HSBC HOLDINGS PLC
Form 20-F
February 21, 2017
As filed with the Securities and Exchange Commission on February 21, 2017.

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, 2016
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)

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(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
4.250% Subordinated Notes due 2025	New York Stock Exchange
3.400% Senior Unsecured Notes due 2021	New York Stock Exchange
4.300% Senior Unsecured Notes due 2026	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2021	New York Stock Exchange
2.950% Senior Unsecured Notes due 2021	New York Stock Exchange
3.600% Senior Unsecured Notes due 2023	New York Stock Exchange
3.900% Senior Unsecured Notes due 2026	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2021	New York Stock Exchange
2.650% Senior Unsecured Notes due 2022	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2022	New York Stock Exchange
4.375% Subordinated Notes due 2026	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 20,191,586,214
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.

Connecting customers to opportunities

Our purpose is to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Contents

As a reminder

Reporting currency

We use US dollars.

Adjusted measures

We supplement our IFRS figures with adjusted measures used by management internally. These measures are highlighted with the following symbol:

Further explanation may be found on page 30.

Unless stated otherwise, risk-weighted assets and capital are calculated and presented on a transitional CRD IV basis as implemented by the Prudential Regulation Authority.

Strategic Report

An overview of how we are structured, what we do and where, our strategic actions, the principal risks we face, and high-level performance information. The section is introduced by both the Group Chairman and the Group Chief Executive, and also explains the role of the Board.

This Strategic Report was approved by the Board on 21 February 2017. Douglas Flint, Group Chairman

Financial Review

Detailed reporting of our financial performance, at Group level as well as within our matrix structure. It also includes our full risk report and reporting on how we manage capital.

Corporate Governance

Details of our Board of Directors and senior management, and our approach to corporate governance and remuneration.

Financial Statements

Our financial statements and related notes and reports.

Other Information

Important information for our shareholders, including contact information. Like any industry and company, we have our set of abbreviations and terminology. Accordingly, we provide an explanation of the abbreviations used. A glossary of key terms is available online at www.hsbc.com/investor-relations.

None of the websites referred to in this Annual Report on Form 20-F for the year ended December 31, 2016 (the 'Form 20-F'), including where a link is provided, nor any of the information contained on such websites, is incorporated by reference in the Form 20-F.

Our photo competition winners

In 2016, we ran a Group-wide photo competition which attracted over 6,200 submissions from 1,100 employees. The joint overall winning photos are featured in this report. The image on the inside front cover shows a rice farmer at harvest time in north-east Vietnam, and the photo on the inside back cover was taken at sunrise at Situ (Lake) Patenggang, West Java, Indonesia.

Cover image

The Hong Kong-Zhuhai-Macau Bridge is one of the most ambitious infrastructure projects in the Pearl River Delta. It will link three key cities, cutting transport costs and travelling times, and boosting economic development. HSBC has extended a HK$700m receivables finance facility to one of the companies building the bridge. Receivables finance is an area where HSBC has particular expertise, and this facility is the largest it has provided for infrastructure in the region.

Cautionary statement regarding forward-looking statements

The Annual Report and Accounts 2016 contains certain forward-looking statements with respect to HSBC’s financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC’s beliefs and expectations, are forward-looking statements. Words such as ‘expects’, ‘targets’, ‘anticipates’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘potential’ 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.
- Factors specific to HSBC, including 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 US DPA; and other risks and uncertainties we identify in ‘top and emerging risks’ on pages 89 to 92.

Certain defined terms

Unless the context requires otherwise, ‘HSBC Holdings’ means HSBC Holdings plc and ‘HSBC’, the ‘Group’, ‘we’, ‘us’ and ‘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 and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations ‘$m’, ‘$bn’ and ‘$tn’ represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

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Highlights

We are one of the most international banking and financial services organisations in the world.

Group

For year ended 31 Dec 2016

Reported revenue

(2015: $59.8bn)

$48.0bn

Reported profit before tax

(2015: $18.9bn)

$7.1bn

At 31 Dec 2016

Adjusted profit before tax
(2015: $19.5bn)
$19.3bn

Risk-weighted assets
(2015: $1,103bn)
$857bn
Common equity tier 1 ratio
(2015: 11.9%)
13.6%

Total assets
(2015: $2,410bn)
$2,375bn

Our operating model consists of four global businesses, a Corporate Centre and five geographical regions, supported by 11 global functions.

During the year, we changed our reportable segments from regions to global businesses. We also moved certain business portfolios and functions into the newly created Corporate Centre. For further details, see page 19.

