HSBC HOLDINGS PLC
Form 6-K
February 19, 2019

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of February

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-).

19 February 2019

HSBC HOLDINGS PLC

2018 RESULTS – HIGHLIGHTS

John Flint, Group Chief Executive, said:

"These are good results that demonstrate progress against the plan that I outlined in June 2018. Profits and revenue were both up despite a challenging fourth quarter, and our return on tangible equity is significantly higher than in 2017. This is an encouraging first step towards meeting our return on tangible equity target of more than 11% by 2020."

Key highlights

Progress made against our eight strategic priorities, including accelerated growth from Asia and our international network, growth in our UK customer base, delivery of more sustainable finance, improved capital efficiency and investments in technology.

Reported profit before tax of $19.9bn in 2018 was 16% higher than in 2017, reflecting revenue growth in all of our global businesses. Adjusted profit before tax of $21.7bn in 2018 was 3% higher than in 2017, excluding the effects of foreign currency translation differences and movements in significant items.

Reported revenue of $53.8bn was 5% higher, notably driven by a rise in deposit revenue across our global businesses, primarily in Asia, as we benefited from wider margins and grew our balances. These increases were partly offset by lower revenue in Corporate Centre. Adjusted revenue of $53.9bn was 4% higher, excluding the effects of foreign currency translation differences and movements in significant items.

Reported operating expenses of $34.7bn were 1% lower, as higher costs, including investments made to grow the business and enhance our digital capabilities were more than offset by net favourable movements in significant items, mainly the non-recurrence of costs to achieve expenditure in 2017. Adjusted operating expenses of $33.0bn were 6% higher, excluding the effects of foreign currency translation differences and movements in significant items.

Adjusted jaws for 2018 was negative 1.2%, due to lower adjusted revenue in 4Q18 (down 8% on 3Q18), from weakness in markets. Operating expenses were higher from investments in business growth. We reiterate our commitment to the discipline of positive adjusted jaws.

Return on average tangible equity rose to 8.6% from 6.8%, up 1.8 percentage points.

Reported loans and advances to customers increased by $32bn. Excluding foreign currency translation differences, loans and advances grew by $66bn or 7% from 1 January 2018.

Common equity tier 1 ('CET1') ratio of 14.0% and CRD IV leverage ratio of 5.5%.

Maintained the dividend at $0.51 per ordinary share; total dividends in respect of the year of $10.2bn; confident of maintaining at this level.

Financial highlights and key ratios

		Year ended 31 Dec		
		2018	2017	Change
	Footnotes	$m	$m	%
Reported profit before tax		19,890	17,167	15.9
Adjusted profit before tax	1	21,719	21,133	2.8
Return on average ordinary shareholders' equity (annualised)		7.7%	5.9%	
Return on average tangible equity		8.6%	6.8%	
Adjusted jaws	2	(1.2%)		

For footnotes, see page 2.

We use adjusted performance to understand the underlying trends in the business. The main differences between reported and adjusted are foreign currency translation and significant items.

Capital and balance sheet

	At 31 Dec		
	2018	2017	Change
	%	%	
Common equity tier 1 ratio	14.0	14.5	
Leverage ratio	5.5	5.6	
	$m	$m	$m
Loans and advances to customers	981,696	962,964	18,732
Customer accounts	1,362,643	1,364,462	(1,819)
Risk-weighted assets ('RWAs')	865,318	871,337	(6,019)

Highlights

		Year ended 31 Dec	
		2018	2017
	Footnotes	$m	$m
Reported			
Revenue	3	53,780	51,445
Change in expected credit losses and other credit impairment charges		(1,767)	N/A
Loan impairment charges and other credit risk provisions		N/A	(1,769)
Operating expenses		(34,659)	(34,884)
Profit before tax		19,890	17,167
Adjusted			
Revenue	3	53,940	51,661
Change in expected credit losses and other credit impairment charges		(1,767)	N/A
Loan impairment charges and other credit risk provisions		N/A	(1,713)
Operating expenses		(32,990)	(31,231)
Profit before tax		21,719	21,133
Significant items affecting adjusted performance			
Revenue			
Customer redress programmes		53	(108)
Disposals, acquisitions and investment in new businesses		(113)	274
Fair value movements on financial instruments		(100)	(245)
Operating expenses			
Costs of structural reform		(361)	(420)
Costs to achieve		—	(3,002)
Customer redress programmes		(146)	(655)

Disposals, acquisitions and investment in new businesses	(52	(53)
Gain on partial settlement of pension obligation	—	188
Past service costs of guaranteed minimum pension benefits equalisation	(228)	—
Restructuring and other related costs	(66)	—
Settlements and provisions in connection with legal matters and other regulatory matters	(816)	198

1 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.

2 Includes UK bank levy.

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

Statement by Mark E Tucker, Group Chairman

Our ability to meet our targets depends on being able to help our customers manage the present uncertainty and capture the opportunities that unquestionably exist.

HSBC is in a strong position. Our performance in 2018 demonstrated the underlying health of the business and the potential of the strategy that John Flint, our Group Chief Executive, announced in June.

Despite a challenging external environment in the fourth quarter, all of our global businesses delivered increased profits and the Group achieved a higher return on tangible equity in 2018. Asia again contributed a substantial portion of the Group's profits, notably in Retail Banking and Wealth Management and Commercial Banking. Overall, the Group delivered reported profit before tax of $19.9bn, up 16% on 2017, and adjusted profit before tax of $21.7bn, up 3%.

This performance allows us to approve a fourth interim dividend of $0.21, bringing the total dividend for 2018 to $0.51.

The Board of Directors

There were a number of Board changes in 2018.

Jonathan Symonds became Deputy Group Chairman. Iain Mackay left the business after 11 years, with the last eight spent as Group Finance Director. My thanks go to Iain for his dedicated service to the Group, and in particular for the integral role he played in executing the Group strategy and improving the quality of our financial reporting. Ewen Stevenson joined the Board as Group Chief Financial Officer on 1 January this year.

We said goodbye to Phillip Ameen, Joachim Faber and John Lipsky, all of whom retired from the Board. I am very grateful to each of them for their invaluable advice and counsel. Their departures led to a reduction in the size of the

Board as part of our ongoing work to simplify, clarify and strengthen governance arrangements.

We also cut the number of Board committees from seven to five and simplified subsidiary governance. I believe this creates clearer and stronger lines of authority and accountability, enabling the Board to devote more time to priority areas.

We welcome the new UK Corporate Governance Code, which places greater emphasis on how the Board considers the interests of all stakeholders in its discussions and decision making, and promotes a strong internal culture.

We see the new Code as an opportunity to further enhance our existing stakeholder engagement, ensuring that the business as a whole can continue to develop constructive and considerate relationships with all those with whom we work. We will include details of this in the Annual Report and Accounts 2019.

