We have been working with the Bank of England, the PRA and our other primary regulators to develop and agree a resolution strategy for HSBC. It is our view that a resolution strategy whereby the Group breaks up at a subsidiary bank level at the point of resolution (referred to as a Multiple Point of Entry strategy) rather than being kept together as a Group at the point of resolution (referred to as a Single Point of Entry strategy) is the optimal approach as it

is aligned to our existing legal and business structure.

In common with all G-SIBs, we are working with our regulators to understand inter-dependencies between different businesses and subsidiary banking entities in the Group in order to enhance resolvability.

We have initiated plans to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, in order to remove operational dependencies (where one subsidiary bank provides critical services to another), we have determined to transfer such critical services from the subsidiary banks to a separately incorporated group of service companies (ServCo group). The ServCo group will be separately capitalised and funded to ensure continuity of services in resolution. A significant portion of the ServCo group already exists and therefore this initiative involves transferring the remaining critical services still held by subsidiary banks into the ServCo group. The services will then be provided to the subsidiary banks by the ServCo group.

UK ring-fencing

In December 2013, the UK s Financial Services (Banking Reform) Act 2013 (Banking Reform Act) received Royal Assent. It implements most of the recommendations of the Independent Commission on Banking (ICB), which *inter alia* require large banking groups to ring-fence UK retail banking activity in a separately incorporated banking subsidiary (a ring-fenced bank) that is prohibited from engaging in significant trading activity. For these purposes, the UK excludes the Crown Dependencies. Ring-fencing is to be completed by 1 January 2019.

In July 2014, secondary legislation was finalised. This included provisions further detailing the applicable individual customers to be transferred to the ring-fenced bank by reference to gross worth and enterprises to be transferred based on turnover, assets and number of employees. In addition, the secondary legislation places restrictions on the activities and geographical scope of ring-fenced banks.

In October 2014, the PRA published a consultation paper on ring-fencing rules in

relation to legal structure, governance, and continuity of services and facilities. The PRA intends to undertake further consultations and finalise ring-fencing rules in due course. The PRA also published a discussion paper concerning operational continuity in resolution.

As required by the PRA s consultation paper, a provisional ring-fencing project plan was presented to the UK regulators in November 2014. This plan provided for ring-fencing of the activities prescribed in the legislation, broadly the retail and SME services that are currently part of HSBC Bank plc (HSBC Bank), in a separate subsidiary.

In addition, the plan reflected the operational continuity expectations of each of the PRA s consultation and discussion papers by providing for the proposed enhancement of the ServCo group. The plan remains subject to further planning and approvals internally and is ultimately subject to the approval of the PRA, FCA and other applicable regulators.

European banking structural reform

In January 2014, the European Commission published legislative proposals on the structural reform of the European banking sector which would prohibit proprietary trading in financial instruments and commodities, and enable supervisors, at their discretion, to require certain trading activities to be undertaken in a separate subsidiary from deposit taking activities.

The ring-fenced deposit taking entity would be subject to separation from the trading entity including requirements for separate capital and management structures, issuance of own debt and arms-length transactions between entities.

The draft proposals contain a provision which would permit derogation by member states that have implemented their own structural reform legislation, subject to meeting certain conditions. This derogation may benefit the UK in view of the Banking Reform Act.

The proposals are currently subject to discussion in the European Parliament and the Council. The implementation date for any separation under the final rules would depend upon the date on which the final legislation (if any) is agreed.

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Strategic Report (continued)

Governance

The Board is committed to establishing and maintaining the highest standards of corporate governance wherever we operate. Good corporate governance is critical to HSBC s long-term success and sustainability.

We believe that a robust and transparent corporate governance framework is vital to the sustainable success of HSBC. Strengthening our corporate governance framework to support the successful implementation of our Global Standards programme is a continuing focus for the Board.

Role of the Board and Committees

The strategy and risk appetite for HSBC is set by the Board, which delegates the day-to-day

running of the business to the GMB. Risk Management Meetings of the GMB are held in addition to regular GMB meetings.

The key roles of the non-executive committees established by the Board are described in the chart below. The terms of reference of the principal non-executive Board committees are available at www.hsbc.com/boardcommittees.

For further details on Group corporate governance, see page 263.

The committee structure and governance framework of the HSBC Holdings Board

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Strategic Report (continued)

Global businesses

Our four global businesses are Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M) and Global Private Banking (GPB). They are responsible for

developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies within the parameters of the Group strategy in liaison with the geographical regions; are responsible for issuing planning guidance

regarding their businesses; are accountable for their profit and loss performance; and manage their headcount.

The main business activities of our global business and their products and services are summarised below.

Main business activities by global business in 2014

For footnotes, see page 39.

Retail Banking and Wealth Management

Products and services

RBWM takes deposits and provides transactional banking services to enable customers to manage their day-to-day finances and save for the future. We offer credit facilities to assist them in their short or longer-term borrowing requirements and we provide financial advisory, broking, insurance and investment services to help them to manage and protect their financial futures.

We develop products designed to meet the needs of specific customer segments, which may include a range of different services and delivery channels.

RBWM offers four main types of service:

HSBC Premier: we provide a dedicated relationship manager to our mass affluent customers and their immediate families, offering specialist and tailored advice. Customers can access emergency travel assistance, priority telephone banking and an online global view of their Premier accounts around the world.

HSBC Advance: we offer our emerging affluent customers control over their day-to-day finances and access to a range of preferential products, rates and terms. HSBC Advance is also the start of a relationship where we give customers support and guidance to help them to realise their ambitions.

Wealth Solutions & Financial Planning: a financial planning process designed around individual customer needs to help our clients to protect, grow and manage their wealth. We offer investment and wealth insurance products manufactured by Global Asset Management, Markets and HSBC Insurance and by selected third-party providers.

Personal Banking: we provide globally standardised but locally delivered, reliable, easy to understand, good-value banking products and services using global product platforms and globally set service standards.

RBWM delivers services through four principal channels: branches, self-service terminals, telephone service centres and digital (internet and mobile).

Customers

RBWM serves nearly 50 million customers. We are committed to building lifelong relationships with our customers as they move from one stage of their lives to the next, offering tailored products and services

appropriate to their diverse goals, aspirations and ambitions. We recognise that some of our customers face financial challenges and, in these cases, we aim to be tolerant, fair and understanding and to support them during difficult times.

We put the customer at the heart of everything we do. We constantly carry out research and invest resources to make sure that customers can access our services conveniently, securely and reliably. We have conducted work to ensure that we sell products that meet their needs and at a price that represents a fair exchange of value between customers and shareholders, and have introduced new incentive programmes that have no formulaic links to sales volumes but are focused on assessing how well we are meeting our customers needs.

We measure customer satisfaction through an independent market research survey of retail banking customers in selected countries and calculate a Customer Recommendation Index to measure performance. This is benchmarked against average scores of a peer group of banks in each market and we set targets for our business relative to our competitor set of banks. We expect continuous improvements across markets in which we operate. We aim

Strategic Report (continued)

to handle customer complaints promptly and fairly, monitoring trends to further improve our services.

Commercial Banking

Products and services

CMB provides a broad range of banking and financial services to enable customers to manage and grow their businesses domestically and internationally. We aim to be recognised as the leading international trade and business bank by connecting customers to markets and by enhancing collaboration within the Group, both geographically and between global businesses. A global operating model increases transparency, enables consistency, improves efficiency and ensures the right outcomes for our customers.

CMB customer offerings typically include:

Credit and Lending: we offer a broad range of domestic and cross-border financing, including overdrafts, corporate cards, term loans and syndicated, leveraged, acquisition and project finance. Asset finance is also offered in selected countries.

Global Trade and Receivables Finance: we support customers access to the world s trade flows and provide unrivalled experience in addressing today s most complex trade challenges. Our comprehensive suite of products and services, letters of credit, collections, guarantees, receivables finance, supply chain solutions, commodity and structured finance and risk distribution, can be combined into global solutions that make it easier for businesses to manage risk, process transactions and fund activities throughout the trade cycle.

Payments and Cash Management: we are strategically located where most of the world s payments and capital flows originate. We provide local, regional and global transaction banking services including payments, collections, account services, e-commerce and liquidity management via e-enabled platforms to address the needs of our customers.

Insurance and Investments: we offer business and financial protection, trade insurance, employee benefits, corporate wealth management and a variety of other commercial risk insurance products in selected countries.

Collaboration: our CMB franchise represents a key client base for products and services provided by GB&M, RBWM and GPB, including foreign exchange, interest rate, capital markets and advisory services, payroll and personal accounts services and wealth management and wealth transition services.

HSBC is leading the development of the renminbi as a trade currency, with renminbi capabilities in more than 50 markets.

Our range of products, services and delivery channels is tailored to meet the needs of specific customer segments.

Customers

We have organised ourselves around our customers needs and their degree of complexity by developing three distinct segments within CMB: Business Banking, Mid-Market and Large Corporates.

Business Banking now has two distinct needs-based servicing models: relationship managers focused on customers with more complex needs; and portfolio management for customers requiring simpler, more routine products and services.

We have brought increased focus to our Mid-Market customers and are re-configuring our organisation and resources across our home and priority growth markets to provide enhanced relationship management.

For our Large Corporate customers, who typically have complex and multi-country needs, we provide globally managed senior coverage teams, who are also able to coordinate with other global businesses.

To ensure that our customers remain at the heart of our business, we continue to place the utmost value on customer feedback and customer engagement. We are now in the 6th year of our Client Engagement Programme, a global survey of 15 markets designed to deepen our understanding of our customers and reinforce our relationship with them. This initiative, combined with other insight programmes, helps us to identify customers critical business issues so that we can tailor solutions and services offered to better meet their needs.

Building long-term relationships with reputable customers is core to our growth strategy and organisational values.

Global Banking and Markets

Products and services

GB&M provides wholesale capital markets and transaction banking services organised across eight client-facing businesses.

GB&M products and services include:

Sales and trading services in the secondary market are provided in **Markets**, which includes four businesses organised by asset class:

Credit and **Rates** sell, trade and distribute fixed income securities to clients including corporates, financial institutions, sovereigns, agencies and public sector issuers. They assist clients in managing risk via interest rate and credit derivatives, and facilitate client financing via repurchase (repo) agreements.

Foreign Exchange provides spot and derivative products to meet the investment demands of institutional investors, the hedging needs of small and medium-sized enterprises (SME s), middle-market enterprises (MME s) and large corporates in GB&M and CMB, and the needs of RBWM and GPB customers in our branches. Foreign Exchange trades on behalf of clients in over 90 currencies.

Equities provides sales and trading services for clients, including direct market access and financing and hedging solutions.

Capital Financing offers strategic financing and advisory services focusing on a client s capital structure. Products include debt and equity capital raising in the primary market, transformative merger and acquisition advisory and execution, and corporate lending and specialised structured financing solutions such as leveraged and acquisition finance, asset and structured finance, real estate, infrastructure and project finance, and export credit.

Payments and Cash Management helps clients move, control, access and invest their cash. Products include non-retail deposit taking and international, regional and domestic payments and cash management services.

Securities Services provides custody and clearing services to corporate and institutional clients and funds administration to both domestic and cross-border investors.

Global Trade and Receivables Finance provides trade services on behalf of GB&M clients to support them throughout their trade cycle.

In addition to the above, Balance Sheet Management is responsible for the management of liquidity and funding for the Group. It also manages structural interest rate positions within the Markets limit structure.

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Strategic Report (continued)

Customers

GB&M provides tailored financial solutions to major governmental, corporate and institutional clients worldwide. Managed as a global business with regional oversight, GB&M operates a long-term relationship management approach to build a full understanding of clients financial requirements and strategic goals.

Client coverage is centralised in Banking, which contains relationship managers organised by sector, region and country who work to understand client needs and provide holistic solutions by bringing together our broad array of product capabilities and utilising our extensive global network.

Our goal is to be a Top 5 bank to our priority clients. We strive to achieve this goal by assembling client coverage teams across our geographical network who work alongside product specialists in developing individually tailored solutions to meet client needs. Our client coverage and product teams are supported by a unique customer relationship management platform and comprehensive client planning process. Our teams utilise these platforms to better serve global client relationships, which facilitates our ability to connect clients to international growth opportunities.

Global Private Banking

Products and services

Drawing on the strength of HSBC and the most suitable products from the marketplace, we work with our clients to provide solutions to grow, manage and preserve wealth for today and for the future. Our products and services include Private Banking, Investment Management and Private Wealth Solutions.

GPB products and services include:

Private Banking services comprise multicurrency and fiduciary deposits, account services, and credit and specialist lending. GPB also accesses HSBC s universal banking capabilities to offer products and services such as credit cards, internet banking and corporate and investment banking solutions.

Investment Management comprises advisory and discretionary investment services and brokerage across asset classes. This includes a complete range of investment vehicles, portfolio management, securities services and alternatives.

Private Wealth Solutions comprise trusts and estate planning, designed to protect wealth and preserve it for future generations.

Customers

GPB serves the needs of high net worth and ultra-high net worth individuals and their families in our home and priority growth markets.

Within these broad segments, GPB has teams dedicated to serving HSBC s global priority clients, which include our most significant Group relationships, and other clients who benefit from our private banking proposition and services offered by CMB and GB&M. Our aim is to build and grow connectivity with these customers Group-wide, establishing strong relationships across all global businesses to meet clients needs. We aim to build on HSBC s commercial banking heritage to be the leading private bank for high net worth business owners.

Relationship managers are the dedicated points of contact for our clients, tailoring services to meet their individual needs. They develop a thorough understanding of their clients including their family, business, lifestyle and ambitions and introduce them to specialists equipped to help build the best financial strategy. Specialists include:

- investment advisers, who discuss investment ideas in line with a client s investment and risk profile;
- credit advisers, who provide expertise in complex liquidity and lending requirements; and
- wealth planners, who have the knowledge and expertise to manage wealth now and for future generations.

The use of digital platforms continues to grow in line with strong demand from self-directed clients. These platforms enable clients to access account information, investment research and online transactional capabilities directly. We continue to invest in digital systems to better meet clients evolving expectations and needs.

Employees

Successfully enhancing a values-led high performance culture in HSBC is critical to implementing Global Standards sustainably. We continue to focus on embedding HSBC Values in every decision and interaction between colleagues and with customers.

- We aim to attract, retain and motivate the very best people, and our remuneration policy supports this endeavour.
- We actively manage succession planning by defining the capabilities we need and complement this by identifying talented individuals and ensuring they are provided with appropriate career and development opportunities to fulfil their potential in HSBC.
- We provide training and development opportunities to enable employees to acquire the technical and leadership skills needed to enhance their careers.
- We are committed to a diverse and inclusive culture reflective of our customer base.
- We encourage employees to engage in the local communities in which they work.

At the end of 2014 we had a total workforce of 266,000 full-time and part-time employees compared with 263,000 at the end of 2013 and 270,000 at the end of 2012. Our main centres of employment were as follows (approximate numbers):

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Strategic Report (continued)

Profile of leadership

At the date of this Report, the Executive Management of HSBC consists of four Executive Directors, 11 Group Managing Directors and 60 Group General Managers. Of these, 13 (17%) are female. This leadership team is based in 17 different countries and comprises 13 different nationalities. 71% have served with HSBC for more than 10 years and the total average tenure is 20 years.

HSBC has 13 non-executive Directors.

Employment proposition

HSBC Values

In 2014, education on HSBC Values continued for all levels of employees through induction and other training programmes that covered relevant technical, management and leadership skills. We require a high behavioural standard from all our employees, and our focus on values and courageous integrity continues to be instilled at every level in the Group. For example, our employee induction programme has been refreshed to further reinforce courageous integrity and meeting the needs of our customers. Also, an assessment of adherence to our values and supporting behaviours has been formalised as part of our performance appraisal process for all employees. In 2014, some 145,000 employees received values training in addition to 135,000 employees in 2013. A further 100,000 employees are expected to receive this training in 2015. A number of employees left the Group for breaching our values.

Employee development

The development of employees is essential if our businesses and operations are to strengthen and prosper. We take a systematic approach to identifying, developing and deploying talented employees to ensure we have a robust supply of high calibre individuals with the values, skills and experience for current and future senior management positions.

We keep our approach to training current and under constant review in order to improve the quality of our curricula and ensure employees are equipped with the technical and leadership skills to operate in a global organisation. We are standardising our training to help employees provide a consistently high quality experience for customers in all our markets and support the mitigation of current and emerging risks and the Global Standards programme.

Employee engagement

Strong employee engagement leads to positive commercial outcomes and underpins improved business performance, increased customer satisfaction, higher productivity, talent retention and reduced absenteeism.

We assess our employees engagement through our Global People Surveys, which were held annually from 2007 to 2011 and biennially thereafter. The latest Survey, in 2013, focused on supporting a values-led high performance culture by assessing if our employees were engaged in the Group s purpose and felt able to deliver on our ambition to become the world s leading international bank.

Our employees engagement continues to be positive when compared with the financial services industry and sector best-in-class benchmark. The overall engagement score in 2013 was 68%, which was four percentage points ahead of the financial services industry norm and eight points behind the best-in-class benchmark. Strong scores were registered in risk awareness (81% and nine points above best-in-class benchmark), leadership capability (67%) and living the HSBC Values (77%). Employee development significantly improved from six points below best-in-class in 2011 to three points above in 2013. Aspects that required attention included pride and advocacy, which were 12 and 13 points, respectively, below best in class norms and had fallen from 2011 levels. The next Global People Survey will be conducted in 2015.

HSBC also conducts a regular survey, Snapshot, which is sent to one quarter of our employees every three months. Insights from Snapshot provide a timely indication of employee sentiment towards the organisation, including signifiers of engagement. As at the end of September 2014, the favourable responses to selected questions were: support for HSBC s strategy, 81%; intend to still be working at HSBC in three years time, 74%; pride in working for HSBC, 79%; and willingness to recommend HSBC to other senior professionals as a great place to further their career, 68%. Aspects for further attention include helping employees see the positive effects of HSBC s strategic priorities, 62%.

Succession planning

Our talent strategy aims to ensure that high-quality candidates are available to fill key positions and meet business needs across all areas of the Group. We directly align succession planning with talent management, individual development and career planning. The succession plan defines the number, distribution, types of roles and capabilities needed by HSBC, and talented individuals are then aligned to these roles. This approach in turn defines the individual s career path and development plan. In 2014, we assessed 104 senior employees with the potential to become leaders and determined their career development needs. Potential successors must demonstrate an understanding of our Global Standards and exemplify HSBC Values.

Our talent strategy supports our aspirations in emerging markets, where in 2014 the representation of those defined as talent was 34%. We closely monitor local nationals identified as short-term and medium-term successors to key leadership roles so as to improve the proportion of local nationals in senior management over the medium term.

Diversity and inclusion

HSBC is committed to a diverse and inclusive culture where employees can be confident their views are encouraged, their concerns are attended to, they work in an environment where bias, discrimination and harassment on any matter (including gender, age, ethnicity, religion, sexuality and disability) are not tolerated, and advancement is based on merit. Our diversity helps us support our increasingly diverse customer base and acquire, develop and retain a secure supply of skilled and committed employees.

Oversight of our diversity and inclusion agenda resides with senior executives on the Group Diversity Committee, complemented by a number of subsidiary People/Diversity Committees. We have over 55 employee network groups representing gender, ethnicity, age, sexuality, disability, religion, culture, working parents, health and community volunteering. These groups are instrumental in driving an inclusive culture and maintaining effective dialogue between management and employees.

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Strategic Report (continued)

Gender balance

An area of continued focus is gender representation, particularly at senior levels of our organisation. We are addressing bias in hiring, promotions and talent identification, expanding mentoring and sponsorship, introducing better support for returning parents and increasing flexible working opportunities.

The gender balance for HSBC Directors and employees at 31 December 2014 was as follows:

Gender balance

	Headcount		
	Male	**Female**	**Total**
Executive Directors	**4**		**4**
Non-executive Directors	**6**	**6**	**12**
Directors	**10**	**6**	**16**
Senior employees	**6,719**	**2,076**	**8,795**
Other employees	**120,496**	**136,966**	**257,462**
Total	**127,225**	**139,048**	**266,273**
		%	
	Male	**Female**	**Total**
Executive Directors	**100**		**100**
Non-executive Directors	**50.0**	**50.0**	**100**
Directors	**62.5**	**37.5**	**100**
Senior employees	**76.4**	**23.6**	**100**
Other employees	**46.8**	**53.2**	**100**
Total	**47.8**	**52.2**	**100**

Overall, Group-wide female representation was 52.2% at 31 December 2014, largely unchanged on 2013. Female representation at senior levels rose from 22.7% in 2013 to 23.6% in 2014, and our target is to improve this to 25% by 2015. The proportion of females in our talent pipeline improved from 32.2% in 2013 to 34.0% in December 2014 and female representation on the GMB was 20% (three out of fifteen) in December 2014.

The average age of our employees was 36.2 years and average tenure was 8.5 years.

Unconscious bias

It is recognised that social behaviour may be driven by stereotypes that operate automatically and therefore unconsciously. These stereotypes can lead to a less inclusive environment. We are addressing this by incorporating inclusive behaviours in our processes and continue to deliver unconscious bias training to 8,700 managers and 18,500 employees in 2014 (8,300 managers and 50,000 employees in 2013).

In 2015, our diversity and inclusion priorities will continue to address unconscious bias through targeted education, encourage the career development of diverse talent with a continued emphasis on gender and local nationals and extend inclusion to cover wider aspects of diversity, for example, sexual orientation, ethnicity and disability. We continue to enhance a bias-free approach to performance management and improve internal and external candidate lists, connecting and utilising our Employee Resource Network Groups globally and maintaining a consistent global framework of governance and sponsorship to drive a diverse and inclusive culture throughout the Group.

Health, welfare and safety

We regard the physical and psychological health, welfare and safety of our people as being of the utmost importance. We recently introduced a global occupational health framework which requires the proactive management of employee welfare and encourages the sharing of best practice across the Group. Between August 2012 and the end of 2014, 96% of assigned HSBC employees carried out our bi-annual online health and safety training.

We run a number of employee assistance programmes tailored to local requirements. Skilled professional counsellors are available on free phone lines 24 hours a day and seven days a week to help employees manage personal or work-related problems that create stress and affect their work. Free face-to-face counselling is also provided, as is support for partners and dependents. Programmes are offered in the UK, Hong Kong, North America and India.

Whistleblowing

HSBC operates a global Compliance disclosure line (telephone and email) which is available to allow employees to make disclosures when the normal channels for airing grievances or concerns are unavailable or inappropriate. The Compliance disclosure line is available to capture employee concerns on a number of matters, including breaches of law or regulation, allegations of bribery and corruption, failure to comply with Group policies, suspicions of money laundering, breaches of internal controls and fraud or deliberate error in the financial records of any Group company. Global Regulatory Compliance is responsible for the operation of the Compliance disclosure line and the handling of disclosure cases. Cases are reviewed and referred for appropriate investigation. Whistleblowing cases may also be raised directly with senior executives, line managers, Human Resources and Security and Fraud.

Additional local whistleblowing lines are in place in several countries, operated by Security and Fraud, Human Resources and Regulatory Compliance. Disclosures made on the local whistleblowing lines are escalated to Global Regulatory Compliance or Financial Crime Compliance. Global Regulatory Compliance also monitors an external email address for complaints regarding accounting and internal financial controls or auditing matters (accountingdisclosures@hsbc.com highlighted under Investor Relations and Governance on www.hsbc.com). Cases received are escalated to the Group Chief Accounting Officer, Group Finance Director or Group Chief Executive as appropriate.

HSBC s policies and procedures for capturing and responding to whistleblowing disclosures relating to accounting or auditing matters are overseen by the Group Audit Committee. Those relating to other whistleblowing disclosures are overseen by the Conduct & Values Committee.

Disclosures and actions taken are reported on a periodic basis to the Conduct & Values Committee, Group Audit Committee and the Financial System Vulnerabilities Committee in respect of matters relating to financial crime compliance.

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Strategic Report (continued)

Risk overview

All our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks.

As a provider of banking and financial services, we actively manage risk as a core part of our day-to-day activities. We employ a risk management framework at all levels of the organisation, underpinned by a strong risk culture and reinforced by HSBC Values and our Global Standards. It ensures that our risk profile remains conservative and aligned to our risk appetite, which describes the type and quantum of risk we are willing to accept in achieving our strategic objectives.

Risk and our strategic priorities

The Group s three strategic priorities are reflected in our management of risk.

Grow the business and dividends we ensure risk is maintained at an acceptable and appropriate level while creating value and generating profits.

Implement Global Standards we are transforming how we detect, deter and protect against financial crime through the deployment of Global Standards, which govern how we do business and with whom.

Streamline processes and procedures our disposal programme has made HSBC easier to manage and control. By focusing on streamlining our processes and procedures, we are making HSBC less complex and

complicated to operate, creating capacity for growth.

Our business and operating models are described on page 12. For further information on Global Standards, see page 26.

Risk in 2014

Concerns remained during 2014 over the sustainability of economic growth in both developed and emerging markets, while geopolitical tensions rose or remained high in many parts of the world.

We continued to sustain a conservative risk profile based on our core philosophy of maintaining balance sheet, liquidity and capital strength by reducing exposure to the most likely areas of stress:

- we managed selectively our exposures to sovereign debt and bank counterparties to ensure that the overall quality of the portfolio remained strong;

- we regularly assessed higher risk countries and sectors and adjusted our risk appetite, limits and exposures accordingly;
- we use stress testing, both internal and regulatory programmes, to assess vulnerabilities and proactively adjust our portfolios, where required;
- we continued to reposition and exit certain portfolios through our six filters process (see page 12) and our focus on certain products or customer segments;
- we made our client selection filters more robust in managing the risk of financial crime; and
- we mitigated risks, for example reputational and operational, when they were forecast to exceed our risk appetite.

The diversification of our lending portfolio across global businesses and geographical regions, together with our broad range of products, ensured that we were not overly dependent on a limited number of countries or markets to generate income and growth.

We monitored a range of key risk metrics in 2014 as part of our risk appetite process, supported by a limit and control framework.

Risk appetite is discussed on page 25.

Our approach to stress testing is discussed on page 117 and regulatory stress testing programmes on page 125.

Risks incurred in our business activities

Our principal banking risks are credit risk, liquidity and funding risks, market risk, operational risk, compliance risk, fiduciary risk, reputational risk, pension risk and sustainability risk. We also incur insurance risk.

The chart overleaf provides a high level guide to how our business activities are reflected in our risk measures and in the Group s balance sheet. The third-party assets and liabilities indicate the contribution each business makes to the balance sheet, while RWAs illustrate the relative size of the risks incurred in respect of each business.

For a description of our principal risks, see page 114.

Strategic Report (continued)

Exposure to risks arising from the business activities of global businesses

For footnote, see page 39.

For further information on credit risk, see page 127; capital and risk-weighted assets, see page 238; market risk, including value at risk, see page 175; and operational risk see page 186.

Top and emerging risks

Identifying and monitoring top and emerging risks are integral to our approach to risk management.

We define a top risk as being a current, emerged risk which has arisen across any of our risk categories, global businesses or regions and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year time horizon. We consider an emerging risk to be one with potentially significant but uncertain outcomes which may form and crystallise beyond a year, in the event of which it could have a material effect on our ability to achieve our long-term strategy.

Our top and emerging risk framework enables us to identify and manage current and forward-looking risks to ensure our risk appetite remains appropriate. The ongoing

assessment of our top and emerging risks is informed by a comprehensive suite of risk factors which may result in our risk appetite being revised.

During 2014, senior management paid particular attention to a number of top and emerging risks. Our current ones are summarised overleaf.

We made a number of changes to our top and emerging risks during 2014 to reflect our assessment of their effect on HSBC. Macroeconomic risks arising from an emerging market slowdown was replaced by Economic outlook and government intervention as developed economies demonstrated signs of stress in the second half of 2014. Third party risk management was identified as an emerging risk due to the risks associated with the use of third-party service providers, which may be less transparent and more challenging to manage or influence. While People risk is inherent

within a number of our top and emerging risks, it has now been disclosed as a standalone risk, as the risks in this area continue to heighten.

When the top and emerging risks listed below resulted in our risk appetite being exceeded, or had the potential to exceed our risk appetite, we took steps to mitigate them, including reducing our exposure to areas of stress. Given the impact on the Group of breaching the US Deferred Prosecution Agreement (US DPA), significant senior management attention was given to tracking and monitoring our compliance with its requirements and improving policies, processes and controls to help minimise the risk of a breach.

For a detailed account of these risks see page 118 and for a summary of our risk factors, see page 113.

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Strategic Report (continued)

Top and emerging risks /

Risk		Description	Mitigants
Macroeconomic and geopolitical risk			
	Economic outlook and government intervention	Weak economic growth in both developed and emerging market countries could adversely affect global trade and capital flows and our profits from operations in those countries.	We closely monitor economic developments in key markets and appropriate action is taken as circumstances evolve.
	Increased geopolitical risk	Our operations are exposed to risks arising from political instability and civil unrest in a number of countries, which may have a wider effect on regional stability and regional and global economies.	We monitor the geopolitical and economic outlook, particularly in countries where we have material exposures and/or a physical presence.
Macro-prudential, regulatory and legal risks to our business model			
	Regulatory developments affecting our business model and Group profitability	Governments and regulators continue to develop policies which may impose new requirements, particularly in the areas of capital and liquidity management and business structure.	We engage closely with governments and regulators in the countries in which we operate to help ensure that the new requirements are considered properly.
	Regulatory investigations, fines, sanctions, commitments	Financial service providers are at risk of regulatory sanctions or fines	Programmes to enhance the management of conduct are

and consent orders and requirements relating to conduct of business and financial crime negatively affecting our results and brand	related to conduct of business and financial crime.	progressing in all global businesses and functions.
	Breach of the US DPA may allow the US authorities to prosecute HSBC with respect to matters covered thereunder.	We continue to take steps to address the requirements of the US DPA and other consent orders in consultation with the relevant regulatory agencies.
Dispute risk	HSBC is party to legal proceedings arising out of its normal business operations which could give rise to potential financial loss and significant reputational damage.	We identify and monitor emerging regulatory and judicial trends.
		We are enhancing our financial crime and regulatory compliance controls and resources.
Risks related to our business operations, governance and internal control systems		
Heightened execution risk	The complexity of projects to meet regulatory demands and risks arising from business and portfolio disposals may affect our ability to execute our strategy.	We have strengthened our prioritisation and governance processes for significant projects.
People risk	Significant demands are being placed on the human capital of the Group due to the extent of the regulatory reform agenda.	We have reviewed our remuneration policy to ensure we can remain competitive and retain our key talent and continue to increase the level of specialist resources in key areas.
Third-party risk management	Risks arising from the use of third-party service providers may be less transparent and more challenging to manage or influence.	We are strengthening our risk management processes and procedures in relation to the use and monitoring of third-party service providers.
Internet crime and fraud	HSBC is increasingly exposed to fraudulent and criminal activities as a result of increased usage of internet and mobile channels.	We continually assess these threats as they evolve and adapt our controls and defences to mitigate them.
Information security risk		

	HSBC and other multinational organisations continue to be the targets of cyber attacks.	We have invested significantly in staff training and enhanced multi-layered controls to protect our information and technical infrastructure.
Data management	New regulatory requirements necessitate more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis.	Our Data Strategy Board is driving consistent data aggregation, reporting and management across the Group.
Model risk	Adverse consequences could result from decisions based on incorrect model outputs or from models that are poorly developed, implemented or used.	Model development, usage and validation are subject to governance and independent review.

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Strategic Report (continued)

How we manage risk

Managing risk effectively is fundamental to the delivery of our strategic priorities.

Our enterprise-wide risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their

interactions. It also ensures that we have a robust and consistent approach to risk management at all levels of the organisation and across all risk types.

This framework is underpinned by a strong risk culture, which is instrumental in aligning the behaviours of individuals with the

Group s attitude to assuming and managing risk and ensuring that our risk profile remains in line with our risk appetite and strategy. It is reinforced by the HSBC Values and our Global Standards.

Our approach to managing risk is summarised below.

Driving our risk culture

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Strategic Report (continued)

Risk appetite

The Group s risk appetite statement (RAS) is a key component in the management of risk. It describes the types and quantum of risks that we are willing to accept in achieving our medium and long-term strategic objectives. The RAS is approved by the Board on the advice of the Group Risk Committee.

Our risk appetite is established and monitored via the Group risk appetite framework, which provides a globally consistent and structured approach to the management, measurement and control of risk in accordance with our core risk principles. The framework outlines the processes, policies, metrics and governance bodies and how to address risk appetite as part of day-to-day business and risk management activities.

The RAS guides the annual planning process by defining the desired forward-looking risk profile of the Group in achieving our strategic objectives and plays an important role in our six filters process. Our risk appetite may be revised in response to our assessment of the top and emerging risks we have identified.

Quantitative and qualitative metrics are assigned to a number of key categories including returns, capital, liquidity and funding, securitisations, cost of risk and intra-Group lending, risk categories such as credit, market and operational risk, risk diversification and concentration, and financial crime compliance. These measures are reviewed annually for continued relevance.

Measurement against the metrics:

- guides underlying business activity, ensuring it is aligned to risk appetite statements;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles;
- allows the business decisions needed to mitigate risk to be promptly identified; and
- informs risk-adjusted remuneration.

Risk appetite is embedded in day-to-day risk management decisions through the use of risk tolerances and limits for material risk types. This ensures that our risk profile remains aligned with our risk appetite, balancing risk and returns.

Global businesses and geographical regions are required to align their risk appetite statements with the Group s.

Some of the core metrics that were measured, monitored and presented monthly to the Risk Management Meeting of the GMB during 2014 are tabulated below:

Key risk appetite metrics

	2014 target	actual
Common equity tier 1 ratio[1]	≥ 10%	11.1%
Return on equity	Trending upwards to 12-15% by 2016	7.3%
RoRWA[13]	2.2-2.6%	1.5%
Cost efficiency ratio	Mid-50s	67.3%
Advances to customer accounts ratio	Below 90%	72.2%
Cost of risk (loan impairment charges)	Below 15% of operating income	5.4%

For footnotes, see page 39.

In the early part of 2014, we undertook our annual review of our risk appetite statement. It was approved by the Risk Managament Meeting of the GMB in January 2014 and the HSBC Holdings Board in February 2014. The core aspects of the RAS were incorporated into the 2014 scorecards for the Executive Directors, as set out on page 405 of the *Annual Report and Accounts 2013.*

We also strengthened the Group s RAS in 2014 by incorporating into it measures related to the core financial crime compliance principles of deterrence, detection and protection.

Targets for 2015 are discussed on page 32.

For details of requirements under CRD IV, see page 239.

How risk affects our performance

The management of risk is an integral part of all our activities. Risk measures our exposure to uncertainty and the consequent variability of return.

Credit metrics in our retail portfolio benefited from the continued sale of non-strategic portfolios, an improved economic environment across many markets and growth in Asia and in the core business in the US, while our wholesale portfolios remained broadly stable with an overall favourable change in key impairment metrics. Loan impairment charges fell for reasons outlined on page 29.

Operational losses rose, driven by UK customer redress programme charges and settlements relating to legal and regulatory matters. There are many factors which could affect estimated liabilities with respect to legal and regulatory matters and there remains a high degree of uncertainty as to the eventual cost of fines, penalties and redress for these matters.

HSBC is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of our normal business operations. Our provisions for legal proceedings and regulatory matters and for customer remediation at 31 December 2014 totalled US$4.0bn.

The reported results of HSBC reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements and reflect our assessment of the financial impact of risks affecting the Group.

For a description of material legal proceedings and regulatory matters, see Note 40 on the Financial Statements on page 446.

Provisions for legal proceedings and regulatory matters and for customer remediation are disclosed in Note 29 on the Financial Statements on page 420.

For details of operational losses, see page 188.

For details of our critical accounting estimates and judgements, see page 62.

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Strategic Report (continued)

We previously defined three interconnected and equally weighted priorities for 2014 to 2016 to help us deliver our strategy:

- grow the business and dividends;
- implement Global Standards; and
- streamline processes and procedures.

Each priority is complementary and underpinned by initiatives within our day-to-day business. Together, they create value for our customers and shareholders and contribute to the long-term sustainability of HSBC.

In the process, we shall maintain a robust, resilient and environmentally sustainable business in which our customers can have confidence, our employees can take pride and our communities can trust.

Grow the business and dividends

In growing the business and dividends, our targets are to grow risk-weighted assets in line with our organic investment criteria, progressively grow dividends, while reducing the effect of legacy and non-strategic activities on our profit and RWAs.

Our strategy is to take advantage of the continuing growth of international trade and capital flows, and wealth creation, particularly in Asia, the Middle East and Latin America. We aim to achieve growth by leveraging our international network and client franchise to improve HSBC s market position in products aligned to our strategy.

To facilitate this growth, we recycle RWAs from low into high performing businesses within our risk appetite.

In 2014, we launched a number of investment priorities to capitalise on our global network and accelerate organic growth:

- **Global Trade and Receivables Finance:** We are investing in our sales and product capabilities, particularly for high growth products and trade corridors, and expanding in trade hubs as a means of reinforcing HSBC s leading position in trade.
- **Payments and Cash Management:** We aim to deliver improved client coverage and products via investments in better sales coverage and customer proposition and mobile enhancements.

Foreign Exchange: We aim to improve our services to clients and efficiency by improving our electronic trading platforms and capabilities.

Renminbi: Building on our market-leading position, we are investing to roll out our renminbi servicing capabilities internationally, with the aim of capturing a larger share of offshore renminbi foreign exchange and capital markets opportunities.

Industry awards and market share gains have validated our strategy. Our market shares in core international connectivity products such as Payments and Cash Management, Global Trade and Receivables Finance and Foreign Exchange have all improved consistently over the past three years. For three consecutive years, including 2014, HSBC has been voted the top global cash manager for corporate and financial institutions in the *Euromoney* Cash Management survey. In the same survey, HSBC was voted best global cash manager for non-financial institutions for a second consecutive year in 2014. We have also been voted the Best Overall for Products and Services by *Asiamoney* in its Offshore Renminbi Services survey every year since the survey s inception in 2012.

We aim to continue investing in key growth markets and align global resources to city clusters with fast-growing international revenue pools:

UK and Hong Kong as our home markets: Our goal is to strengthen and develop our home market position in key products, such as mortgages and personal lending.

China: Mainland China continues to be of strategic significance for HSBC and presents a structural long-term growth opportunity. We therefore continue to invest in organic growth, particularly in Guangdong and other economically important regions. We strive to invest and be the first to capture opportunities that may arise from regulatory changes such as the introduction of the Shanghai Free-Trade Zone.

US and Germany: We continue to improve our position in the world s largest economy and in Europe s leading trade nation through the expansion of our corporate franchise. In 2014, we broadened our customer base by enhancing our products, widening our geographical coverage and adjusting our risk appetite. International revenues increased through deeper relationships with customers and developing cross-business opportunities.

Our universal banking model enables us to generate revenues across global businesses. In 2014, cross-business collaboration revenues grew in all of our identified opportunities, except for Markets revenue from CMB customers primarily due to lower foreign exchange volatility. Approximately half of the total collaboration revenues for the year came from Markets and Capital Financing products provided to CMB customers. In GPB, net new money resulting from cross-business client referrals doubled from 2013.

Implement Global Standards

At HSBC, we are adopting the highest or most effective financial crime controls and deploying them everywhere we operate.

Two new global policies set out these controls for anti-money laundering (AML) and sanctions. They are our Global Standards.

In line with our ambition to be recognised as the world s leading international bank, we aspire to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime. Delivering on this means introducing a more consistent, comprehensive approach to managing financial crime risk from understanding more about our customers, what they do and where and why they do it, to ensuring their banking activity matches what we would expect it to be.

We aim to apply our financial crime risk standards throughout the lifetime of our customer relationships: from selecting and onboarding customers to managing our ongoing relationships and monitoring and assessing the changing risk landscape in the bank.

Our new global AML policy is designed to stop criminals laundering money through HSBC. It sets out global requirements for carrying out customer due diligence, monitoring transactions and escalating concerns about suspicious activity.

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Strategic Report (continued)

Our new global sanctions policy aims to ensure that we comply with local sanctions-related laws and regulations in countries where we operate, as well as with global sanctions imposed by the UN Security Council, European Union, US, UK and Hong Kong governments.

In many cases, our policy extends beyond what we are legally required to do, reflecting the fact that HSBC has no appetite for business with illicit actors.

We expect our Global Standards to underpin our business practices now and in the future, and to provide a source of competitive advantage. Global Standards are expected to allow us to:

- strengthen our response to the ongoing threat of financial crime;
- make consistent and therefore simplify the ways by which we monitor and enforce high standards at HSBC;
- strengthen policies and processes that govern how we do business and with whom; and
- ensure that we consistently apply our HSBC Values.

Implementing Global Standards

Each global business and Financial Crime Compliance have identified where and how they need to enhance existing procedures to meet the Global Standards. They are now in the process of deploying the systems, processes, training and support to put the enhanced procedures into practice in each country of operation.

This is being done in two stages:

- delivering policy components with limited infrastructure dependency according to an accelerated timeline; and
- implementing, in parallel, long-term strategic control enhancements and associated enhancements to infrastructure.

During 2014, we made material progress in a number of areas, including:

- global implementation of customer selection policies and governance;

first deployment of enhanced customer due diligence procedures for gathering and verifying customer information;

integration of global sanctions screening lists into our customer and transaction screening tools;

targeted training for the highest risk roles and all-employee campaigns to raise awareness of financial crime risk and encourage escalation;

global roll out of financial intelligence and investigations units to follow up on escalations and alerts, and identify emerging trends and issues; and

the establishment of global procedures and governance to exit business that is outside our financial crime risk appetite.

Governance framework

The global businesses and Financial Crime Compliance, supported by HSBC Technology and Services, are formally accountable for delivering business procedures, controls and the associated operating environment to implement our new policies within each global business and jurisdiction. This accountability is overseen by the Global Standards Execution Committee, which is under the chairmanship of the Group Chief Risk Officer and consists of the Chief Executive Officers of each global business and the Global Head of Financial Crime Compliance.

Correspondingly, and to promote closer integration with business as usual, a report on the implementation of Global Standards is a standing item at the Group s Risk Management Meeting. The Financial System Vulnerabilities Committee and the Board continue to receive regular reports on the Global Standards programme as part of their continued role in providing oversight.

Risk appetite

Financial crime risk controls are a part of our everyday business and they are governed according to our global financial crime risk appetite statement. This aims to ensure sustainability in the long term. Our overarching appetite and approach to financial crime risk is that we will not tolerate operating without the systems and controls in place designed to detect and prevent financial crime and will not conduct business with individuals or entities we believe are engaged in illicit behaviour.

Enterprise-wide risk assessment

We have conducted our second annual enterprise-wide assessment of our risks and controls related to sanctions and AML compliance. The outcome of this assessment has formed the basis for risk management planning, prioritisation and resource allocation for 2015.

The Monitor

Under the agreements entered into with the US Department of Justice (DoJ), the UK FCA (formerly the Financial Services Authority (FSA)) and the US Federal Reserve Board (FRB) in 2012, including the five-year Deferred Prosecution Agreement (US DPA), an independent compliance monitor (the Monitor) was appointed to evaluate our progress in fully implementing our obligations and produce regular assessments of the effectiveness of our Compliance function.

Michael Cherkasky began his work as the Monitor in July 2013, charged with evaluating and reporting upon the effectiveness of the Group s internal controls, policies and procedures as they relate to ongoing compliance with applicable AML, sanctions, terrorist financing and proliferation financing obligations, over a five-year period.

HSBC is continuing to take concerted action to remedy AML and sanctions compliance deficiencies and to implement Global Standards. HSBC is also working to implement the agreed recommendations flowing from the Monitor s 2013 review. We recognise we are only part way through a journey, being two years into our five-year US DPA. We look forward to maintaining a strong, collaborative relationship with the Monitor and his team.

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Strategic Report (continued)

Streamline processes and procedures

We continue to refine our operational processes, develop our global functions, implement consistent business models and streamline IT.

Since 2011, we have changed how HSBC is managed by introducing a leaner reporting structure and establishing an operating model with global businesses and functions. These changes together with improvements in software development productivity, process optimisation and our property portfolio realised US$5.7bn in sustainable savings, equivalent to US$6.1bn on an annualised (run rate) basis. This exceeded our commitment to deliver US$2.5 3.5bn of sustainable savings at the outset of the organisational effectiveness programme included in the first phase of our strategy.

Sustainable savings arise from the reduction or elimination of complexity, inefficiencies or unnecessary activities, and release capital that can be reinvested in growing our business as well as increase returns to shareholders.