Performance highlights for 2016

Strategy execution

- Following our sale of operations in Brazil, we completed a $2.5bn share buy-back.
- We further reduced our risk-weighted assets (‘RWAs’) as a result of our sale of operations in Brazil and other management actions.
- Investment in costs to achieve of $4.0bn to date has generated annual run rate savings of $3.7bn.
- We now expect to deliver annualised cost savings of around $6bn by the end of 2017, around $1bn above the top end of our original target, while continuing to invest in regulatory programmes and compliance. We will invest an equivalent total of around $6bn over the same timeframe.
- We increased market share in a number of key markets and international product areas, including trade finance in Hong Kong and Singapore.

Financial performance

- Reported profit before tax of $7.1bn was $11.8bn lower than in 2015, and was adversely impacted by significant items of $12.2bn. These included a $3.2bn write-off of goodwill in our Global Private Banking (‘GPB’) business in Europe, costs to achieve of $3.1bn, adverse fair value movements of $1.8bn arising from changes in credit spreads on our own debt designated at fair value, and the impact of our sale of operations in Brazil.
- Reported revenue of $48.0bn was down $11.8bn. Loan impairment charges and other credit risk provisions (‘LICs’) fell by $0.3bn and reported operating expenses rose by $40m.
- Adjusted profit before tax of $19.3bn, down $0.2bn, reflected lower revenue and higher LICs, partly offset by a reduction in operating expenses. In 2016, we achieved positive adjusted jaws of 1.2%.
- Adjusted revenue fell by $1.3bn or 2% despite improved performance in Commercial Banking (‘CMB’) and Global Banking and Markets (‘GB&M’). Retail Banking and Wealth Management ('RBWM') and GPB were impacted by challenging market conditions.
- Adjusted operating expenses fell by $1.2bn or 4%, reflecting our cost-saving initiatives and focus on cost management. We continued to invest in regulatory programmes and compliance.

Capital

- Our capital position further strengthened during the year, with a common equity tier 1 (‘CET1’) ratio at 31 December 2016 of 13.6%, up from 11.9% at 31 December 2015, mainly due to RWA reduction initiatives and the change in the regulatory treatment of our holding in Bank of Communications Co., Limited (‘BoCom’).

0.8%
Return on equity
1.2%
Adjusted jaws (see page 17)
$0.51

Dividends per ordinary share in respect of 2016
Our global businesses

Retail Banking and Wealth Management ('RBWM')	Commercial Banking ('CMB')	Global Banking and Markets ('GB&M')	Global Private Banking ('GPB')
We help millions of people across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.	We support approximately two million business customers in 54 countries with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.	We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.	We help high net worth individuals and their families to grow, manage and preserve their wealth.
Adjusted profit before tax			
$5.3bn	$6.1bn	$5.6bn	$0.3bn
Risk-weighted assets			
$115.1bn	$275.9bn	$300.4bn	$15.3bn

Geographical regions

1 Europe
2 Asia
3 Middle East and North Africa
4 North America
5 Latin America

* RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.

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Group Chairman's Statement

The Group has improved its productivity, embraced technological change and continues to reinforce its standards of business conduct. It has a strong capital position and is gaining market share in important areas.

2016 will be long remembered for its significant and largely unexpected economic and political events. These foreshadowed changes to the established geopolitical and economic relationships that have defined interactions within developed economies and between them and the rest of the world. The uncertainties created by such changes temporarily influenced investment activity and contributed to volatile financial market conditions. Against this background, HSBC's performance in 2016 was broadly satisfactory. Encouragingly, operating performance in the second half of the year was much stronger than expected and compared with the prior year, as businesses and financial markets responded more optimistically than predicted to these events.

'Greater focus on the trade and investment corridors where HSBC has strong market positioning generated solid market share gains and broader product penetration'

The Group's reported profit before tax amounted to $7.1bn, some 62% lower than the prior year. This decline principally reflected the impact of significant items, most of which had no impact on capital, even though they were material in accounting terms. On the adjusted basis used to measure management and business performance, profit before tax was $19.3bn, broadly in line with the $19.5bn achieved in the prior year. This outcome was largely driven by improved cost performance as prior year initiatives gained traction and substantially offset lower revenues, while loan impairment charges were marginally higher. Earnings per share of $0.07 compared with $0.65 in 2015.