Connecting customers to opportunities

The financial targets that John announced in June remain appropriate, even as the global economic outlook becomes less predictable. Our ability to meet them depends on being able to help our customers manage the present uncertainty and capture the opportunities that unquestionably exist.

The system of global trade remains subject to political pressure, and differences between China and the US will likely continue to inform sentiment in 2019. However, the conclusion of major trade agreements – including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership; the EU's landmark bilateral agreements with Japan and Singapore; and the potential ratification of the US-Mexico-Canada Agreement in 2019 – provide important counterweights that could give impetus to international trade in the year ahead.

The fundamentals for growth in Asia remain strong in spite of a softer regional economic outlook. The structural and financial reforms underway across the region should continue to support economic development. China remains subject to domestic and external pressures, but we expect it to maintain strong growth. We also expect further financial liberalisation to form part of China's response to changing external conditions. This will benefit domestic and international customers and investors.

The US economy and the influence of the Federal Reserve remain central to global sentiment. We expect policymakers to adopt a more cautious stance in 2019, even as the economy continues to grow. A slowdown in the pace of US interest rate rises could carry positive implications for Asian economies and businesses, as well as for US growth. Both the Mexican and Canadian economies are poised to grow at a steady pace.

Many of our UK customers are understandably cautious about the immediate future, given the prolonged uncertainty surrounding the UK's exit from the European Union. HSBC UK, our new UK ring-fenced bank, has an important role in supporting our customers as they prepare for a range of possible outcomes. Our universal banking business in France will also help provide continuity to our customers in the UK and the rest of Europe. In Europe, as elsewhere, we are confident in our ability to help customers make the most of the opportunities they see.

There are more risks to global economic growth than this time last year, and we remain alive and responsive to all possibilities. Our strong balance sheet and revenue base equip us to navigate these risks and, most importantly, enable us to help our customers negotiate their own paths.

Fulfilling our potential

Enabling our people to do their jobs to the best of their ability is a priority for the Board, and for me personally. They are essential to our present and future success. The Board fully endorses the Group's commitment to develop and support our people and we offer the Group Management Board our wholehearted support in realising that ambition.

I had the honour of officially opening the new headquarters of HSBC UK in Birmingham in December. As well as providing a new home for the UK ring-fenced bank, One Centenary Square houses the European hub of HSBC University, our global learning and development centre. Since then, we have opened new HSBC University hubs at our new premises in Dubai, and in Mexico City. These cutting-edge facilities form part of our response to the complex challenges our employees now face working for a global bank in an unpredictable environment. HSBC University aims not only to equip them with the right skills, but also to help them understand the culture that will continue to make HSBC a unique organisation.

Many thanks

My thanks go to John and each of the 235,000 people who work for HSBC. Their hard work, commitment and talent has been key to the Group's progress in 2018. Our challenge and shared purpose is to build on that good work through the rest of 2019 and beyond. I have every confidence we can do so.

Review by John Flint, Group Chief Executive

Helping our people be at their best is the critical enabler of our business strategy and fundamental to delivering our financial targets.

In June 2018, I set out a plan to get HSBC growing again and to create value for shareholders. While this targets clear financial outcomes, it has our customers at its centre. We want to bring more of HSBC to more people and to serve them in the best possible way.

The eight strategic priorities that I outlined in June are the key to achieving these aims. We are seeking to connect more customers to our international network and high-growth markets. We are working to improve our capital efficiency and to turn our US business around. We are investing in technology and our digital capabilities to serve our customers better and stay competitive. We are also taking steps to support our people more effectively and help them be at their best.

I am encouraged by our progress so far. We are growing customer numbers and capturing market share in our scale markets and from our international network. Our US business is short of where we want it to be, but is moving in the right direction. Our investment in technology is making our business simpler, safer, and easier for our customers to use. We have launched new products and made strategic hires in mainland China and Hong Kong that are materially improving our service to international clients. We have also established our UK ring-fenced bank.

These were important factors in our 2018 financial performance. Revenue growth in our four global businesses helped deliver higher Group reported and adjusted profit before tax. Group return on tangible equity – our headline measure – was also up significantly from 6.8% in 2017 to 8.6%. This is a good first step towards meeting our return on tangible equity target of more than 11% by 2020.

Engaging our people

HSBC has a strong and proud culture. We understand our role and our purpose, and that HSBC exists to serve others. As Group Chief Executive, I have a responsibility to nurture and preserve those aspects of our culture that serve us well. I also recognise that I have a responsibility to improve aspects of our behaviours that may be impeding our performance.

In my first year in this role, I started a conversation throughout the bank about how we help our people be the best version of themselves. This is part of a broader ambition to create what we call the healthiest human system in our industry.

There is more that we can do to create an environment that is sufficiently supportive, protective and engaging. We need to have more open and honest conversations. This is the least that our people should be able to expect. If we cannot provide it, it hurts our ability to serve not just our customers, but all the stakeholder groups on whom our success depends. It also impedes our ability to deliver our strategy and our targets.

We have started by signalling to our people that creating a safe and supportive working environment is a strategic priority for the business. Leaders are being encouraged to model the right behaviours and provide direction on the type of behaviour we expect. We are also opening conversations around issues like mental health, well-being, bullying and harassment.

We are making material changes to the organisation that allow us to support our people more effectively. Our governance procedures are being simplified and strengthened to reduce complexity and make it easier for people to do their jobs. We are also helping our people work more flexibly. On learning and development, we have opened new HSBC University hubs around the world and improved access to digital training.

At an individual level, every person at HSBC is being encouraged to think about how we create the healthiest human system in our industry, and to play an active role in doing so. We are regularly collecting feedback from our people and it is informing the action we are taking.

The early signs are positive. In 2018, 66% of our employees said they would recommend HSBC as a great place to work, up from 64% the previous year. While this demonstrates an improvement in a relatively short space of time, it also shows that we have much further to go. This work will continue into 2019 and beyond. If we are successful, then we will materially improve all aspects of HSBC's performance, including delivery of our strategy.

Business performance

All four global businesses grew adjusted revenue in 2018.

Retail Banking and Wealth Management had a very good year. Higher interest rates, rising customer numbers, and growth of more than $20bn in our UK and Hong Kong mortgage book all contributed to a strong rise in Retail Banking adjusted revenue. Despite a good performance in the first three quarters of the year, Wealth Management adjusted revenue fell slightly in 2018 due to the effects of market volatility in the fourth quarter.

Commercial Banking had an excellent 2018, delivering double-digit adjusted revenue growth on the back of an outstanding performance in Global Liquidity and Cash Management. Credit and Lending generated adjusted revenue growth from higher balances, despite lower margins from increased competition. Solid performances in Asia and Europe enabled Global Trade and Receivables Finance to grow adjusted revenue despite an increasingly difficult environment for trade.

Global Banking and Markets grew adjusted revenue in spite of considerably reduced market activity in the fourth quarter. Our market-leading transaction banking franchises generated strong increases in adjusted revenue, which exceeded the reduction in markets-related revenue from Rates, Credit, and Equities.