The reorganisation of the Group into four global businesses and eleven global functions further allows us to run globally consistent operating models. This establishes the foundation for our next stage of streamlining.

Going forward, we aim to fund investments into growth and compliance and offset inflation through efficiency gains. This requires net cost reductions. This programme will be applied to:

- improving the end-to-end optimisation of processes and servicing channels;
- technology simplification, reducing the number of applications used across the Group; and
- enhancing infrastructure, including optimising our real estate utilisation and the location where certain activities are carried out.

Streamlining is expected to be achieved through a combination of simplifying and globalising our processes, products, systems and operations. Simplifying involves identifying inefficiencies or excessive complexity and redesigning or rationalising processes to make them easier to understand and manage and more efficient. Globalising involves developing standard global processes and implementing them around the Group.

Cost efficiency ratio

Our cost efficiency ratio for 2014 was 67.3%, up from 59.6% in 2013. This change was driven by higher legal, regulatory and conduct settlement costs; inflationary pressures; continued investment in strategic initiatives; and a rise in the bank levy. Cost increases were partly offset by realised sustainable savings of US$1.3bn.

Financial performance

Performance reflected lower gains on disposals and the negative effect of other significant items.

Reported results

	2014	2013	2012
	US$m	US$m	US$m
Net interest income	**34,705**	35,539	37,672
Net fee income	**15,957**	16,434	16,430
Other income	**10,586**	12,672	14,228
Net operating income[16]	**61,248**	64,645	68,330
LICs[15]	**(3,851)**	(5,849)	(8,311)
Net operating income	**57,397**	58,796	60,019
Total operating expenses	**(41,249)**	(38,556)	(42,927)
Operating profit	**16,148**	20,240	17,092
Income from associates[16]	**2,532**	2,325	3,557
Profit before tax	**18,680**	22,565	20,649

For footnotes, see page 39.

Profit before tax of US$18.7bn on a reported basis was US$3.9bn or 17% lower than that achieved in 2013. This primarily reflected lower business disposal and reclassification gains and the negative effect, on both revenue and costs, of other significant items including fines, settlements, UK customer redress and associated provisions.

Reported net operating income before loan impairment charges and other credit risk provisions (revenue) of US$61bn was US$3.4bn or 5% lower than in 2013. In 2014 there were lower gains (net of losses) from disposals and reclassifications (2013 included a US$1.1bn accounting gain arising from the reclassification of Industrial Bank Co. Limited (Industrial Bank) as a financial investment following its issue of additional share capital to third parties, and a US$1.1bn gain on the sale of our operations in Panama). In addition, other significant items included adverse fair value movements on non-qualifying hedges of US$0.5bn compared with favourable movements of US$0.5bn in 2013, a US$0.6bn provision arising from the ongoing review of compliance with the Consumer Credit Act in the UK as well as a net adverse movement on debit valuation adjustments on derivative contracts of US$0.4bn. These factors were partially offset by favourable fair value

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Strategic Report (continued)

movements of US$0.4bn on our own debt designated at fair value, which resulted from changes in credit spreads, compared with adverse movements of US$1.2bn in 2013 together with a US$0.4bn gain on the sale of our shareholding in Bank of Shanghai in 2014.

Loan impairment charges and other credit risk provisions (LICs) of US$3.9bn were US$2.0bn or 34% lower than in 2013, notably in North America, Europe and Latin America.

Operating expenses of US$41bn were US$2.7bn or 7% higher than in 2013, primarily as a result of significant items which were US$0.9bn higher than in 2013. These included settlements and provisions in connection with foreign exchange investigations of US$1.2bn and a charge of US$0.6bn in the US relating to a settlement agreement with the Federal Housing Finance Agency.

Income from associates of US$2.5bn was US$0.2bn or 9% higher than 2013, primarily reflecting the non-recurrence of an impairment charge of US$106m on the investment in our banking associate in Vietnam in 2013.

The Board approved a 5% increase in the fourth interim dividend in respect of 2014 to US$0.20 per share, US$0.01 higher than the fourth interim dividend in respect of 2013. Total dividends in respect of 2014 were US$9.6bn (US$0.50 per share), US$0.4bn higher than in 2013.

The transitional CET1 ratio of 10.9% was up from 10.8% at the end of 2013 and our end point basis of 11.1% was up from 10.9% at the end of 2013, as a result of continued capital generation and management actions offset by RWA growth, foreign exchange movements and regulatory changes.

Adjusted performance

For further information on non-GAAP financial measures, see page 40 for adjusted and www.hsbc.com for return on tangible equity.

From reported results to adjusted performance

To arrive at adjusted performance:

- we adjust for the year-on-year effects of foreign currency translation; and
- we adjust for the effect of significant items.

Reconciliations of our reported results to an adjusted basis are set out on page 44.

On an adjusted basis, profit before tax of US$23bn was broadly unchanged compared with 2013. Lower LICs, notably in North America, Europe and Latin

America, together with a marginal rise in revenue was largely offset by higher operating expenses.

The following commentary is on an adjusted basis.

Revenue was broadly unchanged. Growth in CMB, notably in our home markets of Hong Kong and the UK, was offset by decreased revenue in RBWM, GB&M and GPB

Revenue rose by US$0.1bn to US$62bn. Revenue increased in CMB following growth in average lending and deposit balances in Hong Kong, together with rising average deposit balances and wider lending spreads in the UK. Revenue also benefited from higher term lending fees in the UK.

These factors were mostly offset by lower revenue in RBWM, GB&M and GPB. In RBWM, it was primarily driven by the run-off of our US Consumer and Mortgage Lending (CML) portfolio with revenue in Principal RBWM broadly unchanged. In GB&M, revenue was lower due to the introduction of the funding fair value adjustment (FFVA) on certain derivative contracts which resulted in a charge of US$263m, together with a decrease from our Foreign Exchange business, partly offset by an increase in Capital Financing. In GPB, revenue was down reflecting a managed reduction in client assets as we continued to reposition the business, and reduced market volatility.

LICs fell in the majority of our regions, notably in North America, Europe and Latin America

LICs were US$1.8bn or 31% lower than in 2013, primarily in North America and mainly in RBWM, reflecting reduced levels of delinquency and new impaired loans in the CML portfolio, together with decreased lending balances from the continued portfolio run-off and loan sales. LICs were also lower in Europe, mainly reflecting a fall in individually assessed charges in the UK in CMB and GB&M, and higher net releases of credit risk provisions on available-for-sale asset-backed securities (ABS s) in GB&M in the UK. LICs were lower in Latin America too, primarily in Mexico and, to a lesser extent, in Brazil. In Mexico, the decrease in LICs mainly reflected lower individually assessed charges in CMB, while in Brazil LICs were lower in both RBWM and CMB, partly offset by an increase in GB&M.

Adjusted profit before tax

(US$bn)

Reported profit attributable to ordinary shareholders

(US$m)

Reported earnings per share

(US$)

Return on tangible equity

(%)

Strategic Report (continued)

Operating expenses were higher, in part reflecting increases in Regulatory Programmes and Compliance costs and inflation, partly offset by further sustainable cost savings

Operating expenses were US$38bn, US2.2bn or 6% higher than in 2013. Regulatory Programmes and Compliance costs increased as a result of continued focus on Global Standards and the broader regulatory reform programme being implemented by the industry to build the necessary infrastructure to meet today s enhanced compliance standards.

Operating expenses also increased due to inflationary pressures, including wage inflation, primarily in Asia and Latin America, and an increase in the UK bank levy charge compared with 2013. We continued to invest in strategic initiatives in support of organically growing our business, primarily in CMB. We also increased expenditure on marketing and advertising to support revenue generating initiatives, primarily in RBWM.

These factors were partially offset by further sustainable cost savings in the year of US$1.3bn, primarily by re-engineering certain of our back office processes.

The number of employees expressed in full-time equivalent numbers (FTE s) at the end of 2014 increased by 3,500 or 1%. The average number of FTEs was broadly unchanged as reductions through sustainable savings programmes were offset by the initiatives related to the Regulatory Programmes and Compliance and business growth.

Income from associates rose, mainly in Asia and the Middle East and North Africa

Income from associates increased, primarily reflecting higher contributions from Bank of Communications Co, Limited (BoCom) and The Saudi British Bank, principally reflecting balance sheet growth.

The effective tax rate was 21.3% compared with 21.1% in 2013.

For more details of the Group s financial performance, see page 46.

Balance sheet strength

Total reported assets were US$2.6 trillion, 1% lower than at 31 December 2013. On a constant currency basis, total assets were US$85bn or 3% higher. Our balance sheet remained strong with a ratio of customer advances to customer accounts of 72%. This was a consequence of our business model and of our conservative risk appetite, which is based on funding the growth in customer loans with growth in customer accounts.

On a constant currency basis, loans and advances grew by US$28bn and customer accounts increased by US$47bn.

For further information on the Balance Sheet, see page 57, and on the Group s liquidity and funding, see page 163.

Total assets

(US$bn)

Post-tax return on average total assets

(%)

Loans and advances to customers[17]

(US$bn)

Customer accounts[17]

(US$bn)

Ratio of customer advances to customer deposits[17]

(%)

For footnote, see page 39.

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Strategic Report (continued)

Capital strength

Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements and are well placed to meet those expected in the future.

We monitor capital adequacy, *inter alia*, by using capital ratios, which measure capital relative to a regulatory assessment of risks taken, and the leverage ratio, which measures capital relative to exposure.

In June 2013, the European Commission published the final Regulation and Directive, known collectively as CRD IV, to give effect to the Basel III framework in the EU. This came into effect on 1 January 2014.

Under the new regime, common equity tier 1 (CET1) represents the highest form of

eligible regulatory capital against which the capital strength of banks is measured. In 2014 we managed our capital position to meet an internal target ratio on a CET1 end point basis of greater than 10%. This has since been reviewed and, in 2015, we expect to manage Group capital to meet a medium-term target for return on equity of more than 10%. This is modelled on a CET1 ratio on an end point basis in the range of 12% to 13%.

Leverage ratio

The following table presents our estimated leverage ratio in accordance with PRA instructions. The numerator is calculated using the CRD IV end point tier 1 capital definition and the exposure measure is

calculated using the EU delegated act published in January 2015 (which is based on the Basel III 2014 revised definition).

Estimated leverage ratio

	2014 US$bn
At 31 December	
Tier 1 capital under CRD IV (end point)	**142**
Exposures after regulatory adjustment	**2,953**
Estimated leverage ratio (end point)	**4.8%**

For further details of the leverage ratio, see page 251.

For further information on the Group s capital and our risk-weighted assets, see page 239.

Capital ratios and risk-weighted assets

CRD IV[1]

Common equity tier 1 ratio (transitional) (%)	Total capital ratio (transitional) (%)	Common equity tier 1 ratio (end point) (%)	Risk-weighted assets (RWA s) (US$bn)

Basel 2.5[1]

Core tier 1 ratio (%)	Total capital ratio (%)	Risk-weighted assets (US$bn)

For footnote, see page 39.

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Strategic Report (continued)

Meeting our targets

We set financial targets against which we measure our performance.

In 2011, we articulated our ambition to be the leading international bank and specified financial metrics against which we would measure performance through 2013. Targets were set under our understanding at the time of capital requirements and included a CET1 ratio of 9.5-10.5% under Basel III; return on equity (ROE) of 12-15%; and a cost efficiency ratio (CER) of 48-52% supported by US$2.5-3.5bn in sustainable cost savings over three years. Over the period to 2013, we strengthened our capital position, realised US$4.9bn in sustainable savings and increased dividend pay-outs to shareholders in line with targets.

In May 2013, we defined our strategic priorities for the period from 2014 to 2016 and revisited the financial metrics used to track performance. We continued to target an ROE of 12-15% and added a further target of US$2-3bn in sustainable savings. To allow for investment in growth initiatives and to reflect the increasing requirements involved in operating as a global bank, we revised the CER target to the mid-50s, adding that revenues must grow faster than costs (positive jaws). We defined a target CET1 ratio, on an end point basis, as greater than 10% and continued to seek progressive dividends for shareholders. We also set a cap on our loans to deposits ratio of 90%.

During 2014, we achieved a CET1 ratio on an end point basis of 11.1% and declared US$9.6bn of total dividends in respect of the year. We realised incremental sustainable savings of US$1.3bn and maintained a loans-to-deposits ratio of 72%. The ROE of 7.3% and the CER of 67.3% fell short of our target.

Changing regulatory and operating environment

When we set our targets in 2011, we did so based on a CET1 ratio on an end point basis of greater than 10%. Whilst this factored in foreseeable capital requirements, it did not anticipate, and could not have anticipated, the full extent of capital commitments and additional costs asked of us in the years to come. These factors have included:

- Progressively strengthening our capital levels in response to increasing capital requirements;

- The stepped increase in costs due to the implementation of regulatory change and enhancing risk controls, notably around financial system integrity and conduct;

- An increase in the bank levy;

- The continuing low interest rate environment; and

- The impact of significant items, notably the high level of fines, settlements, UK customer redress and associated provisions.

As a consequence, we are setting new targets that better reflect the present and ongoing operating environment.

From 2015, our return on equity target will therefore be replaced with a medium-term target of more than 10%. This is modelled on a CET1 ratio on an end point basis in the range of 12% to 13%.

At the same time, we are reaffirming our target of growing business revenues faster than operating expenses (on an adjusted basis).

We also remain committed to delivering a progressive dividend. The progression of dividends will be consistent with the growth of the overall profitability of the Group and is predicated on our continued ability to meet regulatory capital requirements.

We remain strongly capitalised, providing capacity for both organic growth and dividend return to shareholders.

Brand value

Maintenance of the HSBC brand and our overall reputation remains a priority for the Group.

This is our fourth year of using the Brand Finance valuation method reported in *The Banker* magazine as our brand value benchmark. The Brand Finance methodology provides a comprehensive measure of the strength of the brand and its impact across all business lines and customer segments. It is wholly independent and is publicly reported. Our target is a top three position in the banking peer group and we have achieved this target with an overall value of US$27.3bn

Pre-tax return on risk-weighted assets[13]

(%)

Dividend payout ratio

(%)

Brand value

(US$bn)

For footnote, see page 39.

(up 2% from 2014), placing us third. We maintain an AAA rating for our brand in this year s report.

In addition to the Brand Finance measure, we have reviewed our performance in the *Interbrand* Annual Best Global Brands report, published in September 2014. This showed HSBC as the top ranked banking brand with a valuation of US$13.1bn (up from US$12bn in 2013) and in second place when all financial services brands are considered.

Strategic Report (continued)

We believe this performance is driven by an underlying strong brand equity established in recent years and a consistent and active programme of activities in support of the brand throughout 2014.

Economic contribution

By running a sustainable business, HSBC is able to make a valuable contribution to the economy by paying dividends to our shareholders, salaries to our employees, payments to suppliers, and tax revenues to governments in the countries and territories where we operate. We also finance companies so that they, in turn, can create employment.

HSBC s net tax paid[18]

	2014 US$bn	2013 US$bn
Tax on profits	**3.6**	4.7
Employer taxes	**1.6**	1.6
UK bank levy[19]	**1.0**	0.7
Irrecoverable value-added tax	**0.9**	0.8
Other duties and levies	**0.8**	0.8
Year ended 31 December	**7.9**	8.6

For footnotes, see page 39.

Taxes collected for government[20]

	2014 US$bn	2013 US$bn
Region		
UK	**1.7**	1.5
Rest of Europe	**1.1**	1.3
Asia	**2.0**	1.5
North America	**1.0**	1.0
Latin America	**3.3**	3.5
Year ended 31 December	**9.1**	8.8

For footnote, see page 39.

Distribution of economic benefits

	2014	2013	2012
	US$bn	US$bn	US$bn
Net cash tax outflow	**7.9**	8.6	9.3
Distributions to shareholders and non-controlling interests	**10.6**	10.2	8.7
Employee compensation and benefits	**20.4**	19.2	20.5
General administrative expenses including premises and procurement	**18.6**	17.1	20.0

Pro-forma post-tax profit allocation[21]

	2014	2013
	%	%
Retained earnings/capital	**32**	53
Dividends	**53**	35
Variable pay	**15**	12
Year ended 31 December	**100**	100

For footnote, see page 39.

Market capitalisation and total shareholder return

US$0.50 ordinary shares in issue	**Market capitalisation**	London	Hong Kong	American Depositary Share[22]
		Closing market price		
19,218m	US$182bn	£6.09	HK$74.0	US$47.23
2013: 18,830m	2013: US$207bn	2013: £6.62	2013: HK$84.15	2013: US$55.13
2012: 18,476m	2012: US$194bn	2012: £6.47	2012: HK$81.30	2012: US$53.07

	Total shareholder return[23]		
	Over 1 year	Over 3 years	Over 5 years
To 31 December 2014	97	144	109
Benchmarks:	100	160	132

MSCI Banks[24]

For footnotes, see page 39.

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Strategic Report (continued)

Remuneration

Our remuneration strategy rewards commercial success and compliance with our risk management framework.

The quality of our people and their commitment to the Group are fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to a long-term career with HSBC in the long-term interests of shareholders.

Employee remuneration

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance. HSBC s reward package comprises four key elements of remuneration:

- fixed pay;
- benefits;
- annual incentive; and
- the Group Performance Share Plan (GPSP).

The governance of our remuneration principles and oversight of their implementation by the Group Remuneration Committee ensures what we pay our people is aligned to our business strategy and performance is judged not only on what is achieved over the short- and long-term but also, importantly, on how it is achieved, as we believe the latter contributes to the long-term sustainability of the business.

Full details of our remuneration policy may be found under Remuneration Policy on our website (http://www.hsbc.com/investor-relations/governance).

Industry changes and key challenges

New regulatory requirements such as the bonus cap have influenced how we pay our senior executives and those of our employees identified by the PRA as having a material impact on the institution s risk profile, being what are termed material risk takers (MRTs). This year, a new requirement has been introduced for firms to ensure that clawback (i.e. a firm s ability

to recoup paid and/or vested awards) can be applied to all variable pay awards granted on or after 1 January 2015 for a period of at least seven years from the date of award. These requirements present challenges for HSBC in ensuring that the total compensation package for our employees in all of the markets in which we operate around the world remains competitive, in particular, relative to other banks not subject to these requirements.

Looking ahead to 2015/2016, further significant regulatory changes to executive remuneration are expected and it is possible that we will need to make changes to our remuneration policy in 2016. The number and volume of changes that have been and are being proposed hinders our ability to communicate with any certainty to our current and potential employees the remuneration policies and structures that would apply to them. It also contributes to a general misunderstanding about how our policies work and the effect of those policies on employee performance.

For full details of industry changes and key challenges, see page 300.

Variable pay pool

The total variable pay pool for 2014 was US$3.7bn, down from US$3.9bn in 2013:

	Group	
	2014	2013
	US$m	US$m
Variable pay pool[25]		
total	**3,660**	3,920
as a percentage of pre-tax profit (pre-variable pay)	**16%**	15%
percentage of pool deferred	**14%**	18%

For footnote, see page 39.

The Group Remuneration Committee considers many factors in determining HSBC s variable pay pool, including the performance of the Group considered in the context of our risk appetite statement.

This ensures that the variable pay pool is shaped by risk considerations and by an integrated approach to business, risk and capital management which supports achievement of our strategic objectives.

The Group Remuneration Committee also takes into account Group profitability, capital strength, shareholder returns, the distribution of profits between capital, dividends and variable pay, the commercial requirement to remain market competitive and overall affordability.

For full details of variable pay pool determination, see pages 309.

Relative importance of expenditure on pay

The following chart provides a breakdown of total staff pay relative to the amount paid out in dividends.

Relative importance of expenditure on pay

(US$m)

For footnotes, see page 39.

Directors remuneration

The remuneration policy for our executive and non-executive Directors was approved at the Annual General Meeting on 23 May 2014. The full policy is available in the Directors Remuneration Report in the *Annual Report and Accounts 2013*, a copy of which can be obtained by visiting the following website: http://www.hsbc.com/investor-relations/financial-and-regulatory-reports.

The single total figure for Directors remuneration required by Schedule 8 of the Large and Medium-Sized Companies (Accounts and Reports) Regulations 2008 is as follows:

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Strategic Report (continued)

Executive Directors

	Douglas Flint		Stuart Gulliver		Iain Mackay		Marc Moses	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Fixed pay								
Base salary	**1,500**	1,500	**1,250**	1,250	**700**	700	**700**	
Fixed pay allowance			**1,700**		**950**		**950**	
Pension	**750**	750	**625**	625	**350**	350	**350**	
	2,250	2,250	**3,575**	1,875	**2,000**	1,050	**2,000**	
Variable pay								
Annual incentive			**1,290**	1,833	**867**	1,074	**1,033**	
GPSP			**2,112**	3,667	**1,131**	2,148	**1,131**	
			3,402	5,500	**1,998**	3,222	**2,164**	
Total fixed and variable pay	**2,250**	2,250	**6,977**	7,375	**3,998**	4,272	**4,164**	
Benefits	**136**	48	**589**	591	**43**	33	**6**	
Non-taxable benefits	**105**	102	**53**	67	**28**	53	**33**	
Notional return on deferred cash	**41**	27			**11**	7	**36**	
Total single figure of remuneration	**2,532**	2,427	**7,619**	8,033	**4,080**	4,365	**4,239**	

Douglas Flint, as Group Chairman, is not eligible for an annual incentive but was eligible under the policy to receive a one-time GPSP award for 2014.

Marc Moses, the Group Chief Risk Officer, was appointed an executive Director with effect from 1 January 2014, reflecting the criticality of the Risk function to HSBC and his leadership of the function, and recognises

his personal contribution to the Group. His 2013 figures have not been disclosed.

For full details of Directors remuneration, see page 307.

Remuneration policy going forward

Our remuneration policy was approved by shareholders at the 2014 Annual General

Meeting and will apply for performance year 2015. The table below summarises how each element of pay will be implemented in 2015.

External reporting

The required remuneration disclosures for Directors, MRTs and highest paid employees in the Group are made in the Directors Remuneration Report on pages 300 to 323.

Purpose and link to strategy	Operation and planned changes to policy
Fixed pay	
Base salary	Base salary levels will remain unchanged from their 2014 levels as follows: Douglas Flint: £1,500,000 Stuart Gulliver: £1,250,000 Iain Mackay: £700,000 Marc Moses: £700,000
Fixed pay allowance[28]	Fixed pay allowances will remain unchanged from their 2014 levels as follows: Douglas Flint: Nil Stuart Gulliver: £1,700,000 Iain Mackay: £950,000 Marc Moses: £950,000
Pension	Pension allowances to apply in 2015 as a percentage of base salary will remain unchanged as follows: Douglas Flint: 50% Stuart Gulliver: 50% Iain Mackay: 50% Marc Moses: 50%
Benefits	
Benefits	No changes are proposed to the benefits package for 2015.

Variable pay	
Annual incentive[28]	No changes are proposed to the annual incentive.
GPSP	No changes are proposed to the GPSP.

For footnote, see page 39.

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Strategic Report (continued)

Sustainability

Sustainability underpins our strategic priorities and enables us to fulfil our purpose as an international bank.

At HSBC, how we do business is as important as what we do. For us, sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions we make. This enables us to help businesses thrive and contribute to the health and growth of communities.

Approach to corporate sustainability

Corporate sustainability is governed by the Conduct & Values Committee, a sub-committee of the Board which oversees and advises on a range of issues including adherence to HSBC s values and ensuring we respond to the changing expectations of society and key stakeholders.

Sustainability priorities are set and programmes are led by the Global Corporate Sustainability function. HSBC s country operations, global functions and global businesses work together to ensure sustainability is embedded into the Group s business and operations and properly implemented. Executives within the Risk and the HSBC Technology and Services functions hold a specific remit to deliver aspects of the sustainability programme for the Group.

Our sustainability programme focuses on three areas: sustainable finance; sustainable operations, and sustainable communities.

Sustainable finance

We anticipate and manage the risks and opportunities associated with a changing climate, environment and economy. In a rapidly changing world, we must ensure our business anticipates and prepares for shifts in environmental priorities and societal expectations.

Sustainability risk framework

We manage the risk that the financial services which we provide to customers may have unacceptable effects on people or the environment. Sustainability risk can also lead to commercial risk for customers, credit risk for HSBC and significant reputational risk.

For over 10 years we have been working with our business customers to help them

understand and manage their environmental and social impact in relation to sensitive sectors and themes. We assess and support customers using our own policies which we regularly review and refine. We have policies covering agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, World Heritage Sites and Ramsar Wetlands. We also apply the Equator Principles.

We welcome constructive feedback from non-governmental organisations and campaign groups and regularly discuss matters of shared interest with them.

Our sustainability risk framework is based on robust policies, formal processes and well-trained, empowered people.

In 2014, we trained risk and relationship managers in sustainability risk, focusing on the recent policy updates and revised processes. Our designated Sustainability Risk Managers provided training to executives from Risk, GB&M and CMB in every geographical region.

We have used the Equator Principles since 2003. A new version of the Equator Principles EP3 was launched in 2013, and HSBC introduced these changes on 1 January 2014 following training and the development of clear templates to ensure the transition was smooth.

Data and the independent assurance of our application of the Equator Principles will be available at hsbc.com in April 2015.

Policy reviews and updates in 2014

In 2014, we published the reports of two independent reviews into the content and implementation of our Forest Land and Forest Products Sector Policy, by Proforest and PricewaterhouseCoopers LLP, respectively. We also issued new policies on forestry, agricultural commodities and World Heritage Sites and Ramsar Wetlands, reflecting the recommendations. These documents can be found online at hsbc.com/sus-risk.

Forestry policy

The new forestry policy, issued in March 2014, requires forestry customers to gain 100% certification by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC) in high risk countries by 31 December 2014. Certification requires that customers are operating legally and sustainably.

Feedback from stakeholders on the new policy was positive. Timber customers from affected countries such as Turkey and Mexico

were receptive to the new standards, gained certification as a result of the new requirement and benefited from advice. Other customer relationships will end as soon as contractual terms allow, in cases where customers have been unable or unwilling to meet the new standards.

Agricultural commodities policy

The new agricultural commodities policy requires palm oil customers to become members of the Roundtable on Sustainable Palm Oil (RSPO) by 30 June 2014, to have at least one operation certified by the end of 2014 and all operations by the end of 2018.

A number of customer relationships will be closed where the deadline has not been met. Other customers have succeeded in joining the RSPO and having at least one operation certified by the end of 2014. One example is an Indonesian processing, refining and export company. HSBC started to engage with this and other companies in January 2014 on the changes and continued to offer advice. The management of the company sought expert advice from third parties to understand more about RSPO certification, which they found was less complex than they had imagined. Two units of the company obtained RSPO certification in June 2014, and one further is planned.

In order to encourage the shift towards sustainable palm oil we have introduced a discounted prepayment export finance product for trade flows of certified sustainable palm oil. This structured, bespoke financing was launched in Singapore and Indonesia in 2014 and in Malaysia in early 2015.

The inaugural financing using this product was for a major palm oil exporter which has been a member of the RSPO for ten years and is now fully certified. The product is available to both existing and future clients and is hoped to encourage an expansion in the proportion of palm oil that is certified sustainable.

Customers in Malaysia, Indonesia, mainland China, Taiwan, South Korea, Thailand, Turkey and Mexico have decided to certify their operations as a result of HSBC s new policies and deadlines. A number of others were already certified. Fuller reporting on the effect of these new policies will be available in April 2015 at hsbc.com.

Strategic Report (continued)

The World Heritage Sites and Ramsar Wetlands policy

This is designed to protect unique sites of outstanding international significance as listed by the UN and wetlands of international importance. The policy relates to all business customers involved in major projects, particularly in sectors such as forestry, agriculture, mining, energy, property and infrastructure development.

The policy helps HSBC to make balanced and clear decisions on whether or not to finance projects which could have an effect on these sites or wetlands. HSBC has avoided financing projects in light of the policy.

Our approach to managing sustainability risk is described on page 237.

Climate business

We understand that in response to climate change there is a shift required towards a lower-carbon economy. We are committed to accelerating that shift by supporting customers involved in climate business by seeking long-term low-carbon commercial business opportunities. Our climate business includes clients in the solar, wind, biomass, energy efficiency, low-carbon transport and water sectors. In 2014, our Climate Change Research team was recognised as the top team in the industry. We were also a leader in public markets equity-related wind financings for international companies, including the largest wind turbine equity raising since 2010 as part of the 1.4bn Vestas refinancing.

Green bonds are any type of bond instruments where the proceeds will be exclusively applied to finance climate or environmental projects. In April 2014, HSBC became a member of the International Capital Market Association Executive Committee for the Green Bond Principles. The Green Bond Principles are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuance of a green bond.

In 2014, we commissioned a report, Bonds and Climate Change: the state of the market in 2014 from the Climate Bonds Initiative to help raise awareness of climate financing.

HSBC has been at the forefront of this fast-developing area. In 2014, we were the sole global coordinator and joint leader, manager and bookrunner for the first green bond issue by an Asian corporate issuer, Advanced Semiconductor Engineering Inc. We also acted as sole global coordinator on the first green bond issued by Abengoa, the first high-yield green bond to be issued in Europe as well as the being a joint lead manager and bookrunner for the first government issuer in the Canadian market for the Province of Ontario.

UN Environment Programme Finance Initiative Principles for Sustainable Insurance

As a signatory to the Principles for Sustainable Insurance (PSI), a global sustainability framework, HSBC s Insurance business has committed to integrating environmental, social and governance issues across its processes, and to publicly disclosing its progress in doing so on an annual basis. A global programme manager has been appointed to provide leadership, co-ordination and control of Insurance sustainability initiatives world-wide and ensure alignment with the Group s approach and the requirements of the PSI initiative. This includes driving appropriate activities both within the Insurance business and with partners, regulators and other industry players; disseminating industry best practice, and developing global insurance sustainability initiatives.

Sustainable operations

Managing our own environmental footprint supports business efficiency and is part of our long-term contribution to society. We work together and with our suppliers to find new ways to reduce the impact of our operations on the environment. We are purchasing renewable energy, designing and operating our buildings and data centres more efficiently and reducing waste. We have committed to cut our annual per employee carbon emissions from 3.5 to 2.5 tonnes by 2020.

Sustainability Leadership Programme

To deliver our ten sustainability goals we have trained 847 senior managers through HSBC s Sustainability Leadership Programme since 2009. The programme is a mix of hands-on learning and leadership development sessions and is aligned to the HSBC Values agenda. The programme participants are expected to embed sustainability into decision-making and project delivery in the businesses and functions where they work.

Renewable energy procurement

In 2014, we signed three power purchase agreements with renewable energy generators in the UK and India. This is expected to provide 9% of HSBC s energy. In August, a 10-megawatt solar power plant in Hyderabad, India came online to provide the Group with clean energy. This is expected to power three Global Service Centres and a Technology Centre in India. HSBC played a key role in facilitating the project by agreeing to purchase the plant s energy at a government backed fixed price for the next ten years. The plant will provide a clean and reliable source of energy. In addition, we have redefined our renewables target only to count energy from newly constructed renewable energy sources which have been commissioned by HSBC.

Paper use

Our paper goal is being achieved in three ways: ensuring that the paper we buy is from a sustainable source in accordance with our paper sourcing policy, reducing the volume of paper consumed by our offices and branches and providing paperless banking for all retail and commercial customers. We have continued to reduce the total amount of paper purchased and to increase the proportion of paper we use that is certified as sustainably sourced by the FSC and PEFC. Since 2011, we have achieved a 53% reduction in paper purchased. Certified sustainably sourced paper reached 92% of all paper used by the end of 2014.

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Strategic Report (continued)

Our 10-point sustainable operations strategy

1. Sustainability engagement: encourage employees to deliver improved efficiency by 2020

2. Supply chain collaboration: sustainable savings through efficiency and innovation

3. HSBC Eco-efficiency fund: US$50m annually to develop new ways of working, based on employee innovations

4. Energy: reduce annual energy consumption per employee by 1MWh by 2020, compared to 6.2MWh in 2011

5. Waste: use less, and recycle 100% of our office waste and electronic waste

6. Renewables: aim to increase energy consumption from renewables to 25% by 2020 from zero

7. Green buildings: design, build and run energy efficient, sustainable buildings to the highest international standards

8. Data centres: achieve an energy efficiency (power usage effectiveness) rating of 1.5 by 2020

9. Travel: reduce travel emissions per employee

10. Paper: paperless banking available for all retail and commercial customers and 100% sustainably sourced paper

by 2020

Carbon emissions

HSBC s carbon dioxide emissions are calculated on the basis of the energy used in our buildings and employee business travel from over 28 countries (covering about 93% of our operations by FTE). The data gathered on energy consumption and distance travelled are converted to carbon dioxide emissions using conversion factors from the following sources, if available, in order of preference:

1. factors provided by the data/service providers;
2. factors provided by the local public environmental authorities. For electricity, if specific factors cannot be obtained from the above two sources we use the latest available carbon emission factors for national grid electricity from the International Energy Agency as recommended for use by the Greenhouse Gas Protocol; and
3. for other types of energy and travel, if no specific factors can be obtained from the first two sources, we use the latest available factors provided by the UK Department for Environment, Food and Rural Affairs and/or the Department of Energy and Climate Change in the UK.

To incorporate all of the operations over which we have financial (management) control, the calculated carbon dioxide emissions are scaled up on the basis of the FTE coverage rate to account for any missing data (typically less than 10% of FTEs). In addition, emission uplift rates are applied to allow for uncertainty on the quality and coverage of emission measurement and estimation. The rates are 4% for electricity, 10% for other energy and 6% for business travel, based on the Intergovernmental Panel on Climate Change Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories, and our internal analysis of data coverage and quality.

Carbon dioxide emissions in tonnes

	2014	2013
Total	**752,000**	889,000
From energy	**633,000**	755,000
From travel	**119,000**	134,000

Carbon dioxide emissions in tonnes per FTE

	2014	2013
Total	**2.92**	3.43
From energy	**2.46**	2.91
From travel	**0.46**	0.52

Our greenhouse gas reporting year runs from October to September. For the year ended 30 September 2014, carbon dioxide emissions from our global operations were 752,000 tonnes.

Sustainable communities

We believe that education and resources such as safe water and sanitation are essential to resilient communities which are, in turn, the basis of thriving economies and businesses.

We provide financial contributions to community projects, and thousands of employees across the world get involved by volunteering their time and sharing their skills.

Volunteering and donations

Thousands of HSBC employees globally are involved every year in volunteering for our Community Investment programmes. Further details on our programmes are available at hsbc.com and will be updated with information for 2014 in April 2015.

In 2014, we donated a total of US$114m to community projects (2013: US$117m). Of this, US$66m was donated in Europe (2013: US$64m); US$28m was donated in Asia-Pacific (2013: US$24m); US$3m was donated in the Middle East (2013: US$5m); US$10m was donated in North America (2013: US$11m); and US$7m was donated in Latin America (2013: US$12m).

Employees gave 303,922 hours of their time to volunteer during the working day (2013: 255,925 hours).

Human rights

We apply human rights considerations directly as they affect our employees and indirectly through our suppliers and customers, in the latter case in particular through our project finance lending and sustainability risk policies. Human rights issues most directly relevant for HSBC are those relating to the right to just and favourable conditions of work and remuneration, the right to equal pay for equal work, the right to form and join trade unions, the right to rest and leisure and the prohibition of slavery and child labour. Alongside our own commitments, such as our HSBC Code of Conduct for Suppliers (in place since 2005), the HSBC Global Standards Manual and HSBC Values, we have signed up to global commitments and standards, including the UN Global Compact, the Universal Declaration of Human Rights and the Global Sullivan Principles.

Further detail on our 2014 performance will be available from the end of April 2015 on our website, along with independent assurance of our application of the Equator Principles and carbon emissions.

On behalf of the Board

D J Flint

Group Chairman

HSBC Holdings plc

23 February 2015

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Strategic Report (continued)

Footnotes to Strategic Report

1 *On 1 January 2014, CRD IV came into force and capital and RWAs at 31 December 2014 are calculated and presented on this basis. Prior to this, capital and RWAs were calculated and presented on a Basel 2.5 basis. In addition, capital and RWAs at 31 December 2013 were also estimated based on the Group s interpretation of final CRD IV legislation and final rules issued by the PRA. At 31 December 2012, the CRD IV estimated capital and RWAs were based on the July 2011 draft CRD IV text.*

2 *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year. The third interim dividend for 2013 of US$0.10 was paid on 11 December 2013. The fourth interim dividend for 2013 of US$0.19 was paid on 30 April 2014. First, second and third interim dividends for 2014, each of US$0.10 per ordinary share, were paid on 10 July 2014, 9 October 2014 and 10 December 2014, respectively. Note 9 on the Financial Statements provides more information on the dividends declared in 2014. On 23 February 2015, the Directors declared a fourth interim dividend for 2014 of US$0.20 per ordinary share in lieu of a final dividend, which will be payable to ordinary shareholders on 30 April 2015 in cash in US dollars, or in pounds sterling or Hong Kong dollars at exchange rates to be determined on 20 April 2015, with a scrip dividend alternative. The reserves available for distribution at 31 December 2014 were US$48,883m.*

Quarterly dividends of US$15.5 per 6.20% non-cumulative Series A US dollar preference share, equivalent to a dividend of US$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A US dollar preference share, were paid on 17 March 2014, 16 June 2014, 15 September 2014 and 15 December 2014.

Quarterly coupons of US$0.508 per security were paid with respect to 8.125% capital securities on 15 January 2014, 15 April 2014, 15 July 2014 and 15 October 2014.

Quarterly coupons of US$0.50 per security were paid with respect to 8% capital securities on 17 March 2014, 16 June 2014, 15 September 2014 and 15 December 2014.

3 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

4 *The return on average ordinary shareholders equity is defined as profit attributable to ordinary shareholders of the parent company divided by average ordinary shareholders equity.*

5 *Established on 5 December 2014.*

6 *Intermediation of securities, funds and insurance products, including Securities Services in GB&M.*

7 *Merger and acquisition, event and project financing, and co-investments in GPB.*

8 *Including Foreign Exchange, Rates, Credit and Equities.*

9 *Including portfolio management.*

10 *Including private trust and estate planning (for financial and non-financial assets).*

11 *Including hedge funds, real estate and private equity.*

12 *The sum of balances presented does not agree to consolidated amounts because inter-company eliminations are not presented here.*

13 *Pre-tax return on average risk-weighted assets is calculated using average RWAs based on a Basel 2.5 basis for all periods up to and including 31 December 2013 and on a CRD IV end point basis for all periods from 1 January 2014.*

14 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue .*

15 *Loan impairment charges and other credit risk provisions.*

16 *Share of profit in associates and joint ventures.*

17 *From 1 January 2014, non-trading reverse repos and repos are presented as separate lines in the balance sheet. Previously, non-trading reverse repos were included within Loans and advances to banks and Loans and advances to customers and non-trading repos were included within Deposits by banks and Customer accounts . Comparative data have been re-presented accordingly. Non-trading reverse repos and repos have been presented as separate lines in the balance sheet to align disclosure with market practice and provide more meaningful information in relation to loans and advances. The extent to which reverse repos and repos represent loans to/from customers and banks is set out in Note 17 on the Financial Statements.*

18 *Taxes paid by HSBC relate to HSBC s own tax liabilities and is reported on a cash flow basis.*

19 *UK bank levy paid reflects the payments made to the tax authorities during the calendar year and may differ from the recognition of liabilities charged to the income statement.*

20 *Taxes collected relate to those taxes which HSBC is liable to pay as agent for taxation authorities across the world and include all employee-related taxes, together with taxes withheld from payments of interest and charged on the provision of goods and services to its customers. Taxes collected are reported on a cash flow basis.*

21 *Excludes movements in the fair value of own debt and before variable pay distributions.*

22 Each American Depositary Share represents five ordinary shares.

23 *Total shareholder return is defined as the growth in share value and declared dividend income during the relevant period.*

24 *The Morgan Stanley Capital International World Bank Index.*

25 *The 2014 Group pre-tax pre-variable pay profit calculation as described in Directors Remuneration Report page 309 .The percentage of variable pay deferred for the Code Staff population was 50%.*

26 *Dividends per ordinary share in respect of that year. For 2014, this includes the first, second and third interim dividends paid in 2014 of US$5.8bn (gross of scrip) and a fourth interim dividend of US$3.8bn.*

27 *Employee compensation and benefits in 2013 totalled US$19,196m which included an accounting gain arising from a change in the basis of delivering ill-health benefits in the UK of US$430m. Excluding this accounting gain, 2013 employee compensation and benefits totalled US$19,626m.*

28 *This approach applies to all executive Directors with the exception of the Group Chairman, Douglas Flint, who is not eligible for a fixed pay allowance or variable pay awards.*

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Report of the Directors: Financial Review

Financial summary

The management commentary included in the Report of the Directors: Financial Review , together with the Employees and Corporate sustainability sections of Corporate Governance and the Directors Remuneration Report is presented in compliance with the IFRSs Practice Statement Management Commentary issued by the IASB.

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 334. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort year-on-year comparisons. These are considered non-GAAP financial measures. The primary non-GAAP financial measure we use is adjusted

performance . Other non-GAAP financial measures are described and reconciled to the most relevant reported financial measure when used.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items which distort year-on-year comparisons.

Previously we used the non-GAAP financial measure of underlying performance , which was calculated by adjusting reported results for the year-on-year effects of currency translation differences, own credit spread and acquisitions, disposals and dilutions. In 2014, we modified our approach to better align it with the way we view our performance internally and with feedback received from investors. Adjusted performance builds on underlying performance by maintaining the adjustment for currency translation differences and incorporating the adjustments for own credit spread and acquisitions, disposals and dilutions into the definition of significant items. We use the term significant items to collectively describe the group of individual adjustments which are excluded from reported results when arriving at adjusted performance. Significant items, which are detailed below, 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.

We believe adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses year-on-year performance.

We arrive at adjusted performance by excluding from our reported results:

- the year-on-year effects of foreign currency translation differences. This is done by comparing reported results for 2014 with reported results for 2013 retranslated at 2014 exchange rates. The foreign currency translation differences reflect the movements of the US dollar against most major currencies; and

- significant items which distort the year-on-year comparison of reported results by obscuring the underlying factors and trends which affect operations. Significant items include adjustments for own credit spread and acquisitions, disposals and dilutions which were previously part of our underlying measure. The following pages provide further details, including a reconciliation from reported to adjusted results.

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Report of the Directors: Financial Review (continued)

For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses, we eliminate the gain or loss on disposal or dilution and any associated gain or loss on reclassification or impairment recognised in the year incurred, and remove the operating profit or loss of the acquired, disposed of or diluted subsidiaries, associates,

joint ventures and businesses from all the years presented so we can view results on a like-for-like basis. Disposal of strategic investments other than those included in the above definition would be included in other significant items if material.

The following acquisitions, disposals and changes to ownership levels affected adjusted performance:

Disposal gains/(losses) affecting adjusted performance

	Date	Disposal gain/(loss) US$m
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[1]	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited s disposal of its shareholding in Bao Viet Holdings[1]	Mar 2013	104
Household Insurance Group Holding company s disposal of its insurance manufacturing business[1]	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC s disposal of its property and Casualty Insurance business in Mexico[1]	Apr 2013	20
HSBC Bank plc s disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA[2]	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited[1]	May 2013	28
HSBC Bank plc s disposal of HSBC Assurances IARD[2]	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited s disposal of HSBC Life (International) Limited s Taiwan branch operations[2]	June 2013	(36)
HSBC Markets (USA) Inc. s disposal of its subsidiary, Rutland Plastic Technologies[2]	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd s disposal of its Employee Benefits Insurance business in Singapore[2]	Aug 2013	(8)
HSBC Investment Bank Holdings plc s disposal of its investment in associate FIP Colorado[2]	Aug 2013	(5)

HSBC Investment Bank Holdings plc group s disposal of its investment in subsidiary, Viking Sea Tech[1]	Aug 2013	54
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Panama) S.A.[2]	Oct 2013	1,107
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Peru) S.A.[2]	Nov 2013	(18)
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Paraguay) S.A.[2]	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital[1]	Dec 2013	(38)
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Colombia) S.A.[1]	Feb 2014	18
Reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence[1]	Jun 2014	(32)
HSBC Bank Middle East Limited s disposal of its operations in Pakistan[1]	Oct 2014	(27)

For footnotes, see page 109.

Foreign currency translation differences
(constant currency)

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2014. We exclude the translation differences when using constant currency because it allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for 2013 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for 2013 at the average rates of exchange for 2014; and

- the balance sheet at 31 December 2013 at the prevailing rates of exchange on 31 December 2014.