The Group's core capital position improved materially. A change to the regulatory treatment of our associate in mainland China, continued run-off of legacy assets, planned reduction in certain segments of our trading books and inadequately remunerated assets, together with capital released from business disposals, notably our operations in Brazil, drove this improvement. This created the capacity to return $2.5bn of capital by way of a share buy-back, which was completed in December. We met our objective of maintaining the annual dividend in respect of the year at $0.51, as indicated at the interim stage. This was delivered through the declaration today of a fourth interim dividend of $0.21. Reflecting on the strength of the Group's capital position, the Board also approved a further share buy-back of up to $1bn, which is expected to commence shortly.

Strategic actions are now bearing fruit

In reviewing performance in 2016, the Board noted with approval the traction now evidenced from management actions to reshape the Group and address the challenges brought about by the continuing low interest rate environment.

Greater focus on the trade and investment corridors where HSBC has strong market positioning generated solid market share gains and broader product penetration, particularly in servicing outbound China investment flows. This is recognised in the leading industry awards highlighted in Stuart Gulliver's review.

Significant investment in technology and process redesign is now not only delivering greater cost efficiency but also is poised to markedly enhance our ability to detect and prevent financial crime. In addition, 2017 will see the progressive launch of applications that will materially improve our customers' digital experience, enhance their online security and bring greater personalisation of product offerings.

While there is still a long way to go, it was encouraging to see the significant improvement in performance across all business units in Mexico following the substantial repositioning of the Group's operations there. This contributed to the Group's success in replacing substantially all of the revenues given up through continuing run-off of legacy portfolios, risk mitigation in areas exposed to higher threat of financial crime and reduction in trading books.

Furthermore, HSBC is safer today from the threat of financial crime because of the investments we have been making in our Global Standards programme. The Board remains fully committed to our work in this area in 2017 and beyond.

Regulatory matters

It was extremely disappointing that the regulatory community was unable to achieve its targeted completion of the Basel III framework in January 2017 on the consensual basis expected. It is now almost 10 years since the commencement of the global financial crisis and it is time to draw a line under further regulatory changes, particularly since there is no doubt that our industry is more strongly capitalised, better governed and more risk aware than it was a decade ago. Finalisation of the structure and calibration of the capital framework is crucial to give banks certainty over prospective capital allocations in support of lending and market activities. This is particularly important at this time when public policy is focusing on encouraging greater support for longer-dated assets, including infrastructure, and seeking to build out the capital markets of Europe and emerging markets. It is hugely important that regulators and policy makers now move as quickly as possible to finalise the capital framework in line with their stated commitment to deliver that framework without a significant, broad-based increase in capital requirements. Equally important is the avoidance of fragmentation in the global regulatory architecture as the new US administration reconsiders its participation in international regulatory forums. The best outcome would be early global agreement on unresolved issues, followed by an extended period of regulatory stability to allow familiarity and experience to be gained from what has been put in place.

We made further progress in 2016 on completing the resolution planning required of us as a global systemically important bank ('G-SIB'). This involved removing or mitigating residual constraints on the clarity of the Group's core college of regulators' approach to winding down the Group, should this ever be necessary. While clearly we do not envisage such circumstances as other than extremely remote, completion of a comprehensive resolution framework is a necessary pillar supporting HSBC's ability to continue to operate as one of the world's G-SIBs. Indeed, our strategy is built around maintaining the scale and the reach of our international network, which in 2016 again demonstrated its resilience and competitive advantages.

Tangible benefits accrue to our shareholders from the detailed work done with our regulators to demonstrate the strength of our capital position and the effectiveness of our resolution planning. Beyond supporting the maintenance of our dividend, in 2016 management's efforts created the capacity to return capital to shareholders by way of a share buy-back and demonstrated justification for a reduction in the additional capital buffer applied to HSBC as a G-SIB.

UK referendum on EU membership

Not a great deal has changed since we reported at the interim stage, given that the UK has still to trigger its formal exit notice and so no negotiations have taken place. We welcomed, however, the additional clarity given to the Government's position in the recent speech by the Prime Minister. The scale of the challenge of negotiating across the entire economic landscape, as well as addressing the legislative and other public policy adjustments that will be required, has become clearer. We believe there is now, as a consequence, a widely shared recognition that an implementation phase between the current position and the one that is ultimately negotiated will be necessary; we strongly endorse this view.

Since the referendum we have focused on advising clients on the implications of leaving the EU for their businesses. We have also been responding to UK Government outreach seeking guidance on which elements of the current EU-based legal and regulatory arrangements it should focus on to preserve the essential role that financial markets based in the UK play in supporting European trade and investment activity.