Global Private Banking returned to growth in 2018 on the back of new business won in Hong Kong. Adjusted revenue from deposits also increased on the back of interest rate rises.

Adjusted jaws was negative for 2018. While adjusted costs were broadly as we expected for the full year, adjusted revenue fell short due to market weakness in the fourth quarter. Positive jaws remains an important discipline in delivering our financial targets and we remain committed to it in 2019.

Expected credit losses were slightly higher than loan impairment charges in 2017, reflecting the uncertain economic outlook in the UK and heightened downside risks.

Our common equity tier 1 ratio of 14% was lower than at the same point in 2017, due mainly to adverse foreign exchange movements and the impact of higher lending.

We returned a total of $2bn to shareholders through share buy-backs in 2018, reflecting our desire to neutralise the impact of scrip dividends over the medium term. We remain committed to this policy, subject to regulatory approval.

Outlook

We have made a good start to 2019. Our Group revenue performance in January was ahead of our plan for the month and actual credit performance remained robust, albeit with some softening of credit performance in the UK. We continue to prepare for the UK's departure from the EU in order to provide continuity for our customers in the UK and mainland Europe. Our well-established universal bank in France gives us a major advantage in this regard. Our immediate priority is to help our customers manage the present uncertainty.

Despite more challenging market conditions at the end of the year and a weaker global economic outlook, we are committed to the targets we announced in June. We remain alert to the downside risks of the current economic environment, especially those relating to the UK economy, global trade tensions and the future path of interest rates. We will be proactive in managing costs and investment to meet the risks to revenue growth where necessary, but we will not take short-term decisions that harm the long-term interests of the business.

We plan to achieve positive adjusted jaws in 2019 and remain focused on achieving a return on tangible equity of over 11% by 2020, while maintaining a stable dividend.

Financial summary

		Year ended 31 Dec	
		2018	2017
	Footnotes	$m	$m
For the year			
Profit before tax		19,890	17,167
Profit attributable to:			

– ordinary shareholders of the parent company		12,608	9,683
Dividends declared on ordinary shares		10,187	10,193
At the year-end			
Total shareholders’ equity		186,253	190,250
Total regulatory capital		173,238	182,383
Customer accounts		1,362,643	1,364,462
Total assets		2,558,124	2,521,771
Risk-weighted assets		865,318	871,337
Per ordinary share		$	$
Basic earnings		0.63	0.48
Dividends	1	0.51	0.51
Net asset value		8.13	8.35
Tangible net asset value		7.01	7.26
Share information			
Number of $0.50 ordinary shares in issue (millions)		20,361	20,321
Basic number of $0.50 ordinary shares outstanding (millions)		19,981	19,960
Basic number of $0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)		20,059	20,065

1 Dividends per ordinary share declared in the year.

Distribution of results by global business

Adjusted profit before tax

	Year ended 31 Dec			
	2018		2017	
	$m	%	$m	%

Retail Banking and Wealth Management	7,080	32.6	6,479	30.6
Commercial Banking	7,669	35.3	6,829	32.3
Global Banking and Markets	6,078	28.0	5,848	27.7
Global Private Banking	344	1.6	296	1.4
Corporate Centre	548	2.5	1,681	8.0
Profit before tax	21,719	100.0	21,133	100.0

Distribution of results by geographical region

Reported profit/(loss) before tax

	Year ended 31 Dec			
	2018		2017	
	$m	%	$m	%
Europe	(815)	(4.1)	(1,864)	(10.9)
Asia	17,790	89.5	15,329	89.3
Middle East and North Africa	1,557	7.8	1,501	8.7
North America	799	4.0	1,601	9.3
Latin America	559	2.8	600	3.5
Profit before tax	19,890	100.0	17,167	100.0

HSBC adjusted profit before tax and balance sheet data

	2018					
	Retail Bankingand Wealth	CommercialBanking	GlobalBanking and Markets	GlobalPrivate Banking	Corporate Centre	Total

		Management					
	Footnotes	$m	$m	$m	$m	$m	$m
Net operating income before change in expected credit losses and other credit impairment charges	1	21,935	14,885	15,512	1,785	(177)	53,940
– external		17,270	14,652	17,986	1,497	2,535	53,940
– inter-segment		4,665	233	(2,474	288	(2,712	—
of which: net interest income/(expense)		15,822	10,666	5,259	888	(2,199)	30,436
Change in expected credit losses and other credit impairment charges		(1,177)	(739)	26	8	115	(1,767)
Net operating income		20,758	14,146	15,538	1,793	(62)	52,173
Total operating expenses		(13,711)	(6,477)	(9,460)	(1,449)	(1,893)	(32,990)
Operating profit/(loss)		7,047	7,669	6,078	344	(1,955)	19,183
Share of profit in associates and joint ventures		33	—	—	—	2,503	2,536
Adjusted profit before tax		7,080	7,669	6,078	344	548	21,719
		%	%	%	%	%	%
Share of HSBC's adjusted profit before tax		32.6	35.3	28.0	1.6	2.5	100.0
Adjusted cost efficiency ratio		62.5	43.5	61.0	81.2	(1,069.5	61.2

Adjusted balance sheet data		$m	$m	$m	$m	$m	$m
Loans and advances to customers (net)		361,872	333,162	244,978	39,217	2,467	981,696
Interests in associates and joint ventures		397	—	—	—	22,010	22,407
Total external assets		476,784	360,216	1,012,272	43,790	665,062	2,558,124
Customer accounts		640,924	357,596	290,914	64,658	8,551	1,362,643
Adjusted risk-weighted assets (unaudited)	2	126,865	321,244	281,021	16,824	118,550	864,504

		2017					
Net operating income before loan impairment charges and other credit risk provisions	1	20,220	13,247	15,285	1,723	1,186	51,661
– external		17,024	13,378	16,557	1,453	3,249	51,661
– inter-segment		3,196	(131)	(1,272)	270	(2,063)	—
of which: net interest income/(expense)		13,927	9,060	4,851	825	(481)	28,182
Loan impairment charges and other credit risk provisions		(969)	(465)	(446)	(16)	183	(1,713)
Net operating income		19,251	12,782	14,839	1,707	1,369	49,948
Total operating expenses		(12,786)	(5,953)	(8,991)	(1,411)	(2,090)	(31,231)
Operating profit/(loss)		6,465	6,829	5,848	296	(721)	18,717
Share of profit in associates and joint ventures		14	—	—	—	2,402	2,416
Adjusted profit before tax		6,479	6,829	5,848	296	1,681	21,133
		%	%	%	%	%	%
Share of HSBC's adjusted profit before tax		30.6	32.3	27.7	1.4	8.0	100.0

Adjusted cost efficiency ratio		63.2	44.9	58.8	81.9	176.2	60.5
Adjusted balance sheet data		$m	$m	$m	$m	$m	$m
Loans and advances to customers (net)		332,261	305,213	244,476	39,597	7,294	928,841
Interests in associates and joint ventures		363	—	—	—	21,656	22,019
Total external assets		451,516	336,163	946,747	46,247	662,364	2,443,037
Customer accounts		621,092	351,617	273,080	64,957	10,883	1,321,629
Adjusted risk-weighted assets (unaudited)	2	118,131	289,824	293,135	15,795	128,795	845,680

1 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

2 Adjusted risk-weighted assets are calculated using reported risk-weighted assets adjusted for the effects of currency translation differences and significant items.