Foreign currency translation differences for 2012 referred to in the 2013 commentaries are computed on the same basis, by applying average rates of exchange for 2013 to the 2012 income and rates of exchange on 31 December 2013 to the balance sheet at 31 December 2012.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. When reference is made to foreign currency translation differences in tables or commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the appropriate exchange rates applied in the current year on the basis described above.

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Report of the Directors: Financial Review (continued)

Other significant items

The following tables detail the effect of other significant items in 2014 and 2013 on each of our geographical segments and global businesses.

Other significant items affecting adjusted performance Losses/(gains)

	2014					
	Europe US$m	Asia US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Revenue						
Debit valuation adjustment on derivative contracts	234	69	5	16	8	332
Fair value movements on non-qualifying hedges[3]	235	4		302		541
Gain on sale of several tranches of real estate secured accounts in the US				(168)		(168)
Gain on sale of shareholding in Bank of Shanghai		(428)				(428)
Impairment of our investment in Industrial Bank		271				271
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	632					632
	1,101	(84)	5	150	8	1,180
Operating expenses						
Charge in relation to the settlement agreement with Federal Housing Finance Authority				550		550
Settlements and provisions in connection with foreign exchange investigations	1,187					1,187
Restructuring and other related costs	123	9	2	28	116	278

Regulatory provisions in GPB	**16**	**49**				**65**
UK customer redress programmes	**1,275**					**1,275**
	2,601	**58**	**2**	**578**	**116**	**3,355**

	RBWM US$m	CMB US$m	GB&M US$m	GPB US$m	Other US$m	Total US$m
Revenue						
Debit valuation adjustment on derivative contracts			**332**			**332**
Fair value movements on non-qualifying hedges[3]	**493**	**(1)**	**8**	**1**	**40**	**541**
Gain on sale of several tranches of real estate secured accounts in the US	**(168)**					**(168)**
Gain on sale of shareholding in Bank of Shanghai					**(428)**	**(428)**
Impairment of our investment in Industrial Bank					**271**	**271**
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	**568**	**24**		**40**		**632**
	893	**23**	**340**	**41**	**(117)**	**1,180**
Operating expenses						
Charge in relation to the settlement agreement with Federal Housing Finance Authority	**17**		**533**			**550**
Settlements and provisions in connection with foreign exchange investigations			**1,187**			**1,187**
Restructuring and other related costs	**88**	**37**	**27**	**6**	**120**	**278**
Regulatory provisions in GPB				**65**		**65**
UK customer redress programmes	**992**	**138**	**145**			**1,275**
	1,097	**175**	**1,892**	**71**	**120**	**3,355**

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Report of the Directors: Financial Review (continued)

	2013					
	Europe US$m	Asia US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Revenue						
Net gain on completion of Ping An disposal		(553)				(553)
Debit valuation adjustment on derivative contracts	(65)	(40)	(2)	14	(13)	(106)
Fair value movements on non-qualifying hedges[3]	(297)	32		(246)		(511)
FX gains relating to sterling debt issued by HSBC Holdings	(442)					(442)
Write-off of allocated goodwill relating to the GPB Monaco business	279					279
Loss on sale of several tranches of real estate secured accounts in the US				123		123
Loss on sale of non-real estate secured accounts in the US				271		271
Loss on early termination of cash flow hedges in the US run-off portfolio				199		199
Loss on sale of an HFC Bank UK secured loan portfolio	146					146
	(379)	(561)	(2)	361	(13)	(594)
Operating expenses						
Restructuring and other related costs	217	86	4	101	75	483
UK customer redress programmes	1,235					1,235
Madoff-related litigation	298					298

costs						
Regulatory provisions in GPB	317	35				352
US customer remediation provisions relating to CRS				100		100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(430)					(430)
	1,637	121	4	201	75	2,038

	RBWM US$m	CMB US$m	GB&M US$m	GPB US$m	Other US$m	Total US$m
Revenue						
Net gain on completion of Ping An disposal					(553)	(553)
Debit valuation adjustment on derivative contracts			(106)			(106)
Fair value movements on non-qualifying hedges[3]	(262)		18		(267)	(511)
FX gains relating to sterling debt issued by HSBC Holdings					(442)	(442)
Write-off of allocated goodwill relating to the GPB Monaco business				279		279
Loss on sale of several tranches of real estate secured accounts in the US	123					123
Loss on sale of non-real estate secured accounts in the US	271					271
Loss on early termination of cash flow hedges in the US run-off portfolio	199					199
Loss on sale of an HFC Bank UK secured loan portfolio	146					146
	477		(88)	279	(1,262)	(594)
Operating expenses						
Restructuring and other related costs	167	31	13	73	199	483
UK customer redress programmes	953	148	134			1,235
			298			298

Madoff-related litigation costs						
Regulatory provisions in GPB				352		352
US customer remediation provisions relating to CRS	100					100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(189)	(160)	(81)			(430)
	1,031	19	364	425	199	2,038

For footnote, see page 109

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Report of the Directors: Financial Review (continued)

The following table reconciles selected reported items for 2014 and 2013 to adjusted items. Equivalent tables are provided for each of our global businesses and geographical segments on www.hsbc.com.

Reconciliation of reported and adjusted items

	2014 US$m	2013 US$m	Change[5] %
Revenue[4]			
Reported	**61,248**	64,645	(5)
Currency translation adjustment[6]		(686)	
Own credit spread[7]	**(417)**	1,246	
Acquisitions, disposals and dilutions	**(9)**	(2,757)	
Other significant items	**1,180**	(594)	
Adjusted	**62,002**	61,854	
Loan impairment charges and other credit risk provisions			
Reported	**(3,851)**	(5,849)	34
Currency translation adjustment[6]		168	
Acquisitions, disposals and dilutions		67	
Other significant items			
Adjusted	**(3,851)**	(5,614)	31
Total operating expenses			
Reported	**(41,249)**	(38,556)	(7)
Currency translation adjustment[6]		348	
Acquisitions, disposals and dilutions	**40**	488	
Other significant items	**3,355**	2,038	
Adjusted	**(37,854)**	(35,682)	(6)
Adjusted cost efficiency ratio	**61.1%**	57.7%	
Share of profit in associates and joint ventures			
Reported	**2,532**	2,325	9
Currency translation adjustment[6]		11	
Acquisitions, disposals and dilutions		87	
Other significant items			
Adjusted	**2,532**	2,423	4

Profit before tax			
Reported	**18,680**	22,565	(17)
Currency translation adjustment[6]		(159)	
Own credit spread[7]	**(417)**	1,246	
Acquisitions, disposals and dilutions	**31**	(2,115)	
Other significant items	**4,535**	1,444	
Adjusted	**22,829**	22,981	(1)

For footnotes, see page 109.

Adjusted profit before tax

	2014 **US$m**	2013 US$m	Change[5] %
By global business			
Retail Banking and Wealth Management	**7,648**	7,959	(4)
Commercial Banking	**8,940**	7,910	13
Global Banking and Markets	**8,114**	9,208	(12)
Global Private Banking	**738**	900	(18)
Other	**(2,611)**	(2,996)	13
Year ended 31 December	**22,829**	22,981	(1)
By geographical region			
Europe	**3,905**	4,301	(9)
Asia[8]	**14,635**	14,309	2
Middle East and North Africa	**1,854**	1,673	11
North America	**2,111**	2,048	3
Latin America	**324**	650	(50)
Year ended 31 December	**22,829**	22,981	(1)

For footnotes, see page 109.

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Report of the Directors: Financial Review (continued)

Return on Equity and Return on Tangible Equity

ROTE is computed by adjusting reported results for the movements in the present value of in-force long-term insurance business (PVIF), impairments of goodwill, and adjusting the reported equity for goodwill, intangibles and PVIF. The adjustment to reported results and reported equity excludes amounts

attributable to non-controlling interests.

We provide ROTE as an additional measure to ROE to provide a way to look at our performance which is closely aligned to our capital position.

The following table details the adjustments made to the reported results and equity:

	2014 US$m	2013 US$m	2012 US$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	**13,115**	15,631	13,454
Goodwill impairment (net of tax)		279	
Increase in PVIF (net of tax)	**(213)**	(397)	(537)
Profit attributable to the ordinary shareholders, excl. goodwill impairment and PVIF	**12,901**	15,513	12,917
Equity			
Average ordinary shareholders equity	**178,898**	169,260	159,564
Effect of Goodwill and intangibles (net of deferred tax)	**(23,423)**	(24,042)	(24,859)
Effect of PVIF (net of deferred tax)	**(4,317)**	(3,982)	(3,557)
Average tangible equity	**151,158**	141,236	131,148
	%	%	%
Ratio			
Return on equity	**7.3**	9.2	8.4
Return on tangible equity	**8.5**	11.0	9.8

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Report of the Directors: Financial Review (continued)

Consolidated income statement

Five-year summary consolidated income statement

	2014 US$m	2013 US$m	2012 US$m	2011 US$m	2010 US$m
Net interest income	**34,705**	35,539	37,672	40,662	39,441
Net fee income	**15,957**	16,434	16,430	17,160	17,355
Net trading income	**6,760**	8,690	7,091	6,506	7,210
Net income/(expense) from financial instruments designated at fair value	**2,473**	768	(2,226)	3,439	1,220
Gains less losses from financial investments	**1,335**	2,012	1,189	907	968
Dividend income	**311**	322	221	149	112
Net insurance premium income	**11,921**	11,940	13,044	12,872	11,146
Gains on disposal of US branch network, US cards business and Ping An Insurance (Group) Company of China, Ltd			7,024		
Other operating income	**1,131**	2,632	2,100	1,766	2,562
Total operating income	**74,593**	78,337	82,545	83,461	80,014
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(13,345)**	(13,692)	(14,215)	(11,181)	(11,767)
Net operating income before loan impairment charges and other credit risk provisions	**61,248**	64,645	68,330	72,280	68,247
Loan impairment charges and other credit risk provisions	**(3,851)**	(5,849)	(8,311)	(12,127)	(14,039)
Net operating income	**57,397**	58,796	60,019	60,153	54,208
Total operating expenses	**(41,249)**	(38,556)	(42,927)	(41,545)	(37,688)
Operating profit	**16,148**	20,240	17,092	18,608	16,520
Share of profit in associates and joint ventures	**2,532**	2,325	3,557	3,264	2,517
Profit before tax	**18,680**	22,565	20,649	21,872	19,037
Tax expense	**(3,975)**	(4,765)	(5,315)	(3,928)	(4,846)
Profit for the year	**14,705**	17,800	15,334	17,944	14,191
Profit attributable to shareholders of the parent company	**13,688**	16,204	14,027	16,797	13,159
Profit attributable to non-controlling interests	**1,017**	1,596	1,307	1,147	1,032

Five-year financial information

	2014	2013	2012	2011	2010
	US$	US$	US$	US$	US$
Basic earnings per share	**0.69**	0.84	0.74	0.92	0.73
Diluted earnings per share	**0.69**	0.84	0.74	0.91	0.72
Dividends per ordinary share[9]	**0.49**	0.48	0.41	0.39	0.34
	%	%	%	%	%
Dividend payout ratio[10]	**71.0**	57.1	55.4	42.4	46.6
Post-tax return on average total assets	**0.5**	0.7	0.6	0.6	0.6
Return on average ordinary shareholders equity	**7.3**	9.2	8.4	10.9	9.5
Average foreign exchange translation rates to US$:					
US$1: £	**0.607**	0.639	0.631	0.624	0.648
US$1:	**0.754**	0.753	0.778	0.719	0.755

For footnotes, see page 109.

Unless stated otherwise, all tables in the Annual Report and Accounts 2014 are presented on a reported basis.

For a summary of our financial performance in 2014, see page 28.

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Report of the Directors: Financial Review (continued)

Group performance by income and expense item

Net interest income

	2014	2013	2012
	US$m	US$m	US$m
Interest income	50,955	51,192	56,702
Interest expense	(16,250)	(15,653)	(19,030)
Net interest income[11]	34,705	35,539	37,672
Average interest-earning assets	1,786,536	1,669,368	1,625,068
Gross interest yield[12]	2.85%	3.07%	3.49%
Less: cost of funds	(1.05%)	(1.10%)	(1.36%)
Net interest spread[13]	1.80%	1.97%	2.13%
Net interest margin[14]	1.94%	2.13%	2.32%

For footnotes, see page 109.

Summary of interest income by type of asset

	2014			2013			2012		
	Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
	US$m	US$m	%	US$m	US$m	%	US$m	US$m	%
Short-term funds and loans and advances to banks[27]	237,148	3,068	1.29	236,377	2,851	1.21	235,831	3,505	1.49
Loans and advances to customers[27]	931,311	37,429	4.02	897,322	38,529	4.29	891,699	40,870	4.58
Reverse repurchase agreements non-trading[26,27]	198,273	1,800	0.91	114,324	995	0.87	83,105	975	1.17
Financial investments	399,816	8,323	2.08	393,309	8,002	2.03	387,329	9,078	2.34
	19,988	335	1.68	28,036	815	2.91	27,104	2,274	8.39

Other interest-earning assets									
Total interest-earning assets	**1,786,536**	**50,955**	**2.85**	1,669,368	51,192	3.07	1,625,068	56,702	3.49
Trading assets and financial assets designated at fair value[15,16,26]	**238,958**	**5,596**	**2.34**	354,817	5,763	1.62	368,406	6,931	1.88
Impairment provisions	**(14,015)**			(15,954)			(17,421)		
Non-interest-earning assets	**668,564**			683,785			730,901		
Year ended 31 December	**2,680,043**	**56,551**	**2.11**	2,692,016	56,955	2.12	2,706,954	63,633	2.35

For footnotes, see page 109.

Summary of interest expense by type of liability and equity

	2014			2013			2012		
	Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
	US$m	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Deposits by banks[17,27]	**61,217**	**481**	**0.79**	61,616	555	0.90	78,023	1,001	1.28
Financial liabilities designated at fair value own debt issued[18]	**66,374**	**837**	**1.26**	72,333	967	1.34	75,016	1,325	1.77
Customer accounts[19,27]	**1,088,493**	**9,131**	**0.84**	1,035,500	8,794	0.85	1,012,056	10,650	1.05
Repurchase agreements non-trading[26,27]	**190,705**	**652**	**0.34**	94,410	405	0.43	55,536	387	0.70
Debt securities in issue	**129,724**	**4,554**	**3.51**	150,976	4,182	2.77	161,348	4,755	2.95
Other interest-bearing liabilities	**10,120**	**595**	**5.88**	11,345	750	6.61	19,275	912	4.73
Total interest-bearing	**1,546,633**	**16,250**	**1.05**	1,426,180	15,653	1.10	1,401,254	19,030	1.36

liabilities									
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[26]	**178,518**	**2,856**	**1.60**	301,353	3,027	1.00	318,883	3,445	1.08
Non-interest bearing current accounts	**185,990**			184,370			177,085		
Total equity and other non-interest bearing liabilities	**768,902**			780,113			809,732		
Year ended 31 December	**2,680,043**	**19,106**	**0.71**	2,692,016	18,680	0.69	2,706,954	22,475	0.83

For footnotes, see page 109.

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Report of the Directors: Financial Review (continued)

Reported net interest income of US$35bn decreased by US$834m or 2% compared with 2013. This included the significant items and currency translation summarised in the table below.

Significant items and currency translation

	2014 US$m	2013 US$m
Significant items		
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	**(632)**	
Acquisitions, disposals and dilutions	**38**	386
	(594)	386
Currency translation		518
Year ended 31 December	**(594)**	904

On a reported basis, net interest spread and margin both fell, reflecting lower yields on customer lending in North America and Europe. In North America, this was due to changes in the composition of the lending portfolios towards lower yielding secured assets and to the run-off of the CML portfolio. In Europe, it was principally due to a significant item, namely provisions arising from the ongoing review of compliance with the Consumer Credit Act (CCA) in the UK. These factors were partially offset by a lower cost of funds.

Excluding the significant items and currency translation tabulated above, net interest income rose by US$664m or 2% from 2013, driven by increases in Asia, partly reflecting growth in customer lending volumes.

Interest income

Reported interest income was broadly unchanged, as decreases in interest income from customer lending (which included the effect of the CCA provisions) were offset by increases in income from short-term funds, as well as a rise due to the change in the management of reverse repo transactions (see page 48).

Interest income on loans and advances to customers decreased, principally in North America and Latin America, partially offset by increases in Asia. In North America, this was a consequence of the disposal of the higher yielding non-real estate loan portfolio and the reduction in the CML portfolio from run-off and sales. In addition, new lending to customers in RBWM and CMB was at lower yields, reflecting a shift in the portfolio towards higher levels of lower yielding first lien real estate secured loans. In Latin America, interest income on customer lending also decreased, reflecting a fall in yields in both Brazil and Mexico, despite the rise in average balances in term lending in both countries. In Brazil, the falling yield reflected the shift in product and client mix to more secured, relationship-led lending while, in Mexico, it was driven by reductions in Central Bank interest rates. The region was also affected by the disposal of non-strategic businesses.

By contrast, we recorded increased interest income on customer lending in Asia, driven by growth in term lending volumes and, to a lesser extent, residential mortgages during the year. This increase in balances

was partially offset by compressed yields. In Europe, excluding the effect of the CCA provisions noted above, interest income on customer lending rose due to increases in mortgage and term lending balances.

Interest income on short-term funds and financial investments increased both in Latin America and Asia, as interest rates rose in certain countries in these regions (notably in Brazil, Argentina and mainland China) and average balances grew. However, in Europe, interest income on short-term funds and financial investments fell as maturing positions were replaced by longer-term but lower-yielding bonds.

Interest expense

Reported interest expense increased in the year. We recorded increased interest expense on customer accounts in Asia and Latin America, partly offset by a reduction in North America. In Asia, the growth was principally from an increase in the average balances of customer accounts. In Latin America, interest expense on customer accounts rose as reductions in average balances were more than offset by the increase in the cost of funds due to interest rate rises, notably in Brazil. However, the effects of this were partly offset by a fall in the cost of funds in Mexico as Central Bank rates fell, and the disposal of non-strategic businesses. Conversely, in North America, interest expense on customer deposits declined as a result of a strategic decision to re-price deposits downwards. In addition, other interest expense decreased due to a release of accrued interest associated with an uncertain tax position.

Interest expense on debt issued rose. We recorded an increase in the cost of funds which was partly offset by decreased overall balances. Interest expense rose in Latin America, notably in Brazil, in line with interest rate rises and increased medium-term loan note balances. By contrast, in North America the business disposals led to a decline in our funding requirements. The cost of funds also fell as higher coupon debt matured and was repaid. In Europe, interest expense on debt also decreased, as average outstanding balances fell as a result of net redemptions and the cost of funds reduced.

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Report of the Directors: Financial Review (continued)

Repos and reverse repos

During the final quarter of 2013, GB&M changed the way it managed reverse repurchase (reverse repo) and repurchase (repo) activities. This had the effect of reducing the net interest margin as average interest earning assets and interest bearing liabilities increased significantly. These reverse repo and repo agreements have a lower gross yield and cost of funds, respectively, than the remainder of our portfolio.

Net interest income includes the expense of internally funded trading assets, while related revenue is reported in Net trading income . The internal cost of funding these assets decreased, as average trading asset balances fell to a greater extent than trading liabilities. In reporting our global business results, this cost is included within Net trading income .

Net fee income

	2014	2013	2012
	US$m	US$m	US$m
Account services	**3,407**	3,581	3,563
Funds under management	**2,658**	2,673	2,561
Cards	**2,460**	2,455	3,030
Credit facilities	**1,890**	1,907	1,761
Broking income	**1,371**	1,388	1,350
Imports/exports	**1,115**	1,157	1,196
Unit trusts	**1,005**	891	739
Underwriting	**872**	866	739
Remittances	**833**	849	819
Global custody	**726**	698	737
Insurance	**516**	551	696
Other	**2,692**	2,957	2,958
Fee income	**19,545**	19,973	20,149
Less: fee expense	**(3,588)**	(3,539)	(3,719)
Year ended 31 December	**15,957**	16,434	16,430

Reported net fee income fell by US$477m, primarily in Latin America and North America. In Latin America, the decrease included the effect of currency translation and the continued repositioning and disposal of businesses, notably the sale of our Panama operations in 2013. In North America, net fee income was lower following the expiry of the Transition Servicing Agreements we entered into with the buyer of the Card and Retail Services (CRS) business, and adverse adjustments to mortgage servicing rights valuations.

Account services fee income decreased, notably in Latin America and Europe. In Latin America, the fall was due to a reduction in customer numbers in Mexico, as we continued to reposition the business, and in Brazil, due to strong market competition. In Europe, account services fees were lower, primarily in Switzerland due

to the repositioning of our GPB business, and in the UK, in part reflecting the implementation of the Retail Distribution Review in 2013.

By contrast, unit trust fees rose, primarily in Asia, due to increased sales of equity funds in Hong Kong.

Other fee income declined in North America due to the expiry of the Transition Servicing Agreements and in Latin America following the sale of our operations in Panama in 2013 and the continued repositioning of the business in Mexico.

In addition, fee expenses were higher due to adverse adjustments to mortgage servicing rights valuations in North America, reflecting mortgage interest rate decreases in 2014 which compared with increases in 2013.

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Net trading income

	2014 US$m	2013 US$m	2012 US$m
Trading activities[20]	**5,419**	6,921	5,249
Ping An contingent forward sale contract		(682)	(553)
Net interest income on trading activities	**1,907**	2,047	2,683
Gain/(loss) on termination of hedges	**1**	(194)	
Other trading income hedge ineffectiveness:			
on cash flow hedges	**34**	22	35
on fair value hedges	**19**	65	(27)
Fair value movement on non-qualifying hedges[21]	**(620)**	511	(296)
Year ended 31 December	**6,760**	8,690	7,091

For footnotes, see page 109.

Reported net trading income of US$6.8bn was US$1.9bn lower, predominantly in Europe. The reduction in net trading income was partly driven by the significant items summarised in the table below.

Significant items and currency translation

	2014 US$m	2013 US$m
Significant items		
Included within trading activities:	**(332)**	548
Debit valuation adjustment on derivative contracts	**(332)**	106
FX gains relating to sterling debt issued by HSBC Holdings		442
Included in other net trading income:	**(539)**	(346)
Ping An contingent forward sale contract[22]		(682)
Loss on early termination of cash flow hedges in the US run-off portfolio		(199)

Fair value movement on non-qualifying hedges	**(541)**	511
Acquisitions, disposals and dilutions	**2**	24
	(871)	202
Currency translation		(11)
Year ended 31 December	**(871)**	191

For footnote, see page 109.

Excluding the significant items and currency translation tabulated above, net trading income from trading activities decreased by US$0.6bn, notably in Markets within GB&M. This was predominantly driven by our Foreign Exchange business, which was affected by lower volatility and reduced client flows. In Equities, revenue decreased, as 2013 benefited from higher revaluation gains which more than offset a rise in 2014 in revenue from increased client flows and higher derivatives income.

In 2014, we revised our estimation methodology for valuing uncollateralised derivative portfolios by introducing the funding fair value adjustment (FFVA), resulting in a reduction in net trading income of US$263m, primarily in Rates (US$164m) and Credit (US$97m). Excluding the FFVA, Credit was also affected by adverse movements on credit spreads and a reduction in revenue in Legacy Credit. By contrast, Rates was affected by favourable market movements, notably in

Asia, along with minimal fair value movements on our own credit spread on structured liabilities compared with adverse movements in 2013. These factors were partly offset by a fall in Rates in Europe.

Included within net trading income from trading activities, there were favourable foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value, compared with adverse movements in 2013. These movements offset fair value movements on the foreign currency debt which are reported in Net income/(expense) from financial instruments designated at fair value .

In addition, net interest income from trading activities fell due to lower average balances, notably relating to reverse repo and repo agreements, in line with the change in the way GB&M manages these agreements. The net interest income from these activities is now recorded in Net interest income .

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Report of the Directors: Financial Review (continued)

Net income/(expense) from financial instruments designated at fair value

	2014 US$m	2013 US$m	2012 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**2,300**	3,170	2,980
liabilities to customers under investment contracts	**(435)**	(1,237)	(996)
HSBC s long-term debt issued and related derivatives	**508**	(1,228)	(4,327)
change in own credit spread on long-term debt (significant item)	**417**	(1,246)	(5,215)
other changes in fair value[22]	**91**	18	888
other instruments designated at fair value and related derivatives	**100**	63	117
Year ended 31 December	**2,473**	768	(2,226)

For footnote, see page 109.

Assets and liabilities from which net income/(expense) from financial instruments designated at fair value arose

	2014 US$m	2013 US$m	2012 US$m
Financial assets designated at fair value at 31 December	**29,037**	38,430	33,582
Financial liabilities designated at fair value at 31 December	**76,153**	89,084	87,720
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF	**10,650**	10,717	8,376
unit-linked insurance and other insurance and investment contracts	**16,333**	25,423	23,655
Long-term debt issues designated at fair value	**69,681**	75,278	74,768

The accounting policies for the designation of financial instruments at fair value and the treatment of the associated income and expenses are described in Note 2 on the Financial Statements.

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issues, the interest rate profile of which has been changed to floating through swaps as part of a documented interest rate management strategy. The movement in fair value of these long-term debt issues and the related hedges includes the effect of our credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. The size and direction of the changes in the credit spread on our debt and ineffectiveness, which are recognised in the income statement, can be volatile from year to year, but do not alter the cash flows expected as part of the documented interest rate management strategy. As a consequence, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to global businesses, but are reported in Other. Credit spread movements on own debt designated at fair value are excluded from adjusted results, and related fair value movements are not included in the calculation of regulatory capital.

Reported net income from financial instruments designated at fair value was US$2.5bn in 2014, compared with US$768m in 2013. The former included favourable movements in the fair value of our own long-term debt of US$417m due to changes in credit spread, compared with adverse movements of US$1.2bn in 2013. Excluding

this significant item, net income from financial instruments designated at fair value increased by US$42m.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts of US$2.3bn was US$870m lower than in 2013. This was driven by weaker equity market performance in the UK and France, partly offset by improved equity market performance in Hong Kong and higher net income on the bonds portfolio in Brazil.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is also recorded under Net income/(expense) from financial instruments designated at fair value. This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features (DPF), where the corresponding movement in liabilities to customers is recorded under Net insurance claims and benefits paid and movement in liabilities to policyholders.

Other changes in fair value reflected a net favourable movement due to interest and exchange rate hedging ineffectiveness. This was partly offset by net adverse foreign exchange movements on foreign currency debt designated at fair value and issued as part of our overall funding strategy (offset from assets held as economic hedges in Net trading income).

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Gains less losses from financial investments

	2014 US$m	2013 US$m	2012 US$m
Net gains/(losses) from disposal of:			
debt securities	**665**	491	781
equity securities	**1,037**	1,697	823
other financial investments	**6**	(1)	5
	1,708	2,187	1,609
Impairment of available-for-sale equity securities	**(373)**	(175)	(420)
Year ended 31 December	**1,335**	2,012	1,189

Reported gains less losses from financial investments were US$1.3bn, a decrease of US$677m from 2013. The decrease

primarily reflected the significant items summarised below.

Significant items and currency translation

	2014 US$m	2013 US$m
Significant items		
Gain on sale of shareholding in Bank of Shanghai	**428**	
Impairment on our investment in Industrial Bank	**(271)**	
Net gain on completion of Ping An disposal[22]		1,235
Acquisitions, disposals and dilutions		5
	157	1,240
Currency translation		(10)
Year ended 31 December	**157**	1,230

For footnote, see page 109.

Excluding the significant items and currency translation noted above, gains less losses from financial investments increased by US$396m, primarily driven by higher net gains on the disposal of debt securities as we actively managed the Legacy Credit portfolio. In addition, we

reported higher gains on sale of available-for-sale equity securities and lower impairments on available-for-sale equity securities from improved market conditions and business performance of the underlying portfolio.

Net insurance premium income

	2014	2013	2012
	US$m	US$m	US$m
Gross insurance premium income	**12,370**	12,398	13,602
Reinsurance premiums	**(449)**	(458)	(558)
Year ended 31 December	**11,921**	11,940	13,044

Reported net insurance premium income was broadly unchanged, with reductions in Europe and Latin America largely offset by higher premium income in Asia.

In Asia, premium income rose, primarily in Hong Kong, due to increased new business from deferred annuity, universal life and endowment contracts. This was partly offset by lower new business from unit-linked contracts.

In Europe, premium income decreased, mainly in the UK, reflecting lower sales following the withdrawal of

external independent financial adviser distribution channels for certain linked insurance contracts in the second half of 2013. This was partly offset by increases in France, mainly reflecting higher sales of investment contracts with DPF.

Net insurance premium income also fell in Latin America, primarily in Brazil, reflecting lower sales, in part due to changes in our distribution channel.

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Other operating income

	2014 US$m	2013 US$m	2012 US$m
Rent received	**162**	155	210
Gains/(losses) recognised on assets held for sale	**220**	(729)	485
Gains on investment properties	**120**	113	72
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**32**	178	187
Gains/(losses) arising from dilution of interest in Industrial Bank and other associates and joint ventures	**(32)**	1,051	
Gain on disposal of HSBC Bank (Panama) S.A.		1,107	
Change in present value of in-force long-term insurance business	**261**	525	737
Other	**368**	232	409
Year ended 31 December	**1,131**	2,632	2,100

Change in present value of in-force long-term insurance business

	2014 US$m	2013 US$m	2012 US$m
Value of new business	**870**	924	1,027
Expected return	**(545)**	(505)	(420)
Assumption changes and experience variances	**(116)**	88	69
Other adjustments	**52**	18	61
Year ended 31 December	**261**	525	737

Reported other operating income of US$1.1bn decreased by US$1.5bn from 2013. This was largely due to the significant items summarised in the table below.

Significant items and currency translation

	2014 US$m	2013 US$m
Significant items		
Included within gains/(losses) recognised on assets held for sale:	**168**	(772)
write-off of allocated goodwill relating to the GPB Monaco business		(279)
gain/(loss) on sale of the non-real estate portfolio in the US		(271)
gain/(loss) on sale of several tranches of real estate secured accounts in the US	**168**	(123)
Household Insurance Group Holding company s disposal of its insurance manufacturing business[2]		(99)
Included within the remaining line items:	**(41)**	2,193
reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[2]		1,089
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Panama) S.A.[3]		1,107
HSBC Insurance (Asia-Pacific) Holdings Limited s disposal of its shareholding in Bao Viet Holdings[2]		104
loss on sale of an HFC Bank UK secured loan portfolio		(146)
acquisitions, disposals and dilutions	**(41)**	39
Currency translation		(18)
Year ended 31 December	**127**	1,403

Excluding the significant items and currency translation tabulated above, other operating income decreased by US$0.2bn compared with 2013. This was primarily from lower favourable movements in 2014 in present value of in-force (PVIF) long-term insurance business, and lower disposal and revaluation gains on investment properties, mainly in Hong Kong. The decrease was partly offset by gains reported in Legacy Credit in GB&M in the UK as we actively managed the portfolio.

Lower favourable movements in the PVIF long-term insurance business asset in 2014 were mainly due to the following factors:

a reduction in the value of new business, mainly in Brazil, due to higher interest rates and lower volumes; and

adverse assumption changes and experience variances in 2014 compared with favourable movements in 2013. This was mainly driven by falling interest rates in France and adverse actuarial assumption updates in Hong Kong, partly offset by the favourable effects of interest rate fluctuations, mainly in Asia and Brazil.

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Net insurance claims and benefits paid and movement in liabilities to policyholders

	2014 US$m	2013 US$m	2012 US$m
Net insurance claims and benefits paid and movement in liabilities to policyholders:			
gross	**13,723**	13,948	14,529
less reinsurers share	**(378)**	(256)	(314)
Year ended 31 December[24]	**13,345**	13,692	14,215

For footnote, see page 109.

Reported net insurance claims and benefits paid and movement in liabilities to policyholders were US$347m lower than in 2013.

Movements in claims resulting from investment returns on the assets held to support policyholder contracts, where the policyholder bears investment risk, decreased. This reflected weaker equity market performance in the UK and France, partly offset by improved equity market performance in Hong Kong and higher net income on the

bonds portfolio in Brazil. The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Reductions in claims resulting from a decrease in new business written in Europe and Latin America were mostly offset by increases in Hong Kong as explained under Net earned insurance premiums .

Loan impairment charges and other credit risk provisions

	2014 US$m	2013 US$m	2012 US$m
Loan impairment charges:			
new allowances net of allowance releases	**5,010**	7,344	9,306
recoveries of amounts previously written off	**(955)**	(1,296)	(1,146)

	4,055	6,048	8,160
Individually assessed allowances	**1,780**	2,320	2,139
Collectively assessed allowances	**2,275**	3,728	6,021
Impairment/(releases of impairment) on available-for-sale debt securities	**(319)**	(211)	99
Other credit risk provisions	**115**	12	52
Year ended 31 December	**3,851**	5,849	8,311
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers[27]	**0.4%**	0.7%	0.9%

For footnote, see page 109.

Reported loan impairment charges and other credit risk provisions (LICs) of US$3.9bn were US$2.0bn lower than in 2013, primarily in North America, Europe and Latin America. The percentage of impairment charges to average gross loans and advances fell to 0.4% at 31 December 2014 from 0.7% at 31 December 2013.

Individually assessed charges decreased by US$540m, primarily in Europe, partly offset by an increase in Asia and the Middle East and North Africa. In Europe, they were lower, mainly in CMB in the UK, reflecting improved quality in the portfolio and the economic environment, as well as in GB&M. In Asia, the increase was on a small number of exposures in Hong Kong and in mainland China, primarily in CMB and GB&M, while in the Middle East and North Africa we recorded net charges compared with net releases in 2013, mainly due to lower releases on a particular UAE-related exposure in GB&M.

Collectively assessed charges declined by US$1.5bn, primarily due to decreases in North America and Latin America. In North America, the reduction was mainly in RBWM, reflecting reduced levels of delinquency and new impaired loans in the CML portfolio. A decrease in

lending balances from continued portfolio run-off and loan sales was partly offset by an increase relating to less favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in 2014 than in 2013. In Latin America, the reduction in collectively assessed charges was driven by the adverse effect of changes to the impairment model and assumption revisions for restructured loan portfolios in Brazil which occurred in 2013, both in RBWM and CMB. Charges were also lower due to reduced Business Banking provisions reflecting improved delinquency rates and the effect of the disposal of non-strategic businesses.

Net releases of credit risk provisions of US$204m were broadly unchanged, as higher releases on available-for-sale ABSs in GB&M in Europe were offset by provisions in Latin America and North America. In Latin America, a provision was made in Brazil against a guarantee in GB&M. In North America we recorded provisions in Canada, compared with releases in 2013, and in the US reflecting a deterioration in the underlying asset values of a specific GB&M exposure.

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Operating expenses

	2014 US$m	2013 US$m	2012 US$m
By expense category			
Employee compensation and benefits	**20,366**	19,196	20,491
Premises and equipment (excluding depreciation and impairment)	**4,204**	4,183	4,326
General and administrative expenses	**14,361**	12,882	15,657
Administrative expenses	**38,931**	36,261	40,474
Depreciation and impairment of property, plant and equipment	**1,382**	1,364	1,484
Amortisation and impairment of intangible assets	**936**	931	969
Year ended 31 December	**41,249**	38,556	42,927

Staff numbers (full-time equivalents)

	2014	2013	2012
Geographical regions			
Europe	**69,363**	68,334	70,061
Asia[8]	**118,322**	113,701	112,766
Middle East and North Africa	**8,305**	8,618	8,765
North America	**20,412**	20,871	22,443
Latin America	**41,201**	42,542	46,556
At 31 December	**257,603**	254,066	260,591

For footnote, see page 109.

Reported operating expenses of US$41bn were US$2.7bn or 7% higher than in 2013. The increase in operating expenses was partly driven by the significant items noted in the table below, including settlements

and provisions in connection with foreign exchange investigations, of which US$809m was recorded in the fourth quarter of 2014 (see Note 40 on the Financial Statements for further details).

Significant items and currency translation

	2014 US$m	2013 US$m
Significant items		
Accounting gain arising from change in basis of delivering ill-health benefits in the UK		(430)
Charge in relation to settlement agreement with Federal Housing Finance Authority	**550**	
Madoff-related litigation costs		298
Settlements and provisions in connection with foreign exchange investigations	**1,187**	
Regulatory provisions in GPB	**65**	352
UK customer redress programmes	**1,275**	1,235
US customer remediation provision relating to CRS		100
Restructuring and other related costs	**278**	483
Acquisitions, disposals and dilutions	**40**	488
	3,395	2,526
Currency translation		348
Year ended 31 December	**3,395**	2,874

Excluding significant items and currency translation, operating expenses were US$2.2bn or 6% higher than in 2013.

Regulatory Programmes and Compliance costs increased as a result of the continued focus on Global Standards and the broader regulatory reform programme being implemented by the industry to build the necessary infrastructure to meet today s enhanced compliance standards, along with implementation costs to meet obligations such as stress tests in different jurisdictions and structural reform.

During 2014, we accelerated the deployment of Global Standards throughout the Group. Our global businesses and Compliance function have developed operating procedures to meet our new global AML and sanctions policies and these are now being implemented in every

country, encompassing local requirements as necessary. During 2014, we invested in developing our financial crime compliance expertise and building strategic infrastructure solutions for customer due diligence, transaction monitoring and sanctions screening.

We continued to invest in strategic initiatives in support of organically growing our business, primarily in CMB in both Asia, in Business Banking and Global Trade and Receivables Finance and, to a lesser extent, in Europe. We also increased expenditure on marketing and advertising to support revenue generating initiatives, primarily in RBWM s core propositions of Premier and Advance and personal lending products.

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The increase in costs also reflected:

- inflationary pressures, including wage inflation, primarily in Asia and Latin America;

- the UK bank levy charge, which increased to US$1.1bn in 2014 from US$904m in 2013, mainly due to an increase in the rate of the levy. Both years also included adjustments relating to the previous year s bank levy charge (2014: US$45m favourable adjustment; 2013: US$12m adverse adjustment); and

- the Financial Services Compensation Scheme levy in the UK, as a result of the timing of the recognition.

During 2014, we generated further sustainable savings of US$1.3bn, primarily driven by re-engineering our back office processes, which in part offset the investments and inflation noted above.

The average number of FTEs was broadly unchanged as reductions through sustainable savings programmes were broadly offset by the initiatives related to Regulatory Programmes and Compliance and business growth.

Reported cost efficiency ratios[25]

	2014	2013	2012
	%	%	%
HSBC	**67.3**	59.6	62.8
Geographical regions			
Europe	**93.7**	84.0	108.4
Asia[8]	**44.0**	40.7	39.4
Middle East and North Africa	**47.7**	51.5	48.0
North America	**78.9**	72.9	60.8
Latin America	**71.7**	56.1	58.7
Global businesses			
Retail Banking and Wealth Management	**71.2**	64.5	58.4
Commercial Banking	**45.9**	43.1	45.9
Global Banking and Markets	**67.7**	51.9	54.2
Global Private Banking	**74.8**	91.4	67.6

For footnotes, see page 109.

Share of profit in associates and joint ventures

	2014 US$m	2013 US$m	2012 US$m
Associates			
Bank of Communications Co., Limited	**1,974**	1,878	1,670
Ping An Insurance (Group) Company of China, Ltd			763
Industrial Bank Co., Limited			670
The Saudi British Bank	**455**	403	346
Other	**64**	5	72
Share of profit in associates	**2,493**	2,286	3,521
Share of profit in joint ventures	**39**	39	36
Year ended 31 December	**2,532**	2,325	3,557

HSBC s reported share of profit in associates and joint ventures was US$2.5bn, an increase of US$207m or 9%, in part due to the non-recurrence of an impairment charge of US$106m on our banking associate in Vietnam in 2013. Excluding this, our share of profit in associates and joint ventures increased, driven by higher contributions from BoCom and The Saudi British Bank.

Our share of profit from BoCom rose as a result of balance sheet growth and increased trading income, partly offset by higher operating expenses and a rise in loan impairment charges.

At 31 December 2014, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value in use calculation

(see Note 20 on the Financial Statements for further details).

In future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase in 2015 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC would continue to recognise its share of BoCom s profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Profits from The Saudi British Bank rose, reflecting strong balance sheet growth.

Tax expense

	2014 US$m	2013 US$m	2012 US$m
Profit before tax	**18,680**	22,565	20,649
Tax expense	**(3,975)**	(4,765)	(5,315)
Profit after tax for the year ended 31 December	**14,705**	17,800	15,334
Effective tax rate	**21.3%**	21.1%	25.7%

The effective tax rate for 2014 of 21.3% was lower than the blended UK corporation tax rate for the year of 21.5%.

The effective tax rate in the year reflected the following recurring benefits: tax exempt income from government bonds and equities held by a number of Group entities and recognition of the Group s share of post-tax profits of associates and joint ventures within our pre-tax income. In addition, the effective tax rate reflected a current tax credit for prior periods. This was partly offset by non-tax deductible settlements and provisions in connection with foreign exchange investigations.

The tax expense decreased by US$0.8bn to US$4.0bn for 2014, primarily due to a reduction in accounting profits and the benefit of the current tax credit for previous years.

In 2014, the tax borne and paid by the Group to the relevant tax authorities, including tax on profits, bank levy and employer-related taxes, was US$7.9bn (2013: US$8.6bn). The amount differs from the tax charge reported in the income statement due to indirect taxes such as VAT and the bank levy which are included in pre-tax profit, and the timing of payments.

We also play a major role as tax collector for governments in the jurisdictions in which we operate. Such taxes include employee-related taxes and taxes withheld from payments to deposit holders. In 2014, we collected US$9.1bn (2013: US$8.8bn).

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2013 compared with 2012

2013 compared with 2012 commentaries have not been updated to reflect our change from underlying performance to adjusted performance. For comparison, adjusted PBT would have been US$23.0bn and US$20.5bn for 2013 and 2012 respectively as compared with underlying PBT of US$21.6bn and US$15.3bn for 2013 and 2012 respectively. Constant currency, underlying and adjusted are reconciled on pages 105(b) to 105(au).

Consolidated income statement

Reported profit before tax of US$22.6bn in 2013 was US$1.9bn or 9% higher than in 2012. This was primarily due to lower adverse fair value movements of US$4.0bn on own debt designated at fair value resulting from changes in credit spreads and decreases in both loan impairment charges and other credit risk provisions (LICs) of US$2.5bn and operating expenses of US$4.4bn. These factors were partially offset by lower gains (net of losses) from disposals and reclassifications of US$2.2bn, compared with US$7.8bn in 2012. Gains on disposals in 2013 included the gain of US$1.1bn on sale of our operations in Panama and US$1.1bn from the reclassification of Industrial Bank Co. Limited (Industrial Bank) as a financial investment following its issue of share capital to third parties.

The Board approved a 6% increase in the final dividend in respect of 2013 to US$0.19 per share, US$0.01 higher than the final dividend in respect of 2012. Total dividends in respect of 2013 were US$9.2bn (US$0.49 per share), US$0.9bn higher than in 2012. The core tier 1 capital ratio strengthened from 12.3% to 13.6%, and the estimated CRD IV end point basis common equity tier 1 ratio also improved from 9.5% to 10.9%. This was driven by a combination of capital generation and a reduction in risk-weighted assets from management actions. Uncertainty remains, however, around the precise amount of capital that banks will be required to hold under CRD IV as key technical standards and consultations from regulatory authorities are pending. These include the levels, timing and interaction of CRD IV capital buffers and a review of the Pillar 2 framework.

On an underlying basis, profit before tax rose by 41% to US$21.6bn, primarily from higher net operating income before loan impairment charges and other credit risk provisions (revenue), lower LICs, notably in North America, Europe and Middle East and North Africa, and lower operating expenses, mainly from the non-recurrence of a charge in 2012 arising from US investigations and reduced charges relating to UK customer redress.

Underlying profit before tax in our global businesses rose with the exception of GPB which decreased by US$0.7bn to US$0.2bn as we continued to address legacy issues and reposition the customer base.

The following commentary is on an underlying basis.

Revenue across the Group was stable, underpinned by a resilient performance in GB&M and growth in CMB

Underlying revenue rose by US$1.7bn or 3% to US$63.3bn. This reflected a number of factors including net favourable fair value movements on non-qualifying hedges of US$0.8bn, a net gain recognised on completion of the disposal of our investment in Ping An of US$0.6bn offsetting the adverse fair value movements on the contingent forward sale contract recorded in 2012, and foreign exchange gains on sterling debt issued by HSBC Holdings of

US$0.4bn.

Revenue increased in CMB following average balance sheet growth partly offset by spread compression together with higher lending fees and improved collaboration with other global businesses. In GB&M, revenue was higher, in part reflecting a resilient performance in a majority of our customer-facing businesses. These factors were partially offset by lower revenue in RBWM, primarily from the run-off of our US CML portfolio and, in GPB, from the loss on write-off of goodwill relating to our Monaco business and the repositioning of our client base.