For our own part, we have broadly all the licences and infrastructure needed to continue to support our clients once the UK leaves the EU. This largely derives from our position in France where we are the sixth largest bank with a full range of capabilities. Current contingency planning suggests we may need to relocate some 1,000 roles from London to Paris progressively over the next two years, depending on how negotiations develop.

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Board changes

We welcomed Jackson Tai to the Board on 12 September last year. Jack brings a rare combination of hands-on banking expertise, top level governance experience and a deep knowledge of Asia and China. These attributes were accumulated in a 25-year career at J.P. Morgan & Co., both in the US and in Asia, and subsequently in senior roles at DBS, the leading Singapore-based regional banking group, where Jack latterly led its regional expansion as Vice Chairman and CEO. Jack was appointed a member of the Financial System Vulnerabilities Committee and the Group Risk Committee.

At the forthcoming AGM we shall bid farewell to our two longest-serving independent directors, namely, our Senior Independent Director, Rachel Lomax, and Sam Laidlaw. Rachel during her tenure has served on the Audit, Risk and Nomination Committees, and took responsibility as the first Chair of the Conduct & Values Committee to establish its terms of reference and its agenda. Sam served on, and latterly chaired, both the Remuneration and Nomination Committees. Together, Rachel and Sam have also been leading the process to manage my own succession. Their combined knowledge of regulatory and public policy, business leadership, corporate governance and consumer issues has been invaluable to the Board. On behalf of all shareholders, I want to thank them for their dedication and commitment.

Chairman succession

In the Circular inviting shareholders to the 2016 AGM, I indicated that the process to find my own successor had been initiated with the intention of having this concluded during 2017. This process remains on track and an announcement will be made in due course.

Outlook

We have recently upgraded our forecasts for global economic growth reflecting the likelihood of a shift in US fiscal policy and a broader based cyclical recovery. As in recent years, incremental growth is expected to be driven by emerging economies in which HSBC is well represented. Risks to this central scenario, however, remain high. In particular, we highlight the threat of populism impacting policy choices in upcoming European elections, possible protectionist measures from the new US administration impacting global trade, uncertainties facing the UK and the EU as they enter Brexit negotiations, and the impact of a stronger dollar on emerging economies with high debt levels.

Countering these factors are signs of a cyclical upturn. Global purchasing manager indices are at their strongest for some time, the US economy looks robust and growth in China has held up well, defying the concerns reflected in the market retrenchment seen in the first quarter of 2016. Additionally, commodity prices have risen, reflecting optimism regarding growth in infrastructure investment as well as agreement reached to cut oil supply. These factors also imply reflation across the major economies and rising interest rates, which would benefit HSBC's conservative balance sheet structure.

'We enter 2017 with the restructuring of the Group essentially completed, and with a strong capital position and a conservative balance sheet'

However, it is fair to reflect that the upgrades to economic growth we are now forecasting are largely the partial reversal of downgrades made last year when uncertainty was elevated as a result of the unexpected political events. Forecast global growth remains slightly lower than its long-term trend with risks largely to the downside.

We enter 2017 with the restructuring of the Group essentially completed, and with a strong capital position and a conservative balance sheet. We are gaining market share in areas of importance to HSBC as others scale back and our offerings become more competitive. Much of the heavy investment in reshaping the Group to improve productivity, embrace technological change and reinforce global standards of business conduct has been made.

As ever, we owe a huge amount to our 235,000 colleagues who have delivered this change at the same time as working tirelessly to meet customers' expectations of them. On behalf of the Board, I want to thank them all for their dedication and commitment.

Group Chief Executive's Review

The strength of our network gives us an unrivalled ability to help clients navigate complexity and uncover new opportunities.

We made good progress in 2016. The implementation of our strategic actions is well advanced and our global universal business model performed well in challenging conditions. Our reported profit before tax reflected a number of large significant items, including a write-off of all the remaining goodwill in Global Private Banking in Europe, an accounting loss on the sale of our Brazil business, and investments to achieve our cost-saving target. Our adjusted profits were broadly unchanged year-on-year following solid performances by our global businesses. These enabled us to capture market share in strategic product areas and build a platform for future growth. We delivered positive adjusted jaws in 2016.