Consolidated income statement

for the year ended 31 December

	2018	2017
	$m	$m
Net interest income	30,489	28,176
– interest income	49,609	40,995
– interest expense	(19,120)	(12,819)
Net fee income	12,620	12,811
– fee income	16,044	15,853
– fee expense	(3,424)	(3,042)
Net income from financial instruments held for trading or managed on a fair value basis9, 10	9,531	8,426
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(1,488)	2,836
Changes in fair value of long-term debt and related derivatives9	(97)	155

Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss10	695	N/A
Gains less losses from financial investments	218	1,150
Dividend income	75	106
Net insurance premium income	10,659	9,779
Other operating income/(expense)	885	337
Total operating income	63,587	63,776
Net insurance claims and benefits paid and movement in liabilities to policyholders	(9,807)	(12,331)
Net operating income before change in expected credit losses and other credit impairment charges15	53,780	51,445
Change in expected credit losses and other credit impairment charges	(1,767)	N/A
Loan impairment charges and other credit risk provisions	N/A	(1,769
Net operating income	52,013	49,676
Employee compensation and benefits	(17,373)	(17,315)
General and administrative expenses	(15,353)	(15,707)
Depreciation and impairment of property, plant and equipment	(1,119)	(1,166)
Amortisation and impairment of intangible assets	(814)	(696)
Total operating expenses	(34,659)	(34,884)
Operating profit	17,354	14,792
Share of profit in associates and joint ventures	2,536	2,375
Profit before tax	19,890	17,167
Tax expense	(4,865)	(5,288)
Profit for the year	15,025	11,879
Attributable to:		
– ordinary shareholders of the parent company	12,608	9,683
– preference shareholders of the parent company	90	90
– other equity holders	1,029	1,025

– non-controlling interests	1,298	1,081
Profit for the year	15,025	11,879
	$	$
Basic earnings per ordinary share	0.63	0.48
Diluted earnings per ordinary share	0.63	0.48

For footnotes, see page 15.

Consolidated statement of comprehensive income

for the year ended 31 December

		2018	2017
	Footnotes	$m	$m
Profit for the year		15,025	11,879
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments		N/A	146
– fair value gains		N/A	1,227
– fair value gains reclassified to the income statement		N/A	(1,033)
– amounts reclassified to the income statement in respect of impairment losses		N/A	93
– income taxes		N/A	(141)
Debt instruments at fair value through other comprehensive income		(243)	N/A
– fair value losses		(168)	N/A
– fair value gain transferred to the income statement on disposal		(95)	N/A
– expected credit losses recognised in the income statement		(94)	N/A
– income taxes		114	N/A
Cash flow hedges		19	(192)

– fair value losses		(267)	(1,046)
– fair value gains reclassified to the income statement		317	833
– income taxes and other movements		(31)	21
Share of other comprehensive income/(expense) of associates and joint ventures		(64)	(43)
– share for the year		(64)	(43)
Exchange differences		(7,156)	9,077
– other exchange differences		(7,156)	8,939
– income tax attributable to exchange differences		—	138
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability		(329)	2,419
– before income taxes	7	(388)	3,440
– income taxes		59	(1,021)
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk		2,847	(2,024)
– before income taxes		3,606	(2,409)
– income taxes		(759)	385
Equity instruments designated at fair value through other comprehensive income		(27)	N/A
– fair value losses		(71)	N/A
– income taxes		44	N/A
Effects of hyperinflation		283	N/A
Other comprehensive income/(expense) for the year, net of tax		(4,670)	9,383
Total comprehensive income for the year		10,355	21,262
Attributable to:			
– ordinary shareholders of the parent company		8,083	18,914
– preference shareholders of the parent company		90	90
– other equity holders		1,029	1,025

– non-controlling interests	1,153	1,233
Total comprehensive income for the year	10,355	21,262

For footnotes, see page 15.

Consolidated balance sheet

	At		
	31 Dec	1 Jan	31 Dec
	2018	201814	2017
	$m	$m	$m
Assets			
Cash and balances at central banks	162,843	180,621	180,624
Items in the course of collection from other banks	5,787	6,628	6,628
Hong Kong Government certificates of indebtedness	35,859	34,186	34,186
Trading assets	238,130	254,410	287,995
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	41,111	39,746	N/A
Financial assets designated at fair value	N/A	N/A	29,464
Derivatives	207,825	219,818	219,818
Loans and advances to banks	72,167	82,559	90,393
Loans and advances to customers	981,696	949,737	962,964
Reverse repurchase agreements – non-trading	242,804	201,553	201,553
Financial investments	407,433	383,499	389,076
Prepayments, accrued income and other assets	110,571	114,777	67,191
Current tax assets	684	1,006	1,006
Interests in associates and joint ventures	22,407	21,802	22,744

Goodwill and intangible assets	24,357	23,374	23,453
Deferred tax assets	4,450	4,714	4,676
Total assets	2,558,124	2,518,430	2,521,771
Liabilities and equity			
Liabilities			
Hong Kong currency notes in circulation	35,859	34,186	34,186
Deposits by banks	56,331	64,492	69,922
Customer accounts	1,362,643	1,360,227	1,364,462
Repurchase agreements – non-trading	165,884	130,002	130,002
Items in the course of transmission to other banks	5,641	6,850	6,850
Trading liabilities	84,431	80,864	184,361
Financial liabilities designated at fair value	148,505	144,006	94,429
Derivatives	205,835	216,821	216,821
Debt securities in issue	85,342	66,536	64,546
Accruals, deferred income and other liabilities	97,380	99,926	45,907
Current tax liabilities	718	928	928
Liabilities under insurance contracts	87,330	85,598	85,667
Provisions	2,920	4,295	4,011
Deferred tax liabilities	2,619	1,614	1,982
Subordinated liabilities	22,437	25,861	19,826
Total liabilities	2,363,875	2,322,206	2,323,900
Equity			
Called up share capital	10,180	10,160	10,160
Share premium account	13,609	10,177	10,177
Other equity instruments	22,367	22,250	22,250
Other reserves	1,906	6,643	7,664

Retained earnings	138,191	139,414	139,999
Total shareholders' equity	186,253	188,644	190,250
Non-controlling interests	7,996	7,580	7,621
Total equity	194,249	196,224	197,871
Total liabilities and equity	2,558,124	2,518,430	2,521,771

For footnotes, see page 15.