LICs fell in the majority of our regions, notably in North America, Europe and in the Middle East and North Africa

Underlying LICs were US$1.9bn or 25% lower than in 2012, primarily in North America where the decline was, in part, due to improvements in housing market conditions, reduced lending balances from continued portfolio run-off and loan sales, and lower levels of new impaired loans and delinquency in the CML portfolio. LICs were also lower in Europe, mainly in GB&M and CMB, and in the Middle East and North Africa, which benefited from an overall improvement in the loan portfolio. By contrast, LICs were higher in Latin America, particularly in Mexico from specific impairments in CMB relating to homebuilders due to a change in the public housing policy and higher collective impairments in RBWM. In Brazil, although credit quality improved following the modification of credit strategies in previous periods to mitigate rising delinquency rates, LICs increased, reflecting impairment model changes and assumption revisions for restructured loan account portfolios in RBWM and CMB, and higher specific impairments in CMB.

Operating expenses were lower, primarily driven by the non-recurrence of certain notable items in 2012 and further sustainable cost savings

Underlying operating expenses were US$2.6bn or 6% less than in 2012, primarily due to the non-recurrence of a 2012 charge following US anti-money laundering (AML), Bank Secrecy Act (BSA) and Office of Foreign Asset Control (OFAC) investigations, lower UK customer redress charges and reduced restructuring and related costs.

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Excluding these items, operating expenses were higher, mainly due to a rise in the UK bank levy, increased litigation-related expenses, notably a provision in respect of regulatory investigations in GPB, a Madoff-related charge in GB&M and investment in strategic initiatives, risk management and compliance. Higher operational costs also contributed, in part driven by general inflationary pressures and rental costs. These factors were partially offset by sustainable cost savings in the year and an accounting gain relating to changes in delivering ill-health benefits to certain employees in the UK.

The additional US$1.5bn of sustainable cost savings across all regions, took our total annualised cost savings to US$4.9bn since 2011 as we continued with our organisational effectiveness programmes during 2013. Together with business disposals, these led to a fall in the number of FTEs of more than 6,500 to 254,000.

Income from associates rose, mainly driven by strong results in mainland China

Underlying income from associates increased, primarily from Bank of Communications Co., Limited (BoCom), where balance sheet growth and increased fee income were partially offset by higher operating expenses and a rise in LICs.

The effective tax rate was 21.1% compared with 25.7% in 2012

The effective tax rate was lower than in 2012, reflecting non-taxable gains on profits associated with the reclassification of Industrial Bank as a financial investment and the disposal of our operations in Panama and our investment in Ping An Insurance (Group) Company of China, Ltd (Ping An). In addition, the 2012 tax expense included the non-tax deductible effect of fines and penalties paid as part of the settlement of the US AML, BSA and OFAC investigations.

Group performance by income and expense item

Net interest income

The commentary in the following sections is on a constant currency basis unless stated otherwise.

Reported net interest income of US$35.5bn decreased by 6% compared with 2012 and on a constant currency basis, net interest income fell by US$1.5bn. Both net interest spread and margin also fell, reflecting lower yields on customer lending following the disposal in 2012 of the CRS business in the US, which was higher yielding relative to the average yield of our portfolio, and lower yields on our surplus liquidity. These factors were partially offset by a lower cost of funds, principally on customer accounts and debt issued by the Group.

On an underlying basis, which excludes the net interest income earned by the businesses sold during 2013 (see page 50) from both years (2013: US$273m; 2012: US$2.0bn) and currency translation movements of US$682m, net interest income increased by 1%. This reflected balance sheet growth in Hong Kong and Europe, partly offset by lower net interest income earned in North America as a result of the run-off and disposal of

CML portfolios in the US and the consumer finance business in Canada.

Interest income

On a constant currency basis, interest income fell. This was driven by lower interest income from customer lending, including loans classified within Assets held for sale , as a consequence of the disposal of the CRS business in the US in 2012 and the CML non-real estate loan portfolio and select tranches of CML first lien mortgages in the US in 2013. In addition, average yields on customer lending in Latin America fell, notably in Brazil, following lower average interest rates; re-pricing in line with local competition; a change in the composition of the lending portfolios as we focused on growing secured, lower yielding, lending balances for corporate and Premier customers. Interest income earned in Panama, where we disposed of the business, also fell. By contrast interest income on customer lending in Asia rose, driven by growth in residential mortgage balances in RBWM and term and trade-related and commercial real estate and other property-related lending in CMB. This increase in interest income was partially offset by compressed yields on trade lending and lower yields as interest rates declined in a number of countries across the region.

Interest income in Balance Sheet Management also decreased. Yields on financial investments and cash placed with banks and central banks declined as the proceeds from maturities and sales of available-for-sale debt securities were invested at prevailing rates, which were lower. This was partly offset by growth in customer deposits leading to an overall increase in the size of the Balance Sheet Management portfolio.

Interest expense

Interest expense fell in the year, though to a lesser extent than interest income, driven by a lower cost of funds relating to customer accounts. The reduction in interest rates paid to customers in Europe and Asia more than offset the effect of the growth in the average balances of customer accounts. There was also a decline in the interest expense on customer accounts in Latin America, principally in Brazil, reflecting the managed reduction in term deposits as we continued to change the funding base, substituting wholesale customer deposits for medium-term loan notes, together with a lower average base interest rate. The disposal of the business in Panama also reduced interest expense.

Interest expense on debt issued by the Group decreased too. In North America, as a result of the business disposals and the run-off of the CML portfolio, our funding requirements declined and led to a fall in average outstanding balances. In Europe, average outstanding balances fell as a result of net redemptions. Additionally, the effective rate of interest declined as new issuances were at lower prevailing rates.

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Repos and reverse repos

During the final quarter, GB&M changed the way it manages reverse repurchase (reverse repo) and repurchase (repo) activities. For full details, see page 68. This had the effect of reducing the net interest margin as average interest earning assets and interest bearing liabilities increased significantly. These reverse repo and repo agreements have a lower gross yield and cost of funds, respectively, when compared with the remainder of our portfolio.

Net interest income includes the expense of internally funded trading assets, while related revenue is reported in Net trading income . The internal cost of funding these assets declined, reflecting a decrease in the average trading asset balances in most regions and reductions in our average cost of funds in these regions. In reporting our global business results, this cost is included within Net trading income .

Net fee income

Net fee income was broadly unchanged on a reported basis and increased by US$207m on a constant currency basis.

Fees from unit trusts grew, primarily in Hong Kong, as we captured improved market sentiment and strong customer demand. Fees from funds under management increased, primarily in Europe and Hong Kong, reflecting improved market conditions. Fee income from credit facilities rose, mainly in Europe in CMB.

Underwriting fees rose, notably in Europe and Hong Kong, as client demand for equity and debt capital financing increased and the collaboration between CMB and GB&M strengthened.

These factors were partly offset by the sale of the CRS business in North America, which led to a reduction in cards and insurance fee income and fee expenses. Fee income related to the sale fell following the expiry of the majority of the transition service agreements entered into during 2012. This is reported in other fee income while associated costs are reported in Operating expenses .

Net trading income

Reported net trading income of US$8.7bn was US$1.6bn higher than in 2012. On a constant currency basis, income increased by US$1.8bn, notably in Europe. Net income from trading activities primarily arose from our Markets business within GB&M, which recorded a resilient performance during 2013.

The rise in net income from trading activities was due in part to lower adverse foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value. These adverse movements offset favourable foreign exchange movements on the foreign currency debt which are reported in Net expense from financial instruments designated at fair value . In addition, we made foreign exchange gains of US$442m on sterling debt issued by HSBC Holdings. We also recorded a favourable debit valuation adjustment (DVA) of US$105m on derivative contracts, compared with a net reported charge of US$385m in 2012, as a result of a change in estimation methodology in respect of credit valuation adjustments (CVA s) of US$903m and a DVA of US$518m, to reflect evolving market practices.

Net income from trading activities in Markets also rose. Trading revenue in Credit grew driven by revaluation gains from price appreciation on assets in the legacy portfolio together with increased customer activity. Foreign Exchange revenue rose as a result of increased client demand for hedging solutions, in part from increased collaboration, although this was partly offset by margin compression and reduced market volatility in the second half of 2013. Equities revenue also grew, from higher client flows and increased revaluation gains in Europe, together with minimal fair value movements on own credit spreads on structured liabilities, compared with adverse fair value movements in 2012.

Rates trading income in 2012 included a charge following a change in the CVA methodology, as noted above. In 2013, we won new client mandates and reported smaller adverse fair value movements on our credit spreads on structured liabilities. These factors were broadly offset by reduced revenue as in 2012 we benefited from a significant tightening of spreads on eurozone bonds following the ECB s liquidity intervention. Revenue in 2013 was also affected by uncertainty regarding the tapering of quantitative easing in the US.

During 2013, we reported adverse fair value movements of US$682m compared with US$553m in 2012 on the contingent forward sale contract relating to Ping An in Asia.

Net interest income from trading activities also declined. This was driven by lower yields on debt securities in part reflecting the downward movement in interest rates.

In addition, net trading income was adversely affected by losses of US$194m relating to the termination of qualifying accounting hedges, mainly in HSBC Finance Corporation (HSBC Finance) of US$199m, as a result of anticipated changes in funding.

In 2013, there were favourable movements on non-qualifying hedges compared with adverse movements in 2012. In North America, we reported favourable fair value movements on non-qualifying hedges as US long-term interest rates increased, compared with adverse fair value movements in 2012. There were also favourable fair value movements on non-qualifying hedges in Europe, compared with adverse movements in 2012

Net income from financial instruments designated at fair value

The accounting policies for the designation of financial instruments at fair value and the treatment of the associated income and expenses are described in Notes 2 and 25 on the Financial Statements, respectively.

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issues, the interest rate profile of which has been changed to floating through swaps as part of a documented interest rate management strategy. The movement in fair value of these long-term debt issues and the related hedges

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includes the effect of our credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads widen or narrow, accounting profits or losses, respectively, are booked. The size and direction of the changes in the credit spread on our debt and ineffectiveness, which are recognised in the income statement, can be volatile from year to year, but do not alter the cash flows expected as part of the documented interest rate management strategy. As a consequence, fair value movements arising from changes in our own credit spread on long-term debt and other fair value movements on the debt and related derivatives are not regarded internally as part of managed performance and are therefore not allocated to global businesses, but are reported in Other . Credit spread movements on own debt designated at fair value are excluded from underlying results, and related fair value movements are not included in the calculation of regulatory capital.

We reported net income from financial instruments designated at fair value of US$768m in 2013 compared with a net expense of US$2.2bn in 2012. This included credit spread-related movements in the fair value of our own long-term debt, on which we experienced adverse fair value movements of US$1.2bn in 2013 compared with US$5.2bn in 2012. Adverse fair value movements were less extensive in 2013 than in 2012 as HSBC spreads tightened significantly in Europe and North America, having widened during 2011.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts increased reflecting higher net investment returns in 2013 than in 2012. These returns reflected favourable equity market movements in the UK and France, partly offset by weaker equity market performance and falling bond prices in Hong Kong and lower net income on the bond portfolio in Brazil.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is also recorded under Net income/(expense) from financial instruments designated at fair value . This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features (DPF), where the corresponding movement in liabilities to customers is recorded under Net insurance claims incurred and movement in liabilities to policyholders .

Other changes in fair value reflected lower favourable foreign exchange movements in 2013 than in 2012 on foreign currency debt designated at fair value and issued as part of our overall funding strategy (offset from assets held as economic hedges in Net trading income), and higher adverse movements due to hedging ineffectiveness in 2013.

Gains less losses from financial investments

Gains less losses from financial investments rose by US$823m on a reported basis and by US$840m on a constant currency basis.

This was driven by a significant increase in net gains from the disposal of available-for-sale equity securities in Asia following the completion of the sale of our remaining shareholding in Ping An and an increase in disposal gains in Principal Investments. These increases were partly offset by the non-recurrence of gains in from the sale of our shares in four Indian banks in 2012.

The year on year decline in impairments on available-for-sale equity securities also contributed to the rise in gains less losses from financial investments. This was driven by a reduction in write downs in our Principal Investments business.

Net gains on the disposal of debt securities fell as 2012 included significant gains on the sale of available-for-sale government debt securities, notably in Europe, arising from structural interest rate risk management of the balance sheet.

Net insurance premium income

Net earned insurance premiums decreased by US$1.1bn on a reported basis, and by US$1.0bn on constant currency basis.

The reduction was primarily due to lower net earned premiums in Europe, Latin America and North America, partly offset by an increase in Hong Kong.

In Europe, net earned premiums decreased, mainly as a result of lower sales of investment contracts with DPF in France. In addition, 2012 benefited from a number of large sales through independent financial adviser channels which are now in run off.

In Latin America, net earned premiums decreased in Brazil due to lower sales of unit-linked pension products, primarily as a result of changes to the distribution channel. In addition, the sale of the non-life business in Argentina in 2012 contributed to the decrease.

The reduction in net earned premiums in North America was due to the sale of our insurance manufacturing business in the first half of 2013.

In Hong Kong, premium income increased as a result of higher renewal premiums for insurance contracts with DPF and unit-linked insurance contracts, partly offset by lower sales of new business in 2013 and the disposal of the non-life business during 2012.

Gains on disposal of US branch network, US cards business and Ping An

In 2012, we made significant progress in exiting non-strategic markets and disposing of businesses and investments not aligned with the Group s long-term strategy. These included three major disposals:

In May 2012, HSBC USA Inc., HSBC Finance and HSBC Technology and Services (USA) Inc. sold their

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US Card and Retail Services business, realising a gain on sale of US$3.1bn.

In May 2012, HSBC Bank USA, N.A. (HSBC Bank USA) sold 138 out of 195 branches, primarily in upstate New York, realising a gain of US$661m. In August 2012, it sold the remaining 57 branches to the same purchaser, realising a gain of US$203m.

In December 2012, HSBC Insurance Holdings Limited and The Hongkong and Shanghai Banking Corporation agreed to sell their entire shareholdings in Ping An, representing 15.57% of the issued share capital of Ping An, in two tranches. The first tranche was completed on 7 December 2012, at which point we ceased to account for Ping An as an associate and recognised a gain on disposal of US$3.0bn. The remaining shareholding in respect of the second tranche was recognised as a financial investment.

The fixing of the sale price in respect of the second tranche gave rise to a contingent forward sale contract, for which there was an adverse fair value movement of US$553m recorded in Net trading income in 2012. The disposal of our investment in Ping An was completed in 2013. We realised a gain of US$1.2bn, which was recorded in Gains less losses from financial investments . This was partly offset by the adverse fair value movement of US$682m on the contingent forward sale contract recorded in Net trading income , leading to a net gain in the year of US$553m.

Other operating income

Other operating income of US$2.6bn increased by US$532m in 2013 on a reported basis and by US$727m on a constant currency basis.

Reported other operating income included net gains on the disposals and the reclassifications listed on page 49 of US$2.2bn in 2013, principally relating to an accounting gain arising from the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties and a gain on the disposal of our operations in Panama, compared with net gains of US$736m in 2012.

On an underlying basis, which excludes the net gains above, the results of disposed of operations and the effects of foreign currency translation, other operating income decreased. This was driven by losses totalling US$424m on the sales of our CML non-real estate personal loan portfolio and several tranches of real estate secured loans, and a loss of US$279m following the write-off of goodwill relating to our GPB business in Monaco. In addition, we recognised a loss of US$146m on the sale of the HFC Bank UK secured loan portfolio in RBWM in Europe. These factors were partly offset by higher disposal and revaluation gains on investment properties in Hong Kong.

There were lower favourable movements on the present value of the in-force (PVIF) long-term insurance

business asset compared with 2012. This was largely due to lower values of new business in Europe and Asia, reflecting lower sales. Additionally, expected returns increased due to the growth of the opening PVIF asset year on year, particularly in Hong Kong and Brazil.

These factors were partly offset by higher favourable assumption changes in Hong Kong, which exceeded the adverse experience and assumption changes in Latin America. The lower other PVIF movements in 2013 compared with 2012 were driven by Latin America, notably the favourable effect of the recognition of a PVIF asset in Brazil in 2012 which did not recur.

Net insurance claims and benefits paid and movement in liabilities to policyholders

Net insurance claims incurred and movement in liabilities to policyholders decreased by 4% on a reported basis, and by 3% on a constant currency basis.

The reduction largely reflected the decrease in premiums, notably in Latin America, North America and France, and included the effect of business disposals described under Net earned insurance premiums .

This reduction was partly offset by increases in reserves attributable to increased renewal premiums in Hong Kong and higher investment returns on the assets held to support policyholder contracts where the policyholder bears investment risk. These returns reflected favourable equity market movements in the UK and France, partly offset by weaker equity market performance and falling bond prices in Hong Kong and lower net income on the bond portfolio in Brazil.

The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Loan impairment charges and other credit risk provisions

On a reported basis, loan impairment charges and other credit risk provisions (LICs) were US$2.5bn lower than in 2012, decreasing in the majority of regions, most notably in North America, Europe and the Middle East and North Africa. Underlying LICs declined by US$1.9bn to US$5.8bn.

The percentage of impairment charges to average gross loans and advances reduced to 0.7% at 31 December 2013 from 0.9% at 31 December 2012.

On a constant currency basis, LICs fell by US$2.3bn, a reduction of 28%. Collectively assessed charges decreased by US$2.1bn while individually assessed impairment charges increased by US$198m. Credit risk provisions on available-for-sale debt securities reflected net releases of US$211m in 2013 compared with charges in 2012.

The fall in collectively assessed charges largely arose in North America, in part due to improvements in housing market conditions. In addition, the decrease reflected lower lending balances, reduced new impaired loans and

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lower delinquency levels in the CML portfolio. This was partially offset by increases in Latin America, principally in Mexico due to higher collective impairments in RBWM. In Brazil, improvements in credit quality were broadly offset by higher charges from model changes and assumption revisions for restructured loan portfolios in RBWM and Business Banking in CMB.

The increase in individually assessed loan impairment charges reflected higher levels of impairment in Latin America, particularly on exposures to homebuilders in Mexico and across a number of corporate exposures in Brazil. These were partly offset by releases in the Middle East and North Africa, mainly in GB&M for a small number of customers as a result of an overall improvement in the loan portfolio compared with charges in 2012. In Europe, higher provisions in GB&M were broadly offset by decreases in CMB, mainly in the UK and Greece.

The movement in credit risk provisions on available-for-sale debt securities was largely in GB&M as a result of net releases in Europe compared with charges in 2012, and a credit risk provision on an available-for-sale debt security in 2012 in Asia.

In *North America*, LICs decreased by US$2.3bn to US$1.2bn, mainly in the US, in part due to improvements in housing market conditions. In addition, the decrease reflected lower lending balances from continued run-off and loan sales, and lower levels of new impaired loans and delinquency in the CML portfolio. US$322m of the decline in loan impairment charges was due to the sale of the CRS business in 2012. These factors were partly offset by an increase of US$130m relating to a rise in the estimated average period of time from a loss event occurring to writing off real estate loans to twelve months (previously a period of ten months was used). In CMB, loan impairment charges increased by US$77m, reflecting higher collectively assessed charges in the US as a result of increased lending balances in key growth markets and higher individually assessed impairments on a small number of exposures mainly in Canada.

In *Europe*, LICs decreased by 20% to US$1.5bn. In the UK, GB&M reported net releases of credit risk provisions on available-for-sale asset backed securities (ABS s), compared with impairment charges in 2012, offset in part by higher individually assessed provisions. In addition, there were lower loan impairment charges in CMB due to lower collectively and individually assessed provisions, and in RBWM due to lower collectively assessed provisions reflecting recoveries from debt sales. In other countries in Europe, lower individually assessed impairment provisions in Greece were partly offset by increases in Turkey, where there was growth in unsecured lending in RBWM and a rise in Spain, where the challenging economic conditions continued to affect the market.

In the *Middle East and North Africa*, LICs reflected a net release of US$42m compared with a charge of US$282m in 2012. We recorded provision releases, mainly in GB&M, for a small number of UAE-related exposures, reflecting an overall improvement in the loan portfolio

compared with charges in 2012. In addition, loan impairment charges declined, due to lower individually assessed loan impairments in the UAE in CMB, and lower provisions in RBWM on residential mortgages following a repositioning of the book towards higher quality lending and improved property prices.

In *Latin America*, LICs increased by US$693m, primarily in Mexico due to specific impairments in CMB relating to homebuilders from a change in the public housing policy, and higher collective impairments in RBWM as a result of increased volumes and higher delinquency in our unsecured lending portfolio. In Brazil, LICs increased due to changes to the impairment model and assumption revisions for restructured loan account portfolios in RBWM and CMB, following a realignment of local practices to Group standard policy. LICs were also adversely affected by higher specific impairments in CMB across a number of corporate exposures. These factors were partly offset by improvements in credit quality in Brazil following the modification of credit strategies in previous years to mitigate rising delinquency rates.

LICs in *Asia* were in line with 2012 as higher charges in Hong Kong due to a revision to the assumptions used in our collective assessment models in RBWM and a rise in individual impairment charges in CMB, were broadly offset by the non-recurrence of a large individually assessed impairment of a corporate exposure in Australia and a credit risk provision on an available-for-sale debt security in GB&M.

Operating expenses

Reported operating expenses of US$38.6bn were US$4.4bn or 10% lower than 2012. On an underlying basis, costs fell by 6%.

On a constant currency basis, operating expenses in 2013 were US$3.7bn or 9% lower than in 2012, primarily due to the non-recurrence of a charge for US AML, BSA, and OFAC investigations of US$1.9bn, and a reduction in restructuring and other related costs of US$369m. UK customer redress programmes were also lower than in 2012. These included:

- a charge for additional estimated redress for possible mis-selling in previous years of payment protection insurance (PPI) policies of US$756m (US$1.7bn in 2012);
- US$261m in respect of interest rate protection products (US$586m in 2012);
- US$149m in respect of wealth management products; and
- The provision for the UK customer redress programmes at 31 December 2013 is US$2.1bn.

The business disposals, primarily the disposal of the CRS business and the non-strategic branches in the US in 2012, resulted in a lower cost base in 2013.

Excluding the above, expenses were US$808m higher than in 2012. The UK bank levy charge of US$904m in 2013 increased compared with US$571m in 2012, mainly due to an increase in its rate. In addition,

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operating expenses in both years included adjustments relating to the prior year charge for the UK bank levy (2013: US$12m adverse adjustment; 2012: US$99m favourable adjustment).

Litigation-related expenses increased primarily due to a provision in respect of regulatory investigations in GPB, Madoff-related litigation costs in GB&M, and a customer remediation provision connected with our former CRS business.

During 2013:

- we increased our investment in digital and wealth management capabilities in RBWM;
- in CMB we continued our ongoing expansion into the large corporate market in the US; and
- increased investment spend on regulatory requirements particularly through the Global Standards programme.

In addition, other costs rose due to higher operational expenses in part driven by general inflationary pressures including wage inflation across the Group and rental costs in Asia. Cost growth in the Middle East and North Africa resulted from a customer redress programme in RBWM relating to fees charged on overseas credit card transactions, the acquisition of the Lloyds business in the UAE in 2012 and the merger with Oman International Bank S.A.O.G. (OIB). Operating expenses also increased in Hong Kong and North America as a result of changes to the recognition of pension costs.

These cost increases were in part offset by further sustainable cost savings of US$1.5bn from our ongoing organisational effectiveness programmes. In addition, we recorded an accounting gain of US$430m from changes in delivering ill-health benefits to certain employees in the UK (see Note 6 on the Financial Statements).

The number of employees expressed in full-time equivalent numbers (FTE s) at the end of 2013 was 3% lower than at the end of 2012 due to sustainable cost savings initiatives and business disposals. Average staff numbers fell by 6% compared with 2012

Share of profit in associates and joint ventures

The share of profit in associates and joint ventures was US$2.3bn, a decrease of 35% compared with 2012 on both a reported and constant currency basis. This was driven by the disposal of Ping An in 2012 and the reclassification in 2013 of Industrial Bank as a financial investment.

The recognition of profits ceased from Ping An following the agreement to sell our shareholding in December 2012, and from Industrial Bank following the issuance of additional share capital to third parties in January 2013, which resulted in our diluted shareholding being classified as a financial investment. In addition, in 2013, we recorded an impairment charge of US$106m on our banking associate in Vietnam.

Our share of profit from BoCom rose as a result of balance sheet growth and increased fee income, partly

offset by higher operating expenses and a rise in loan impairment charges.

At 31 December 2013, we performed an impairment review of our investment in BoCom and concluded that it was not impaired at the year end, based on our value in use calculation (see Note 21 on the Financial Statements for further details). In future years, the value in use will remain relatively stable if the current calculation assumptions remain broadly the same. However, it is expected that the carrying amount will increase in 2014 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, the carrying amount would be reduced to equal value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Profits from The Saudi British Bank rose, reflecting strong lending growth and effective cost management.

Tax expense

The effective tax rate for 2013 of 21.1% was lower than the UK corporation tax rate of 23.25%.

The lower effective tax rate reflected the geographical distribution of our profit, the non-taxable gain on profits resulting from the reclassification of our holding in Industrial Bank as a financial investment and the disposal of our operations in Panama and our investment in Ping An.

The tax expense decreased by US$0.6bn to US$4.8bn despite a US$2.0bn increase in accounting profit before tax, due to the combination of benefits noted above and because the 2012 tax expense included the non-tax deductible effect of fines and penalties paid as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanction laws.

In 2013, the tax borne and paid by the Group to the relevant tax authorities, including tax on profits, bank levy and employer-related taxes, was US$8.6bn (2012: US$9.3bn). The amount differs from the tax charge reported in the income statement due to indirect taxes such as VAT and the bank levy included in pre-tax profit, and the timing of payments.

We also play a major role as tax collector for governments in the jurisdictions in which we operate. Such taxes include employee-related taxes and taxes withheld from payments to deposit holders. In 2013, we collected US$8.8bn (2012: US$8.5bn).

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Consolidated balance sheet

Five-year summary consolidated balance sheet

	2014 US$m	2013 US$m	2012 US$m	2011 US$m	2010 US$m
ASSETS					
Cash and balances at central banks	**129,957**	166,599	141,532	129,902	57,383
Trading assets[26]	**304,193**	303,192	408,811	330,451	385,052
Financial assets designated at fair value	**29,037**	38,430	33,582	30,856	37,011
Derivatives	**345,008**	282,265	357,450	346,379	260,757
Loans and advances to banks[27]	**112,149**	120,046	117,085	139,078	141,869
Loans and advances to customers[27,28]	**974,660**	992,089	962,972	899,010	897,847
Reverse repurchase agreements non-trading[26,27]	**161,713**	179,690	70,112	83,328	126,921
Financial investments	**415,467**	425,925	421,101	400,044	400,755
Other assets	**161,955**	163,082	179,893	196,531	147,094
Total assets at 31 December	**2,634,139**	2,671,318	2,692,538	2,555,579	2,454,689
LIABILITIES AND EQUITY					
Liabilities					
Deposits by banks[27]	**77,426**	86,507	95,480	95,205	87,221
Customer accounts[27]	**1,350,642**	1,361,297	1,311,396	1,223,140	1,190,763
Repurchase agreements non-trading[26,27]	**107,432**	164,220	40,567	48,402	60,325
Trading liabilities[26]	**190,572**	207,025	304,563	265,192	300,703
Financial liabilities designated at fair value	**76,153**	89,084	87,720	85,724	88,133
Derivatives	**340,669**	274,284	358,886	345,380	258,665
Debt securities in issue	**95,947**	104,080	119,461	131,013	145,401
Liabilities under insurance contracts	**73,861**	74,181	68,195	61,259	58,609
Other liabilities	**121,459**	120,181	123,141	134,171	109,954
Total liabilities at 31 December	**2,434,161**	2,480,859	2,509,409	2,389,486	2,299,774
Equity					
Total shareholders equity	**190,447**	181,871	175,242	158,725	147,667

Non-controlling interests	**9,531**	8,588	7,887	7,368	7,248
Total equity at 31 December	**199,978**	190,459	183,129	166,093	154,915
Total liabilities and equity at 31 December	**2,634,139**	2,671,318	2,692,538	2,555,579	2,454,689

Five-year selected financial information

	2014	2013	2012	2011	2010
	US$m	US$m	US$m	US$m	US$m
Called up share capital	**9,609**	9,415	9,238	8,934	8,843
Capital resources[29,30]	**190,730**	194,009	180,806	170,334	167,555
Undated subordinated loan capital	**2,773**	2,777	2,778	2,779	2,781
Preferred securities and dated subordinated loan capital[31]	**47,208**	48,114	48,260	49,438	54,421
Risk-weighted assets[29]	**1,219,765**	1,092,653	1,123,943	1,209,514	1,103,113
Financial statistics					
Loans and advances to customers as a percentage of customer accounts[27]	**72.2**	72.9	73.4	73.5	75.4
Average total shareholders equity to average total assets	**7.01**	6.55	6.16	5.64	5.53
Net asset value per ordinary share at year-end[32] (US$)	**9.28**	9.27	9.09	8.48	7.94
Number of US$0.50 ordinary shares in issue (millions)	**19,218**	18,830	18,476	17,868	17,686
Closing foreign exchange translation rates to US$:					
US$1: £	**0.642**	0.605	0.619	0.646	0.644
US$1:	**0.823**	0.726	0.758	0.773	0.748

For footnotes, see page 109.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 337.

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Movement in 2014

Total reported assets were US$2.6 trillion, 1% lower than at 31 December 2013. On a constant currency basis, total assets were US$85bn or 3% higher.

Our balance sheet remains strong with a ratio of customer advances to customer accounts of 72%. Although customer loans and customer accounts have fallen on a reported basis, both have increased on a constant currency basis, notably rising in Asia.

The following commentary is on a reported basis unless otherwise stated.

Assets

Cash and balances at central banks decreased by US$37bn, notably in Europe, in part reflecting net reductions in repurchase and reverse repurchase agreements.

Trading assets were broadly unchanged. Excluding adverse foreign exchange movements of US$18bn, trading assets grew, primarily from the holdings of debt securities in Asia to support GB&M s Rates business. In Europe, trading assets were broadly unchanged as increased holdings of equity securities were broadly offset by reductions in several other asset classes.

Financial assets designated at fair value decreased by US$9bn, notably in Europe, largely from the transfer to Assets held for sale of balances relating to the UK Pension business of HSBC Life (UK) Limited.

Derivative assets increased by 22%, notably in Europe relating to interest rate and foreign exchange derivative contracts reflecting market movements, including changes in yield curves and foreign exchange rates.

Loans and advances to customers marginally decreased by US$17bn or 2% including adverse foreign exchange movements of US$45bn. Excluding these movements, customer lending grew by US$28bn, or 3%, largely from growth in Asia of US$32bn and, to a lesser extent, in North America and Latin America. By contrast, balances decreased in Europe by US$15bn, as term lending growth in CMB and GB&M was more than offset by a fall in corporate overdraft balances relating to a small number of customers, as explained further below.

In Asia, term lending to CMB and GB&M customers grew, which included growth in commercial real estate and other property-related lending. Mortgage balances also increased, mainly in Hong Kong. In North America, the growth in balances was driven by increased term lending to corporate and commercial customers in CMB and GB&M, partly offset by a decline in RBWM from the continued reduction in the US run-off portfolio and the transfer to Assets held for sale of US first lien mortgage balances. Balances also rose in Latin America, mainly in CMB in Brazil and GB&M in Mexico.

The fall in lending in Europe of US$15bn was driven by a reduction in corporate overdraft balances. In the UK, a small number of clients benefit from the use of net interest arrangements across their overdraft and deposit positions.

During the year, as we aligned our approach in our Payments and Cash Management business to be more globally consistent, many of these clients increased the frequency with which they settled these balances, reducing their overdraft and deposit balances which fell by US$28bn. Other customer loans and advances increased by US$13bn, mainly in CMB and GB&M, driven by an increase in term lending to corporate and commercial customers, notably in the second half of the year.

Reverse repurchase agreements decreased by US$18bn, driven by a managed reduction in Europe as we reassessed the overall returns of these activities in light of new regulatory requirements. This decrease was partly offset by increases in Asia and North America.

Liabilities

Repurchase agreements decreased by US$57bn or 35%, driven by a decrease in Europe, notably in the UK and France, reflecting the managed reduction in reverse repurchase agreements in Europe as noted above.

Customer accounts decreased marginally by US$11bn, and included adverse foreign exchange movements of US$58bn. Excluding these movements, balances increased by US$47bn or 4%, with growth in all regions, notably Asia, of US$36bn. The increase in Asia reflected growth in our Payments and Cash Management business in CMB and GB&M, an increase in balances in Securities Services in GB&M and a rise in RBWM, in part reflecting successful deposit campaigns. In Europe, balances increased marginally despite a US$28bn fall in corporate current accounts, mainly in GB&M, in line with the fall in corporate overdraft balances, and a reduction in client deposits in GPB. These factors were more than offset by growth in CMB and, to a lesser extent, in GB&M as deposits from our Payments and Cash Management business increased together with a rise in RBWM balances reflecting customers continued preference for holding balances in current and savings accounts.

Trading liabilities fell by US$16bn including adverse foreign exchange movements of US$12bn. Excluding these, balances fell reflecting changes in client demand.

Financial liabilities designated at fair value reduced by US$13bn, mainly in Europe reflecting the transfer to Liabilities held for sale of balances relating to the UK Pension business of HSBC Life (UK) Limited.

The increase in *derivative liabilities* was in line with that of Derivative assets as the underlying risk is broadly matched.

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Equity

Total shareholders equity rose by 5%, driven by profits generated in the year, which were partially offset by dividends paid. In addition, shareholders equity increased as we issued new contingent convertible securities of US$5.7bn during 2014. For further details

of these securities, see Note 35 on the Financial Statements. These movements were partly offset by a reduction of US$9bn in our foreign exchange reserve reflecting the notable appreciation in the US dollar against sterling and the euro, particularly in the second half of the year.

Reconciliation of consolidated reported and constant currency assets and liabilities

	31 December 2014 compared with 31 December 2013					
	31 Dec 13 as reported US$m	Currency translation adjustment[33] US$m	31 Dec 13 at 31 Dec 14 exchange rates US$m	31 Dec 14 as reported US$m	Reported change %	Constant currency change %
Cash and balances at central banks	166,599	(9,384)	157,215	129,957	(22)	(17)
Trading assets	303,192	(18,176)	285,016	304,193		7
Financial assets designated at fair value	38,430	(2,467)	35,963	29,037	(24)	(19)
Derivative assets	282,265	(16,582)	265,683	345,008	22	30
Loans and advances to banks[27]	120,046	(4,923)	115,123	112,149	(7)	(3)
Loans and advances to customers[27]	992,089	(45,494)	946,595	974,660	(2)	3
Reverse repurchase agreements non-trading[26,27]	179,690	(9,961)	169,729	161,713	(10)	(5)
Financial investments	425,925	(15,285)	410,640	415,467	(2)	1
Other assets	163,082	(385)	162,697	161,955	(1)	
Total assets	**2,671,318**	**(122,657)**	**2,548,661**	**2,634,139**	**(1)**	**3**

Deposits by banks[27]	**86,507**	**(3,317)**	**83,190**	**77,426**	**(10)**	**(7)**
Customer accounts[27]	**1,361,297**	**(57,673)**	**1,303,624**	**1,350,642**	**(1)**	**4**
Repurchase agreements non-trading[26, 27]	**164,220**	**(7,730)**	**156,490**	**107,432**	**(35)**	**(31)**
Trading liabilities	**207,025**	**(12,208)**	**194,817**	**190,572**	**(8)**	**(2)**
Financial liabilities designated at fair value	**89,084**	**(3,930)**	**85,154**	**76,153**	**(15)**	**(11)**
Derivative liabilities	**274,284**	**(16,214)**	**258,070**	**340,669**	**24**	**32**
Debt securities in issue	**104,080**	**(5,089)**	**98,991**	**95,947**	**(8)**	**(3)**
Liabilities under insurance contracts	**74,181**	**(4,447)**	**69,734**	**73,861**		**6**
Other liabilities	**120,181**	**(4,221)**	**115,960**	**121,459**	**1**	**5**
Total liabilities	**2,480,859**	**(114,829)**	**2,366,030**	**2,434,161**	**(2)**	**3**
Total shareholders equity	**181,871**	**(7,720)**	**174,151**	**190,447**	**5**	**9**
Non-controlling interests	**8,588**	**(108)**	**8,480**	**9,531**	**11**	**12**
Total equity	**190,459**	**(7,828)**	**182,631**	**199,978**	**5**	**9**
Total liabilities and equity	**2,671,318**	**(122,657)**	**2,548,661**	**2,634,139**	**(1)**	**3**

For footnotes, see page 109.

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Combined view of lending and deposits[26,27]

	2014 US$m	2013 US$m	Change %
Customers amortised cost			
Loans and advances to customers	**974,660**	992,089	(2)
Loans and advances to customers reported in Assets held for sale[34]	**577**	1,703	(66)
Reverse repurchase agreements non-trading	**66,310**	88,215	(25)
Combined customer lending	**1,041,547**	1,082,007	(4)
Customer accounts	**1,350,642**	1,361,297	(1)
Customer accounts reported in Liabilities of disposal groups held for sale	**145**	2,187	(93)
Repurchase agreements non-trading	**79,556**	121,515	(35)
Combined customer deposits	**1,430,343**	1,484,999	(4)
Banks amortised cost			
Loans and advances to banks	**112,149**	120,046	(7)
Reverse repurchase agreements non-trading	**95,403**	91,475	4
Combined bank lending	**207,552**	211,521	(2)
Deposits by banks	**77,426**	86,507	(10)
Repurchase agreements non-trading	**27,876**	42,705	(35)
Combined bank deposits	**105,302**	129,212	(19)
Customers and banks fair value			
Trading assets reverse repos	**1,297**	10,120	(87)
loans and advances to customers	**908**	7,180	(87)
loans and advances to banks	**389**	2,940	(87)
Trading liabilities repos	**3,798**	17,421	(78)
customer accounts	**898**	9,611	(91)
deposits by banks	**2,900**	7,810	(63)

For footnotes, see page 109.

Financial investments

	2014	2013

	Equity securities US$bn	**Debt securities US$bn**	**Total US$bn**	Equity securities US$bn	Debt securities US$bn	Total US$bn
Balance Sheet Management		**306.8**	**306.8**		314.4	314.4
Insurance entities		**48.5**	**48.5**		46.4	46.4
Structured entities	**0.1**	**14.9**	**15.0**	0.1	22.6	22.7
Principal Investments	**2.0**		**2.0**	2.7		2.7
Other	**8.6**	**34.6**	**43.2**	6.3	33.4	39.7
At 31 December	**10.7**	**404.8**	**415.5**	9.1	416.8	425.9

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Average balance sheet

Average balance sheet and net interest income

Average balances and related interest are shown for the domestic operations of our principal commercial banks by geographical region. Other operations comprise the operations of our principal commercial banking and consumer finance entities outside their domestic markets and all other banking operations, including investment banking balances and transactions.

Average balances are based on daily averages for the principal areas of our banking activities with monthly or less frequent averages used elsewhere. Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking and consumer finance entities and the elimination entries are included within Other operations .

Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the Net interest income line of the income statement. Total interest-earning assets include loans where the carrying amount has been adjusted as a result of impairment allowances. In accordance with IFRSs, we recognise interest income on assets after the carrying amount has been adjusted as a result of impairment. Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in Interest income .