Performance

Global Banking and Markets recovered from a sector-wide slow start to generate higher adjusted revenue than for 2015. Our Markets businesses performed well in challenging conditions, particularly in Fixed Income products. Our transaction banking businesses also grew revenue, especially Global Liquidity and Cash Management. We made market share gains in Fixed Income in Europe, and achieved our best ever league table rankings in global debt capital markets and cross-border mergers and acquisitions. HSBC was recognised as the 'World's Best Investment Bank' and 'World's Best Bank for Corporates' at the Euromoney Awards for Excellence 2016.

Commercial Banking performed well, particularly in the UK and Hong Kong, growing adjusted revenue in spite of a slow-down in global trade. Gains in Global Liquidity and Cash Management, and Credit and Lending, exceeded the reduction in trade finance revenue. Global Trade and Receivables Finance continued to capture market share in major markets including Hong Kong and Singapore, maintaining our position as the world's number one trade finance bank.

Retail Banking and Wealth Management performance was mixed. Overall adjusted revenue was down, due largely to the impact of reduced client activity in Hong Kong on our Wealth Management businesses. At the same time, strong mortgage balance growth in the UK, Hong Kong and mainland China, and higher current account and savings balances in the UK and Hong Kong, helped increase revenue in Retail Banking. These increased balances should support revenue growth in 2017 and beyond.

We have considered it appropriate to write off the remaining goodwill in the European private banking business. This goodwill relates principally to the original purchase of Safra Republic Holdings in 1999. The restructuring of Global Private Banking is now largely complete, and although Global Private Banking is now much smaller than it was three years ago, it is deliberately positioned for sustainable growth with a focus on serving the personal wealth management needs of the leadership and owners of the Group's corporate clients.

Our cost-reduction programmes continue to bring down our adjusted operating expenses. The traction that these programmes have gained in the last 18 months has enabled us to increase the amount of costs that we are able to remove from the business. We now expect to deliver annualised cost savings of around $6bn by the end of 2017, and will invest an equivalent total of around $6bn over the same time-frame in order to achieve this.

These savings should more than compensate for additional investment in regulatory programmes and compliance.
We continue to make strong progress in implementing our strategic actions to improve returns and gain maximum value from our international network. We are on course to complete the majority of these actions by the end of 2017 (see page 12), in line with our targets. Our targeted reduction of risk-weighted assets is 97% complete, and the success of our cost saving programmes means that we now expect to exceed our cost reduction target.
The turnaround of our Mexico business continues to accelerate. Improved lending and deposit balances, interest rate rises and better collaboration between businesses helped generate significantly higher profits compared with 2015. We also made significant market share gains, particularly in consumer lending.
We have continued to enhance our business in Asia-Pacific, launching our first exclusively HSBC-branded credit card in mainland China, growing assets under management and insurance new business premiums, and increasing loans in the Pearl River Delta. We also extended our leadership of the offshore renminbi bond market and achieved our best ranking for China outbound mergers and acquisitions since 2003.
We are better protected from financial crime because of the investment we have made in our Global Standards programme. Our Monitor has raised certain concerns, but we have continued to progress and our commitment remains unwavering. By the end of this year, we are on track to have our anti-money laundering and sanctions policy framework in place and to have introduced major compliance IT systems across the Group. Beyond 2017, we will continue to work to fine tune those systems and to ensure that our improvements are fully integrated into our day-to-day risk management practices.
Our strong common equity tier 1 ratio of 13.6% reinforces our ability to support the dividend, invest in the business and manage the continuing uncertain regulatory environment.

Delivering value for shareholders

In December, we completed the $2.5bn equity buy-back that we commenced at the half-year. We are also now in a position to retire more of the capital that previously supported the Brazil business. Having received the appropriate regulatory clearances, we will therefore execute a further share buy-back of up to $1bn in the first half of 2017. This will bring the total value of shares repurchased since last August to $3.5bn.
We will continue to contemplate further share buy-backs as circumstances permit, and we remain confident of sustaining the annual dividend at the current level for the foreseeable future through the long-term earnings capacity of the business.

A business fit for the future

While our strategic actions are improving our network, we are also anticipating and adapting to the social, economic and technological trends that are changing our operating environment and our customers' needs and expectations.
The adoption of rapidly evolving digital technologies by our customers is arguably the most transformative force for the financial services industry. Through our global network, we are able to identify and respond to digital trends across 70 countries and territories, applying the technologies that provide the greatest benefit to our customers. We are investing $2.1bn in digital transformation in Retail Banking and Wealth Management, Commercial Banking, and Global Banking and Markets between 2015 and the end of 2020, and we have already launched innovative ways to make banking faster, easier and safer. HSBC is now the biggest financial services user of biometrics globally, and we continue to roll out voice recognition and fingerprint technology across our network. In 2016, we enhanced our internet and mobile banking platforms in several of our key markets, including the UK and Hong Kong, and launched innovation labs around the world dedicated to the application of artificial intelligence, data management and improvements in cybersecurity. These labs, together with our fintech partnerships, will help us use technology to deliver better banking for our customers.
If digital technology is mankind’s greatest opportunity, preventing climate change is its greatest challenge. The Paris Agreement of December 2015 reflected a new consensus on the need to strengthen the global response to climate change. Major injections of capital are now required to finance new technologies, infrastructure and the transition of traditional