Consolidated statement of cash flows

for the year ended 31 December

		2018	2017	
	Footnotes	$m	$m	
Profit before tax		19,890	17,167	
Adjustments for non-cash items:				
Depreciation and amortisation		1,933	1,862	
Net (gain)/loss from investing activities		(126)	(1,152	)
Share of profits in associates and joint ventures		(2,536)	(2,375	)
(Gain)/Loss on disposal of subsidiaries, businesses, associates and joint ventures		—	(79	)
Change in expected credit losses gross of recoveries and other credit impairment charges		2,280	N/A	
Loan impairment losses gross of recoveries and other credit risk provisions		N/A	2,603	
Provisions including pensions		1,944	917	
Share-based payment expense		450	500	
Other non-cash items included in profit before tax		(1,303)	(381	)
Elimination of exchange differences	11	7,299	(21,289	)
Changes in operating assets and liabilities				

Change in net trading securities and derivatives	10,716	(10,901)
Change in loans and advances to banks and customers	(44,071)	(108,984)
Change in reverse repurchase agreements – non-trading	(40,499)	(37,281)
Change in financial assets designated and otherwise mandatorily measured at fair value	(1,515)	(5,303)
Change in other assets	4,047	(6,570)
Change in deposits by banks and customer accounts	(5,745)	102,211
Change in repurchase agreements – non-trading	35,882	41,044
Change in debt securities in issue	18,806	(1,369)
Change in financial liabilities designated at fair value	4,500	8,508
Change in other liabilities	(2,644)	13,514
Dividends received from associates	910	740
Contributions paid to defined benefit plans	(332)	(685)
Tax paid	(3,417)	(3,175)
Net cash from operating activities	6,469	(10,478)
Purchase of financial investments	(383,454)	(357,264)
Proceeds from the sale and maturity of financial investments	370,357	418,352
Net cash flows from the purchase and sale of property, plant and equipment	(1,196)	(1,167)
Net cash flows from disposal of customer and loan portfolios	(204)	6,756
Net investment in intangible assets	(1,848)	(1,285)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures2	4	165
Net cash from investing activities	(16,341)	65,557
Issue of ordinary share capital and other equity instruments	6,001	5,196
Cancellation of shares	(1,998)	(3,000)
Net sales/(purchases) of own shares for market-making and investment purposes	133	(67)
Purchase of treasury shares	—	—

Redemption of preference shares and other equity instruments		(6,078)	—
Subordinated loan capital issued		—	—
Subordinated loan capital repaid	12	(4,077)	(3,574)
Dividends paid to shareholders of the parent company and non-controlling interests		(10,762)	(9,005)
Net cash from financing activities		(16,781)	(10,450)
Net increase/(decrease) in cash and cash equivalents		(26,653)	44,629
Cash and cash equivalents at 1 Jan		337,412	274,550
Exchange differences in respect of cash and cash equivalents		(9,677)	18,233
Cash and cash equivalents at 31 Dec	13	301,082	337,412
Cash and cash equivalents comprise:			
– cash and balances at central banks		162,843	180,624
– items in the course of collection from other banks		5,787	6,628
– loans and advances to banks of one month or less		47,878	82,771
– reverse repurchase agreements with banks of one month or less		59,602	58,850
– treasury bills, other bills and certificates of deposit less than three months		30,613	15,389
– less: items in the course of transmission to other banks		(5,641)	(6,850)
Cash and cash equivalents at 31 Dec	13	301,082	337,412

For footnotes, see page 15.

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves					
	Called up share capital	Other equity instru-ments2,3	Retained earnings4,5	Financial assets at FVOCI	Cash flowhedging reserve	Foreignexchange reserve	Merger and other reserves6	Totalshare-holders' equity	Non-co interest

	and share premium			reserve8					
	$m	$m	$m	$m	$m	$m	$m	$m	$m
As at 31 Dec 2017	20,337	22,250	139,999	(350)	(222)	(19,072)	27,308	190,250	7,621
Impact on transition to IFRS 9	—	—	(585)	(1,021)	—	—	—	(1,606)	(41)
At 1 Jan 2018	20,337	22,250	139,414	(1,371)	(222)	(19,072)	27,308	188,644	7,580
Profit for the year	—	—	13,727	—	—	—	—	13,727	1,298
Other comprehensive income(net of tax)	—	—	2,765	(245)	16	(7,061)	—	(4,525)	(145)
– debt instruments at fair value through other comprehensive income	—	—	—	(245)	—	—	—	(245)	2
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—	(27)
– cash flow hedges	—	—	—	—	16	—	—	16	3
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	2,847	—	—	—	—	2,847	—

– remeasurement of defined benefit asset/liability7	—	—	(301)	—	—	—	—	(301)	(28)
– share of other comprehensive income of associates and joint ventures	—	—	(64)	—	—	—	—	(64)	—
– effects of hyperinflation	—	—	283	—	—	—	—	283	—
– exchange differences	—	—	—	—	—	(7,061)	—	(7,061)	(95)
Total comprehensive income for the year	—	—	16,492	(245)	16	(7,061)	—	9,202	1,153
Shares issued under employee remuneration and share plans	721	—	(610)	—	—	—	—	111	—
Shares issued in lieu of dividends and amounts arising thereon	—	—	1,494	—	—	—	—	1,494	—
Capital securities issued	—	5,968	—	—	—	—	—	5,968	—
Dividends to shareholders	—	—	(11,547)	—	—	—	—	(11,547)	(710)
Redemption of securities	—	(5,851)	(237)	—	—	—	—	(6,088)	—
Transfers16	—	—	(2,200)	—	—	—	2,200	—	—
Cost of share-based payment arrangements	—	—	450	—	—	—	—	450	—
	2,731	—	(4,998)	—	—	—	269	(1,998)	—

Cancellation of shares17,18										
Other movements	—	—	(67)	84	—	—	—	17	(27)	
At 31 Dec 2018	23,789	22,367	138,191	(1,532)	(206)	(26,133)	29,777	186,253	7,996	

For footnotes, see page 15.