Assets

	2014			2013			2012		
	Average balance US$m	**Interest income US$m**	**Yield %**	Average balance US$m	Interest income US$m	Yield %	Average balance US$m	Interest income US$m	Yield %
Summary									
Interest-earning assets measured at amortised cost (itemised below)	**1,786,536**	**50,955**	**2.85**	1,669,368	51,192	3.07	1,625,068	56,702	3.49
	238,958	**5,596**	**2.34**	354,817	5,763	1.62	368,406	6,931	1.88

Trading assets and financial assets designated at fair value[61,62]										
Impairment provisions		**(14,015)**			(15,954)			(17,421)		
Non-interest-earning assets		**668,564**			683,785			730,901		
Total assets and interest income		**2,680,043**	**56,551**	**2.11**	2,692,016	56,955	2.12	2,706,954	63,633	2.35
Average yield on all interest-earning assets				**2.79**			2.81			3.19
Short-term funds and loans and advances to banks[27]										
Europe	HSBC Bank	**96,638**	**997**	**1.03**	89,921	880	0.98	82,206	1,000	1.22
	HSBC Private Banking Holdings (Suisse)	**9,704**	**10**	**0.10**	15,400	10	0.06	2,072	9	0.43
	HSBC France	**7,055**	**66**	**0.94**	10,603	93	0.88	13,204	115	0.87
Asia[63]	Hang Seng Bank	**15,374**	**279**	**1.81**	16,496	251	1.52	16,396	283	1.73
	The Hongkong and Shanghai Banking Corporation	**57,141**	**822**	**1.44**	53,372	809	1.52	54,148	837	1.55
	HSBC Bank Malaysia	**5,060**	**158**	**3.12**	5,487	162	2.95	4,243	123	2.90
MENA	HSBC Bank Middle East	**4,678**	**29**	**0.62**	5,018	27	0.54	5,530	32	0.58
North America	HSBC Bank USA	**28,148**	**105**	**0.37**	24,907	84	0.34	23,707	104	0.44
	HSBC Bank Canada	**606**	**4**	**0.66**	425	3	0.71	389	4	1.03
Latin America	HSBC Mexico	**2,675**	**86**	**3.21**	2,846	109	3.83	3,053	119	3.90
	Brazilian operations	**5,416**	**498**	**9.19**	5,579	388	6.95	9,008	735	8.16
	HSBC Bank Argentina	**1,083**	**12**	**1.11**	1,199	18	1.50	82	18	21.95
Other operations		**3,570**	**2**	**0.06**	5,124	17	0.33	21,793	126	0.58
		237,148	**3,068**	**1.29**	236,377	2,851	1.21	235,831	3,505	1.49

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		2014 Average balance US$m	2014 Interest income US$m	2014 Yield %	2013 Average balance US$m	2013 Interest income US$m	2013 Yield %	2012 Average balance US$m	2012 Interest income US$m	2012 Yield %
Loans and advances to customers[27]										
Europe	HSBC Bank	**302,817**	**10,423**	**3.44**	292,200	10,631	3.64	281,255	10,565	3.76
	HSBC Private Banking Holdings (Suisse)	**13,026**	**159**	**1.22**	15,235	194	1.27	12,591	199	1.58
	HSBC France	**43,736**	**1,626**	**3.72**	47,404	1,656	3.49	45,030	1,649	3.66
	HSBC Finance				173	10	5.78	886	42	4.74
Asia[63]	Hang Seng Bank	**79,586**	**2,410**	**3.03**	72,537	2,179	3.00	64,907	1,895	2.92
	The Hongkong and Shanghai Banking Corporation	**263,732**	**8,517**	**3.23**	237,915	8,022	3.37	208,961	7,627	3.65
	HSBC Bank Malaysia	**13,548**	**672**	**4.96**	13,928	683	4.90	13,456	707	5.25
MENA	HSBC Bank Middle East	**26,618**	**1,133**	**4.26**	25,537	1,124	4.40	24,012	1,214	5.06
North America	HSBC Bank USA	**63,770**	**1,791**	**2.81**	56,538	1,776	3.14	53,555	1,715	3.20
	HSBC Finance	**26,446**	**2,171**	**8.21**	34,146	3,064	8.97	43,565	3,903	8.96
	HSBC Bank Canada	**37,472**	**1,371**	**3.66**	39,199	1,431	3.65	41,151	1,551	3.77
Latin America	HSBC Mexico	**15,770**	**1,542**	**9.78**	15,335	1,658	10.81	14,411	1,613	11.19
	Brazilian operations	**27,275**	**4,579**	**16.79**	25,688	4,604	17.92	27,621	5,468	19.80
	HSBC Bank Argentina	**3,078**	**798**	**25.93**	3,615	799	22.10	3,644	718	19.70

Other operations		**14,437**	**237**	**1.64**	17,872	698	3.91	56,654	2,004	3.54
		931,311	**37,429**	**4.02**	897,322	38,529	4.29	891,699	40,870	4.58
Reverse repurchase agreements non-trading[27]										
Europe	HSBC Bank	**66,360**	**450**	**0.68**	28,131	113	0.40	12,621	71	0.56
	HSBC France	**29,703**	**62**	**0.21**	45,929	48	0.10	43,986	125	0.28
Asia[63]	The Hongkong and Shanghai Banking Corporation	**23,562**	**333**	**1.41**	11,722	272	2.32	7,585	206	2.72
	HSBC Bank Malaysia	**991**	**31**	**3.13**	378	11	2.91	1,132	34	3.00
MENA	HSBC Bank Middle East	**18**	**2**	**11.11**	620	7	1.13	392	9	2.30
North America	HSBC Bank USA	**1,196**	**10**	**0.84**	1,837	13	0.71	6,312	29	0.46
	HSBC Finance							322	1	0.31
	HSBC Bank Canada	**7,169**	**84**	**1.17**	9,196	93	1.01	4,810	50	1.04
Latin America	HSBC Mexico	**90**	**3**	**3.33**	133	5	3.76			
	Brazilian operations	**7,241**	**753**	**10.40**	5,541	404	7.29	5,602	420	7.50
	HSBC Bank Argentina	**88**	**10**	**11.36**	138	13	9.42	314	27	8.60
Other operations		**61,855**	**62**	**0.10**	10,699	16	0.15	29	3	10.34
		198,273	**1,800**	**0.91**	114,324	995	0.87	83,105	975	1.17
Financial investments										
Europe	HSBC Bank	**100,609**	**867**	**0.86**	88,406	1,223	1.38	80,475	1,275	1.58
	HSBC Private Banking Holdings (Suisse)	**10,890**	**114**	**1.05**	13,509	183	1.35	5,722	107	1.87
	HSBC France	**12,685**	**113**	**0.89**	13,733	94	0.68	11,208	130	1.16
Asia[63]	Hang Seng Bank	**33,246**	**655**	**1.97**	31,502	601	1.91	29,319	590	2.01
	The Hongkong and Shanghai Banking Corporation	**118,096**	**2,109**	**1.79**	104,740	1,781	1.70	94,790	1,821	1.92
		2,749	**94**	**3.42**	2,197	72	3.28	1,798	59	3.28

	HSBC Bank Malaysia									
MENA	HSBC Bank Middle East	**10,515**	**104**	**0.99**	11,838	113	0.95	10,266	113	1.10
North America	HSBC Bank USA	**47,963**	**774**	**1.61**	56,302	884	1.57	61,510	1,092	1.78
	HSBC Finance							941	67	7.12
	HSBC Bank Canada	**17,970**	**246**	**1.37**	20,364	279	1.37	21,179	297	1.40
Latin America	HSBC Mexico	**9,914**	**409**	**4.13**	7,782	351	4.51	8,021	379	4.73
	Brazilian operations	**8,350**	**1,003**	**12.01**	7,404	740	9.99	9,527	1,019	10.70
	HSBC Bank Argentina	**518**	**130**	**25.10**	451	71	15.74	701	96	13.69
Other operations		**26,311**	**1,705**	**6.48**	35,081	1,610	4.59	51,872	2,033	3.92
		399,816	**8,323**	**2.08**	393,309	8,002	2.03	387,329	9,078	2.34

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Assets (continued)

		2014 Average balance US$m	2014 Interest income US$m	2014 Yield %	2013 Average balance US$m	2013 Interest income US$m	2013 Yield %	2012 Average balance US$m	2012 Interest income US$m	2012 Yield %
Other interest-earning assets										
Europe	HSBC Bank	**85,604**	**25**	**0.03**	73,607	64	0.09	119,175	153	0.13
	HSBC Private Banking Holdings (Suisse)	**5,220**	**32**	**0.61**	7,441	69	0.93	14,461	189	1.31
	HSBC France	**6,016**	**97**	**1.61**	14,294	111	0.78	13,107	121	0.92
Asia[63]	Hang Seng Bank	**2,504**	**14**	**0.56**	2,088	14	0.67	1,003	9	0.90
	The Hongkong and Shanghai Banking Corporation	**86,361**	**583**	**0.68**	62,369	498	0.80	59,191	481	0.81
	HSBC Bank Malaysia	**152**			456	2	0.44	553	4	0.72
MENA	HSBC Bank Middle East	**2,221**	**32**	**1.44**	1,888	87	4.61	1,914	72	3.76
North America	HSBC Bank USA	**6,936**	**123**	**1.77**	6,386	103	1.61	12,324	872	7.08
	HSBC Finance	**6,081**	**5**	**0.08**	6,821	19	0.28	7,723	656	8.49
	HSBC Bank Canada	**292**	**5**	**1.71**	1,691	42	2.48	2,340	69	2.95
Latin America	HSBC Mexico	**324**			265	6	2.26	614	39	6.35
	Brazilian operations	**1,215**	**136**	**11.19**	2,394	107	4.47	1,338	100	7.47

	HSBC Bank Argentina	**61**			93			106	4	4
Other operations		**(182,999)**	**(717)**		(151,757)	(307)		(206,745)	(495)	
		19,988	**335**	**1.68**	28,036	815	2.91	27,104	2,274	8.39
Total interest-earning assets										
Europe	HSBC Bank	**652,028**	**12,762**	**1.96**	572,265	12,911	2.26	575,732	13,064	2.27
	HSBC Private Banking Holdings (Suisse)	**38,840**	**315**	**0.81**	51,585	456	0.88	34,846	504	1.45
	HSBC France	**99,195**	**1,964**	**1.98**	131,963	2,002	1.52	126,535	2,140	1.69
Asia[63]	Hang Seng Bank	**130,710**	**3,358**	**2.57**	122,623	3,045	2.48	111,625	2,777	2.49
	The Hongkong and Shanghai Banking Corporation	**548,892**	**12,364**	**2.25**	470,118	11,382	2.42	424,675	10,972	2.58
	HSBC Bank Malaysia	**22,500**	**955**	**4.24**	22,446	930	4.14	21,182	927	4.38
MENA	HSBC Bank Middle East	**44,050**	**1,300**	**2.95**	44,901	1,358	3.02	42,114	1,440	3.42
North America	HSBC Bank USA	**148,013**	**2,803**	**1.89**	145,970	2,860	1.96	157,408	3,812	2.42
	HSBC Finance	**32,527**	**2,176**	**6.69**	40,967	3,083	7.53	54,342	4,627	8.51
	HSBC Bank Canada	**63,509**	**1,710**	**2.69**	70,875	1,848	2.61	69,869	1,971	2.82
Latin America	HSBC Mexico	**28,773**	**2,040**	**7.09**	26,361	2,129	8.08	26,099	2,150	8.24
	Brazilian operations	**49,497**	**6,969**	**14.08**	46,606	6,243	13.40	53,096	7,742	14.58
	HSBC Bank Argentina	**4,828**	**950**	**19.68**	5,496	901	16.39	4,847	863	17.80
Other operations		**(76,826)**	**1,289**		(82,808)	2,044		(77,302)	3,713	
		1,786,536	**50,955**	**2.85**	1,669,368	51,192	3.07	1,625,068	56,702	3.49

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Equity and liabilities

		2014 Average balance US$m	Interest expense US$m	Cost %	2013 Average balance US$m	Interest expense US$m	Cost %	2012 Average balance US$m	Interest expense US$m	Cost %
Summary										
Interest-bearing liabilities measured at amortised cost (itemised below)		**1,546,633**	**16,250**	**1.05**	1,426,180	15,653	1.10	1,401,254	19,030	1.36
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)		**178,518**	**2,856**	**1.60**	301,353	3,027	1.00	318,883	3,445	1.08
Non-interest bearing current accounts		**185,990**			184,370			177,085		
Total equity and other non-interest bearing liabilities		**768,902**			780,113			809,732		
Total equity and liabilities		**2,680,043**	**19,106**	**0.71**	2,692,016	18,680	0.69	2,706,954	22,475	0.83
Average cost on all interest-bearing liabilities				**1.11**			1.08			1.31
Deposits by banks[27,64]										
Europe	HSBC Bank	**20,508**	**139**	**0.68**	21,230	165	0.78	26,708	402	1.51
	HSBC Private Banking Holdings (Suisse)	**354**	**1**	**0.28**	351	1	0.28	657	2	0.30
	HSBC France	**6,191**	**53**	**0.86**	7,747	69	0.89	14,833	142	0.96
Asia[63]	Hang Seng Bank	**960**	**9**	**0.94**	1,095	15	1.37	1,305	15	1.15
	The Hongkong and Shanghai Banking	**19,589**	**79**	**0.40**	15,663	90	0.57	17,154	122	0.71

	Corporation									
	HSBC Bank Malaysia	**1,095**	**26**	**2.37**	864	20	2.31	961	20	2.08
MENA	HSBC Bank Middle East	**982**	**3**	**0.31**	1,471	3	0.20	1,586	6	0.38
North America	HSBC Bank USA	**6,436**	**12**	**0.19**	8,131	16	0.20	7,552	19	0.25
	HSBC Bank Canada	**371**	**1**	**0.27**	607	2	0.33	648	3	0.46
Latin America	HSBC Mexico	**2,078**	**73**	**3.51**	1,018	46	4.52	1,103	52	4.71
	Brazilian operations	**2,309**	**84**	**3.64**	3,356	94	2.80	3,931	154	3.92
	HSBC Bank Argentina	**10**	**1**	**10.00**	20	2	10.00	44	3	6.82
Other operations		**334**			63	32	50.79	1,541	61	3.96
		61,217	**481**	**0.79**	61,616	555	0.90	78,023	1,001	1.28
Financial liabilities designated at fair value own debt issued[65]										
Europe	HSBC Holdings	**18,745**	**234**	**1.25**	19,719	366	1.86	23,864	446	1.87
	HSBC Bank	**27,762**	**421**	**1.52**	28,969	443	1.53	28,046	556	1.98
	HSBC France	**8,232**	**66**	**0.80**	9,173	67	0.73	7,147	118	1.65
North America	HSBC Bank USA	**2,032**	**33**	**1.62**	1,933	35	1.81	1,853	38	2.05
	HSBC Finance	**7,195**	**58**	**0.81**	8,878	80	0.90	12,147	184	1.51
Other operations		**2,408**	**25**	**1.04**	3,661	(24)	(0.66)	1,959	(17)	(0.87)
		66,374	**837**	**1.26**	72,333	967	1.34	75,016	1,325	1.77

Report of the Directors: Financial Review (continued)

Equity and liabilities (continued)

		2014 Average balance US$m	2014 Interest expense US$m	2014 Cost %	2013 Average balance US$m	2013 Interest expense US$m	2013 Cost	2012 Average balance US$m	2012 Interest expense US$m	2012 Cost %
Customer accounts[27,66]										
Europe	HSBC Bank	**372,151**	**2,268**	**0.61**	329,867	2,229	0.68	303,178	2,421	0.80
	HSBC Private Banking Holdings (Suisse)	**8,165**	**31**	**0.38**	16,414	70	0.43	15,912	84	0.53
	HSBC France	**20,988**	**189**	**0.90**	24,519	237	0.97	23,912	320	1.34
Asia[63]	Hang Seng Bank	**98,794**	**472**	**0.48**	91,778	360	0.39	85,425	365	0.43
	The Hongkong and Shanghai Banking Corporation	**377,748**	**2,743**	**0.73**	344,968	2,548	0.74	320,028	2,628	0.82
	HSBC Bank Malaysia	**13,457**	**291**	**2.16**	13,673	295	2.16	13,567	310	2.28
MENA	HSBC Bank Middle East	**16,533**	**75**	**0.45**	18,387	106	0.58	17,477	163	0.93
North America	HSBC Bank USA	**57,015**	**78**	**0.14**	56,411	104	0.18	63,581	223	0.35
	HSBC Bank Canada	**40,682**	**319**	**0.78**	41,905	330	0.79	41,842	328	0.78
Latin America	HSBC Mexico	**15,050**	**300**	**1.99**	15,316	383	2.50	16,718	489	2.92
	Brazilian operations	**18,542**	**1,828**	**9.86**	20,602	1,467	7.12	29,569	2,351	7.95
	HSBC Bank Argentina	**2,758**	**373**	**13.52**	3,318	343	10.34	3,594	268	7.46

Other operations		**46,610**	**164**	**0.35**	58,342	322	0.55	77,253	700	0.91
		1,088,493	**9,131**	**0.84**	1,035,500	8,794	0.85	1,012,056	10,650	1.05
Repurchase agreements non-trading[27]										
Europe	HSBC Bank	**72,481**	**213**	**0.29**	29,019	111	0.38	7,660	57	0.74
	HSBC Private Banking Holdings (Suisse)	**74**			67		0.14	14		0.00
	HSBC France	**29,539**	**59**	**0.20**	37,554	34	0.09	35,255	112	0.32
Asia[63]	Hang Seng Bank	**11**			6		4.24			
	The Hongkong and Shanghai Banking Corporation	**1,760**	**56**	**3.18**	779	32	4.11	1,207	52	4.31
	HSBC Bank Malaysia	**35**	**1**	**2.86**	65	1	1.54	57	1	1.75
MENA	HSBC Bank Middle East	**2**			17	1	5.88	2		0.00
North America	HSBC Bank USA	**11,485**	**20**	**0.17**	9,269	12	0.13	4,588	1	0.02
	HSBC Bank Canada	**2,167**	**25**	**1.15**	2,996	30	1.00	4,239	22	0.52
Latin America	HSBC Mexico	**4,748**	**152**	**3.20**	1,842	90	4.89	1,017	39	3.83
	Brazilian operations	**910**	**96**	**10.55**	1,104	87	7.88	1,175	100	8.51
	HSBC Bank Argentina	**3**								
Other operations		**67,490**	**30**	**0.04**	11,692	7	0.06	322	3	0.93
		190,705	**652**	**0.34**	94,410	405	0.43	55,536	387	0.70
Debt securities in issue										
Europe	HSBC Holdings	**16,781**	**945**	**5.63**	13,405	807	6.02	12,719	797	6.27
	HSBC Bank	**56,949**	**589**	**1.03**	64,528	768	1.19	69,294	989	1.43
	HSBC France	**10,846**	**52**	**0.48**	13,365	54	0.40	14,801	118	0.80
Asia[63]	Hang Seng Bank	**1,155**	**8**	**0.69**	1,393	12	0.86	1,606	15	0.93
	The Hongkong	**6,365**	**176**	**2.77**	7,586	186	2.45	7,732	241	3.12

	and Shanghai Banking Corporation										
	HSBC Bank Malaysia	**461**	**19**	**4.12**	967	26	2.69	1,016	25	2.46
MENA	HSBC Bank Middle East	**2,262**	**45**	**1.99**	3,057	64	2.09	3,769	83	2.20
North America	HSBC Bank USA	**15,935**	**414**	**2.60**	14,012	415	2.96	12,738	390	3.06
	HSBC Finance	**13,045**	**483**	**3.70**	19,888	739	3.72	29,198	1,059	3.63
	HSBC Bank Canada	**10,232**	**257**	**2.51**	13,158	342	2.60	12,675	390	3.08
Latin America	HSBC Mexico	**1,061**	**57**	**5.37**	813	41	5.04	897	51	5.69
	Brazilian operations	**12,707**	**1,565**	**12.32**	10,963	863	7.87	9,114	732	8.03
	HSBC Bank Argentina	**1**			52	10	19.23	121	20	16.53
Other operations		**(18,076)**	**(56)**		(12,211)	(145)		(14,332)	(155)	
		129,724	**4,554**	**3.51**	150,976	4,182	2.77	161,348	4,755	2.95

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		2014 Average balance US$m	2014 Interest expense US$m	2014 Cost %	2013 Average balance US$m	2013 Interest expense US$m	2013 Cost %	2012 Average balance US$m	2012 Interest expense US$m	2012 Cost %
Other interest-bearing liabilities										
Europe	HSBC Bank	**103,819**	**646**	**0.62**	96,464	659	0.68	126,279	671	0.53
	HSBC Private Banking Holdings (Suisse)	**7,903**	**23**	**0.29**	7,869	13	0.17	4,195	4	0.10
	HSBC France	**12,838**	**34**	**0.26**	26,159	77	0.29	20,853	28	0.13
	HSBC Finance				23			303	2	0.66
Asia[63]	Hang Seng Bank	**1,918**	**45**	**2.35**	2,021	48	2.38	1,715	39	2.27
	The Hongkong and Shanghai Banking Corporation	**91,468**	**635**	**0.69**	60,056	490	0.82	52,040	477	0.92
	HSBC Bank Malaysia	**1,342**	**14**	**1.04**	1,339	8	0.60	1,069	16	1.50
MENA	HSBC Bank Middle East	**2,617**	**57**	**2.18**	2,557	58	2.27	1,681	76	4.52
North America	HSBC Bank USA	**17,632**	**11**	**0.06**	17,793	176	0.99	26,255	408	1.55
	HSBC Finance	**5,817**	**258**	**4.44**	5,265	220	4.18	3,196	162	5.07
	HSBC Bank Canada	**599**	**4**	**0.67**	3,007	25	0.83	772	4	0.52
Latin America	HSBC Mexico	**1,031**	**13**	**1.26**	1,658	19	1.15	1,305	19	1.46
	Brazilian operations	**3,927**	**357**	**9.09**	3,497	189	5.40	4,705	362	7.69
		40	**7**	**17.50**	29	3	10.34	26	3	11.54

	HSBC Bank Argentina									
Other operations		**(240,831)**	**(1,509)**		(216,392)	(1,235)		(225,119)	(1,359)	
		10,120	**595**	**5.88**	11,345	750	6.61	19,275	912	4.73
Total interest-bearing liabilities										
Europe	HSBC Holdings	**35,526**	**1,179**	**3.32**	33,125	1,173	3.54	36,583	1,243	3.40
	HSBC Bank	**653,670**	**4,276**	**0.65**	570,077	4,375	0.77	561,165	5,096	0.91
	HSBC Private Banking Holdings (Suisse)	**16,496**	**55**	**0.33**	24,701	84	0.34	20,778	90	0.43
	HSBC France	**88,634**	**453**	**0.51**	118,517	538	0.45	116,801	838	0.72
	HSBC Finance				23			303	2	0.66
Asia[63]	Hang Seng Bank	**102,927**	**535**	**0.52**	96,293	435	0.45	90,051	434	0.48
	The Hongkong and Shanghai Banking Corporation	**496,930**	**3,689**	**0.74**	428,959	3,346	0.78	398,161	3,520	0.88
	HSBC Bank Malaysia	**16,390**	**351**	**2.14**	16,908	350	2.07	16,670	372	2.23
MENA	HSBC Bank Middle East	**22,994**	**190**	**0.83**	25,489	232	0.91	24,515	328	1.34
North America	HSBC Bank USA	**110,535**	**568**	**0.51**	107,549	758	0.70	116,567	1,079	0.93
	HSBC Finance	**26,057**	**799**	**3.07**	34,031	1,039	3.05	44,541	1,405	3.15
	HSBC Bank Canada	**54,051**	**606**	**1.12**	61,673	729	1.18	60,176	747	1.24
Latin America	HSBC Mexico	**23,968**	**595**	**2.48**	20,647	579	2.80	21,040	650	3.09
	Brazilian operations	**38,395**	**3,930**	**10.24**	39,522	2,700	6.83	48,494	3,699	7.63
	HSBC Bank Argentina	**2,812**	**381**	**13.55**	3,419	358	10.47	3,785	294	7.77
Other operations		**(142,752)**	**(1,357)**		(154,753)	(1,043)		(158,376)	(767)	
		1,546,633	**16,250**	**1.05**	1,426,180	15,653	1.10	1,401,254	19,030	1.36

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Net interest margin[67]

		2014	2013	2012
		%	%	%
Total				
		1.94	2.13	2.32
Europe	HSBC Bank	**1.30**	1.49	1.38
	HSBC Private Banking Holdings (Suisse)	**0.67**	0.72	1.19
	HSBC France	**1.52**	1.11	1.03
	HSBC Finance		5.78	4.50
Asia[63]	Hang Seng Bank	**2.16**	2.13	2.10
	The Hongkong and Shanghai Banking Corporation	**1.58**	1.70	1.75
	HSBC Bank Malaysia	**2.68**	2.58	2.62
MENA	HSBC Bank Middle East	**2.52**	2.51	2.64
North America	HSBC Bank USA	**1.51**	1.44	1.74
	HSBC Finance	**4.23**	4.99	5.93
	HSBC Bank Canada	**1.74**	1.58	1.75
Latin America	HSBC Mexico	**5.02**	5.88	5.75
	Brazilian operations	**6.14**	7.60	7.61
	HSBC Bank Argentina	**11.79**	9.88	11.74

Distribution of average total assets

		2014	2013	2012
		%	%	%
Europe	HSBC Bank	**39.2**	40.1	44.8
	HSBC Private Banking Holdings (Suisse)	**1.5**	2.0	1.7
	HSBC France	**9.0**	11.4	11.5
Asia[63]	Hang Seng Bank	**5.7**	5.3	4.8
	The Hongkong and Shanghai Banking Corporation	**26.3**	25.0	23.3
	HSBC Bank Malaysia	**0.9**	1.0	1.0
MENA	HSBC Bank Middle East	**1.9**	2.0	1.8
North America	HSBC Bank USA	**8.5**	8.7	10.2
	HSBC Finance	**1.3**	1.7	2.1
	HSBC Bank Canada	**3.0**	3.2	3.2
Latin America	HSBC Mexico	**1.5**	1.5	1.5
	Brazilian operations	**2.4**	2.3	2.7
	HSBC Bank Argentina			0.2

Other operations (including consolidation adjustments)	**(1.2)**	(4.2)	(8.8)
	100.0	100.0	100.0

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Analysis of changes in net interest income and net interest expense

The following tables allocate changes in net interest income and net interest expense between volume and rate for 2014 compared with 2013, and for 2013 compared with 2012. We isolate volume variances and allocate any change arising from both volume and rate to rate.

Interest income

			Increase/(decrease) in 2014 compared with 2013			Increase/(decrease) in 2013 compared with 2012		
		2014	**Volume**	**Rate**	2013	Volume	Rate	2012
		US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Short-term funds and loans and advances to banks[27]								
Europe	HSBC Bank	**997**	**66**	**51**	880	94	(214)	1,000
	HSBC Private Banking Holdings (Suisse)	**10**	**(4)**	**4**	10	57	(56)	9
	HSBC France	**66**	**(31)**	**4**	93	(23)	1	115
Asia[63]	Hang Seng Bank	**279**	**(17)**	**45**	251	2	(34)	283
	The Hongkong and Shanghai Banking Corporation	**822**	**57**	**(44)**	809	(12)	(16)	837
	HSBC Bank Malaysia	**158**	**(13)**	**9**	162	36	3	123
MENA	HSBC Bank Middle East	**29**	**(2)**	**4**	27	(3)	(2)	32
North America	HSBC Bank USA	**105**	**11**	**10**	84	5	(25)	104
	HSBC Bank Canada	**4**	**1**		3		(1)	4
Latin America	HSBC Mexico	**86**	**(7)**	**(16)**	109	(8)	(2)	119
	Brazilian operations	**498**	**(11)**	**121**	388	(280)	(67)	735
	HSBC Bank Argentina	**12**	**(2)**	**(4)**	18	245	(245)	18
Other operations		**2**	**(5)**	**(10)**	17	(97)	(12)	126
		3,068	**9**	**208**	2,851	8	(662)	3,505
Loans and advances to customers[27]								
Europe	HSBC Bank	**10,423**	**386**	**(594)**	10,631	412	(346)	10,565

	HSBC Private Banking Holdings (Suisse)	**159**	**(28)**	**(7)**	194	42	(47)	199
	HSBC France	**1,626**	**(128)**	**98**	1,656	87	(80)	1,649
	HSBC Finance		**(10)**		10	(34)	2	42
Asia[63]	Hang Seng Bank	**2,410**	**211**	**20**	2,179	223	61	1,895
	The Hongkong and Shanghai Banking Corporation	**8,517**	**870**	**(375)**	8,022	1,057	(662)	7,627
	HSBC Bank Malaysia	**672**	**(19)**	**8**	683	25	(49)	707
MENA	HSBC Bank Middle East	**1,133**	**48**	**(39)**	1,124	77	(167)	1,214
North America	HSBC Bank USA	**1,791**	**227**	**(212)**	1,776	95	(34)	1,715
	HSBC Finance	**2,171**	**(691)**	**(202)**	3,064	(844)	5	3,903
	HSBC Bank Canada	**1,371**	**(63)**	**3**	1,431	(74)	(46)	1,551
Latin America	HSBC Mexico	**1,542**	**47**	**(163)**	1,658	103	(58)	1,613
	Brazilian operations	**4,579**	**284**	**(309)**	4,604	(383)	(481)	5,468
	HSBC Bank Argentina	**798**	**(119)**	**118**	799	(6)	87	718
Other operations		**237**	**(134)**	**(327)**	698	(1,373)	67	2,004
		37,429	**1,458**	**(2,558)**	38,529	258	(2,599)	40,870

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Interest income (continued)

			Increase/(decrease) in 2014 compared with 2013			Increase/(decrease) in 2013 compared with 2012		
		2014	**Volume**	**Rate**	2013	Volume	Rate	2012
		US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Reverse repurchase agreements non-trading[27]								
Europe	HSBC Bank	**450**	**153**	**184**	113	87	(45)	71
	HSBC France	**62**	**(16)**	**30**	48	5	(82)	125
Asia[63]	The Hongkong and Shanghai Banking Corporation	**333**	**275**	**(214)**	272	113	(47)	206
	HSBC Bank Malaysia	**31**	**18**	**2**	11	(23)		34
MENA	HSBC Bank Middle East	**2**	**(7)**	**2**	7	5	(7)	9
North America	HSBC Bank USA	**10**	**(5)**	**2**	13	(21)	5	29
	HSBC Finance					(1)		1
	HSBC Bank Canada	**84**	**(20)**	**11**	93	46	(3)	50
Latin America	HSBC Mexico	**3**	**(2)**		5		5	
	Brazilian operations	**753**	**124**	**225**	404	(5)	(11)	420
	HSBC Bank Argentina	**10**	**(5)**	**2**	13	(15)	1	27
Other operations		**62**	**77**	**(31)**	16	1,103	(1,090)	3
		1,800	**730**	**75**	995	365	(345)	975
Financial investments								
Europe	HSBC Bank	**867**	**168**	**(524)**	1,223	125	(177)	1,275
	HSBC Private Banking Holdings (Suisse)	**114**	**(35)**	**(34)**	183	146	(70)	107
	HSBC France	**113**	**(7)**	**26**	94	29	(65)	130
Asia[63]	Hang Seng Bank	**655**	**33**	**21**	601	44	(33)	590
	The Hongkong and Shanghai Banking Corporation	**2,109**	**227**	**101**	1,781	126	(166)	1,821
	HSBC Bank Malaysia	**94**	**18**	**4**	72	13		59
MENA	HSBC Bank Middle East	**104**	**(13)**	**4**	113	17	(17)	113
North America	HSBC Bank USA	**774**	**(131)**	**21**	884	(93)	(115)	1,092
	HSBC Finance					(67)		67
	HSBC Bank Canada	**246**	**(33)**		279	(11)	(7)	297

Latin America	HSBC Mexico	**409**	**96**	**(38)**	351	(11)	(17)	379
	Brazilian operations	**1,003**	**94**	**169**	740	(227)	(52)	1,019
	HSBC Bank Argentina	**130**	**11**	**48**	71	(34)	9	96
Other operations		**1,705**	**(403)**	**498**	1,610	(658)	235	2,033
		8,323	**132**	**189**	8,002	140	(1,216)	9,078

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Interest expense

		2014	Increase/(decrease) in 2014 compared with 2013		2013	Increase/(decrease) in 2013 compared with 2012		2012
			Volume	Rate		Volume	Rate	
		US$m	US$m	US$m	US$m	US$m	US$m	US$m
Deposits by banks[27]								
Europe	HSBC Bank	**139**	**(6)**	**(20)**	165	(83)	(154)	402
	HSBC Private Banking Holdings (Suisse)	**1**			1	(1)		2
	HSBC France	**53**	**(14)**	**(2)**	69	(68)	(5)	142
Asia[63]	Hang Seng Bank	**9**	**(2)**	**(4)**	15	(2)	2	15
	The Hongkong and Shanghai Banking Corporation	**79**	**22**	**(33)**	90	(11)	(21)	122
	HSBC Bank Malaysia	**26**	**5**	**1**	20	(2)	2	20
MENA	HSBC Bank Middle East	**3**	**(1)**	**1**	3		(3)	6
North America	HSBC Bank USA	**12**	**(3)**	**(1)**	16	1	(4)	19
	HSBC Bank Canada	**1**	**(1)**		2		(1)	3
Latin America	HSBC Mexico	**73**	**48**	**(21)**	46	(4)	(2)	52
	Brazilian operations	**84**	**(29)**	**19**	94	(23)	(37)	154
	HSBC Bank Argentina	**1**	**(1)**		2	(2)	1	3
Other operations			**138**	**(170)**	32	(59)	30	61
		481	**(4)**	**(70)**	555	(210)	(236)	1,001
Customer accounts[27]								
Europe	HSBC Bank	**2,268**	**288**	**(249)**	2,229	214	(406)	2,421
	HSBC Private Banking Holdings (Suisse)	**31**	**(35)**	**(4)**	70	3	(17)	84
	HSBC France	**189**	**(34)**	**(14)**	237	8	(91)	320
Asia[63]	Hang Seng Bank	**472**	**27**	**85**	360	27	(32)	365
	The Hongkong and Shanghai Banking Corporation	**2,743**	**243**	**(48)**	2,548	205	(285)	2,628
	HSBC Bank Malaysia	**291**	**(5)**	**1**	295	2	(17)	310
MENA	HSBC Bank Middle East	**75**	**(11)**	**(20)**	106	8	(65)	163
North America	HSBC Bank USA	**78**	**1**	**(27)**	104	(25)	(94)	223
	HSBC Bank Canada	**319**	**(10)**	**(1)**	330		2	328
Latin America	HSBC Mexico	**300**	**(7)**	**(76)**	383	(41)	(65)	489

Brazilian operations	**1,828**	**(147)**	**508**	1,467	(713)	(171)	2,351
HSBC Bank Argentina	**373**	**(58)**	**88**	343	(21)	96	268
Other operations	**164**	**(65)**	**(93)**	322	(172)	(206)	700
	9,131	**450**	**(113)**	8,794	246	(2,102)	10,650

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			Increase/(decrease) in 2014 compared with 2013			Increase/(decrease) in 2013 compared with 2012		
		2014	**Volume**	**Rate**	2013	Volume	Rate	2012
		US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Repurchase agreements non-trading[27]								
Europe	HSBC Bank	**213**	**165**	**(63)**	111	158	(104)	57
	HSBC France	**59**	**(7)**	**32**	34	7	(85)	112
Asia[63]	The Hongkong and Shanghai Banking Corporation	**56**	**40**	**(16)**	32	(18)	(2)	52
	HSBC Bank Malaysia	**1**	**(1)**	**1**	1			1
MENA	HSBC Bank Middle East		**(1)**		1		1	
North America	HSBC Bank USA	**20**	**3**	**5**	12	1	10	1
	HSBC Bank Canada	**25**	**(8)**	**3**	30	(6)	14	22
Latin America	HSBC Mexico	**152**	**141**	**(79)**	90	32	19	39
	Brazilian operations	**96**	**(15)**	**24**	87	(6)	(7)	100
	HSBC Bank Argentina							
Other operations		**30**	**33**	**(10)**	7	106	(102)	3
		652	**414**	**(167)**	405	272	(254)	387
Financial liabilities designated at fair value own debt issued								
Debt securities in issue								
Europe	HSBC Holdings	**945**	**203**	**(65)**	807	43	(33)	797
	HSBC Bank	**589**	**(90)**	**(89)**	768	(68)	(153)	989
	HSBC France	**52**	**(10)**	**8**	54	(11)	(53)	118
Asia[63]	Hang Seng Bank	**8**	**(2)**	**(2)**	12	(2)	(1)	15
	The Hongkong and Shanghai Banking Corporation	**176**	**(28)**	**18**	186	(7)	(48)	241
	HSBC Bank Malaysia	**19**	**(14)**	**7**	26	(1)	2	25
MENA	HSBC Bank Middle East	**45**	**(17)**	**(2)**	64	(16)	(3)	83
North America	HSBC Bank USA	**414**	**57**	**(58)**	415	39	(14)	390
	HSBC Finance	**483**	**(255)**	**(1)**	739	(338)	18	1,059
	HSBC Bank Canada	**257**	**(76)**	**(9)**	342	15	(63)	390
Latin America	HSBC Mexico	**57**	**12**	**4**	41	(5)	(5)	51
	Brazilian operations	**1,565**	**137**	**565**	863	148	(17)	732
	HSBC Bank Argentina		**(10)**		10	(11)	1	20
Other operations		**(56)**		**89**	(145)		10	(155)

4,554	**(589)**	**961**	4,182	(306)	(267)	4,755

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Short-term borrowings

Short-term borrowings in the form of repurchase agreements are shown separately on the face of the balance sheet. Other forms of short-term borrowings are included within customer accounts, deposits by banks, debt securities in issue and trading liabilities. Short-term borrowings are defined by the US Securities and Exchange Commission as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings.

Our only significant short-term borrowings are securities sold under agreements to repurchase and certain debt securities in issue. For securities sold under agreements to repurchase, we run matched repo and reverse repo trading books. We generally observe lower year-end demand in our reverse repo lending business which results in lower repo balances at the balance sheet date. Additional information on these is provided in the table below.

Repos and short-term bonds

	2014	2013	2012
	US$m	US$m	US$m
Securities sold under agreements to repurchase			
Outstanding at 31 December	**111,230**	181,641	170,790
Average amount outstanding during the year	**195,482**	218,580	206,352
Maximum quarter-end balance outstanding during the year	**227,637**	210,452	176,162
Weighted average interest rate during the year	**0.3%**	0.3%	0.4%
Weighted average interest rate at the year-end	**0.6%**	0.5%	0.5%
Short-term bonds			
Outstanding at 31 December	**38,868**	40,667	44,240
Average amount outstanding during the year	**39,547**	46,455	40,349
Maximum quarter-end balance outstanding during the year	**41,117**	54,933	44,240
Weighted average interest rate during the year	**1.7%**	1.4%	1.4%
Weighted average interest rate at the year-end	**1.6%**	0.7%	1.3%

Contractual obligations

The table below provides details of our material contractual obligations as at 31 December 2014.

Payments due by period				
Total	**Less than**	**1 3 years**	**3 5 years**	

		1 year			More than 5 years
	US$m	US$m	US$m	US$m	US$m
Long-term debt obligations	**198,051**	**56,704**	**46,735**	**27,135**	**67,477**
Term deposits and certificates of deposit	**128,790**	**121,865**	**3,825**	**2,528**	**572**
Capital (finance) lease obligations	**87**	**32**	**29**	**5**	**21**
Operating lease obligations	**5,372**	**1,022**	**1,555**	**1,000**	**1,795**
Purchase obligations	**656**	**540**	**40**	**53**	**23**
Short positions in debt securities and equity shares	**64,917**	**44,466**	**6,913**	**2,729**	**10,809**
Current tax liability	**1,213**	**1,213**			
Pension/healthcare obligation	**17,466**	**1,536**	**3,198**	**3,398**	**9,334**
	416,552	**227,378**	**62,295**	**36,848**	**90,031**

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Loan maturity and interest sensitivity analysis

At 31 December 2014, the geographical analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis was as follows:

	Europe US$m	Asia US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Maturity of 1 year or less						
Loans and advances to banks	16,736	58,142	10,013	6,957	9,025	100,873
Commercial loans to customers						
Manufacturing and international trade and services	76,974	88,223	9,441	11,333	14,894	200,865
Real estate and other property related	10,708	23,722	1,395	3,634	1,511	40,970
Non-bank financial institutions	14,887	10,458	1,876	4,978	958	33,157
Governments	1,104	250	1,072	10	398	2,834
Other commercial	31,419	19,586	2,047	2,780	3,468	59,300
	135,092	142,239	15,831	22,735	21,229	337,126
Maturity after 1 year but within 5 years						
Loans and advances to banks	4,667	3,497	483	370	335	9,352
Commercial loans to customers						
Manufacturing and international trade and services	29,570	21,185	1,969	15,257	4,984	72,965
Real estate and other property related	17,122	36,462	664	8,082	618	62,948
Non-bank financial institutions	7,115	3,436	1,336	3,868	403	16,158
Governments	235	359	481	33	172	1,280
Other commercial	18,377	14,714	1,563	7,829	2,477	44,960
	72,419	76,156	6,013	35,069	8,654	198,311
Interest rate sensitivity of loans and advances to banks and commercial loans to customers						
Fixed interest rate	14,799	2,182	1,277	3,988	3,150	25,396
Variable interest rate	62,289	77,471	5,219	31,451	5,839	182,269
	77,088	79,653	6,496	35,439	8,989	207,665
Maturity after 5 years						
Loans and advances to banks	523	1,321		80		1,924

Commercial loans to customers						
Manufacturing and international trade and services	**9,742**	**1,175**	**677**	**2,193**	**361**	**14,148**
Real estate and other property related	**7,482**	**9,873**	**185**	**3,774**	**442**	**21,756**
Non-bank financial institutions	**941**	**103**	**78**	**187**	**31**	**1,340**
Governments	**923**	**585**		**121**	**400**	**2,029**
Other commercial	**9,064**	**4,666**	**1,092**	**2,946**	**998**	**18,766**
	28,152	**16,402**	**2,032**	**9,221**	**2,232**	**58,039**
Interest rate sensitivity of loans and advances to banks and commercial loans to customers						
Fixed interest rate	**7,698**	**1,220**	**695**	**724**	**351**	**10,688**
Variable interest rate	**20,977**	**16,503**	**1,337**	**8,577**	**1,881**	**49,275**
	28,675	**17,723**	**2,032**	**9,301**	**2,232**	**59,963**

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Deposits

The following tables summarise the average amount of bank deposits, customer deposits and certificates of deposit (CD s) and other money market instruments (which are included within Debt securities in issue in

the balance sheet), together with the average interest rates paid thereon for each of the past three years. The geographical analysis of average deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies.

Deposits by banks[27]

	2014		2013		2012	
	Average balance US$m	**Average rate %**	Average balance US$m	Average rate %	Average balance US$m	Average rate %
Europe	**36,427**		42,687		52,274	
Demand and other non-interest bearing	**8,819**		13,198		9,377	
Demand interest bearing	**5,778**	**0.4**	5,154	0.5	8,988	0.4
Time	**14,191**	**1.0**	17,465	1.1	24,698	1.5
Other	**7,639**	**0.4**	6,870	0.7	9,211	2.0
Asia[63]	**26,524**		26,928		26,676	
Demand and other non-interest bearing	**5,189**		9,606		7,222	
Demand interest bearing	**13,828**	**0.5**	12,181	0.6	11,832	0.6
Time	**3,581**	**0.7**	4,282	0.8	5,891	1.2
Other	**3,926**	**0.3**	859	1.6	1,731	0.9
Middle East and North Africa	**1,546**		2,529		1,890	
Demand and other non-interest bearing	**563**		1,058		301	
Demand interest bearing	**3**		12		8	6.5
Time	**938**	**0.2**	1,422	0.2	1,543	0.4
Other	**42**		37		38	1.4
North America	**10,497**		12,237		12,696	
Demand and other non-interest bearing	**3,686**		3,488		4,470	
Demand interest bearing	**2,557**	**0.1**	2,787	0.1	2,996	0.1
Time	**3,308**	**0.3**	5,110	0.3	4,756	0.4
Other	**946**	**0.1**	852		474	0.2

Latin America	**4,642**		4,703		6,070	
Demand and other non-interest bearing	**162**		118		212	
Demand interest bearing	**837**	**3.8**	333	4.5	333	3.9
Time	**2,244**	**3.0**	2,783	3.1	3,665	3.7
Other	**1,399**	**4.4**	1,469	4.4	1,860	5.1
Total	**79,636**		89,084		99,606	
Demand and other non-interest bearing	**18,419**		27,467		21,582	
Demand interest bearing	**23,003**	**0.6**	20,468	0.5	24,157	0.5
Time	**24,262**	**1.0**	31,062	1.1	40,553	1.4
Other	**13,952**	**0.7**	10,087	1.2	13,314	2.2

For footnotes, see page 109.

Report of the Directors: Financial Review (continued)

Customer accounts[27]

	2014		2013		2012	
	Average balance US$m	**Average rate %**	Average balance US$m	Average rate %	Average balance US$m	Average rate %
Europe	**490,511**		462,669		436,756	
Demand and other non-interest bearing	**73,088**		75,480		71,342	
Demand interest bearing	**314,374**	**0.4**	272,973	0.4	242,769	0.4
Savings	**57,464**	**1.4**	63,585	1.4	62,626	1.8
Time	**43,760**	**1.0**	50,010	1.1	59,034	1.3
Other	**1,825**	**2.6**	621	8.2	985	4.0
Asia[63]	**566,595**		533,002		505,395	
Demand and other non-interest bearing	**62,988**		59,023		55,628	
Demand interest bearing	**374,026**	**0.2**	347,526	0.2	314,762	0.3
Savings	**108,074**	**2.3**	104,099	2.2	107,176	2.1
Time	**21,381**	**0.9**	20,978	0.7	26,633	1.0
Other	**126**	**2.4**	1,376	0.4	1,196	0.8
Middle East and North Africa	**39,076**		40,451		37,604	
Demand and other non-interest bearing	**18,410**		16,801		14,564	
Demand interest bearing	**11,587**	**0.4**	13,248	0.4	10,967	0.6
Savings	**7,974**	**2.1**	9,981	2.6	11,555	3.0
Time	**1,074**	**1.2**	357	1.4	452	2.2
Other	**31**		64		66	1.5
North America	**135,692**		137,181		145,230	
Demand and other non-interest bearing	**27,361**		27,992		28,403	
Demand interest bearing	**38,843**	**0.3**	37,837	0.3	38,419	0.3
Savings	**60,075**	**0.5**	63,565	0.6	68,039	0.7
Time	**9,290**	**0.2**	7,673	0.3	9,587	0.4
Other	**123**	**0.8**	114	1.8	782	0.4
Latin America	**50,918**		54,585		71,212	
Demand and other non-interest bearing	**12,452**		13,092		14,203	
Demand interest bearing	**7,412**	**1.2**	7,237	1.8	8,258	2.2
Savings	**22,062**	**10.0**	24,652	7.4	35,294	7.5
Time	**8,850**	**2.8**	9,459	4.4	13,095	4.0
Other	**142**	**5.6**	145	9.7	362	4.1
Total	**1,282,792**		1,227,888		1,196,197	

Demand and other non-interest bearing	**194,299**		192,388		184,140	
Demand interest bearing	**746,242**	**0.3**	678,821	0.3	615,175	0.4
Savings	**255,649**	**2.3**	265,882	2.1	284,690	2.4
Time	**84,355**	**1.1**	88,477	1.3	108,801	1.5
Other	**2,247**	**2.6**	2,320	3.1	3,391	2.0

For footnotes, see page 109.

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Customer accounts by country

	2014	2013
	US$m	US$m
Europe	**545,959**	581,933
UK	**439,313**	462,796
France[35]	**40,750**	45,149
Germany	**15,757**	16,615
Switzerland	**11,058**	16,796
Turkey	**7,856**	7,795
Other	**31,225**	32,782
Asia[8]	**577,491**	548,483
Hong Kong	**389,094**	365,905
Australia	**19,312**	19,812
India	**11,678**	11,549
Indonesia	**5,788**	5,865
Mainland China	**46,588**	40,579
Malaysia	**16,292**	17,093
Singapore	**43,731**	43,988
Taiwan	**14,901**	12,758
Other	**30,107**	30,934
Middle East and North Africa (excluding Saudi Arabia)	**39,720**	38,683
Egypt	**7,663**	7,401
UAE	**19,771**	18,433
Other	**12,286**	12,849
North America	**138,884**	140,809
US	**84,894**	80,037
Canada	**43,871**	47,872
Other	**10,119**	12,900
Latin America	**48,588**	51,389
Argentina	**4,384**	4,468
Brazil	**23,204**	23,999
Mexico	**18,360**	21,529
Other	**2,640**	1,393
At 31 December	1,350,642	1,361,297

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Certificates of deposit and other money market instruments

	2014		2013		2012	
	Average balance US$m	**Average rate %**	Average balance US$m	Average rate %	Average balance US$m	Average rate %
Europe	**20,970**	**0.4**	28,680	0.5	32,602	0.4
Asia	**2,441**	**1.6**	3,199	2.0	5,321	2.4
North America	**5,406**	**0.3**	5,583	0.6	9,339	0.6
Latin America	**12,035**	**12.1**	9,335	8.3	7,344	8.5
	40,852	**3.9**	46,797	2.3	54,606	1.8

Certificates of deposit and other time deposits

The maturity analysis of certificates of deposit (CD s) and other wholesale time deposits is expressed by remaining maturity. The majority of CDs and time deposits are in amounts of US$100,000 and over or the equivalent in other currencies.