Consolidated statement of changes in equity (continued)

				Other reserves						
	Called up share capital and share premium	Other equity instru-ments2	Retained earnings4, 5	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves6	Total share-holders' equity	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
At 1 Jan 2017	22,715	17,110	136,795	(477)	(27)	(28,038)	27,308	175,386	7,192	182,5
Profit for the year	—	—	10,798	—	—	—	—	10,798	1,081	11,87
Other comprehensive income(net of tax)	—	—	328	131	(194)	8,966	—	9,231	152	9,383
– available-for-sale investments	—	—	—	131	—	—	—	131	15	146
– cash flow hedges	—	—	—	—	(194)	—	—	(194)	2	(192)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	(2,024)	—	—	—	—	(2,024)	—	(2,02
– remeasurement of defined benefit asset/liability7	—	—	2,395	—	—	—	—	2,395	24	2,419
	—	—	(43)	—	—	—	—	(43)	—	(43)

– share of other comprehensive income of associates and joint ventures										
– exchange differences	—	—	—	—	—	8,966	—	8,966	111	9,077
Total comprehensive income for the year	—	—	11,126	131	(194)	8,966	—	20,029	1,233	21,26
Shares issued under employee remuneration and share plans	622	—	(566)	—	—	—	—	56	—	56
Shares issued in lieu of dividends and amounts arising thereon	—	—	3,206	—	—	—	—	3,206	—	3,206
Capital securities issued	—	5,140	—	—	—	—	—	5,140	—	5,140
Dividends to shareholders	—	—	(11,551)	—	—	—	—	(11,551)	(660)	(12,2
Cost of share-based payment arrangements	—	—	500	—	—	—	—	500	—	500
Cancellation of shares1	(3,000)	—	—	—	—	—	—	(3,000)	—	(3,00
Other movements	—	—	489	(4)	(1)	—	—	484	(144)	340
At 31 Dec 2017	20,337	22,250	139,999	(350)	(222)	(19,072)	27,308	190,250	7,621	197,8

For footnotes, see page 15.

1 In February 2017, HSBC announced a share buy-back of up to $1.0bn, which was completed in April 2017. In July 2017, HSBC announced a share buy-back of up to $2.0bn, which was completed in November 2017. Shares bought back from these two buy-back programmes have been cancelled.

2 During 2018, HSBC Holdings issued $4,150m, £1,000m and SGD750m of perpetual subordinated contingent convertible capital securities on which there were $60m of external issuance costs, $49m of intra-Group issuance costs and $11m of tax benefits. In 2017, HSBC Holdings issued $3,000m, SGD1,000m and €1,250m of perpetual subordinated contingent convertible capital securities, on which there were $14m of external issuance costs, $37m of intra-Group issuance costs and $10m of tax benefits. Under IFRSs these issuance costs and tax benefits are classified as equity.

3 During 2018, HSBC Holdings redeemed $2,200m 8.125% perpetual subordinated capital securities and its $3,800m 8.000% perpetual subordinated capital securities, Series 2, on which there were $172m of external issuance costs and $23m of intra-Group issuance costs wound down.

4 At 31 December 2018, retained earnings included 379,926,645 treasury shares (2017: 360,590,019). In addition, treasury shares are also held within HSBC's Insurance business retirement funds for the benefit of policyholders or beneficiaries within employee trusts for the settlement of shares expected to be delivered under employee share schemes or bonus plans, and the market-making activities in Global Markets.

5 Cumulative goodwill amounting to $5,138m has been charged against reserves in respect of acquisitions of subsidiaries prior to 1 January 1998, including $3,469m charged against the merger reserve arising on the acquisition of HSBC Bank plc. The balance of $1,669m has been charged against retained earnings.

6 Statutory share premium relief under Section 131 of the Companies Act 1985 (the 'Act') was taken in respect of the acquisition of HSBC Bank plc in 1992, HSBC France in 2000 and HSBC Finance Corporation in 2003, and the shares issued were recorded at their nominal value only. In HSBC's consolidated financial statements, the fair value differences of $8,290m in respect of HSBC France and $12,768m in respect of HSBC Finance Corporation were recognised in the merger reserve. The merger reserve created on the acquisition of HSBC Finance Corporation subsequently became attached to HSBC Overseas Holdings (UK) Limited ('HOHU'), following a number of intra-Group reorganisations. During 2009, pursuant to Section 131 of the Companies Act 1985, statutory share premium relief was taken in respect of the rights issue and $15,796m was recognised in the merger reserve. The merger reserve includes a deduction of $614m in respect of costs relating to the rights issue, of which $149m was subsequently transferred to the income statement. Of this $149m, $121m was a loss arising from accounting for the agreement with the underwriters as a contingent forward contract. The merger reserve excludes the loss of $344m on a forward foreign exchange contract associated with hedging the proceeds of the rights issue.

7 During 2018, an actuarial gain of $1,180m has arisen as a result of the remeasurement of the defined benefit pension obligation of the HSBC Bank (UK) Pension Scheme. During 2017, an actuarial gain of $1,730m has arisen as a result of the remeasurement of the defined benefit pension obligation of the HSBC Bank (UK) Pension Scheme.

8 The $350m at 31 December 2017 represents the IAS 39 available-for-sale fair value reserve as at 31 December 2017.

9 Prior to 2018, foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018, we have grouped the entire effect of foreign exchange exposure in profit or loss and presented it within 'Net income from financial instruments held for trading or managed on a fair value basis'. Comparative data have been re-presented. There is no net impact on Total operating income and the impact on 'changes in fair value of long-term debt and related derivatives' is $(517)m for the year ended 31 December 2017 and $1,978m for the year ended 31 December 2016.

10 The classification and measurement requirements under IFRS 9, which was adopted from 1 January 2018, are based on an entity's assessment of both the business model for managing the assets and the contractual cash flow characteristics of the assets. The standard contains a classification for items measured mandatorily at fair value

through profit or loss as a residual category. Given its residual nature, the presentation of the income statement has been updated to separately present items in this category, which are of a dissimilar nature or function, in line with IAS 1 'Presentation of financial statements' requirements. Comparative data has been re-presented. There is no net impact on total operating income.

11 Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.

12 Subordinated liabilities changes during the year are attributable to repayments of $(4.1)bn (2017: $(3.6)bn) of securities. Non-cash changes during the year included foreign exchange (loss)/gain $(0.6)bn (2017: $(0.6)bn) and fair value losses of $(1.4)bn (2017: $(1.2)bn).

13 At 31 December 2018, $26,282m (2017: $39,830m; 2016: $35,501m) was not available for use by HSBC, of which $19,755m (2017: $21,424m) related to mandatory deposits at central banks.

14 Balances at 1 January 2018 have been prepared in accordance with accounting policies referred to on page 16. 31 December 2017 balances have not been re-presented.

15 Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions, also referred to as revenue.

16 Permitted transfers from the merger reserve to retained earnings were made when the investment in HSBC Overseas Holdings (UK) Limited was previously impaired. A part reversal of this impairment results in a transfer from retained earnings back to the merger reserve of $2,200m.

17 This includes a re-presentation of the cancellation of shares to retained earnings and capital redemption reserve in respect of the 2017 share buy-back, under which retained earnings have been reduced by $3,000m, called up capital and share premium increased by $2,731m and other reserves increased by $269m.

18 In May 2018, HSBC announced a share buy-back of up to $2.0bn, which was completed in August 2018.

1 Basis of preparation and significant accounting policies

The basis of preparation and summary of significant accounting policies applicable to the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings can be found in Note 1, or the relevant Note, in the Financial Statements in the Annual Report and Accounts 2018.

(a) Compliance with International Financial Reporting Standards

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'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 affecting these consolidated and separate financial statements, and HSBC's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2018

HSBC has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)', which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which HSBC has exercised. The classification and measurement, and impairment requirements, are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, HSBC has not restated comparatives. Adoption reduced net assets at 1 January 2018 by $1,647m as set out in

Note 37 of the Annual Report and Accounts 2018.

In addition, HSBC has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings.

(b) Differences between IFRSs and Hong Kong Financial Reporting Standards

There are no significant differences between IFRSs and Hong Kong Financial Reporting Standards in terms of their application to HSBC, and consequently there would be no significant differences had the financial statements been prepared in accordance with Hong Kong Financial Reporting Standards. The 'Notes on the financial statements', taken together with the 'Report of the Directors', include the aggregate of all disclosures necessary to satisfy IFRSs and Hong Kong reporting requirements.

(c) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2 Tax

Tax expense

	2018	2017
	$m	$m
Current tax1	4,195	4,264
– for this year	4,158	4,115
– adjustments in respect of prior years	37	149
Deferred tax	670	1,024
– origination and reversal of temporary differences	656	(228)

– effect of changes in tax rates	17	1,337
– adjustments in respect of prior years	(3)	(85)
Year ended 31 Dec	4,865	5,288

1 Current tax included Hong Kong profits tax of $1,532m (2017: $1,350m). The Hong Kong tax rate applying to the profits of subsidiaries assessable in Hong Kong was 16.5% (2017: 16.5%).

Tax reconciliation

The tax charged to the income statement differs from the tax charge that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2018		2017		2016	
	$m	%	$m	%	$m	%
Profit before tax	19,890		17,167		7,112	
Tax expense						
– taxation at UK corporation tax rate of 19.00% (2017: 19.25%; 2016: 20.0%)	3,779	19.00	3,305	19.25	1,422	20.00
– impact of differently taxed overseas profits in overseas locations	264	1.3	407	2.3	43	0.6
Items increasing tax charge in 2018:						
– local taxes and overseas withholding taxes	437	2.2	618	3.6	434	6.1
– UK tax losses not recognised	435	2.2	70	0.4	305	4.3
– other permanent disallowables	396	2.0	400	2.3	438	6.2
– UK banking surcharge	229	1.1	136	0.8	199	2.8
– bank levy	191	1.0	180	1.0	170	2.4
– non-deductible regulatory settlements	153	0.8	(132)	(0.8)	20	0.3
– impacts of hyperinflation	78	0.4	—	—	—	—
– adjustments in respect of prior period liabilities	34	0.2	64	0.4	256	3.6
– non-UK tax losses not recognised	32	0.2	33	0.2	147	2.1
– change in tax rates	17	0.1	49	0.3	(4)	(0.1)

– non-deductible UK customer compensation	16	0.1	166	1.0	162	2.3
– deferred tax remeasurement due to US federal tax rate reduction	—	—	1,288	7.5	—	—
– non-deductible goodwill write-down	—	—	—	—	648	9.1
– non-deductible loss and taxes suffered on Brazil disposal	—	—	—	—	464	6.5
Items reducing tax charge in 2018:						
– non-taxable income and gains	(691)	(3.5)	(766)	(4.4)	(577)	(8.1)
– effect of profits in associates and joint ventures	(492)	(2.5)	(481)	(2.8)	(461)	(6.5)
– other items	(13	(0.1	—	—	—	—
– other deferred tax temporary differences previously not recognised	—	—	(49)	(0.3)	—	—
Year ended 31 Dec	4,865	24.5	5,288	30.8	3,666	51.6

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rates for 2018 include Hong Kong (16.5%), the US (21%) and the UK (19%). If the Group's profits were taxed at the statutory rates of the countries in which the profits arose, then the tax rate for the year would have been 20.30% (2017: 21.15%). The effective tax rate for the year was 24.5% (2017: 30.8%). The effective tax rate for 2018 was significantly lower than for 2017 as 2017 included a charge of $1.3bn relating to the remeasurement of US deferred tax balances to reflect the reduction in the US federal tax rate to 21% from 2018.

Accounting for taxes involves some estimation because the tax law is uncertain and its application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. HSBC only recognises current and deferred tax assets where recovery is probable.

Movement of deferred tax assets and liabilities

		Loanimpairment provisions	Unused taxlosses and tax credits	Derivatives, FVOD1 and otherinvestments	Insurancebusiness	Expenseprovisions	Other	Total
	Footnotes	$m	$m	$m	$m	$m	$m	$m
Assets		713	1,373	1,282	—	643	2,313	6,324
Liabilities		—	—	(93)	(1,182)	—	(2,355)	(3,630
At 1 Jan 2018		713	1,373	1,189	(1,182)	643	(42)	2,694

IFRS 9 transitional adjustment		358	—	(411)	—	—	459	406
Income statement		(72)	(203)	51	(104)	19	(361)	(670
Other comprehensive income		—	—	(722	—	—	190	(532
Equity		—	—	—	—	—	(23	(23
Foreign exchange and other adjustments		(17)	(14)	9	15	(33)	(4)	(44
At 31 Dec 2018		982	1,156	116	(1,271)	629	219	1,831
Assets	2	982	1,156	492	—	629	1,889	5,148
Liabilities	2	—	—	(376)	(1,271)	—	(1,670)	(3,317
Assets		950	2,212	1,441	—	893	1,857	7,353
Liabilities		—	—	(274)	(1,170)	—	(1,369)	(2,813
At 1 Jan 2017		950	2,212	1,167	(1,170)	893	488	4,540
Income statement		(235)	(873)	(397)	12	(269)	738	(1,024
Other comprehensive income		3	(6)	368	—	—	(1,255)	(890
Equity		—	—	—	—	—	29	29
Foreign exchange and other adjustments		(5)	40	51	(24)	19	(42)	39
At 31 Dec 2017		713	1,373	1,189	(1,182)	643	(42)	2,694
Assets	2	713	1,373	1,282	—	643	2,313	6,324
Liabilities	2	—	—	(93)	(1,182)	—	(2,355)	(3,630

1 Fair value of own debt.

2 After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets $4,450m (2017: $4,676m); and deferred tax liabilities $2,619m (2017: $1,982m).

In applying judgement in recognising deferred tax assets, management has critically assessed all available information, including future business profit projections and the track record of meeting forecasts.

The net deferred tax asset of $1.8bn (2017: $2.7bn) includes $3.0bn (2017: $3.2bn) of deferred tax assets relating to the US, of which $1bn relates to US tax losses that expire in 15–19 years. Management expects the US deferred tax asset to be substantially recovered in six to seven years, with the majority recovered in the first five years. The most recent financial forecasts approved by management covers a five-year period and the forecasts have been extrapolated beyond five years by assuming that performance remains constant after the fifth year.