	At 31 December 2014				
	3 months or less US$m	**After 3 months but within 6 months US$m**	**After 6 months but within 12 months US$m**	**After 12 months US$m**	**Total US$m**
Europe	**48,787**	**11,442**	**5,078**	**4,515**	**69,822**
Certificates of deposit	**8,315**	**6,115**	**1,005**		**15,435**
Time deposits:					
banks	**10,446**	**1,160**	**321**	**2,166**	**14,093**
customers	**30,026**	**4,167**	**3,752**	**2,349**	**40,294**
Asia	**23,299**	**1,177**	**1,039**	**1,023**	**26,538**
Certificates of deposit	**641**	**221**	**44**	**717**	**1,623**
Time deposits:					
banks	**2,080**	**34**	**4**	**21**	**2,139**
customers	**20,578**	**922**	**991**	**285**	**22,776**
Middle East and North Africa	**913**	**150**	**721**	**215**	**1,999**

Time deposits:					
banks	**541**	**134**	**13**		**688**
customers	**372**	**16**	**708**	**215**	**1,311**
North America	**13,336**	**3,028**	**713**	**526**	**17,603**
Time deposits:					
banks	**3,369**	**2**		**87**	**3,458**
customers	**9,967**	**3,026**	**713**	**439**	**14,145**
Latin America	**10,189**	**1,131**	**864**	**646**	**12,830**
Certificates of deposit	**983**	**697**	**31**	**496**	**2,207**
Time deposits:					
banks	**1,900**	**135**	**725**	**123**	**2,883**
customers	**7,306**	**299**	**108**	**27**	**7,740**
Total	**96,524**	**16,928**	**8,415**	**6,925**	**128,792**
Certificates of deposit	**9,939**	**7,033**	**1,080**	**1,213**	**19,265**
Time deposits:					
banks	**18,336**	**1,465**	**1,063**	**2,397**	**23,261**
customers	**68,249**	**8,430**	**6,272**	**3,315**	**86,266**

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Ratio of earnings to fixed charges[69]

	2014	2013	2012	2011	2010
Ratio of earnings to fixed charges					
excluding interest on deposits	**3.39**	3.84	3.03	2.82	2.71
including interest on deposits	**1.86**	2.09	1.76	1.68	1.73
Ratio of earnings to combined fixed charges and preference share dividends					
excluding interest on deposits	**3.07**	3.50	2.79	2.64	2.56
including interest on deposits	**1.79**	2.01	1.71	1.64	1.69

For footnote, see page 109.

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Reconciliation of RoRWA measures

Performance Management

During 2014, we targeted a return on average ordinary shareholders equity of 12% 15%. For internal management purposes we monitored global businesses and geographical regions by pre-tax return on RWAs, a metric which combines return on equity and regulatory capital efficiency objectives. We targeted a return on average risk-weighted assets of 2.2%-2.6% in 2014.

In addition to the return on average risk-weighted assets (RoRWA) we measure our performance internally using the non-GAAP measure of adjusted RoRWA, which is adjusted profit before tax as a percentage of average risk-weighted assets adjusted for the effects of foreign

currency translation differences and the effects of significant items. Excluded from adjusted RoRWA are certain items which distort year-on-year performance as explained on page 40.

We also present the non-GAAP measure of adjusted RoRWA which is further adjusted for the effect of operations that are not regarded as contributing to the long-term performance of the Group. These include the run-off portfolios and the CRS business which was sold in 2012.

The CRS average RWAs in the table below represent the average of the associated operational risk RWAs that were not immediately released on disposal and have not already been adjusted as part of the adjusted RoRWA calculation. At the end of 2014, the residual CRS operational risk RWAs relating to the CRS portfolio were fully amortised.

Reconciliation of adjusted RoRWA (excluding run-off portfolios and Card and Retail Services)

	2014			2013		
	Pre-tax return US$m	**Average RWAs[36] US$bn**	**RoRWA[36] %**	Pre-tax return US$m	Average RWAs[36] US$bn	RoRWA[36] %
Reported	**18,680**	**1,209**	**1.5**	22,565	1,104	2.0
	22,829	**1,207**	**1.9**	22,981	1,071	2.1

Adjusted[37]						
Run-off portfolios	**870**	**115**	**0.8**	443	121	0.4
Legacy credit in GB&M	**172**	**48**	**0.4**	186	33	0.6
US CML and other[38]	**698**	**67**	**1.0**	257	88	0.3
Card and Retail Services					4	
Adjusted (excluding run-off portfolios and CRS)	**21,959**	**1,092**	**2.0**	22,538	946	2.4

Reconciliation of reported and adjusted average risk-weighted assets

	Year ended 31 December		
	2014 US$bn	2013 US$bn	Change %
Average reported RWAs[36]	**1,209**	1,104	9.5
Currency translation adjustment[33]		(8)	
Acquisitions, disposals and dilutions	**(2)**	(21)	
Other significant items		(4)	
Average adjusted RWAs[36]	**1,207**	1,071	12.6

For footnotes, see page 109.

Critical accounting

estimates and judgements

The results of HSBC reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of HSBC s consolidated financial statements. The significant accounting policies, including the policies which include critical accounting estimates and judgements, are described in Note 1 and in the individual Notes on the Financial Statements. The accounting policies listed below are highlighted as they involve a high degree of judgement and estimation uncertainty and have a material impact on the financial statements:

Impairment of loans and advances: Note 1(k) on page 349;
Deferred tax assets: Note 8 on page 365;

Valuation of financial instruments: Note 13 on page 378;

Impairment of interests in associates: Note 20 on page 403;

Goodwill impairment: Note 21 on page 407; and

Provisions: Note 29 on page 420.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items above, it is possible that the outcomes in the next financial year could differ from those on which management s estimates are based, resulting in the recognition and measurement of materially different amounts from those estimated by management in the 2014 Financial Statements.

Report of the Directors: Financial Review (continued)

Global businesses

Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

The commentaries below present global businesses followed by geographical regions (page 78). Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on an

adjusted basis (page 40) unless stated otherwise, while tables are on a reported basis unless stated otherwise.

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions, to the extent that these can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve some subjectivity.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm s length terms.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the presentation by global business, the cost of the levy is included in Other .

Profit/(loss) before tax

	2014 US$m	%	2013 US$m	%	2012 US$m	%
Retail Banking and Wealth Management	**5,651**	**30.3**	6,649	29.5	9,575	46.4
Commercial Banking	**8,744**	**46.8**	8,441	37.4	8,535	41.3
Global Banking and Markets	**5,889**	**31.5**	9,441	41.8	8,520	41.3
Global Private Banking	**626**	**3.4**	193	0.9	1,009	4.9
Other[39]	**(2,230)**	**(12.0)**	(2,159)	(9.6)	(6,990)	(33.9)
Year ended 31 December	**18,680**	**100.0**	22,565	100.0	20,649	100.0

Total assets[40]

	2014 US$m	%	2013 US$m	%
Retail Banking and Wealth Management	**499,083**	**18.9**	517,085	19.4
Commercial Banking	**372,739**	**14.2**	360,623	13.5
Global Banking and Markets	**1,839,644**	**69.8**	1,975,509	74.0
Global Private Banking	**88,342**	**3.4**	97,655	3.7
Other	**164,537**	**6.2**	171,812	6.4
Intra-HSBC items	**(330,206)**	**(12.5)**	(451,366)	(17.0)

At 31 December	**2,634,139**	**100.0**	2,671,318	100.0

For footnotes, see page 109.

Risk-weighted assets

	2014 US$bn	**%**	2013 US$bn	%
Retail Banking and Wealth Management	**205.1**	**16.8**	233.5	21.4
Commercial Banking	**432.4**	**35.4**	391.7	35.8
Global Banking and Markets	**516.1**	**42.3**	422.3	38.6
Global Private Banking	**20.8**	**1.8**	21.7	2.0
Other	**45.4**	**3.7**	23.5	2.2
At 31 December	**1,219.8**	**100.0**	1,092.7	100.0

Principal Retail Banking and Wealth Management business

RBWM comprises the Principal RBWM business, the US run-off portfolio and the disposed-of US CRS business. We believe that looking at the Principal RBWM business allows management to more clearly discuss the cause of material changes from year-to-year in the ongoing

business and to assess the factors and trends in the business which are expected to have a material effect in future years. The reconciliation of RBWM to Principal RBWM is on page 64. Tables which reconcile reported to adjusted financial measures are available on www.hsbc.com.

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Retail Banking and Wealth Management

RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.

	Total RBWM US$m	US CRS US$m	US run-off portfolio US$m	Principal RBWM US$m
2014				
Net interest income	**16,782**		**1,390**	**15,392**
Net fee income	**6,668**		**(4)**	**6,672**
Other income/(expense)[42]	**1,144**		**(49)**	**1,193**
Net operating income[4]	**24,594**		**1,337**	**23,257**
LICs[43]	**(1,819)**		**(30)**	**(1,789)**
Net operating income	**22,775**		**1,307**	**21,468**
Total operating expenses	**(17,522)**		**(738)**	**(16,784)**
Operating profit	**5,253**		**569**	**4,684**
Income from associates[44]	**398**			**398**
Profit before tax	**5,651**		**569**	**5,082**
RoRWA[36]	**2.6%**		**0.8%**	**3.3%**
2013				
Net interest income	18,339		2,061	16,278
Net fee income	7,021		11	7,010
Other income/(expense)[42]	1,380		(400)	1,780
Net operating income[4]	26,740		1,672	25,068
LICs[43]	(3,227)		(705)	(2,522)
Net operating income	23,513		967	22,546
Total operating expenses	(17,248)		(1,166)	(16,082)
Operating profit/(loss)	6,265		(199)	6,464
Income/(expense) from associates[44]	384		(1)	385
Profit/(loss) before tax	6,649		(200)	6,849
RoRWA[36]	2.6%		(0.2%)	4.4%
2012				
Net interest income	20,298	1,267	2,563	16,468

Net fee income	7,205	395	33	6,777
Other income/(expense)[42]	6,358	3,155	(200)	3,403
Net operating income[4]	33,861	4,817	2,396	26,648
LICs[43]	(5,515)	(322)	(2,569)	(2,624)
Net operating income/ (expense)	28,346	4,495	(173)	24,024
Total operating expenses	(19,769)	(729)	(1,103)	(17,937)
Operating profit/(loss)	8,577	3,766	(1,276)	6,087
Income from associates[44]	998		2	996
Profit/(loss) before tax	9,575	3,766	(1,274)	7,083
RoRWA[36]	3.1%	14.7%	(1.1%)	4.2%

For footnotes, see page 109.

Principal RBWM RoRWA

3.3%

Global mobile application

downloads surpass

6 million

Best Mobile Banking Application 2014

(Global Finance Magazine)

Strategic direction

RBWM provides retail banking and wealth management services for personal customers in markets where we have, or can build, the scale in our target customer segments to do so cost effectively.

We focus on three strategic imperatives:

- building a consistent, high standard, customer needs-driven wealth management service for retail customers drawing on our Insurance and Asset Management businesses;

- using our global expertise to improve customer service and productivity to provide a high standard of banking solutions and service to our customers efficiently; and simplifying and re-shaping the RBWM portfolio of businesses to focus our capital and resources on key markets.

Our three growth priorities are customer growth in target segments, deepening customer relationships through wealth management and relationship-led lending, and enhancing distribution capabilities, including digital.

Implementing Global Standards, enhancing risk management control models and simplifying processes also remain top priorities for RBWM.

Review of reported performance

On a reported basis, RBWM profit before tax reduced by US$1.0bn to US$5.7bn, while Principal RBWM profit before tax fell by US$1.8bn to US$5.1bn. The reduction in RBWM partly reflected the effects of significant items (see page 42) including provisions of US$568m arising from the ongoing review of compliance with the CCA in the UK, adverse movements in non-qualifying hedges of US$493m in 2014 compared with favourable movements of US$262m in 2013, UK customer redress provisions of US$992m compared with US$953m in 2013, and disposals.

In the US run-off portfolio, a profit before tax was recorded compared with a loss in 2013. A reduction in revenue was more than offset by lower LICs reflecting decreased lending balances, reduced new impaired loans and lower delinquency levels. Operating expenses also fell, mainly from the non-recurrence of a customer remediation provision relating to our former CRS business and lower divestiture costs.

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Review of adjusted performance[45]

The commentary that follows reflects performance in our Principal RBWM[46] business (see page 63).

Profit before tax (US$m)

Profit before tax fell by US$0.7bn to US$6.9bn. Revenue was broadly unchanged, while lower LICs were more than offset by higher operating expenses.

Revenue (US$m)

Revenue was broadly unchanged despite the effect of de-risking initiatives and against a backdrop of continued low interest rates and muted growth in certain key markets. Higher income from current accounts, savings and deposits was broadly offset by lower revenues from personal lending and wealth management products.

Principal RBWM: management view of adjusted revenue

	2014 US$m	2013 US$m
Current accounts, savings and deposits	**5,839**	5,606
Wealth management products	**6,201**	6,263
investment distribution[47]	**3,456**	3,568
life insurance manufacturing	**1,603**	1,602
asset management	**1,142**	1,093
Personal lending	**11,300**	11,455
mortgages	**3,169**	3,182
credit cards	**4,339**	4,310
other personal lending[48]	**3,792**	3,963
Other[49]	**645**	873
Net operating income[4]	**23,985**	24,197

For footnotes, see page 109.

Revenue from current accounts, savings and deposits increased by 4%. This reflected an increase in customer account balances, of 4% compared with 2013, mainly in Hong Kong and the UK. In addition, higher revenue reflected increased spreads on savings products in the UK and, to a lesser extent, on deposits in mainland China where market interest rates increased.

Revenue from wealth management products reduced by 1%. Investment distribution income declined, mainly as a result of lower fees in the UK, in part reflecting the Retail Distribution Review undertaken in 2013, and in Brazil reflecting a change in product mix. Life insurance manufacturing income was broadly unchanged. This reflected higher new business sales and investment income in Hong Kong, and a net favourable movement in the PVIF asset in Brazil, offset by a reduction in the PVIF asset in France where a fall in long-term yields increased the cost of guarantees on savings business.

Personal lending revenue was down by 1%. While mortgage and credit card revenues were broadly unchanged, other personal lending income declined by 4%, notably in the UK due to the cessation of certain overdraft fees.

LICs decreased by 22% with reductions across all regions, mainly in Brazil due to impairment model changes and assumption revisions for restructured loans in 2013 which were not repeated in 2014. LICs also reduced in the US and the UK, partly reflecting lower delinquency levels and reduced outstanding credit card and UK loan balances.

Operating expenses (US$m)

Operating expenses increased by 7%, reflecting inflationary pressures, particularly in Latin America, in addition to higher costs associated with Regulatory Programmes and Compliance. The increase also reflected the timing of the recognition of the Financial Services Compensation Scheme levy in the UK and higher marketing costs across the regions. These factors were partly offset by sustainable cost savings of over US$200m.

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Growth priorities

Focus on relationship-led personal lending to drive balance sheet growth

In 2014, we continued to focus on improving the quality of our revenue through the ongoing implementation of de-risking initiatives, although these have weighed on income. They included the introduction of a new discretionary incentive framework for our Retail Banking customer-facing staff similar to the one launched for Wealth Management relationship managers (RM s) in 2013, removing the formulaic link between product sales and variable pay for front line staff. We also continued to simplify our product range, improve our risk governance and align our practices following regulatory changes.

We aim to deepen relationships with our existing customers and use personal lending to generate new business, targeting different segments and offerings in each market. To achieve this we continued to use improved analytics to support product decisions. Based on pricing and customer response measures, we enhanced revenue and grew balances in certain targeted segments, including the re-launch of the Advance segment in 17 markets in 2014. Lending and deposit balances and revenue per customer for Advance increased compared with 2013.

We maintained discipline around growing lending within our risk appetite in our home and priority growth markets. Home loan average balances increased by 3% in 2014, reflecting growth in our priority markets, notably with double-digit growth in approximately half of these countries as we re-balanced the product mix towards secured loans, although this mix change translated into lower spreads. In our home markets, we continued to target growth in unsecured lending, with average balances marginally higher including an increase in average card balances in Hong Kong, partly offset by a reduction in the UK. Despite overall balance growth, LICs remained lower than in 2013.

Customer recommendation levels improved in several markets during 2014, with the total volume of complaints related to products and services decreasing by more than 20% in the second half of the year, compared with the equivalent period in 2013. Further work is required and is ongoing to better meet our customer needs as they continue to evolve.

Continue to develop wealth management with a focus on growing customer balances

We remain committed to capturing opportunities from wealth creation, primarily through our Premier offering with its customers generating nearly four times the average revenue of non-Premier clients.

Although revenue from wealth management products remained lower than expected we continued to grow wealth balances, which comprise investment and insurance balances. These balances increased compared with 2013 across insurance, mutual funds and equities trading.

In 2014, Global Asset Management continued its strategy of strengthening collaboration across the global businesses to serve their customers. This helped to attract US$29bn of net new money principally in fixed income and liquidity products, in particular with GB&M clients. The investment performance in over 74% of Global Asset Management s eligible funds by value were above the market median.

In 2014, we improved our RMs productivity through new training programmes and tools. Client contact and coverage rates increased from 2013 with higher numbers of client appointments, financial reviews and needs fulfilled per RM.

Develop digital capabilities to support customers and reduce cost

We continue to develop our digital channels and streamline processes to improve the customer experience and to deliver cost savings through our distribution network.

In 2014, downloads of our global mobile application, now with enriched functionality, were over 3m with the total number of downloads surpassing 6m. *Global Finance* magazine presented HSBC with the award for Best Mobile Banking App at its 2014 World s Best Internet Bank event based on the application s global reach and functionality.

In addition, we launched our first straight-through on-line mortgage application service in the UK and, by the end of 2014, 14% of our annual approvals were produced online. We also deployed new Premier platforms, digital capabilities and tablet-based tools to enhance the end-to-end delivery process and customer experience. Across our priority growth markets, the revenue derived from digital channels increased by 18% compared with 2013.

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Commercial Banking

CMB offers a full range of commercial financial services and tailored solutions to more than 2.5 million customers ranging from small and medium-sized enterprises to publicly quoted companies in almost 60 countries.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**10,506**	10,200	10,361
Net fee income	**4,738**	4,717	4,470
Other income[42]	**1,059**	1,448	1,720
Net operating income[4]	**16,303**	16,365	16,551
LICs[43]	**(1,675)**	(2,384)	(2,099)
Net operating income	**14,628**	13,981	14,452
Total operating expenses	**(7,489)**	(7,049)	(7,598)
Operating profit	**7,139**	6,932	6,854
Income from associates[44]	**1,605**	1,509	1,681
Profit before tax	**8,744**	8,441	8,535
RoRWA[36]	**2.1%**	2.2%	2.2%

Record reported profit before tax of

US$8.7bn

10%

Growth in customer lending balances

(excluding the effect of currency translation)

Best Global Cash Management Bank for

Corporates and Financial Institutions

for the third consecutive year

(Euromoney 2014)

Strategic direction

CMB aims to be the banking partner of choice for our customers building on our rich heritage, international capabilities and relationships to enable global connectivity.

We have four growth priorities:

- providing consistency and efficiency for our customers through a business model organised around global customer segments and products;
- utilising our distinctive geographical network to support and facilitate global trade and capital flows;
- delivering excellence in our core flow products specifically in Trade and in Payments and Cash Management; and
- enhancing collaboration with other global businesses.

Implementing Global Standards, enhancing risk management controls and simplifying processes also remain top priorities for CMB.

For footnotes, see page 109.

Review of reported performance

In 2014, CMB reported a record profit before tax of US$8.7bn, 4% higher than in 2013. Reported profit before tax included the effect of a number of significant items (see page 42), notably the gain on sale of our operations in Panama of US$479m in 2013. The increase in reported profit before tax was also driven by a reduction in LICs, although this was partly offset by higher operating expenses.

Review of adjusted performance[45]

Profit before tax (US$m)

Profit before tax grew by 13% to US$8.9bn. This was driven by increased revenue and a reduction in LICs, partly offset by a rise in operating expenses.

Revenue (US$m)

Revenue grew by 5%, driven by Credit and Lending and Payments and Cash Management, notably in our home markets of Hong Kong and the UK. This was due to higher net interest income from growth in average lending and deposit balances in Hong Kong and rising average deposit balances and wider lending spreads in the UK. Higher net fee income was driven by an increase in term lending fees in the UK.

Despite lending spread compression compared with 2013, spreads in 2014 stabilised and showed signs of recovery in certain markets. In addition, we saw notable growth in our UK lending balances in the second half of 2014.

Report of the Directors: Financial Review (continued)

Management view of adjusted revenue

	2014 US$m	2013 US$m
Global Trade and Receivables Finance	**2,680**	2,625
Credit and Lending	**6,316**	5,938
Payments and Cash Management, current accounts and savings deposits	**5,018**	4,709
Markets products, Insurance and Investments and Other[51]	**2,298**	2,207
Net operating income[4]	**16,312**	15,479

For footnotes, see page 109.

The table above has been restated to reclassify Foreign Exchange revenue. In 2014, Markets products, Insurance and Investments and Other included Foreign Exchange revenue of US$207m previously included within Global Trade and Receivables Finance (2013: US$213m) and US$516m previously included within Payments and Cash Management (2013: US$462m).

Global Trade and Receivables Finance revenue increased by 2% compared with 2013. Average balances rose, with growth in Asia, Europe and Latin America. The effect was partly offset by spread compression in Latin America, reflecting a change in portfolio mix in Brazil. In 2014, spread compression stabilised and showed signs of recovery in certain markets.

Credit and Lending revenue increased by 6% compared with 2013, reflecting higher average balances in Hong Kong and the US and, to a lesser extent, in Brazil. Revenue also increased in the UK due to wider lending spreads and increased fee income from term lending due to higher new business volumes. These factors were partly offset by spread compression in Latin America, primarily in Brazil as discussed above and in Mexico due to the repositioning of the business, and in mainland China.

Payments and Cash Management revenue increased by 7% compared with 2013. This reflected strong deposit growth, notably in the UK and Hong Kong, along with an increase in high value payment transaction volumes. This was partly offset by spread compression, notably in Europe.

Markets products, Insurance and Investments and Other revenue was 4% higher, primarily in North America. In Canada, this reflected the non-recurrence of a write-down of an investment property held for sale in 2013 and a gain on sale of an investment portfolio in 2014. In the US, higher revenue was driven by a gain on sale of a real estate portfolio.

LICs decreased by US$663m, mainly in Europe and Latin America. Lower LICs in Europe reflected a reduction in individually assessed loan impairment charges in the UK. The reduction in Latin America was driven by lower individually assessed charges in Mexico, in particular relating to homebuilders, and lower collectively assessed impairments in Brazil due to impairment model changes and assumption revisions for restructured loans in the Business Banking portfolios in 2013 not repeated in 2014. These factors were partly offset by higher individually assessed charges in Asia, notably in mainland China and Hong Kong.

Operating expenses (US$m)

Operating expenses increased by 8%, principally in Europe, Latin America and Asia. In Europe and Asia, higher costs reflected increased investment in staff to support business growth and inflationary pressures, while in Latin America costs rose due to inflation which was largely attributable to union-agreed salary increases in Brazil and Argentina. In addition, operating expenses increased due to higher Regulatory Programmes and Compliance costs.

Income from associates increased by 4% due to the improved performance of BoCom and The Saudi British Bank.

Growth priorities

Providing consistency through a globally led business model

Our business strategy is built on the foundation of global scale and consistency, focusing on customer segments and customer behaviour to ensure we provide tailored products to suit their needs. We continue to invest in providing global product coverage for our business segments. This enables us to manage risk more efficiently.

The creation of new senior management positions and a more defined global strategy within our customer segments enabled us to improve client coverage. In 2014, we appointed a new Global Head of International Subsidiary Banking to drive investment in supporting our international customers across our network. We also established dedicated RM teams for international subsidiary banking in key markets to focus on meeting the needs of these subsidiaries and growing the associated revenue streams.

We appointed a new Global Head of Lending and Transaction Management with a remit to support all segments. This globally-aligned product group is designed to optimise capital allocation and improve revenue mix within our risk appetite.

In 2014, we redefined our Large Corporate segment to focus on a smaller number of higher-value clients. The Large Corporate segment experienced strong

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growth in most markets fuelled by multi-country flow mandates and increased event-driven capital markets activity. The increased focus on global wallet and connectivity led to increased awareness amongst our customers of our franchise and capabilities, resulting in stronger global strategic partnerships.

In addition, we increased our market presence in six of our key MME markets (Hong Kong, the UK, Canada, the US, Mexico and Brazil). We made further progress by appointing regional and country heads of MME and by enhancing our client management system.

In Business Banking, we invested in additional RMs in key markets, increased training worldwide and continued to deploy a globally consistent customer management system within our relationship-managed portfolios. Six major campaigns were launched in 2014 to help SME customers achieve their growth ambitions and expand overseas, including offering funds in the UK, France, the US, Canada, Australia and Turkey totalling US$18bn.

Utilising our geographical network to support our customers international growth ambitions

HSBC s network across the major global trade corridors continued to assist us to provide value-added solutions for our clients. For example, we helped one of the largest retailers in the US to improve its supply chain management by providing holistic financing and liquidity solutions including working capital, trade and supply chain finance.

In Payments and Cash Management, CMB remained well positioned to benefit from global trends such as the increase in cross-border payment flows as we are strategically located where more than 85% of the world s payment activity originates. For example, new customer mandates increased by 23% on 2013. In addition, we improved our digital offering, migrating over 80,000 customers to date from legacy platforms to core electronic banking channels, and continued to develop innovative products. These included the enhancement of our Global Liquidity Solutions, which enables customers in mainland China to connect their operating cash with their liquidity structures globally.

Delivering excellence in our core products

HSBC is one of the largest trade finance banks in the world with access to more than 85% of the world s trade and capital flows. We continued to enhance our open account financing capabilities through investment in Receivables Finance and Supply Chain, specifically the launch of a new Supply Chain Solutions platform and the consolidation of the existing Receivables platform into regional hubs. This offers customers broader access to expertise and liquidity and gives us the ability to deploy our capabilities rapidly in new markets, providing better risk management and lower operating costs.

Against the backdrop of declining commodity prices, we achieved double-digit asset balance growth in Commodity and Structured Trade Finance compared with 2013.

Enhancing collaboration with other global businesses

We maintained our focus on strengthening CMB s collaboration with GB&M and GPB by increasing product coverage across the Group to our customers. In 2014, CMB customers generated over 80% of HSBC s total collaboration revenues. Revenue from collaboration remained broadly unchanged compared with 2013. This was driven by lower sales of Markets products to CMB customers, notably in the Foreign Exchange business, offset by growth in the sale of Capital Financing products with regard to mergers and acquisitions and debt capital markets.

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Report of the Directors: Financial Review (continued)

Global Banking and Markets

GB&M provides tailored financial solutions to major government, corporate and institutional clients worldwide.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**7,022**	6,766	6,960
Net fee income	**3,560**	3,482	3,329
Net trading income[50]	**5,861**	6,780	5,690
Other income[42]	**1,335**	2,148	2,294
Net operating income[4]	**17,778**	19,176	18,273
LICs[43]	**(365)**	(207)	(670)
Net operating income	**17,413**	18,969	17,603
Total operating expenses	**(12,028)**	(9,960)	(9,907)
Operating profit	**5,385**	9,009	7,696
Income from associates[44]	**504**	432	824
Profit before tax	**5,889**	9,441	8,520
RoRWA[36]	**1.2%**	2.3%	2.1%

Client flows up in Equities,

although subdued in Foreign Exchange

Sustained growth in revenues in

Payments and Cash Management

Bond and Derivatives

House of the year

(International Finance Review 2014)

Strategic direction

GB&M s business model and strategy is well established with the objective of being a top 5 bank to our priority clients and in our chosen products and geographies.

We focus on the following growth priorities:

connecting clients to international growth opportunities;

continuing to be well positioned in products that will benefit from global trends; and

leveraging our distinctive international expertise and geographical network which connects developed and faster-growing regions.

Enhancing risk management controls, implementing Global Standards and collaborating with other global businesses also remain top priorities for GB&M.

For footnotes, see page 109.

Review of reported performance

GB&M s reported profit before tax of US$5.9bn was down by US$3.6bn, primarily in Europe and North America, from higher operating expenses and lower revenue. The increase in operating expenses and decrease in revenue reflected a number of significant items (see page 42). Operating expenses included settlements and provisions of US$1.2bn in connection with foreign exchange investigations, of which US$809m was recorded in the fourth quarter of 2014, and a charge of US$533m in the US relating to a settlement agreement with the Federal Housing Finance Agency, which are included in significant items.

Review of adjusted performance[45]

Profit before tax (US$m)

Profit before tax of US$8.1bn was US$1.1bn lower than in 2013, driven by higher operating expenses and a fall in revenue, which included the introduction of the FFVA on certain derivative contracts that resulted in a charge of

US$263m.

Revenue (US$m)

Revenue was lower principally due to the effect of the FFVA and a reduction in our Foreign Exchange business which was partly offset by an increase in Capital Financing.

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Report of the Directors: Financial Review (continued)

Management view of adjusted revenue

	2014 US$m	2013 US$m
Markets[52]	**6,262**	6,933
Credit	**567**	801
Rates	**1,563**	1,678
Foreign Exchange	**2,916**	3,140
Equities	**1,216**	1,314
Capital Financing	**4,066**	3,981
Payments and Cash Management	**1,794**	1,743
Securities Services	**1,698**	1,653
Global Trade and Receivables Finance	**767**	723
Balance Sheet Management	**3,020**	3,046
Principal Investments	**531**	450
Other[53]	**(32)**	3
Total operating income[4]	**18,106**	18,532

For footnotes, see page 109.

The table below outlines the effect on businesses and total adjusted operating income of the FFVA:

Effect of FFVA on total operating income

	2014 US$m	2013 US$m
Total operating income	**18,106**	18,532
FFVA in Rates	**(164)**	
FFVA in Credit	**(97)**	
FFVA in other businesses	**(2)**	
Total operating income excluding FFVA	**18,369**	18,532
of which Rates excluding FFVA	**1,727**	1,678
of which Credit excluding FFVA	**664**	801

Excluding the above, revenue in the majority of our Markets businesses was lower. This was predominantly driven by a decline in our Foreign Exchange business, which was affected by lower volatility, notably in the first half of 2014, and reduced client flows. Credit revenue also decreased due to adverse movements in credit spreads and a reduction in Legacy Credit. Equities revenue fell too, as 2013 benefited from higher revaluation gains which more than offset a rise in revenue from increased client flows and higher derivatives income in 2014. By contrast, Rates revenue rose due to favourable market movements, notably in Asia, along with minimal fair value movements on our own credit spread on structured liabilities compared with adverse movements in 2013. These factors were partly offset by a fall in Rates revenue in Europe.

In Capital Financing, revenue grew by US$85m, as the effects of increased volumes and market share gains across our advisory, equity capital markets and lending products were partly offset by spread and fee compression.

Payments and Cash Management revenue was marginally higher, due to both increased deposit balances, notably in Asia, and a rise in high value transaction volumes, partly offset by spread compression. We also experienced growth in Securities Services revenue, in part from new business in Europe, and Global Trade and Receivables Finance from growth in lending balances.

LICs were higher due to a revision to certain estimates used in our corporate collective loan impairment calculation and increased individually assessed provisions, including a provision against a guarantee in Brazil recorded as a credit risk provision. These were partially offset by higher net releases on available-for-sale ABSs in our legacy portfolio than in 2013.

Operating expenses (US$m)

Operating expenses increased by 6%, primarily due to higher Regulatory Programmes and Compliance related costs and from increased staff costs. These factors were partially offset by sustainable savings of over US$80m.

Growth priorities

Connecting clients to international growth opportunities

Following the re-shaping of GB&M in 2013, as part of which we brought together all our financing businesses into Capital Financing, including lending, debt capital markets and equity capital markets, we continued to focus on better aligning our resources with clients needs. We segmented our client base and created a Client Strategy Group to ensure that GB&M s product, sector and coverage expertise supports clients in the growth of their business activities. Strong collaboration between these teams was recently demonstrated by our appointment as the joint global coordinator and joint book runner on the largest European corporate equity rights issue since 2011. This was our fifth transaction with this client in the last 12 months.

We are utilising our global network to provide solutions for our clients in both established markets and faster-growing regions. Our ability to connect clients to opportunities was highlighted by the first Sukuk bond issued outside the Islamic world on which we acted as sole structuring advisor, joint lead manager and joint book runner.

We continued to strengthen our Foreign Exchange franchise by enhancing our risk management capabilities and further developing our distribution platforms and electronic pricing capabilities. This will improve our systems and governance whilst enabling us to better serve clients with a robust and efficient offering.

Report of the Directors: Financial Review (continued)

Continuing to be well positioned in products that will benefit from global trends

Capturing new opportunities arising from the internationalisation of the renminbi continues to be one of our key growth priorities. Recently, we acted as joint lead manager, book runner and financial advisor on a pioneering Formosa bond issue, which simultaneously listed on three exchanges worldwide. We were also voted Best Overall for Products and Services by *Asiamoney* Offshore RMB Services Survey 2014 for the third consecutive year, demonstrating our continued leading position in the overseas renminbi market.

In November 2014 we launched the Stock Connect programme, a mechanism linking trading and clearing between the Shanghai and Hong Kong securities markets. This will give our clients direct access to the Chinese A-share market and the ability to fund equity purchases in renminbi.

Geographical expansion of large corporates and rising world trade are expected to increase the demand for cross-border payments and related services. Our strength in Payments and Cash Management was recognised by *Euromoney*, who named HSBC the Best Global Cash Manager for Non-financial Institutions and Best Global Cash Manager for Corporate and Financial Institutions , for the second and third consecutive years, respectively. We were also able to win a mandate for renminbi cash management and additional foreign exchange and deposit business from a global automotive group which is seeking to expand into mainland China.

Leveraging our distinctive international expertise and geographical network which connects developed and faster-growing regions

Our distinctive geographical network and global expertise allows us to provide a truly international service to our clients. We recently demonstrated the value of our global capital markets capabilities and leading position in faster-growing markets to a European automotive group. We advised and acted as joint sub-underwriter on a domestic securitisation in mainland China which was structured to attract both international and domestic investors. We were the first foreign bank to advise on the structuring of an internationally rated ABS transaction in mainland China.

GB&M continues to focus on collaborating with other global businesses and supporting clients in accessing a range of products across our Markets and Capital Financing businesses. In 2014, collaboration revenue between GB&M and CMB was broadly unchanged, driven by a reduction in Foreign Exchange which was offset by growth in Capital Financing, notably in advisory.

Global Private Banking

GPB serves high net worth individuals and families with complex and international needs within the Group s priority markets.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**994**	1,146	1,294
Net fee income	**1,056**	1,150	1,232
Other income[42]	**327**	143	646
Net operating income[4]	**2,377**	2,439	3,172
LICs[43]	**8**	(31)	(27)
Net operating income	**2,385**	2,408	3,145
Total operating expenses	**(1,778)**	(2,229)	(2,143)
Operating profit	**607**	179	1,002
Income from associates[44]	**19**	14	7
Profit before tax	**626**	193	1,009
RoRWA[36]	**2.9%**	0.9%	4.6%

Positive net new money of

US$14bn

in areas targeted for growth

since December 2013

Performance continued to be affected by

actions taken to reposition the customer

base

Best Family Office Offering

(Private Banker International Global Wealth Awards)

Strategic direction

GPB aims to build on HSBC s commercial banking heritage to be the leading private bank for high net worth business owners by:

capturing growth opportunities in home and priority growth markets, particularly from intra-Group collaboration by accessing owners and principals of CMB and GB&M clients; and

repositioning the business to concentrate on onshore markets and a smaller number of target offshore markets, aligned with Group priorities.

Implementing Global Standards, enhancing risk management controls, tax transparency and simplifying processes also remain top priorities for GPB.

For footnotes, see page 109.

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Report of the Directors: Financial Review (continued)

Review of reported performance

Reported profit before tax of US$626m was US$433m higher than in 2013. This was due to a small number of significant items (see page 42), most notably in 2013 from the loss on write-off of allocated goodwill relating to our Monaco business of US$279m and regulatory provisions of US$352m.

We expect our GPB results in 2015 to be affected by the reduction in our client assets as we continue to reposition our business model, including reducing the number of clients in non-priority markets.

Review of adjusted performance[45]

Profit before tax (US$m)

Profit before tax fell by US$162m to US$738m, mainly due to reduced revenue as we continued to reposition the business, partly offset by lower operating expenses and LICs.

Revenue (US$m)

Revenue decreased by 11% compared with 2013, due to lower trading income and net fee income reflecting a managed reduction in client assets and lower market volatility. Net interest income also declined, mainly in Europe and Asia, driven by a reduction in deposit balances and lower treasury income, respectively, both reflecting actions to reposition the business. In addition, lending spreads narrowed compared with 2013.

Net loan impairment releases in 2014 compared with charges of US$33m in 2013, largely due to releases of collective impairment allowances in the UK and in the US.

Operating expenses (US$m)

Operating expenses decreased by 5%, primarily due to the release of a UK customer redress provision recognised in 2012, the non-recurrence of the UK provision relating to a bilateral Rubik tax agreement between the UK and Swiss governments, and the managed reduction in staff numbers.

Reported client assets[54]

	2014 US$bn	2013 US$bn
At 1 January	**382**	398
Net new money	**(3)**	(26)
Of which: areas targeted for growth	**14**	(7)
Value change	**8**	12
Disposals	**(11)**	(3)
Exchange and other	**(11)**	1
At 31 December	**365**	382

Reported client assets by geography

	2014 US$bn	2013 US$bn
Europe	**179**	197
Asia	**112**	108
North America	**63**	65
Latin America	**11**	12
At 31 December	**365**	382

For footnote, see page 109.

On a reported basis, client assets, which include funds under management and cash deposits, decreased, mainly in Europe, due to the effect of the sale of a portfolio of clients in Switzerland, the disposal of our HSBC Trinkaus & Burkhardt AG business in Luxembourg and negative net new money. In addition there were unfavourable foreign exchange movements, mainly in Europe. This was partly offset by favourable market movements. Negative net new money of US$3bn was mainly driven by the continued repositioning of our business, though we attracted positive net new money of US$14bn in areas that we have targeted for growth, including our home and priority growth markets and the high net worth client segment.

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Report of the Directors: Financial Review (continued)

On a reported basis, our return on assets, defined as the percentage of revenue to average client assets, was 63bps in 2014, broadly unchanged compared with 2013. On an adjusted basis, our return on assets was 6bps lower in 2014, reflecting the effect of the repositioning and reduced market volatility. Our client return on assets, which excludes treasury and capital revenue, also decreased by 4bps.

In January 2015, the Swiss National Bank removed its currency cap with the euro which resulted in the appreciation of the Swiss franc. We monitor the impact of foreign exchange rate fluctuations on a continuing basis and do not expect any significant effect on the reported results of our GPB business.

Strategic direction

Capture growth in our home and priority growth markets and focus on collaboration revenues

In 2014, new referrals from other global businesses generated net new money of over US$10bn, which was US$5.5bn higher than in 2013. In total, 74% of our net new money from areas targeted for growth in 2014 came from Group-referred clients, helped by adopting a more coordinated and systematic approach to identifying client needs in conjunction with the other global businesses.

We integrated our collaboration efforts with GB&M and CMB into one team, the Corporate Client Group (CCG). This was established to improve client introductions to and from GPB by standardising best practices and developing tailored offerings to meet client needs more effectively. The CCG is also responsible for enhancing coverage of existing personal and corporate relationships through a coordinated approach. In addition, the Global Solutions Group was established to deliver bespoke solutions to ultra-high net worth and global priority clients. This involves working closely with GB&M and CMB to enhance the service we offer to these sophisticated clients.

We also established the Wealth Client Group with responsibility for ensuring greater alignment and increased collaboration with RBWM, including utilising RBWM s transactional banking capabilities.

To support client growth, we expanded our product offering with investment opportunities in three new Alternatives products, comprising one private equity fund and two real estate funds. We strengthened our investment group by ensuring that the majority of clients with assets greater than US$5m now have access to a dedicated investment counsellor. We partnered with the GB&M Global Research team to improve the advisory services for our clients supported by easy client access to a wider range of investment research reports. We plan to deploy this globally by the end of 2015. We also worked closely with HSBC Securities Services to provide our ultra-high net worth and family office clients with access to our institutional global custody platform in Europe and the Middle East and North Africa, providing clients with access to trade capture, clearing and settlement, safekeeping and investment administration services.

Repositioning the business

We continued to reposition the GPB business model and client base in 2014 by reviewing our portfolio and seeking to ensure that all clients comply with our Global Standards, including financial crime compliance and tax transparency standards.

We remain focused on clients with wider Group connectivity within our home and priority growth markets. Following the announcement of the sale of a portfolio of clients in Switzerland to LGT Bank (Switzerland) Ltd earlier this year, we completed the migration of US$8bn of client assets in the second half of 2014. We also continued to reduce the number of clients in non-priority markets.

In 2014, we continued to streamline and rationalise the business, closing a number of non-strategic representative offices, and we announced the consolidation of our trust business in Europe into a regional hub in Jersey. We also commenced development of a new global IT banking platform. This is expected to deliver improved efficiency, enhanced services and a consistent client offering by consolidating GPB s multiple systems onto a single banking platform. We remain on track to deliver the first phase of the implementation in 2015.

We enhanced our digital capabilities with the deployment of a new mobile application in Switzerland, Monaco, Luxembourg and Guernsey, enabling clients to view their investment holdings and transactions while on the move. We introduced a secure tablet application for front office staff in Switzerland delivering digital document browsing during client visits, and also deployed video meeting capabilities in the US. Wider deployment of these and other applications is scheduled for 2015.

Report of the Directors: Financial Review (continued)

Other[39]

Other contains the results of HSBC s holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions and movements in fair value of own debt.

	2014 US$m	2013 US$m	2012 US$m
Net interest expense	**(501)**	(737)	(730)
Net fee income/(expense)	**(65)**	64	194
Net trading income/(expense)[50]	**(92)**	6	(537)
Changes in fair value of long-term debt issued and related derivatives	**508**	(1,228)	(4,327)
Changes in other financial instruments designated at fair value	**(9)**	(576)	(1,136)
Net income/(expense) from financial instruments designated at fair value	**499**	(1,804)	(5,463)
Other income	**6,524**	8,122	8,868
Net operating income[4]	**6,365**	5,651	2,332
LICs[43]			
Net operating income	**6,365**	5,651	2,332
Total operating expenses	**(8,601)**	(7,796)	(9,369)
Operating loss	**(2,236)**	(2,145)	(7,037)
Income/(expense) from associates[44]	**6**	(14)	47
Loss before tax	**(2,230)**	(2,159)	(6,990)

For footnotes, see page 109.

Review of reported performance

Reported loss before tax of US$2.2bn was 3% higher than in 2013. This was driven by increased operating costs partly offset by higher revenue.

The increase in loss before tax of US$71m included favourable movements in the fair value of own debt of US$417m in 2014 compared with adverse movements of US$1.2bn in 2013. These results also included the following items in 2013:

gain on derecognition of Industrial Bank as an associate (US$1.1bn);

net gain on disposal of Ping An Insurance (Group) Company of China, Ltd (Ping An) (US$553m); and

foreign exchange gains relating to sterling debt issued by HSBC Holdings (US$442m);
and the following items in 2014:

gain on sale of our shareholding in Bank of Shanghai in 2014 (US$428m); and

an impairment on our investment in Industrial Bank (US$271m).

For further details of all significant items, see page 42.

Review of adjusted performance[45]

Loss before tax (US$m)

The **loss before tax** decreased, reflecting increased revenue partly offset by higher operating costs.

Revenue (US$m)

Revenue rose by US$1.3bn, primarily due to favourable movements in 2014 of US$96m on interest and exchange rate ineffectiveness in the hedging of long-term debt designated at fair value issued principally by HSBC Holdings and its European subsidiaries, compared with adverse movements of US$551m in 2013. In addition, recoveries of certain expenses from global businesses increased, reflecting higher operating expenses, and we recorded a gain arising from the external hedging of an intra-Group financing transaction in Europe. There was also a release of accrued interest on uncertain tax reserves in the US. These factors were partly offset by the expiry of the TSAs relating to the sale of the CRS business in the US and lower income from investment properties in Asia.

Operating expenses (US$m)

Report of the Directors: Financial Review (continued)

Operating expenses increased by US$946m due to higher costs associated with Regulatory Programmes and Compliance, an increase in Global Resourcing costs in India and mainland China and the 2013 release of a litigation provision in Asia. In addition, the UK bank levy charge of US$1.1bn in 2014 was higher than the charge of US$916m in 2013, primarily due to an increase in the rate of the levy. This was partly offset by a reduction in North America by the expiry of the TSAs relating to the sale of the CRS business.

Analysis by global business

HSBC profit/(loss) before tax and balance sheet data

	2014						
	Retail Banking and Wealth Management US$m	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Global Private Banking US$m**	**Other[39] US$m**	**Inter-segment elimination[55] US$m**	**Total US$m**
Profit/(loss) before tax							
Net interest income/(expense)	16,782	10,506	7,022	994	(501)	(98)	34,705
Net fee income/(expense)	6,668	4,738	3,560	1,056	(65)		15,957
Trading income/(expense) excluding net interest income	(28)	620	4,063	298	(100)		4,853
Net interest income/(expense) on trading activities	9	(2)	1,798	(4)	8	98	1,907
Net trading income/(expense)[50]	(19)	618	5,861	294	(92)	98	6,760
Changes in fair					508		508

value of long- term debt issued and related derivatives							
Net income/(expense) from other financial instruments designated at fair value	1,675	288	12	(1)	(9)		1,965
Net income/(expense) from financial instruments designated at fair value	1,675	288	12	(1)	499		2,473
Gains less losses from financial investments	14	31	1,117	9	164		1,335
Dividend income	24	18	80	5	184		311
Net insurance premium income	10,570	1,296	5	50			11,921
Other operating income	719	248	124	33	6,176	(6,169)	1,131
Total operating income	36,433	17,743	17,781	2,440	6,365	(6,169)	74,593
Net insurance claims[56]	(11,839)	(1,440)	(3)	(63)			(13,345)
Net operating income[4]	24,594	16,303	17,778	2,377	6,365	(6,169)	61,248
Loan impairment (charges)/recoveries and other credit risk provisions	(1,819)	(1,675)	(365)	8			(3,851)
Net operating income	22,775	14,628	17,413	2,385	6,365	(6,169)	57,397
Employee expenses[57]	(5,038)	(2,439)	(3,655)	(732)	(8,502)		(20,366)
Other operating expenses	(12,484)	(5,050)	(8,373)	(1,046)	(99)	6,169	(20,883)
Total operating expenses	(17,522)	(7,489)	(12,028)	(1,778)	(8,601)	6,169	(41,249)
Operating profit/(loss)	5,253	7,139	5,385	607	(2,236)		16,148
Share of profit in associates and joint ventures	398	1,605	504	19	6		2,532
Profit/(loss) before tax	5,651	8,744	5,889	626	(2,230)		18,680

	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**30.3**	**46.8**	**31.5**	**3.4**	**(12.0)**		**100.0**
Cost efficiency ratio	**71.2**	**45.9**	**67.7**	**74.8**	**135.1**		**67.3**

Balance sheet data[40]

	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)[27]	**359,744**	**313,999**	**254,463**	**44,102**	**2,352**		**974,660**
Total assets	**499,083**	**372,739**	**1,839,644**	**88,342**	**164,537**	**(330,206)**	**2,634,139**
Customer accounts[27]	**581,421**	**363,654**	**319,121**	**85,465**	**981**		**1,350,642**

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	2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other[39] US$m	Inter-segment elimination[55] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	18,339	10,200	6,766	1,146	(737)	(175)	35,539
Net fee income	7,021	4,717	3,482	1,150	64		16,434
Trading income/(expense) excluding net interest income	689	649	4,953	390	(38)		6,643
Net interest income/(expense) on trading activities	(3)		1,827	4	44	175	2,047
Net trading income[50]	686	649	6,780	394	6	175	8,690
Changes in fair value of long-term debt issued and related derivatives					(1,228)		(1,228)
Net income/(expense) from other financial instruments designated at fair value	1,638	332	599	4	(576)	(1)	1,996
Net income/(expense) from financial instruments designated at fair value	1,638	332	599	4	(1,804)	(1)	768

Gains less losses from financial investments	55	1	747	(3)	1,212		2,012
Dividend income	21	15	129	8	149		322
Net insurance premium income	10,543	1,375	6	16			11,940
Other operating income/(expense)	544	621	670	(239)	6,761	(5,725)	2,632
Total operating income	38,847	17,910	19,179	2,476	5,651	(5,726)	78,337
Net insurance claims[56]	(12,107)	(1,545)	(3)	(37)			(13,692)
Net operating income[4]	26,740	16,365	19,176	2,439	5,651	(5,726)	64,645
Loan impairment charges and other credit risk provisions	(3,227)	(2,384)	(207)	(31)			(5,849)
Net operating income	23,513	13,981	18,969	2,408	5,651	(5,726)	58,796
Employee expenses[57]	(5,219)	(2,327)	(3,549)	(776)	(7,325)		(19,196)
Other operating expenses	(12,029)	(4,722)	(6,411)	(1,453)	(471)	5,726	(19,360)
Total operating expenses	(17,248)	(7,049)	(9,960)	(2,229)	(7,796)	5,726	(38,556)
Operating profit/(loss)	6,265	6,932	9,009	179	(2,145)		20,240
Share of profit/(loss) in associates and joint ventures	384	1,509	432	14	(14)		2,325
Profit/(loss) before tax	6,649	8,441	9,441	193	(2,159)		22,565
	%	%	%	%	%		%
Share of HSBC s profit before tax	29.5	37.4	41.8	0.9	(9.6)		100.0
Cost efficiency ratio	64.5	43.1	51.9	91.4	138.0		59.6
Balance sheet data[40]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	375,086	297,852	272,473	44,224	2,454		992,089

Total assets	517,085	360,623	1,975,509	97,655	171,812	(451,366)	2,671,318
Customer accounts[27]	579,994	354,298	328,800	96,770	1,435		1,361,297

For footnotes, see page 109.

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Profit/(loss) before tax and balance sheet data (continued)

	2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other[38]	Inter segment elimination[55]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income/(expense)	20,298	10,361	6,960	1,294	(730)	(511)	37,672
Net fee income	7,205	4,470	3,329	1,232	194		16,430
Trading income/(expense) excluding net interest income	276	617	3,588	476	(549)		4,408
Net interest income on trading activities	28	16	2,102	14	12	511	2,683
Net trading income/(expense)[49]	304	633	5,690	490	(537)	511	7,091
Changes in fair value of long-term debt issued and related derivatives					(4,327)		(4,327)
Net income/(expense) from other financial instruments designated at fair value	1,893	250	1,094		(1,136)		2,101
Net income/(expense)	1,893	250	1,094		(5,463)		(2,226)

from financial instruments designated at fair value							
Gains less losses from financial investments	96	22	730	(3)	344		1,189
Dividend income	24	18	148	6	25		221
Net insurance premium income	11,191	1,786	25	42			13,044
Gains on disposal of US branch network, US cards business and Ping An	3,735	277			3,012		7,024
Other operating income	1,472	536	313	151	5,487	(5,859)	2,100
Total operating income	46,218	18,353	18,289	3,212	2,332	(5,859)	82,545
Net insurance claims[56]	(12,357)	(1,802)	(16)	(40)			(14,215)
Net operating income[1]	33,861	16,551	18,273	3,172	2,332	(5,859)	68,330
Loan impairment charges and other credit risk provisions	(5,515)	(2,099)	(670)	(27)			(8,311)
Net operating income	28,346	14,452	17,603	3,145	2,332	(5,859)	60,019
Employee expenses[57]	(5,532)	(2,247)	(3,764)	(915)	(8,033)		(20,491)
Other operating expenses	(14,237)	(5,351)	(6,143)	(1,228)	(1,336)	5,859	(22,436)
Total operating expenses	(19,769)	(7,598)	(9,907)	(2,143)	(9,369)	5,859	(42,927)
Operating profit/(loss)	8,577	6,854	7,696	1,002	(7,037)		17,092
Share of profit in associates and joint ventures	998	1,681	824	7	47		3,557
Profit/(loss) before tax	9,575	8,535	8,520	1,009	(6,990)		20,649
	%	%	%	%	%		%
Share of HSBC s profit before tax	46.4	41.3	41.3	4.9	(33.9)		100.0
Cost efficiency ratio	58.4	45.9	54.2	67.6			62.8

Balance sheet data[40]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	378,022	288,033	249,209	45,213	2,495		962,972
Total assets	536,244	363,659	1,942,470	118,440	201,741	(470,016)	2,692,538
Customer accounts[27]	562,151	338,405	303,561	105,708	1,571		1,311,396

For footnotes, see page 109.

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Geographical regions

Summary

Additional information on results in 2014 may be found in the Financial Summary on pages 40 to 62.

In the analysis of profit and loss by geographical regions that follows, operating income and operating expenses include intra-HSBC items of US$2,972m (2013: US$2,628m; 2012: US$2,684m).

From 1 January 2014, the geographical region Asia replaced the geographical regions previously reported as Hong Kong and Rest of Asia-Pacific. This aligns with changes made in the financial information used internally to manage the business. Comparative data have been represented accordingly.

All commentaries are on an adjusted basis (page 40) unless otherwise stated, while tables are on a reported basis unless otherwise stated.

Profit/(loss) before tax

	2014		2013		2012	
	US$m	**%**	US$m	%	US$m	%
Europe	**596**	**3.2**	1,825	8.1	(3,414)	(16.5)
Asia[8]	**14,625**	**78.3**	15,853	70.3	18,030	87.3
Middle East and North Africa	**1,826**	**9.8**	1,694	7.5	1,350	6.5
North America	**1,417**	**7.6**	1,221	5.4	2,299	11.1
Latin America	**216**	**1.1**	1,972	8.7	2,384	11.6
Year ended 31 December	**18,680**	**100.0**	22,565	100.0	20,649	100.0

Total assets[40]

	2014		2013	
	US$m	**%**	US$m	%
Europe	**1,290,926**	**49.0**	1,392,959	52.1
Asia[8]	**878,723**	**33.4**	831,791	31.1
Middle East and North Africa	**62,417**	**2.4**	60,810	2.3
North America	**436,859**	**16.6**	432,035	16.2
Latin America	**115,354**	**4.4**	113,999	4.3
Intra-HSBC items	**(150,140)**	**(5.8)**	(160,276)	(6.0)
At 31 December	**2,634,139**	**100.0**	2,671,318	100.0

Risk-weighted assets[58]

	2014		2013	
	US$bn	**%**	US$bn	%
At 31 December	**1,219.8**	**100.0**	1,092.7	100.0
Europe	**375.4**	**30.1**	300.1	27.1
Asia[8]	**499.8**	**40.0**	430.7	38.9
Middle East and North Africa	**63.0**	**5.0**	62.5	5.7
North America	**221.4**	**17.8**	223.8	20.2
Latin America	**88.8**	**7.1**	89.5	8.1

For footnotes, see page 109.

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Europe

Our principal banking operations in Europe are HSBC Bank plc in the UK, HSBC France, HSBC Bank A.S. in Turkey, HSBC Private Bank (Suisse) SA and HSBC Trinkaus & Burkhardt AG. Through these subsidiaries we provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**10,611**	10,693	10,394
Net fee income	**6,042**	6,032	6,169
Net trading income	**2,534**	4,423	2,707
Other income/(expense)	**2,384**	(181)	(1,662)
Net operating income[4]	**21,571**	20,967	17,608
LICs[43]	**(764)**	(1,530)	(1,921)
Net operating income	**20,807**	19,437	15,687
Total operating expenses	**(20,217)**	(17,613)	(19,095)
Operating profit/(loss)	**590**	1,824	(3,408)
Income/(expense) from associates[44]	**6**	1	(6)
Profit/(loss) before tax	**596**	1,825	(3,414)
Cost efficiency ratio	**93.7%**	84.0%	108.4%
RoRWA[36]	**0.2%**	0.6%	(1.0%)
Year-end staff numbers	**69,363**	68,334	70,061

Best Debt House in Western Europe

for the second consecutive year

(Euromoney Awards)

UK No1 Trade Bank

(Global Finance Magazine)

US$3.1bn

of regulatory fines, provisions,

penalties and UK customer redress

For footnotes, see page 109.

Economic background

The **UK** recovery continued through the second half of 2014, though the pace of expansion moderated towards the end of the year. Preliminary estimates indicate that the annual rate of growth of real Gross Domestic Product (GDP) was 2.6%. The unemployment rate fell to 5.7% in the three months to December and wage growth accelerated slightly from a very low level. The annual Consumer Price Index (CPI) measure of inflation reached a 14-year low of 0.5% in December. After a period of rapid activity in 2013 and the early months of 2014, there were signs that both economic activity and price inflation in the housing market were moderating as the year ended. The Bank of England kept the Bank Rate steady at 0.5%.

The recovery in **eurozone** economic activity in 2014 was slow and uneven across member states. Real GDP in the region as a whole grew by 0.9% in the year. The German and Spanish economies grew by 1.6% and 1.5%, respectively, while French GDP grew by a more modest 0.4%. Eurozone inflation fell to minus 0.2% in December, prompting fears that the region could move towards a sustained period of deflation. The likelihood that low growth and inflation could persist for an extended period prompted the European Central Bank (ECB) to cut the main refinancing rate and the deposit rate to 0.05% and minus 0.2%, respectively, in September and embark on a policy of balance sheet expansion starting with purchases of covered bonds and asset-backed securities.

Financial overview

Profit before tax (US$m)

Our European operations reported a profit before tax of US$596m in 2014 compared with US$1.8bn in 2013. The decrease in reported profit before tax was driven by a number of significant items and increased operating expenses, partly offset by reduced LICs. The former included charges relating to UK customer redress of US$1.3bn, settlements and provisions in relation to regulatory investigations into foreign exchange of US$1.2bn, of which US$809m was recorded in the fourth quarter of 2014, and provisions arising from the on-going review of compliance with the CCA in the UK of US$632m. For further details of all significant items, see page 42.

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Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
UK	**589**	**2,193**	**(801)**	**191**	**(2,228)**	**(56)**
France[35]	**(181)**	**240**	**354**		**(199)**	**214**
Germany	**28**	**71**	**162**	**27**	**(10)**	**278**
Switzerland		**5**	**2**	**38**	**(3)**	**42**
Turkey	**(155)**	**5**	**92**		**(6)**	**(64)**
Other	**33**	**34**	**240**	**59**	**(184)**	**182**
Year ended 31 December 2014	**314**	**2,548**	**49**	**315**	**(2,630)**	**596**
UK	1,471	1,684	1,246	252	(3,493)	1,160
France[35]	285	255	351	21	(162)	750
Germany	30	70	183	44	(25)	302
Switzerland		2	2	(291)		(287)
Turkey	(74)	36	108	(1)	1	70
Other	41	41	(89)	(190)	27	(170)
Year ended 31 December 2013	1,753	2,088	1,801	(165)	(3,652)	1,825
UK	343	832	(111)	235	(6,355)	(5,056)
France[35]	135	203	514	(11)	(263)	578
Germany	29	64	283	40	(72)	344
Switzerland		2	1	133		136
Turkey	(32)	71	104		1	144
Other	34	36	195	102	73	440
Year ended 31 December 2012	509	1,208	986	499	(6,616)	(3,414)

For footnote, see page 109.

Adjusted profit before tax decreased by US$396m, primarily reflecting an increase in costs which was partly offset by a reduction in LICs; revenue was broadly in line with 2013.

Country business highlights

In the **UK**, overall CMB lending increased by 7% compared with 2013, with new lending and re-financing before attrition and amortisation increasing by 38% and over 85% of small business loan applications approved. In addition, Business Banking launched a campaign to offer further support and lending to SME customers. As part of this, £5.8bn (US$9.9bn) of future lending was made available to help finance growth across the UK. Lending in Global Trade and Receivables Finance also grew by 3% as we built on our position in the market in Trade Finance and reduced attrition from our existing clients in Receivables Finance.

In RBWM, we approved £11.4bn (US$18.8bn) of new mortgage lending to over 118,000 customers, including £3.5bn (US$5.8bn) to over 27,500 first-time buyers. However, our aggregate amount of mortgage balances drawn down decreased marginally. The loan-to-value (LTV) ratio on new lending was 60% compared with an average of 43.7% for the total mortgage portfolio. In October 2014, we expanded our mortgage distribution channels to include an intermediary in order to reach the growing proportion of the mortgage market in the UK that wishes to source its finance that way.

As part of the re-shaping of the GB&M business in 2013, we brought together all our financing businesses into Capital Financing, including lending, debt capital markets and equity capital markets. We increased our sector expertise and

enhanced our geographical spread by appointing two new co-heads of UK Banking. In 2014, the advisory and equity capital markets businesses within Capital Financing experienced volume growth that outstripped the market.

In **France**, in GB&M, we acted as sole advisor on one of the largest mergers and acquisitions (M&A) transactions in Europe. In CMB, our Payments and Cash Management business implemented the Single Euro Payments Area platform (SEPA) for euro-denominated credit transfer and direct debit payments across our European locations. This allows our clients to make and receive payments in euros from their HSBC accounts in the 34 countries that have implemented SEPA, all governed by a consistent set of standards, rules and conditions. In addition, in CMB, we allocated a further 1.5bn (US$2.0bn) to the SME fund and approved over 2.0bn (US$2.7bn) of lending in 2014. In RBWM, we experienced strong growth in home loans.

In **Germany**, as part of our growth initiative, we opened three branches in Dortmund, Mannheim and Cologne, increased the number of relationship managers by 26% and held a number of roadshows in countries including France, mainland China and the UK to reinforce Germany as a key international hub. In GPB, we disposed of our HSBC Trinkaus & Burkhardt AG business in Luxembourg.

In **Turkey**, the regulator imposed interest rate caps on credit cards and overdrafts which affected revenue. Despite this, in September 2014 CMB launched a TRL2bn (US$914m) international fund in order to provide sustainable support and global connectivity for international business, of which TRL1.1bn (US$519m) was drawn down.

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In **Switzerland**, we continued to reposition the GPB business and focused on growth through the high net worth client segment. Client assets, which include funds under management and cash deposits, decreased due to this repositioning, as well as the sale of a portfolio of client assets.

In November 2014, we sold the Kazakhstan business in line with the Group strategy.

Review of adjusted performance[45]

Revenue increased by US$76m, primarily in the UK, partly offset by reductions elsewhere, including France, Switzerland and Turkey.

Revenue (US$m)

Country view of adjusted revenue

	2014 US$m	2013 US$m
UK	**16,080**	15,365
France	**2,937**	3,097
Germany	**945**	960
Switzerland	**736**	831
Turkey	**791**	827
Other	**790**	1,123
Year ended 31 December	**22,279**	22,203

In the *UK*, revenue increased by US$715m. This was driven by favourable fair value movements of US$222m from interest and exchange rate ineffectiveness in the hedging of long-term debt issued principally by HSBC Holdings in 2014, compared with adverse movements of US$480m in 2013, and a gain arising from external hedging of an intra-Group financing transaction.

Revenue also rose in CMB due to growth in deposit volumes in Payments and Cash Management and net interest income improved due to wider spreads in term lending. In addition, net fee income grew, partly reflecting increased volumes of new business lending in the Large Corporate and Mid-Market segments.

By contrast, GB&M revenue decreased compared with 2013, primarily driven by Markets. This included the introduction of the FFVA on certain derivative contracts which resulted in a charge affecting Rates and Credit. Revenue also fell in Foreign Exchange, reflecting lower volatility and reduced client flows. Furthermore, revenue decreased in Equities, as 2013 benefited from higher revaluation gains, which more than offset the increase

in revenue from increased client flows and higher derivative income.

RBWM revenue reduced marginally due to spread compression, primarily on mortgages. In addition, fee income fell as a result of higher fees payable under partnership agreements and lower fee income from investment products and overdrafts. These factors were partly offset by improved spreads on savings products and higher current account balances.

In *the rest of Europe*, revenue decreased in France, Switzerland and Turkey. Revenue in France fell principally in RBWM in the Insurance business due to adverse movements of US$203m in the PVIF asset, reflecting a fall in long-term yields which increased the cost of guarantees on the savings business, compared with favourable movements of US$48m in 2013. This was coupled with a fall in GB&M in Rates, due to lower volatility and levels of market activity. In Switzerland, the fall in revenue reflected the repositioning of the GPB business and a reduction in client assets. Revenue also decreased in Turkey, principally in RBWM due to interest rate caps on cards and overdrafts imposed by the local regulator, partly offset by an increase in card fees.

LICs reduced, primarily in the UK and, to a lesser extent, in Spain. In the UK in CMB, individually assessed provisions fell, reflecting the quality of the portfolio and improved economic conditions. GB&M also recorded reduced loan impairment charges due to lower individually assessed provisions, and higher net releases of credit risk provisions on available-for-sale ABSs. This was partly offset by an increase due to a revision in certain estimates in our corporate collective loan impairment calculation. Loan impairment charges in RBWM decreased as a result of lower delinquency levels in the improved economic environment and as customers continued to reduce outstanding credit card and loan balances. Loan impairment charges in Spain decreased due to lower individually assessed provisions.

The decreases in the UK and Spain were partly offset by increases in Turkey and France. Loan impairment charges increased in Turkey due to growth in card delinquency rates following regulatory changes. Loan impairment charges in France increased, predominantly in GB&M and CMB due to higher individually assessed provisions.

Operating expenses (US$m)

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Operating expenses rose by US$1.3bn, mainly in the UK, reflecting growth in Regulatory Programmes and Compliance costs in all businesses and increased staff costs. In addition, the UK bank levy charge of US$1.1bn in respect of 2014 was US$0.2bn higher than in 2013, primarily due to an increase in the rate of the levy. Expenses also increased due to the timing of the recognition of the Financial Services Compensation Scheme levy in the UK. These increases were partly offset by sustainable cost savings of over US$330m.

2013 compared with 2012

Economic background

UK Gross Domestic Product (GDP) growth rose to 1.9% in 2013, higher than in previous years, though the level of real GDP remained below the level seen prior to the recession. The recovery was driven in part by stronger household consumption. The Bank of England policy rate remained at 0.5% and the Asset Purchase Scheme came to a halt. The Bank of England announced a forward guidance policy in August in which it indicated Bank Rate would not rise until unemployment had fallen towards 7%. Labour market conditions improved more rapidly than expected and the headline unemployment rate fell to 7.1% in December. The annual rate of Consumer Prices Index (CPI) inflation fell in December to 2.0%, the lowest level of inflation in almost four years.

The **eurozone** emerged from recession in the second quarter of 2013 with the improvement early in the year driven by Germany and France. However, activity failed to gain momentum since quarterly GDP growth averaged just 2.0% in the second half of the year. Domestic demand improved on the back of improving real wage growth and a slower pace of austerity but recovery remained heavily dependent on external demand. Given the weakness of the economy in early 2013, the ECB cut its refinancing rate from 0.75% to 0.5% in May and then in July adopted a forward guidance policy under which it committed to keep rates at present or lower levels for an extended period . Despite the return to growth, CPI inflation dropped to 0.7% in October 2013 prompting the ECB to cut the refinancing rate by a further 0.25% in November. A combination of improving growth and the ECB s Outright Monetary Transactions programme, which enables it to buy eurozone government bonds in time of market stress, helped alleviate the sovereign crisis evident in former years and bond yields in Italy and Spain fell to their lowest levels since 2010.

Review of performance

2013 compared with 2012 commentaries are on a constant currency basis and have not been updated to reflect our change to adjusted performance. For comparison, adjusted profit before tax would have been US$4.1bn and US$3.5bn for 2013 and 2012 respectively as compared with constant currency profit before tax of US$1.8bn and a loss before tax of US$3.4bn for 2013 and 2012 respectively. Constant currency, underlying and adjusted are reconciled on pages 105(b) to 105(au).

Our European operations reported a profit before tax of US$1.8bn in 2013 compared with a loss of US$3.4bn in 2012 (US$3.3bn on a constant currency basis). On an underlying basis, excluding fair value movements on own debt, the effects of foreign currency translation and acquisitions and disposals, profit before tax increased by US$2.1bn. This was due to significantly lower operating expenses, driven by a decrease in charges relating to UK customer redress programmes, an accounting gain of US$430m relating to changes in delivering ill-health benefits to certain employees in the UK and sustainable cost savings in 2013.

In the UK, we continued to support the housing market during 2013, approving £14.4bn (US$22.5bn) of new mortgage lending to over 135,000 customers. This included £3.8bn (US$6.0bn) to over 30,000 first time buyers. The loan-to-value ratio on new lending was 59.5% compared with an average of 48.3% for the total mortgage portfolio. In addition, we implemented the Global Wealth Incentive Plan to better align customer and business interests.

CMB repositioned its Business Banking segment towards international and internationally aspirant customers while streamlining and re-engineering core processes, which enabled it to obtain efficiencies in a number of areas and supported its continued investment in corporate banking and Global Trade and Receivables Finance. Following the success of the 2012 International SME fund, CMB launched a further fund in 2013, continuing its support for UK businesses that trade or aspire to trade internationally with approved lending of £4.8bn (US$7.5bn), including the renewal of overdraft and other lending facilities. In addition, CMB won awards for Best Service from a Business Bank and Best Online Banking Provider at the *Business Moneyfacts* awards. GB&M s debt capital markets activity in the Credit and Capital Financing businesses was successful in capturing growth in issuance demand, which resulted in leading market positions and increased market share in the sterling markets. We were ranked first by Bloomberg for primary debt capital market issuances in 2013.

In France, CMB launched a similar SME fund to that in the UK, targeted at international trade customers, approving 1.5bn (US$2.0bn) of lending in 2013. GB&M acted as joint book runner of a 6.2bn (US$8.2bn) hybrid bond for a premier French corporate client, demonstrating our ability to deliver large and complex transactions. In RBWM, we increased our market share in the highly competitive home loans market.

In Turkey, unsecured lending grew in RBWM, notably in the credit card business due to new product features and channel capabilities including mobile banking. We launched a similar SME fund to those in the UK and France targeted at international trade customers, approving Turkish lira 1.1bn (US$0.6bn) of lending in 2013.

We continued to support the programme of renminbi internationalisation during the year with flagship client events taking place in the UK, France and Germany.

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In Switzerland we continued to address legacy issues and reposition the customer base.

Net interest income increased by 3%, primarily in the UK. In GB&M, Balance Sheet Management net interest income was higher, reflecting both portfolio growth from rising deposit balances and reduced funding costs. In addition, net interest income increased due to higher lending spreads in Capital Financing and a rise in legacy credit. In RBWM net interest income increased, driven by growth in residential mortgage balances and improved lending spreads. RBWM customer account balances also increased as customers held balances in readily accessible current and savings accounts, although the benefit was restricted by deposit spread compression. In CMB, net interest income in the UK rose as a result of growth in term lending revenue from higher spreads on new and renewed business, as well as deposit growth in Payments and Cash Management. The spreads resulted in increased portfolio margins overall.

In France, net interest income increased due to improved spreads and growth in home loan balances.

These factors were partly offset by a decline, mainly in Switzerland in GPB, as higher yielding positions matured and opportunities for reinvestment were limited by lower prevailing yields. Narrower lending and deposit spreads and reduced average deposit balances also contributed to a fall in net interest income in Switzerland.

Net fee income decreased by US$138m, mainly in Switzerland in GPB with lower brokerage fees due to a reduction in client transaction volumes, in part reflecting decreased market volatility and fewer large deals.

In the UK, net fee income decreased in RBWM due to higher fees payable under partnership agreements and lower creditor insurance fees. In GB&M, net fee income fell because of higher fees paid to other regions relating to increased foreign exchange trading activities. This was partly offset by increased issuance demand in debt capital markets and event-driven fee income in equity underwriting from increased deal volumes. In addition, we experienced a rise in lending fees in CMB.

In Turkey, net fee income rose due to the growth in card revenue as the business expanded.

Net trading income increased by US$1.7bn to US$4.4bn. This was primarily in the UK, driven in part by lower adverse foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value, with the offset reported in Net income from financial instruments designated at fair value . In addition, there was a foreign exchange gain on sterling debt issued by HSBC Holdings and increased favourable fair value movements on non-qualifying hedges compared with 2012.

In GB&M, net trading income included a favourable DVA of US$65m in 2013. 2012 included a net charge of US$312m as a result of a change in estimation methodology in respect of CVAs of US$615m and DVAs of US$303m, reflecting evolving market practices.

Also in GB&M, Foreign Exchange income rose following increased customer activity, although the rise was offset in part by margin compression and reduced market volatility in the second half of 2013. Net trading income was also higher in the Equities business due to increased deal volumes and revaluation gains. Rates revenue declined due to the benefit in 2012 from tightening spreads following the ECB liquidity intervention, despite new client mandates and increased market participation, particularly in European government bonds. We also experienced lower adverse fair value movements from own credit spreads on structured liabilities.

In France, trading income on non-qualifying hedges increased as long-term interest rates rose.

Net income from financial instruments designated at fair value was US$0.4bn compared with net expense of US$2.2bn in 2012. In the UK, we reported lower adverse movements on the fair value of our own debt of US$1.0bn, compared with adverse movements of US$4.1bn in 2012. Excluding this, net income declined, driven by lower favourable foreign exchange movements on foreign currency debt than in 2012, with the offset reported in Net trading income . In addition, there were higher adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt issued principally by HSBC Holdings and its European subsidiaries than in 2012.

By contrast, in the UK and France, we recognised higher net investment gains on the fair value of assets held to meet liabilities under insurance and investment contracts than in 2012, as market conditions improved.

Gains less losses from financial investments increased by US$19m as in the UK we reported gains in RBWM in the Asset Management Group. In GB&M, higher disposal gains and lower impairments on available-for-sale equity securities in Principal Investments were more than offset by lower net gains on the disposal of available-for-sale debt securities in Balance Sheet Management, as part of structural interest rate risk management of the balance sheet.

Net earned insurance premiums decreased by 15%, mainly in RBWM in France reflecting lower sales of investment contracts with DPF and the run-off of business from independent financial adviser channels in 2013.

Other operating income decreased by US$600m due to a loss recognised in GPB following the write-off of goodwill relating to our Monaco business and a loss on sale in RBWM on the disposal of an HFC Bank UK secured loan portfolio.

Net insurance claims incurred and movement in liabilities to policyholders was broadly in line with 2012. Lower reserves established for new business, reflecting the decline in net premium income in France, were partly offset by higher net investment gains on the fair value of assets held to support policyholder contracts in 2013 than in 2012.

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LICs decreased by 20% to US$1.5bn. In the UK, GB&M recorded net releases of credit risk provisions on available-for-sale ABSs compared with impairment charges in 2012, offset in part by higher individually assessed provisions. In addition, loan impairment charges in CMB fell due to lower collectively and individually assessed provisions, and in RBWM due to lower collectively assessed provisions reflecting recoveries from debt sales.

In other countries in Europe, lower individually assessed impairment provisions in Greece were partly offset by increases in Turkey, where there was growth in unsecured lending in RBWM, and a rise in Spain, where the challenging economic conditions continued to affect the market.

Operating expenses decreased by 7%, driven by lower charges relating to UK customer redress programmes, with US$1.2bn reported in 2013 compared with US$2.3bn (US$2.3bn as reported) in 2012. The charges in 2013 included additional estimated redress for possible mis-selling in previous years of US$756m in respect of PPI compared with US$1.7bn in 2012, US$261m in respect of interest rate protection products compared with US$586m in 2012 and US$149m in respect of

Wealth Management products in 2013. Restructuring costs also fell by US$78m from 2012. In addition, 2012 included a charge relating to the US OFAC investigation of US$375m in HSBC Holdings which did not recur.

Excluding these items, operating expenses were broadly unchanged compared with 2012. We benefited from sustainable cost savings of over US$650m as we continued to streamline the business, and a decline in performance-related costs, notably in GB&M. In addition, we reported an accounting gain of US$430m relating to changes in delivering ill-health benefits to certain employees in the UK. These factors were partially offset by the higher UK bank levy charge of US$904m in respect of 2013 compared with a charge of US$571m in 2012, mainly due to an increase in its rate. In addition, operating expenses in both years included adjustments relating to the prior year charge (2013: US$12m adverse adjustment; 2012: US$99m favourable adjustment). In other countries in the region, we experienced higher Madoff-related litigation charges in GB&M in Ireland and a provision in respect of regulatory investigations in GPB in Switzerland.

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Profit/(loss) before tax and balance sheet data Europe

	2014						
	Retail Banking and Wealth Management US$m	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Global Private Banking US$m**	**Other US$m**	**Inter-segment elimination[55] US$m**	**Total US$m**
rofit/(loss) before ax							
Net interest ncome/(expense)	**5,196**	**3,616**	**1,956**	**594**	**(654)**	**(97)**	**10,611**
Net fee ncome/(expense)	**2,456**	**1,900**	**1,087**	**626**	**(27)**		**6,042**
Trading ncome/(expense) xcluding net nterest income	**(260)**	**33**	**1,943**	**140**	**(92)**		**1,764**
Net interest ncome/(expense) on trading activities	**14**	**2**	**660**	**(4)**	**1**	**97**	**770**
Net trading ncome/(expense)[50]	**(246)**	**35**	**2,603**	**136**	**(91)**	**97**	**2,534**
Changes in fair alue of long-term lebt issued and elated derivatives					**614**		**614**
Net ncome/(expense) rom other financial nstruments lesignated at fair alue	**616**	**119**	**14**	**(1)**	**(11)**		**737**
Net ncome/(expense) rom financial nstruments lesignated at fair	**616**	**119**	**14**	**(1)**	**603**		**1,351**

alue							
Gains less losses rom financial nvestments	12	10	730	9	11		772
Dividend income	3	7	50	2	3		65
Net insurance premium ncome/(expense)	2,741	217		50			3,008
Other operating ncome/(expense)	(127)	45	(3)	29	1,249	(186)	1,007
Total operating ncome	**10,651**	**5,949**	**6,437**	**1,445**	**1,094**	**(186)**	**25,390**
Net insurance laims[56]	(3,450)	(306)		(63)			(3,819)
Net operating ncome[4]	**7,201**	**5,643**	**6,437**	**1,382**	**1,094**	**(186)**	**21,571**
Loan impairment charges)/ ecoveries and other redit risk provisions	(268)	(502)		4	2		(764)
Net operating ncome	**6,933**	**5,141**	**6,437**	**1,386**	**1,096**	**(186)**	**20,807**
Total operating xpenses	(6,621)	(2,594)	(6,391)	(1,071)	(3,726)	186	(20,217)
Operating profit/(loss)	**312**	**2,547**	**46**	**315**	**(2,630)**		**590**
Share of profit in ssociates and joint ventures	2	1	3				6
Profit/(loss) before ax	**314**	**2,548**	**49**	**315**	**(2,630)**		**596**
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.7	13.6	0.3	1.7	(14.1)		3.2
Cost efficiency ratio	91.9	46.0	99.3	77.5	340.6		93.7

Balance sheet data[40]

	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances o customers (net)[27]	165,112	106,342	113,136	24,766	377		409,733
Total assets	221,679	120,819	948,951	64,676	64,182	(129,381)	1,290,926
Customer accounts[27]	202,413	135,837	166,075	41,380	254		545,959

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	2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	5,600	3,353	1,774	722	(694)	(62)	10,693
Net fee income/(expense)	2,545	1,789	957	744	(3)		6,032
Trading income excluding net interest income	206	30	2,181	192	698		3,307
Net interest income on trading activities	2	5	1,013	4	30	62	1,116
Net trading income[50]	208	35	3,194	196	728	62	4,423
Changes in fair value of long-term debt issued and related derivatives					(936)		(936)
Net income/(expense) from other financial instruments designated at fair value	1,059	271	591	4	(570)	(1)	1,354
Net income/(expense) from financial instruments designated at fair value	1,059	271	591	4	(1,506)	(1)	418
Gains less losses from financial	52		344	(17)			379

investments							
Dividend income	4	2	65	4			75
Net insurance premium income/(expense)	2,782	361	(1)	16			3,158
Other operating income/(expense)	(103)	9	110	(253)	766		529
Total operating income/(expense)	12,147	5,820	7,034	1,416	(709)	(1)	25,707
Net insurance claims[56]	(4,136)	(567)		(37)			(4,740)
Net operating income/(expense)[4]	8,011	5,253	7,034	1,379	(709)	(1)	20,967
Loan impairment charges and other credit risk provisions	(329)	(935)	(242)	(24)			(1,530)
Net operating income/(expense)	7,682	4,318	6,792	1,355	(709)	(1)	19,437
Total operating expenses	(5,934)	(2,231)	(4,987)	(1,519)	(2,943)	1	(17,613)
Operating profit/(loss)	1,748	2,087	1,805	(164)	(3,652)		1,824
Share of profit/(loss) in associates and joint ventures	5	1	(4)	(1)			1
Profit/(loss) before tax	1,753	2,088	1,801	(165)	(3,652)		1,825
	%	%	%	%	%		%
Share of HSBC s profit before tax	7.8	9.2	8.0	(0.7)	(16.2)		8.1
Cost efficiency ratio	74.1	42.5	70.9	110.2	(415.1)		84.0
Balance sheet data[40]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	177,357	105,498	145,136	27,289	830		456,110
Total assets	238,499	124,242	1,054,506	75,718	72,174	(172,180)	1,392,959
Customer accounts[27]	205,288	134,120	191,715	49,789	1,021		581,933

For footnotes, see page 109.

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Profit/(loss) before tax and balance sheet data Europe (continued)

	2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	5,437	3,228	1,409	820	(543)	43	10,394
Net fee income	2,622	1,658	1,032	848	9		6,169
Trading income excluding net interest income	67	26	848	216	25		1,182
Net interest income on trading activities	7	14	1,500	14	33	(43)	1,525
Net trading income[49]	74	40	2,348	230	58	(43)	2,707
Changes in fair value of long-term debt issued and related derivatives					(3,091)		(3,091)
Net income/(expense) from other financial instruments designated at fair value	770	139	1,073		(1,106)		876
Net income/(expense) from financial instruments designated at fair	770	139	1,073		(4,197)		(2,215)

value							
Gains less losses from financial investments	(5)	(1)	375	(3)	(2)		364
Dividend income		1	104	3	3		111
Net insurance premium income	3,150	438		42			3,630
Other operating income	84	58	88	61	796	(9)	1,078
Total operating income/(expense)	12,132	5,561	6,429	2,001	(3,876)	(9)	22,238
Net insurance claims[56]	(4,054)	(536)		(40)			(4,630)
Net operating income/(expense)[1]	8,078	5,025	6,429	1,961	(3,876)	(9)	17,608
Loan impairment charges and other credit risk provisions	(347)	(1,109)	(436)	(29)			(1,921)
Net operating income/(expense)	7,731	3,916	5,993	1,932	(3,876)	(9)	15,687
Total operating expenses	(7,225)	(2,708)	(4,999)	(1,431)	(2,741)	9	(19,095)
Operating profit/(loss)	506	1,208	994	501	(6,617)		(3,408)
Share of profit/(loss) in associates and joint ventures	3		(8)	(2)	1		(6)
Profit/(loss) before tax	509	1,208	986	499	(6,616)		(3,414)
	%	%	%	%	%		%
Share of HSBC s profit before tax	2.5	5.9	4.8	2.4	(32.0)		(16.5)
Cost efficiency ratio	89.4	53.9	77.8	73.0	(70.7)		108.4
Balance sheet data[40]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	170,002	105,796	129,499	29,963	881		436,141
Total assets	240,744	132,718	1,044,507	76,145	75,513	(180,387)	1,389,240
Customer accounts[27]	191,024	121,648	164,743	57,061	739		535,215

For footnotes, see page 109.

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Asia[7]

HSBC s principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia.

We offer a wide range of banking and financial services in mainland China, through our local subsidiaries HSBC Bank (China) Company Limited and Hang Seng Bank (China) Limited. We also participate indirectly in mainland China through our associate, Bank of Communications.

Outside Hong Kong and mainland China, we conduct business in 18 countries and territories in Asia, with particularly strong coverage in Australia, India, Indonesia, Malaysia and Singapore.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**12,273**	11,432	10,707
Net fee income	**5,910**	5,936	5,418
Net trading income	**2,622**	2,026	2,516
Other income	**2,872**	5,038	6,691
Net operating income[4]	**23,677**	24,432	25,332
LICs[43]	**(647)**	(498)	(510)
Net operating income	**23,030**	23,934	24,822
Total operating expenses	**(10,427)**	(9,936)	(9,980)
Operating profit	**12,603**	13,998	14,842
Income from associates[44]	**2,022**	1,855	3,188
Profit before tax	**14,625**	15,853	18,030
Cost efficiency ratio	**44.0%**	40.7%	39.4%
RoRWA[36]	**3.1%**	3.8%	4.4%
Year-end staff numbers	**118,322**	113,701	112,766

10%

Growth in customer lending balances

excluding the effect of currency translation

Market leader for

Asia ex-Japan Bonds

(Bloomberg)

Best Bank in Asia

(The Euromoney Awards of Excellence 2014)

For footnotes, see page 109.

Economic background

Hong Kong s real GDP growth slowed in 2014 relative to 2013 due to weaker domestic demand, partly attributable to the slowdown in the annual growth of retail sales. Labour market conditions softened with unemployment rising, albeit from historically low levels. Tourism arrivals to Hong Kong held up overall, up by 16% in the year compared with 2013, driven by the growth of visitors from mainland China. Headline CPI inflation averaged just over 4% for 2014, with a number of expiring government subsidies offsetting lower inflation in fuel and food prices.

In mainland **China**, real GDP growth slowed from 7.7% in 2013 to 7.4% in 2014, largely due to a slowdown in activity in construction and manufacturing investment which was only partially offset by resilient infrastructure investment. Headline annual CPI inflation fell steadily to 1.5% in December, significantly below the government s target of 3.5%. The People s Bank of China eased monetary policy in November by cutting policy interest rates for the first time since July 2012. The one-year deposit rate was lowered by 25bps to 2.75% and the one-year lending rate by 40bps to 5.6%. Further measures were announced in December to support bank lending and spur economic activity.

Japan experienced significant economic volatility during 2014 from the imposition of a 3 percentage point consumption tax increase, which took effect on 1 April. The economy recorded annualised GDP growth of 5.8% in the first quarter of 2014, but growth slowed sharply after the tax rise, as government stimuli and exports were unable to offset the decline in private consumption. GDP grew at an annualised rate of 2.2% in the fourth quarter after falls of 6.7% and 1.9% in the preceding quarters. The Bank of Japan announced another round of quantitative easing on 31 October 2014, prompting further depreciation of the yen.

In **India**, a new government with a strong mandate for reform boosted market sentiment regarding the long-term prospects for the country s economy. However, the recovery remained constrained in 2014 with many infrastructure projects delayed pending government clearance. The steep decline in international commodity prices during the second half of the year helped push down goods price inflation and reduce the current account deficit. Following an interest rate rise early in 2014, the central bank kept monetary policy stable throughout the year.

The downward trend in global commodity prices permitted **Indonesia** and **Malaysia** to cut costly fuel subsidies, which is expected to reduce external imbalances and improve their fiscal position. Domestic demand in these countries remained relatively robust throughout 2014, supporting economic growth. In **Singapore**, GDP growth slowed in 2014 from weaker export growth and domestic economic restructuring. The Monetary Authority maintained its policy of gradual currency appreciation.

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Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Total
	US$m	US$m	US$m	US$m	US$m	US$m
Hong Kong	**3,727**	**2,264**	**1,807**	**146**	**198**	**8,142**
Australia	**78**	**126**	**232**		**(4)**	**432**
India	**4**	**121**	**442**	**11**	**122**	**700**
Indonesia	**10**	**53**	**110**		**25**	**198**
Mainland China	**292**	**1,533**	**954**	**(3)**	**175**	**2,951**
Malaysia	**156**	**122**	**190**		**28**	**496**
Singapore	**129**	**168**	**243**	**57**	**(8)**	**589**
Taiwan	**19**	**35**	**166**		**1**	**221**
Other	**57**	**320**	**432**		**87**	**896**
Year ended 31 December 2014	**4,472**	**4,742**	**4,576**	**211**	**624**	**14,625**
Hong Kong	3,742	2,110	1,971	208	58	8,089
Australia	100	131	189		26	446
India	(21)	113	418	7	136	653
Indonesia	12	106	126		36	280
Mainland China	223	1,536	842	(4)	1,644	4,241
Malaysia	148	105	236		25	514
Singapore	147	120	262	74	22	625
Taiwan	7	30	158		5	200
Other	61	207	473	(1)	65	805
Year ended 31 December 2013	4,419	4,458	4,675	284	2,017	15,853
Hong Kong	3,694	2,188	1,518	249	(67)	7,582
Australia	97	38	184		(44)	275
India	41	89	497	7	175	809
Indonesia	29	124	146		7	306
Mainland China	838	1,724	1,257	(4)	2,525	6,340
Malaysia	183	131	242		8	564
Singapore	201	139	296	97	(65)	668
Taiwan	62	36	136			234

Other	66	321	567	59	239	1,252
Year ended 31 December 2012	5,211	4,790	4,843	408	2,778	18,030

In **Australia,** real GDP growth rose to an annual rate of around 2.8% in 2014 and unemployment remained roughly unchanged at 6.1%. Mining investment fell sharply and was only partly offset by an improvement in other sectors of the economy. Low interest rates continued to drive an increase in housing market activity and credit growth picked up modestly. The Australian dollar weakened during the year but remained well above its long-run average level.