US tax reform enacted in late 2017 and effective from 2018 included a reduction in the federal rate of tax from 35% to 21% and the introduction of a base erosion anti-abuse tax. The US deferred tax asset at 31 December 2017 was calculated using the rate of 21%. The remeasurement of the deferred tax asset due to the reduction in tax rate resulted in charges of $1.3bn to the income statement and $0.3bn to other comprehensive income during 2017. The impact of the base erosion anti-abuse tax is currently uncertain, and will depend on finalisation of regulatory guidance and the actions management may take. It is not currently expected that the base erosion anti-abuse tax will have a material impact on the Group's future tax charges.

Unrecognised deferred tax

The amount of gross temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was $8.9bn (2017: $18.1bn). These amounts included unused state losses arising in the Group's US operations of $0.8bn (2017: $12.3bn). Of the total amounts unrecognised, $7.0bn (2017: $4.8bn) had no expiry date, $1.3bn (2017: $0.8bn) was scheduled to expire within 10 years and the remaining balance is expected to expire after 10 years.

Deferred tax is not recognised in respect of the Group's investments in subsidiaries and branches where HSBC is able to control the timing of remittance or other realisation and where remittance or realisation is not probable in the foreseeable future. The aggregate temporary differences relating to unrecognised deferred tax liabilities arising on investments in subsidiaries and branches is $13.2bn (2017: $12.1bn) and the corresponding unrecognised deferred tax liability is $0.9bn (2017: $0.8bn).

3 Dividends

Dividends to shareholders of the parent company

	2018			2017		
	Pershare	Total	Settledin scrip	Pershare	Total	Settledin scrip
	$	$m	$m	$	$m	$m
Dividends paid on ordinary shares						
In respect of previous year:						
– fourth interim dividend	0.21	4,197	393	0.21	4,169	1,945
In respect of current year:						
– first interim dividend	0.10	2,008	213	0.10	2,005	826
– second interim dividend	0.10	1,990	181	0.10	2,014	193
– third interim dividend	0.10	1,992	707	0.10	2,005	242
Total	0.51	10,187	1,494	0.51	10,193	3,206
Total dividends on preference shares classified as equity (paid quarterly)	62.00	90		62.00	90	

On 4 January 2019, HSBC paid a coupon on its €1,250m subordinated capital securities, representing a total distribution of €30m ($34m). On 17 January 2019, HSBC paid a coupon on its $1,500m subordinated capital securities issued at 5.625% of $28.125 per security, a distribution of $42m. No liability was recorded in the balance sheet at 31 December 2018 in respect of these coupon payments.

The reserves available for distribution at 31 December 2018 were $30.7bn.

Fourth interim dividend for 2018

After the end of the year, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2018 of $0.21 per ordinary share, a distribution of approximately $4,205m. The fourth interim dividend will be payable on 8 April 2019 to holders on the Principal Register in the UK, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 22 February 2019. No liability was recorded in the financial statements in respect of the fourth interim dividend for 2018.

The dividend will be payable in US dollars, pounds sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11.00am on 25 March 2019. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 6 March 2019 and elections must be received by 21 March 2019. The ordinary shares in London, Hong Kong, Paris and Bermuda, and American Depositary Shares (‘ADSs’) in New York will be quoted ex-dividend on 21 February 2019.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 8 April 2019 to holders of record on 22 February 2019. The dividend will be payable in US dollars or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 20 February 2019, 1 March 2019 and 9 April 2019.

The dividend will be payable on ADSs, each of which represents five ordinary shares, on 8 April 2019 to holders of record on 22 February 2019. The dividend of $1.05 per ADS will be payable by the depositary in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depository on or before 15 March 2019. Alternatively, the cash dividend may be invested in additional ADSs by participants in the dividend reinvestment plan operated by the depositary.

Any person who has acquired ordinary shares registered on the Principal Register in the UK, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register but who has not lodged the share transfer with the Principal Registrar, Hong Kong or Bermuda Overseas Branch registrar should do so before 4.00pm local time on 22 February 2019 in order to receive the dividend.

Ordinary shares may not be removed from or transferred to the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 22 February 2019. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 21 February 2019.

Transfer of ADSs must be lodged with the depositary by 11.00am on 22 February 2019 in order to receive the dividend.

4 Earnings per share

Profit attributable to the ordinary shareholders of the parent company

	2018 $m	2017 $m
Profit attributable to shareholders of the parent company	13,727	10,798
Dividend payable on preference shares classified as equity	(90)	(90)
Coupon payable on capital securities classified as equity	(1,029)	(1,025)
Year ended 31 Dec	12,608	9,683

Basic and diluted earnings per share

	2018			2017		
	Profit	Numberof shares	Per share	Profit	Numberof shares	Per

				share			
	Footnotes	$m	(millions)	$	$m	(millions)	$
Basic	1	12,608	19,896	0.63	9,683	19,972	0.48
Effect of dilutive potential ordinary shares			87			100	
Diluted	1	12,608	19,983	0.63	9,683	20,072	0.48

1 Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

The number of anti-dilutive employee share options excluded from the weighted average number of dilutive potential ordinary shares is nil (2017: nil).

5 Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions

	2018	2017
	$m	$m
Loans and advances to banks and customers	1,896	1,992
– new allowances net of allowance releases	2,304	2,636
– recoveries of amounts previously written off	(408)	(644)
Loan commitments and guarantees	(3)	(50)
Other financial assets	(21)	17
Debt instruments measured at fair value through other comprehensive income	(105)	N/A
Available-for-sale-debt securities	N/A	(190)
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	1,767	1,769

6 Adjusted balance sheet reconciliation

	At			
	31 Dec 2018	31 Dec 2017		
	Reported and Adjusted	Adjusted	Currency translation	Reported
	$m	$m	$m	$m
Loans and advances to customers (net)	981,696	928,841	34,123	962,964
Interests in associates and joint ventures	22,407	22,019	725	22,744
Total external assets	2,558,124	2,443,037	78,734	2,521,771
Customer accounts	1,362,643	1,321,629	42,833	1,364,462

7 Reconciliation of reported and adjusted items

	2018	2017
	$m	$m
Revenue1		
Reported	53,780	51,445
Currency translation		133
Significant items	160	83
– customer redress programmes	(53)	108
– disposals, acquisitions and investment in new businesses	113	(274)
– fair value movements on financial instruments2	100	245
– currency translation on significant items		4
Adjusted	53,940	51,661
ECL/Loan impairment charges and other credit risk provisions (‘LICs’)		
Reported	(1,767)	(1,769)
Currency translation		56

Adjusted	(1,767)	(1,713)
Operating expenses		
Reported	(34,659)	(34,884)
Currency translation		(143)
Significant items	1,669	3,796
– costs of structural reform	361	420
– costs to achieve	—	3,002
– customer redress programmes	146	655
– disposals, acquisitions and investment in new businesses	52	53
– gain on partial settlement of pension obligation	—	(188)
– past service costs of guaranteed minimum pension benefits equalisation	228	—
– restructuring and other related costs	66	—