In **Taiwan**, economic activity accelerated with the level of GDP in 2014 rising 3.5% in the year as a whole. This was the strongest annual rate of growth since 2011 and an improvement on the 2.1% growth seen in 2013. Growth was driven by a combination of strong exports and domestic consumption thanks to low unemployment and rising wage growth. The central bank in Taiwan kept its key policy rate unchanged throughout 2014 at 1.875%, which is the level it has been since 2011.

Financial overview

Profit before tax (US$m)

Our operations in Asia reported a profit before tax of US$14.6bn in 2014 compared with US$15.9bn in 2013, a decrease of 8%. The reduction reflected a decrease in revenue and an increase in costs and LICs, partly offset by a higher share of profits from associates. Revenue included the effect of a number of significant items, notably in 2013, an accounting gain arising from the reclassification of Industrial Bank as a financial investment (US$1.1bn) and the net gain on completion of the Ping An disposal (US$553m).

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Report of the Directors: Financial Review (continued)

Analysis of mainland China profit/(loss) before tax

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
BoCom and other associates	**255**	**1,421**	**296**		**1**	**1,973**
Mainland China operations	**37**	**112**	**658**	**(3)**	**174**	**978**
Industrial Bank						
Ping An						
Year ended 31 December 2014	**292**	**1,533**	**954**	**(3)**	**175**	**2,951**
BoCom and other associates	247	1,360	284		(38)	1,853
Mainland China operations	(24)	176	558	(4)	40	746
Industrial Bank					1,089	1,089
Ping An					553	553
Year ended 31 December 2013	223	1,536	842	(4)	1,644	4,241
BoCom and other associates	214	1,193	248			1,655
Mainland China operations	(52)	176	606	(4)	66	792
Industrial Bank	54	273	343			670
Ping An	622	82	60		2,459	3,223
Year ended 31 December 2012	838	1,724	1,257	(4)	2,525	6,340

In 2014, significant items included the gain on sale of our investment in Bank of Shanghai (US$428m) and an impairment of our investment in Industrial Bank (US$271m). See page 42 for further details of significant items.

On an adjusted basis, profit before tax rose by US$326m or 2%, driven by higher revenue partly offset by increased operating expenses and LICs.

Country business highlights

We continued to focus on our strategic priorities for Asia, using our international network to drive organic growth and connect customers across borders. We completed the sale of our investment in Bank of Shanghai and implemented a discretionary incentive framework that removes the formulaic link between product sales and remuneration. We also saw continued adoption of our mobile banking applications, extended the contact-less payment systems to Android phones and enhanced our digital banking capabilities.

In **Hong Kong**, average mortgage balances in RBWM increased by 7%, with average LTV ratios of 47% on new mortgage drawdowns and an estimated 29% on the portfolio as a whole. In November 2014, to coincide with the launch of the Hong Kong-Shanghai Stock Connect platform, we rolled out new services allowing retail customers to trade and invest in eligible shares that are listed on the Shanghai Stock Exchange. We strengthened our cards offering with the launch of the Visa Signature card product in Hong Kong and continued building new merchant partnerships across the region. We also re-launched our Advance offering to emerging affluent customers in Hong Kong and nine other regional markets. We were awarded International Retail Bank of the Year by *Asian Banking and Finance.*

In CMB, we were one of the first foreign banks to announce renminbi cross-border pooling capability in the Shanghai Free Trade Zone. The collaboration between CMB and GB&M continued throughout the year, as a

consequence of which 157 primary markets transactions were completed in 2014, up from 122 in 2013, primarily for debt capital market issuances and leveraged asset finance mandates. In addition, we were named Best Commercial Bank by *FinanceAsia Achievement Awards 2014.*

In GB&M, we maintained our market leadership in Asia ex-Japan G3 currency and investment grade bonds, and led the market in Hong Kong dollar bond issuances. We were involved in three of the five largest equity capital market transactions during 2014, as well as the first Sukuk sovereign bond issuance in Hong Kong. Furthermore, we continued to lead the market in offshore renminbi bond issuance in Hong Kong, becoming one of the Hong Kong Monetary Authority s primary liquidity providers for offshore renminbi. We also acted as a joint book runner for an offshore preference share issuance for a mainland Chinese bank, the first mainland Chinese Basel III compliant additional tier-1 capital offering. We remain well-positioned to service our institutional investors using Stock Connect through our integrated Custody Plus platform.

In **mainland China**, we continued to develop our branch network, which comprised 173 HSBC outlets, 25 HSBC rural bank outlets and 50 Hang Seng Bank outlets at the end of the year. In RBWM, we were one of the first foreign banks to launch renminbi derivative products linked to the US dollar/renminbi rate and were awarded Best Foreign Retail Bank by *The Asian Banker* for the sixth consecutive year. During 2014, we were the first foreign custodian bank to service renminbi qualified foreign institutional investors based in Singapore and South Korea. We also became a member of the Shanghai Gold Exchange s international board, a newly established trading platform connecting mainland China s gold market to global investors. In addition, we received regulatory approval to be one of the first market makers to directly trade renminbi, euro and Singaporean dollars in mainland China s interbank foreign exchange market.

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In Payments and Cash Management, we launched the Global Payments System which supports all cross-border payments in and out of mainland China in all currencies, including renminbi. In Global Trade and Receivables Finance, we launched trade link initiatives to connect mainland China with the rest of Asia, Germany and the US, to enhance international connectivity and promote activity between key trade routes. In mergers and acquisitions (M&A), we were adviser to a number of state owned enterprises on significant overseas investments and acquisitions.

Elsewhere in Asia, in **India**, we continued to grow our balance sheet in CMB, including term lending and Payments and Cash Management deposits, particularly helping UK corporations to invest in India. In GB&M, we were adviser on two of the largest M&A transactions in 2014, and in Wealth Management we launched Managed Solutions, a multi-asset fund series. In **Australia**, we were a mandated lead arranger for the largest mining project financing deal and for the largest transport infrastructure project during 2014. In CMB, we also announced an A$250m (US$225m) International Growth Fund, providing credit facilities to local SMEs to explore business opportunities abroad.

Review of adjusted performance[45]

Revenue (US$m)

Revenue was US$1.2bn or 5% higher, driven by Hong Kong and mainland China, mainly in CMB and RBWM from balance sheet growth, as well as in GB&M from portfolio growth in Balance Sheet Management and increased term lending. Revenue was also higher in India and Australia.

Country view of adjusted revenue

	2014 US$m	2013 US$m
Hong Kong	**13,725**	13,211
Australia	**975**	898
India	**1,826**	1,666
Indonesia	**561**	559
Mainland China	**2,463**	1,948
Malaysia	**1,066**	1,063
Singapore	**1,339**	1,319
Taiwan	**491**	501
Other	**1,183**	**1,289**
Year ended 31 December	**23,629**	**22,454**

In *Hong Kong*, revenue increased by 4%, primarily in CMB and RBWM and, to a lesser extent, in GB&M. Higher revenue in CMB was due to increased net interest income from growth in term lending across a range of sectors, higher average Payments and Cash Management deposit balances and higher fees from remittance volumes, as well as improved lending spreads.

In RBWM, revenue growth was driven by higher net interest income from increased average lending balances, mainly credit cards and other personal lending, and from growth in average deposit balances, though the benefit of higher volumes was partly offset by spread compression. Net fee income also increased, principally from volume growth in unit trusts, credit card transactions and securities brokerage. In our insurance operations, revenue growth reflected higher premium income, which also contributed to growth in the debt securities portfolio, although this was partly offset by less favourable movements in the PVIF asset from annual actuarial assumption updates.

Revenue in GB&M also increased, mainly in Balance Sheet Management due to portfolio growth, and in Capital Financing from higher average term lending balances. This was partly offset by lower net fee income in Markets due to reduced client flows and in Capital Financing reflecting fee compression.

In *mainland China*, revenue increased by 26% compared with 2013. In GB&M, we reported greater net interest income from Balance Sheet Management due to portfolio growth and higher reinvestment rates, and a rise in average term lending balances. Additionally, trading income improved in Rates from higher interest income on debt securities and revaluation gains on trading bonds as yields fell, and in Foreign Exchange from increased client flows. Revenue in RBWM increased, mainly from wider deposit spreads as market interest rates rose in the first half of 2014, while in CMB revenue growth was driven by higher average deposit and lending balances.

Elsewhere in Asia, revenue in India rose by 10%, primarily in GB&M from higher Rates trading income due to favourable credit valuation adjustments (CVA s) on derivatives, coupled with higher net interest income from portfolio growth in Balance Sheet Management. In Australia, we reported an increase in revenue of 9%, predominantly in GB&M from higher trading income in Rates and Foreign Exchange. This was partly offset by lower revenue in South Korea following the run-off of our RBWM operations in 2013.

LICs rose by US$167m or 35%, principally in GB&M and CMB from a rise in a small number of individually assessed impairment charges in Hong Kong and mainland China. This was partly offset by a reduction in individually assessed impairment charges in CMB in New Zealand, Malaysia and Vietnam.

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Operating expenses (US$m)

Operating expenses rose by US$753m following investment in the region, notably in Regulatory Programmes and Compliance, and increased use of our Global Services Centres across the Group. Cost growth also reflected wage inflation and additional headcount, notably in Hong Kong and mainland China to support business growth, mainly in CMB, as well as increased marketing activity. These factors were partly offset by around US$270m of sustainable cost savings achieved in 2014.

Share of profit from associates and joint ventures rose by US$71m, mainly from BoCom, reflecting higher revenue from balance sheet growth and trading income, partly offset by increases in operating expenses and LICs.

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2013 compared with 2012

Economic background

Hong Kong s GDP grew at a faster pace in 2013 than in 2012. This was driven mainly by domestic demand, which offset an ongoing weakness in external orders. Labour market conditions remained resilient and strong nominal wage growth continued to support private consumption. Measures announced in February 2013 by the government and the Hong Kong Monetary Authority to dampen demand in the property market led to a softening in prices and some moderation of demand in the third quarter of the year. Headline CPI inflation fell in the fourth quarter, largely due to lower food prices and housing costs. Underlying inflation averaged 4% in 2013, lower than it was in 2012.

In **mainland China**, the annual pace of GDP growth was unchanged at 7.7% in 2013, above the official GDP growth target of 7.5%. The rebound in activity in the second half of the year was mainly due to measures announced by the government during the summer. Export growth remained moderate through most of 2013, only accelerating in the final months. Annual growth in fixed asset investment remained steady at an annual rate of nearly 20% and consumer spending remained resilient. Headline annual CPI inflation rose modestly to 2.6%, remaining below the government s target of 3.5%. The People s Bank of China maintained a relatively restrictive credit policy but overall liquidity conditions remained loose as the M2 measure of money growth expanded by 13.6% on the year.

Economic activity in **Japan** picked up considerably in 2013, thanks to large-scale stimuli from both the government and the Bank of Japan. Annualised growth slowed to just over 1% in the third quarter although it accelerated in the final months of the year as consumer spending rose in advance of the sales tax increase due in April 2014.

Singapore s economic recovery also gathered pace, led by net external demand.

During the course of the summer, there were concerns in financial markets that global liquidity may become more expensive and less abundant as the US Federal Reserve Board indicated it may begin to taper its purchases of financial assets. Interest rates on US Treasuries rose, attracting global capital back to developed markets. Some emerging economies suffered considerable capital outflows with large declines in the value of their currencies against the US dollar and central banks were forced to raise interest rates to attract capital. This in turn led to a slowdown in activity.

In Asia, India and Indonesia were most affected. The current account positions of both economies had significantly deteriorated in recent years, leaving them vulnerable to changes in external financing conditions. In **India**, structural constraints on growth, including infrastructure bottlenecks, also contributed to a slowdown in activity. The central bank tightened monetary policy during the second half of 2013 in

response to concerns over inflation.

Similar constraints in **Indonesia** saw GDP growth slow in 2013. However, concerted measures to reduce fuel subsidies and narrow the current account deficit should make the economy more resilient to any tightening in monetary conditions in the West. Economic activity also reduced in **Malaysia** as the boost to growth in 2012 from public spending abated.

Taiwan s trade-dependent economy was weak in the first half of 2013, but strengthened in the second half as global trade improved.

Australian GDP growth slowed to an annual rate of around 2.5% in 2013 and unemployment rose to 5.7% towards the end of the year. This reflected a slowdown in mining investment after years of strong growth. To stimulate growth elsewhere, the Reserve Bank of Australia cut its cash rate from 3.0% to 2.5% during the year. Low interest rates drove a strong rise in housing prices. The Australian dollar remained well above its long run average levels in 2013, but fell towards the end of the year.

Review of performance

2013 compared with 2012 commentaries are on a constant currency basis and have not been updated to reflect our change to adjusted performance. Adjusted profit before tax would have been US$14.3bn and US$13.1bn for 2013 and 2012, respectively, as compared with constant currency profit before tax of US$15.9bn and US$17.8bn for 2013 and 2012, respectively. Constant currency, underlying and adjusted are reconciled on pages 105(b) to 105(au).

Our operations in Asia reported a pre-tax profit of US$15.9bn compared with US$18.0bn in 2012, a decrease of 12%. The reduction reflected a 2012 gain following the disposal of our shareholding in Ping An of US$3.0bn, together with a reduction in our share of profit from associates of US$1.4bn as a result of this disposal and the effect of the reclassification of Industrial Bank as a financial investment following its issue of share capital to third parties. These items were partly offset by an accounting gain of US$1.1bn in 2013 on the reclassification of Industrial Bank.

On an underlying basis, which excludes the items above as well as other disposals and the results of disposed-of operations, profit before tax increased by 16% due to the net gain of US$553m on completion of the sale of our investment in Ping An in 2013, compared with adverse fair value movements of US$553m on the Ping An contingent forward sale contract recorded in 2012. Excluding these items, underlying profit before tax increased by 7%, driven by higher net interest income and net fee income in Hong Kong.

The implementation of our strategy to reduce fragmentation across the region continued, leading to the disposal of non-core insurance businesses in Vietnam, South Korea, Taiwan and Singapore, and we announced the closure of a retail brokerage in India and our retail banking operations in South Korea. We also completed the sale of our investment in Ping An in mainland China.

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In Hong Kong, we grew our average mortgage balances by 8% with average loan-to-value ratios of 44% on new mortgage drawdowns and an estimated 32% on the portfolio as a whole. We continued to develop our digital capabilities and launched our mobile banking application in Hong Kong. We also developed our wealth management capabilities, growing revenue by over 10%. In addition, we enhanced our wealth management systems, simplified the product range and implemented the Global Wealth Incentive Plan to better align customer and business interests.

We further strengthened the collaboration between CMB and GB&M, raising financing for our clients of over US$14bn from debt capital markets and nearly US$4bn from equity capital markets, including the largest IPO in Hong Kong for a mainland Chinese consumer company. In addition, we were awarded Best Trade Finance Bank in Hong Kong by *Global Finance*.

In GB&M, we continued to lead the market in Hong Kong dollar bond issuance and are now one of the top five houses for both equity capital markets and mergers and acquisitions in Hong Kong. We were voted Best Debt House in Hong Kong in the *Euromoney* 2013 Awards for Excellence and were involved in seven of the ten largest IPOs in Hong Kong this year.

We led the market in offshore renminbi (RMB) bond issuance in Hong Kong, including the RMB3bn (US$491m) government bond issue in December 2013 by mainland China s Ministry of Finance, and were voted Best provider of offshore renminbi products and services for the second year running by *Asiamoney*. We also won the award for RMB House of the Year from *Asia Risk*.

We announced the sale of our shareholding in Bank of Shanghai in 2013, a transaction which is expected to complete in the first half of 2014.

In mainland China, where we continued to expand our branch network, we had 162 HSBC outlets, 23 HSBC rural bank outlets and 48 Hang Seng Bank outlets at the end of the year. We were also one of the first foreign banks to be approved to distribute domestic funds to retail investors. In addition, we were the market leader in mainland China s state-owned enterprise bond issuances and we were awarded Best Foreign Commercial Bank in China by *FinanceAsia*.

We continued to promote the internationalisation of the renminbi as regulations developed. We were the first foreign bank in mainland China to implement a customised renminbi cross-border centralised settlement solution and were also the first foreign bank to complete a two-way cross-border renminbi lending transaction.

In India, we revised our Wealth Management product offering to ensure customers needs were being met and to improve customer satisfaction levels. In Payments and Cash Management, we were awarded the Best Domestic Cash Management Bank in 2013 by *Euromoney*. Our strength in debt capital markets (DCM) continued, acting as a joint lead manager and bookrunner for the

largest US dollar-denominated single tranche bond issuance by an Indian corporate in 2013.

In Singapore, we led the market in foreign currency DCM issuance, continuing to demonstrate our ability to structure DCM transactions. In CMB, we began to offer a renminbi settlement service.

We continued to develop our Payments and Cash Management product offering across the region and were awarded the Best Cash Management House in Asia by *Euromoney*. We also strengthened our Project and Export Finance capabilities and were named the Best Project Finance House in Asia by *Euromoney* for the third consecutive year. Our strength in DCM continued, and we were the No.1 bookrunner in Asia-ex Japan bonds. We were awarded the Domestic Bond House of the Year by *IFR Asia*.

Net interest income rose by US$839m, primarily in Hong Kong, led by RBWM and supported by GB&M and CMB. The increase was mainly due to higher average lending balances, wider spreads on mortgages in RBWM reflecting lower funding costs, and growth in the insurance debt securities portfolio. Mortgage lending in RBWM in Hong Kong increased, although the rate of growth began to slow during 2013 as transaction volumes in the property market reduced.

Average residential mortgage balances also grew in mainland China and Australia, as we focused on secured lending, and in Singapore reflecting growth in 2012.

In addition, there was strong loan growth in both CMB and GB&M, driven by trade-related lending in the first half of 2013 and an increase in commercial real estate and other property-related lending in the second half of the year, though the benefit of this growth was partly offset by spread compression reflecting competition and increased liquidity in the markets.

Average deposit balances increased, in part reflecting new Premier customers in RBWM and increased Payments and Cash Management balances in CMB, though the benefit of this growth was more than offset by narrower deposit spreads due to a fall in short-term interbank interest rates.

Net fee income rose by US$595m in 2013, led by RBWM in Hong Kong as strong customer demand and favourable market sentiment led to higher fees from unit trusts and increased brokerage income. Fee income also increased due to a rise in debt and equity underwriting and corporate finance activity compared with 2012, in part reflecting collaboration between GB&M and CMB. In CMB, fee income growth reflected an increase in trade and Payments and Cash Management volumes.

Net trading income was US$434m lower, in part from further adverse fair value movements in mainland China on the Ping An contingent forward sale contract of US$682m, compared with US$553m in 2012. In addition, in GB&M, net trading income included a favourable DVA of US$40m in 2013, while 2012 included a favourable DVA of US$136m, arising from a change in estimation methodology reflecting evolving market practices. Rates revenues decreased, largely from reduced bond holdings

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in a number of countries and revaluation losses as bond yields rose, notably in mainland China. Foreign Exchange revenues also fell as market conditions in 2012 were not repeated. This was partly offset by favourable movements on the CVA in 2013, compared with adverse movements in 2012 arising from the change in estimation methodology as noted above.

Net income from financial instruments designated at fair value was US$314m compared with US$554m in 2012, primarily due to lower net investment returns on assets held by the insurance business reflecting weaker equity markets and falling bond prices. To the extent that these investment returns were attributed to policyholders holding unit-linked insurance policies and insurance contracts with DPF, there was a corresponding movement in *Net insurance claims incurred and movement in liabilities to policyholders*.

Gains less losses from financial investments were US$936m higher, primarily in mainland China due to the gain on completion of disposal of our investment in Ping An of US$1.2bn, which was partly offset by the adverse fair value movement of US$682m on the contingent forward sale contract included in Net trading income leading to a net gain of US$553m. *Gains less losses from financial investments* were also partly offset by the non-recurrence of the gain on sale of our shares in four Indian banks in 2012.

We reported a *gain on disposal of Ping An* of US$3.0bn in 2012.

Dividend income was US$153m compared with US$26m in 2012, mainly due to the dividend from Industrial Bank following its reclassification as a financial investment during the year.

Net earned insurance premiums grew by 2%, driven by Hong Kong, due to increased renewals of deferred annuity and unit-linked insurance contracts, partly offset by the absence of non-life insurance premiums following the disposal of the HSBC and Hang Seng Bank general insurance businesses in 2012, and lower new business premiums. The growth in premiums resulted in a corresponding increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

Other operating income increased by US$812m. We recorded an accounting gain of US$1.1bn on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties, and a gain on the disposal of our investment in Bao Viet Holdings of US$104m. In 2012, we recorded gains totalling US$305m on a reported basis following the sales of our RBWM business in Thailand, our GPB business in Japan and our interest in a property company in the Philippines.

LICs were in line with 2012 as higher charges in Hong Kong due to a revision to the assumptions used in our collective assessment models in RBWM and a rise in individual impairment charges in CMB, were broadly offset by the non-recurrence of a large individually assessed impairment of a corporate exposure in Australia and a credit risk provision on an available-for-sale debt security in GB&M.

Operating expenses rose by US$139m in 2013, primarily in Hong Kong, reflecting higher marketing expenditure, costs relating to the introduction of updated payment cards and information technology platforms, as well as increased property rental and maintenance costs. In addition, staff costs increased as a result of changes to the recognition of pension costs. Costs rose in India from increased use of the service centres and in mainland China from wage inflation, higher staff numbers and branch expansion. These increases were offset by the partial write back of a litigation provision in Singapore and Australia compared with a charge in 2012.

Share of profit from associates and joint ventures reduced by US$1.4bn following the disposal of Ping An, the reclassification of Industrial Bank as a financial investment and an impairment charge of US$106m on our banking associate in Vietnam. Excluding these factors, income from associates rose, primarily in BoCom as a result of balance sheet growth and increased fee income, partly offset by higher operating expenses and a rise in loan impairment charges.

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Profit before tax and balance sheet data — Asia

	2014						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	5,003	3,439	3,579	177	(16)	91	12,273
Net fee income	2,792	1,529	1,311	272	6		5,910
Trading income/(expense) excluding net interest income	216	382	1,220	142	(5)		1,955
Net interest income/(expense) on trading activities	(13)	(9)	771		9	(91)	667
Net trading income[50]	203	373	1,991	142	4	(91)	2,622
Changes in fair value of long-term debt issued and related derivatives					(4)		(4)
Net income/(expense) from other financial instruments designated at fair value	543	(6)	(2)		2		537
Net income/(expense) from financial instruments	543	(6)	(2)		(2)		533

designated at fair value							
Gains less losses from financial investments	**1**	**5**	**46**		**148**		**200**
Dividend income	**1**		**1**		**177**		**179**
Net insurance premium income	**6,596**	**794**					**7,390**
Other operating income	**516**	**95**	**141**	**3**	**2,734**	**(1,158)**	**2,331**
Total operating income	**15,655**	**6,229**	**7,067**	**594**	**3,051**	**(1,158)**	**31,438**
Net insurance claims[56]	**(6,979)**	**(782)**					**(7,761)**
Net operating income[4]	**8,676**	**5,447**	**7,067**	**594**	**3,051**	**(1,158)**	**23,677**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(317)**	**(228)**	**(103)**	**1**			**(647)**
Net operating income	**8,359**	**5,219**	**6,964**	**595**	**3,051**	**(1,158)**	**23,030**
Total operating expenses	**(4,191)**	**(1,897)**	**(2,686)**	**(384)**	**(2,427)**	**1,158**	**(10,427)**
Operating profit	**4,168**	**3,322**	**4,278**	**211**	**624**		**12,603**
Share of profit in associates and joint ventures	**304**	**1,420**	**298**				**2,022**
Profit before tax	**4,472**	**4,742**	**4,576**	**211**	**624**		**14,625**
	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**23.9**	**25.4**	**24.5**	**1.1**	**3.4**		**78.3**
Cost efficiency ratio	**48.3**	**34.8**	**38.0**	**64.6**	**79.5**		**44.0**
Balance sheet data[40]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)[27]	**115,643**	**132,509**	**99,934**	**12,894**	**1,975**		**362,955**
Total assets	**166,577**	**158,747**	**548,865**	**14,905**	**79,477**	**(89,848)**	**878,723**
Customer accounts[27]	**286,670**	**155,608**	**104,896**	**29,847**	**470**		**577,491**

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	2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	4,895	3,103	3,245	205	(124)	108	11,432
Net fee income/(expense)	2,758	1,518	1,419	249	(8)		5,936
Trading income/(expense) excluding net interest income	238	377	1,483	175	(739)		1,534
Net interest income/(expense) on trading activities	(16)	(6)	608		14	(108)	492
Net trading income/(expense)[50]	222	371	2,091	175	(725)	(108)	2,026
Changes in fair value of long-term debt issued and related derivatives					(1)		(1)
Net income/(expense) from other financial instruments designated at fair value	315		7		(7)		315
Net income/(expense) from financial instruments designated at fair value	315		7		(8)		314
Gains less losses from financial investments	(1)		58	14	1,204		1,275
Dividend income		1	6		145		152

Net insurance premium income	6,263	654	1				6,918
Other operating income	764	97	163	12	3,871	(1,232)	3,675
Total operating income	15,216	5,744	6,990	655	4,355	(1,232)	31,728
Net insurance claims[56]	(6,609)	(687)					(7,296)
Net operating income[4]	8,607	5,057	6,990	655	4,355	(1,232)	24,432
Loan impairment charges and other credit risk provisions	(347)	(144)	(3)	(4)			(498)
Net operating income	8,260	4,913	6,987	651	4,355	(1,232)	23,934
Total operating expenses	(4,138)	(1,786)	(2,560)	(367)	(2,317)	1,232	(9,936)
Operating profit	4,122	3,127	4,427	284	2,038		13,998
Share of profit/(loss) in associates and joint ventures	297	1,331	248		(21)		1,855
Profit before tax	4,419	4,458	4,675	284	2,017		15,853
	%	%	%	%	%		%
Share of HSBC s profit before tax	19.6	19.8	20.7	1.3	8.9		70.3
Cost efficiency ratio	48.1	35.3	36.6	56.0	53.2		40.7
Balance sheet data[40]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	111,769	122,882	89,722	10,904	1,620		336,897
Total assets	158,456	146,898	515,023	12,994	82,453	(84,033)	831,791
Customer accounts[27]	278,392	141,958	96,546	31,250	337		548,483

For footnotes, see page 109.

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Profit before tax and balance sheet data Asia (continued)

	2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	4,638	3,025	3,243	251	(345)	(105)	10,707
Net fee income	2,623	1,349	1,214	226	6		5,418
Trading income/(expense) excluding net interest income	272	351	1,668	237	(594)		1,934
Net interest income/(expense) on trading activities	4	(1)	452		22	105	582
Net trading income/(expense)[49]	276	350	2,120	237	(572)	105	2,516
Changes in fair value of long-term debt issued and related derivatives					(4)		(4)
Net income/(expense) from other financial instruments designated at fair value	620	(52)	20		(31)		557
Net income/(expense) from financial instruments designated at fair value	620	(52)	20		(35)		553
	(1)	2	(8)	7	338		338

Gains less losses from financial investments							
Dividend income		1	6		22		29
Net insurance premium income	5,863	898	8				6,769
Gain on disposal of Ping An					3,012		3,012
Other operating income	922	317	159	81	2,723	(1,128)	3,074
Total operating income	14,941	5,890	6,762	802	5,149	(1,128)	32,416
Net insurance claims[56]	(6,280)	(797)	(7)				(7,084)
Net operating income[1]	8,661	5,093	6,755	802	5,149	(1,128)	25,332
Loan impairment (charges)/ recoveries and other credit risk provisions	(331)	(151)	(31)	3			(510)
Net operating income	8,330	4,942	6,724	805	5,149	(1,128)	24,822
Total operating expenses	(4,057)	(1,712)	(2,542)	(397)	(2,400)	1,128	(9,980)
Operating profit	4,273	3,230	4,182	408	2,749		14,842
Share of profit/(loss) in associates and joint ventures	938	1,560	661		29		3,188
Profit before tax	5,211	4,790	4,843	408	2,778		18,030
	%	%	%	%	%		%
Share of HSBC s profit before tax	25.2	23.2	23.5	2.0	13.4		87.3
Cost efficiency ratio	46.8	33.6	37.6	49.5	46.6		39.4
Balance sheet data[40]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)[27]	108,542	106,912	83,895	9,702	1,614		310,665
Total assets	151,694	131,179	458,069	32,847	105,619	(74,699)	804,709
Customer accounts[27]	264,879	135,017	98,488	30,661	709		529,754

For footnotes, see page 109.

Report of the Directors: Financial Review (continued)

Middle East and North Africa

The network of branches of HSBC Bank Middle East Limited, together with HSBC s subsidiaries and associates, gives us wide coverage in the region. Our associate in Saudi Arabia, The Saudi British Bank (40% owned), is the Kingdom s sixth largest bank by total assets.

	2014 US$m	2013 US$m	2012 US$m
Net interest income	**1,519**	1,486	1,470
Net fee income	**650**	622	595
Net trading income	**314**	357	390
Other income	**65**	38	(25)
Net operating income[4]	**2,548**	2,503	2,430
LICs[43]	**6**	42	(286)
Net operating income	**2,554**	2,545	2,144
Total operating expenses	**(1,216)**	(1,289)	(1,166)
Operating profit	**1,338**	1,256	978
Income from associates[44]	**488**	438	372
Profit before tax	**1,826**	1,694	1,350
Cost efficiency ratio	**47.7%**	51.5%	48.0%
RoRWA[36]	**2.9%**	2.7%	2.2%
Year-end staff numbers	**8,305**	8,618	8,765

Best Investment Bank in the

Middle East

(Euromoney 2014)

Record reported profit before tax of

US$1.8bn

Completed disposal of our operations in

Jordan and Pakistan

in line with the Group s

six filters investment criteria

For footnotes, see page 109.

For footnotes, see page 109.

Economic background

Economic activity across the Middle East and North Africa remained strong during 2014, despite heightened geopolitical uncertainties and weaker global oil prices towards the end of the year. The region s energy exporters fared particularly well, buoyed by an oil-funded fiscal stimulus and an expansionary monetary stance. **Saudi Arabia**, the Middle East s largest oil exporter, grew strongly as the Kingdom pushed ahead with its infrastructure and industrial expansion programme. The **United Arab Emirates (UAE)**, however, showed the most significant gains in momentum, boosted by growth in both its export-orientated non-oil sector and an increasingly expansionary fiscal stance. Though showing some gains as growth picked up speed, inflation remained muted at under 5% across the Gulf.

Egypt showed further signs of stabilisation in 2014. Although still below the trend levels that prevailed prior to the 2011 revolution, some momentum in growth was achieved in the second half of the year, boosted by the receipt of further concessional funding and an improvement in political order and policy making following the May presidential election. Inflation rose and the budget deficit remained high, recording a third successive double-digit deficit as a percentage of GDP. International reserves fell in the latter months of the year, highlighting ongoing pressure on the currency which remained subject to significant controls.

Financial overview

Profit before tax (US$m)

Our operations in the Middle East and North Africa reported a profit before tax of US$1.8bn, an increase of 8% on a reported basis, despite the effects of business disposals, including the loss on sale of our Pakistan business. See page 42 for further details of our significant items.

On an adjusted basis, profit before tax grew by 11% driven by higher revenue and increased income from our associate, The Saudi British Bank.

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Report of the Directors: Financial Review (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Egypt	**64**	**94**	**177**			**335**
United Arab Emirates	**154**	**190**	**364**		**(46)**	**662**
Saudi Arabia	**91**	**168**	**203**	**19**	**5**	**486**
Other	**14**	**152**	**182**		**(5)**	**343**
Year ended 31 December 2014	**323**	**604**	**926**	**19**	**(46)**	**1,826**
Egypt	31	37	166		(29)	205
United Arab Emirates	142	290	275	1	(72)	636
Saudi Arabia	82	146	188	15	7	438
Other	3	172	240			415
Year ended 31 December 2013	258	645	869	16	(94)	1,694
Egypt	67	71	157		(5)	290
United Arab Emirates	143	235	141	1	(56)	464
Saudi Arabia	60	120	170	9	18	377
Other	(18)	161	113		(37)	219
Year ended 31 December 2012	252	587	581	10	(80)	1,350

Country business highlights

In the **UAE**, we made significant progress in executing the strategic plan we announced in 2013. In RBWM, we expanded our range of products in Wealth Management, including the launch of the International Bonds and Portfolio Advisory Service to widen our offering for Premier clients. The introduction of a financial health check to better understand customer needs coupled with the opening of a Customer Service Unit in Abu Dhabi illustrated our focus on putting the customer first.

In CMB, we enhanced our services to customers that trade internationally by completing the implementation of our International Subsidiary Business model across the region in order to better meet their cross-border banking requirements and cement our strategic relationships. We also launched a second tranche of the International Growth

Fund for AED1bn (US$272m). We continued to invest in our Payments and Cash Management business including recruiting client-facing and specialised staff and won the Best Regional Cash Management Provider in the Middle East award.

In GB&M, we advised a major regional airline on its investment in a European air carrier and a large investment company in Dubai on its inaugural US$1bn bond issue. In addition, we increased our collaboration with CMB, particularly in Capital Financing, focusing on existing clients and taking advantage of our connectivity with other regions.

The drop in oil prices did not have a material impact on our financial performance in the UAE.

In **Egypt**, in RBWM, we expanded our product offering with enhanced features and reduced pricing for credit cards, and were ranked number one in the customer recommendation index. In GB&M, we acted as the global coordinator, structuring bank, mandated lead arranger and facility agent for a government entity. This reflected our commitment to supporting the Egyptian

government s plan for the development of the country s infrastructure.

In **Saudi Arabia**, through our associates, The Saudi British Bank and HSBC Saudi Arabia Limited, we acted as joint financial advisor, joint lead manager and a receiving bank on the US$6bn National Commercial Bank initial public offering (IPO). This was the Middle East s largest ever IPO and the world s second largest in 2014.

Review of adjusted performance[45]

Revenue (US$m)

Revenue increased in the majority of our markets, most notably in Egypt in all global businesses and in the UAE.

Country view of adjusted revenue

	2014 US$m	2013 US$m
UAE	**1,448**	1,401
Egypt	**531**	451
Rest of MENA	**566**	550
Year ended 31 December	**2,545**	2,402

In *Egypt*, revenue increased by US$80m, reflecting higher net interest income in RBWM due to improved deposit spreads as a result of re-pricing, and the non-recurrence of losses on disposal of available-for-sale debt securities in GB&M in 2013. In addition, the Central Bank resumed interest payments on overnight placements during 2014, which contributed to the rise in revenue in all global businesses.

In the *UAE*, revenue increased by US$47m, primarily in GB&M reflecting a rise in Capital Financing due to increased advisory mandates in Project and Export Finance and a gain on restructuring a specific loan in Credit and Lending. In addition, revenue rose in our Equities and Securities Services businesses from increased customer flows, which in part reflected the upgrade of the UAE to emerging markets status in the MSCI Index. In RBWM, revenue increased, but to a lesser extent, reflecting higher net interest income as mortgage balances rose and deposit spreads improved due to re-pricing initiatives. This was partially offset by reduced revenue in CMB from lower spreads on lending balances, reflecting a highly liquid and competitive market coupled with lower charges on foreign exchange transactions in Payments and Cash Management.

In the rest of the region, revenue was higher with increases in *Oman* and *Qatar* partly offset by a reduction in *Algeria*. Higher revenue in Oman in part reflected growth in customer advances in CMB. The increase in Qatar was driven by fees in GB&M reflecting increased customer flows in our Securities Services business, which in part reflected the upgrade of Qatar to emerging markets status in the MSCI Index. The reduction in Algeria reflected regulatory restrictions on foreign exchange spreads charged on corporate customer transactions.

Net loan impairment releases were lower by US$44m, primarily driven by lower impairment releases for a particular UAE-related exposure in GB&M.

Operating expenses (US$m)

Operating expenses of US$1,183m decreased by US$31m, mainly due to reductions in Egypt and the UAE. In Egypt, expenses fell following charges recorded in 2013 relating to changes in the interpretation of tax regulations. In the UAE, expenses reduced due to the non-recurrence of charges incurred in 2013 on customer redress programmes in RBWM relating to fees charged on overseas credit card transactions. This was partly offset by wage inflation, investment in Regulatory Programmes and Compliance, growth in customer-facing staff in RBWM and increased service and product support staff in CMB.

Share of profits from associates and joint ventures increased by 12%, mainly from The Saudi British Bank. This was driven by higher revenue resulting from strong balance sheet growth.

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2013 compared with 2012

Economic background

Real GDP in the Middle East and North Africa grew by an estimated 4.0% in 2013, led by the Gulf Cooperation Council (GCC) and Saudi Arabia s expansionary fiscal policy and infrastructure investment programme. With oil prices steady in the US$100-110 per barrel range throughout the year, revenues were more than sufficient to fund this spending, and the region ended 2013 with both current and fiscal accounts amply in surplus. The **UAE** saw an accelerating recovery in 2013 led by real estate and services, but boosted towards the end of the year by an increasingly expansionary fiscal policy. Despite strong demand and loose fiscal policy, inflation remained very subdued across the region throughout 2013, apart from UAE real estate.

For **Egypt**, political uncertainty gave rise to a third year of sub-par growth and rising unemployment. Real GDP grew by 2.2% in the 2012/13 fiscal year, while the budget deficit widened to 14% of GDP. The country s external position improved substantially in July, following the receipt of concessionary financing from the GCC. However, while reserves and the currency stabilised, stringent exchange rate and capital controls were still in place at the end of December 2013.

Review of performance

2013 compared with 2012 commentaries are on a constant currency basis and have not been updated to reflect our change to adjusted performance. For comparison, adjusted profit before tax would have been US$1.7bn and US$1.4bn for 2013 and 2012 respectively as compared with constant currency profit before tax of US$1.7bn and US$1.3bn for 2013 and 2012 respectively. Constant currency, underlying and adjusted are reconciled on pages 105(b) to 105(au).

Our operations in the Middle East and North Africa reported a profit before tax of US$1.7bn, an increase of 25% compared with 2012. On a constant currency basis, pre-tax profits increased by 29%.

Our reported results in 2013 included adverse movements of US$4m on our own debt designated at fair value resulting from tightening of credit spreads. Our reported results in 2012 included an investment loss on a subsidiary of US$85m and adverse movements of US$12m on our own debt designated at fair value resulting from tightening credit spreads, partly offset by gains recognised on acquisitions totalling US$21m. On an underlying basis, excluding the items noted above and the results of a deconsolidated subsidiary and the Private Equity business disposed of in 2012, profit before tax increased by 26%, mainly due to lower loan impairment charges and higher income from our associate, The Saudi British Bank.

In the UAE, we inaugurated a new strategic plan for growth with investment committed across all businesses, and with commensurate investment in the risk management functions including Regulatory and Financial Crime Compliance. In RBWM, we focused on

improving our retail customer experience through the new Customer at the Heart campaign and were ranked number one in the Customer Recommendation Index for banks in the UAE. We also invested in mobile and digital technologies to enhance our Wealth Management offering and to grow our retail foreign exchange revenues.

In CMB, our fourth international trade fund for SMEs of AED1bn (US$272m) was launched to support new and existing customers with cross-border trading requirements or with aspirations to grow internationally.

In GB&M, there was a focus on cross-border connectivity and CMB collaboration, with tailored risk management solutions. We supported sovereign wealth funds and government-related entities and won several *Euromoney* awards including The Best Investment Bank in Middle East , The Best Risk Advisor in Middle East , Best Cash Management House in the Middle East and No 1 Debt House for MENA and GCC issuer bonds .

We were awarded the Best Trade Bank in the MENA region by *GTR Leaders in Trade 2013* and we enhanced Global Trade and Receivables Finance by investing in sales staff and giving priority to commodity structured trade finance and receivables finance. The level of service provided by our Payments and Cash Management business was reflected in our fifth consecutive *Euromoney* award.

In Egypt, we continued to manage risk in the uncertain political and economic environment. Surplus liquidity levels in Egyptian pounds, which arose following the introduction of foreign currency restrictions at the end of 2012, were managed through the downward re-pricing of deposits. Despite these difficult operating conditions, we continued to invest in the business, through the deployment of new automated teller machines (ATMs) and the launch of a new mobile banking application. Our RBWM business was ranked number 1 in the Customer Recommendation Index while our CMB business launched an Egypt SME Fund for EGP300m (US$44m) targeting international SME growth and trade customers.

We renewed our primary dealer licence for trading in Government of Egypt treasury bills and bonds, ranking as one of the largest primary dealers in the Egyptian market.

In Oman, following the completion of the merger in June 2012 with OIB, we completed the conversion to HSBC systems of our merged operation. We made a number of improvements to our mobile banking and internet banking applications, introducing enhanced security features including the HSBC secure key for internet banking. We also upgraded our e-platform for cash management services for our corporate banking customers. HSBC Bank Oman won *Euromoney* s Best Domestic Cash Management Bank in Oman award for the second consecutive year.

In Saudi Arabia, our associate, The Saudi British Bank, won *The Banker* magazine s award as The Best Bank in Saudi Arabia, 2013 and achieved a record net profit before tax exceeding US$1bn.

Report of the Directors: Financial Review (continued)

In line with our commitment to drive growth and improve returns in businesses that do not meet our six filters criteria (see page 15), we entered into an agreement to sell our operation in Jordan. The transaction is expected to complete in 2014.

Net interest income rose by 4%, mainly in Egypt in GB&M, driven by higher yields and balances on available-for-sale investment portfolios and higher balances on corporate deposits as more liquid assets were held in the volatile political environment. In Oman, net interest income increased, notably in RBWM, following the merger with OIB in June 2012. The higher net interest income in the UAE from growth in GB&M in the Credit and Lending portfolio and in RBWM from the Lloyds business acquired in 2012, was more than offset by a decline in CMB, where the business was repositioned to lower risk segments.

Net fee income increased by 7%, primarily in the UAE in GB&M due to an increase in advisory mandates in Capital Financing and higher institutional equities fee income from increased deal volumes, partially offset by lower fees from reduced volumes on Global Trade and Receivables Finance products in CMB. In Egypt, net fee income increased, notably in RBWM from cards and consumer loan fees.

Net trading income decreased by 6%, notably in Egypt from lower foreign exchange revenues, reflecting the political instability, and lower Rates trading income driven by a reduction in deal volumes. The decrease in trading income also reflected the deconsolidation of a subsidiary in 2012. These factors were partly offset by CVA releases on trading positions relating to a small number of exposures in the UAE in GB&M, compared with charges in 2012.

Gains less losses from financial investments decreased by US$27m, driven by losses on the disposal of the available-for-sale debt securities in Egypt in the first half of 2013 as we adjusted our risk positions.

Other operating income increased by US$76m, due to the non-recurrence of an US$85m investment loss on a subsidiary in 2012.

A net *loan impairment release* of US$42m was recorded in 2013 compared with a charge of US$282m in 2012. There were provision releases, mainly in GB&M, for a small number of UAE related exposures, reflecting an overall improvement in the loan portfolio compared with charges in 2012. In addition, loan impairment charges declined, due to lower individually assessed loan impairments in the UAE in CMB and lower provisions in RBWM on residential mortgages following a repositioning of the book towards higher quality lending and improved property prices.

Operating expenses increased by 13%, mainly in the UAE from the Lloyds business acquired in 2012, expenses for regulatory projects, operational losses and charges from a customer redress programme in RBWM relating to fees charged on overseas credit card transactions. Expenses also increased in Egypt from changes in the interpretation of tax regulations and in Oman following the merger with OIB. These factors were partly offset by approximately US$40m of sustainable savings from our organisational effectiveness programmes.

Share of profits from associates and joint ventures increased by 18%, mainly from The Saudi British Bank. This was driven by higher revenue resulting from strong balance sheet growth, and the effective management of costs.

HSBC HOLDINGS PLC

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Profit/(loss) before tax and balance sheet data *Middle East and North Africa*

	2014						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[55] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	**615**	**467**	**410**				