industries from high to low carbon, and to cover the costs of climate adaptation. As the principal intermediaries between entrepreneurs, businesses and investors, banks have a responsibility to help direct this flow of capital. We are already working with our clients and with investors to help them allocate capital and direct finance towards lower-carbon, carbon-resilient activities, and in 2016 we established a Sustainable Financing Unit to coordinate this work across business lines. Headquartered in London, but with resources in New York and Hong Kong, this new unit will support colleagues tasked with creating and delivering innovative climate products, and help them uncover new sources of sustainable finance.
“The changes we have made since 2011 have equipped HSBC to improve returns and gain maximum value from our international network"

We are also seeking to influence client practices and to build the data, the tools and the transparency necessary to embed understanding of climate risk into the way that markets function. In 2016, HSBC Global Research expanded its coverage of environment, social and corporate governance factors to give our clients the information they need to inform their investment decisions. This builds on the work of the world-leading HSBC Climate Change Centre for Excellence, which in 2017 celebrates 10 years of delivering market-leading information on climate policy to clients across the globe. Work is also underway to expand the Group’s disclosure of non-financial data to meet the needs of shareholders and other stakeholders.
We are investing to adapt to the changing face of trade. As the world’s largest trade finance bank with more than 150 years’ experience at both ends of the world’s busiest trade routes, we are perfectly placed to help modernise and digitise long-standing trade finance methods, many of which would still be recognisable to HSBC’s founders. We are already working with a broad coalition of partners around the world to make the promise of blockchain technology a reality with regards to trade finance. HSBC has already helped develop a blockchain prototype for a letter of credit that confirms the possibility of sharing information between all parties on a private distributed ledger. In early 2017, we signed a memorandum of understanding with six other banks to make domestic and cross-border commerce easier for European SMEs using blockchain technology. We are also seeking to create ways of financing the growing services trade, which we estimate will account for a quarter of global trade by 2030. At a time when international politics threaten to increase rather than decrease the cost of trade, we will continue to invest both time and resources to find ways of making trade finance cheaper, faster, simpler and more secure for our customers.
Looking forward
We anticipate new challenges in 2017 from geopolitical developments, heightened trade barriers and regulatory uncertainty. However, the changes we have made since 2011 have equipped HSBC to manage the complexity of today’s global business environment. HSBC is a strong and resilient business with a global universal business model geared to find growth opportunities in a low-growth world. If globalisation continues to retreat, as seems likely, we are in a strong position to capitalise on the regional opportunities that this will present, particularly in Asia and Europe. Most importantly, the strength of our network gives us an unrivalled ability to help our clients navigate that same complexity and overcome their own challenges, whether exploring new markets or making the transition to a low-carbon economy.

Our strategy
We have developed a long-term strategy that reflects our purpose and enables us to capture value from our international network.
Two-part long-term strategy
Develop our international network
To facilitate international trade and capital flows and serve our clients, with potential to help them grow from small enterprises into large multinationals.
Invest in wealth and retail businesses with local scale
To make the most of global social mobility, wealth creation and long-term demographic changes in our priority markets.
Value of the network and our strategy
Access to global growth opportunities
Our unparalleled network covers countries accounting for more than 90% of global GDP, trade and capital flows. We have a leading presence in large and fast-growing economies.
Our priority markets cover both sides of 11 of the world's 15 largest trade corridors for goods and services forecast for 2030, and represent at least one side of the other four corridors. Six of the 15 corridors are within Asia and five connect countries between two geographical regions.
Lower risk profile and volatility from our diversified, universal banking model
Our 10-year profit before tax volatility of 0.9x compares favourably with our peers.
Transaction banking product revenue of $14.7bn on an adjusted basis leads the industry. More than 45% of our client revenue comes from businesses and individuals with an international presence.
Business synergies of $10.5bn, equivalent to 22% of reported revenue, reflect products and services provided across our global businesses.
Strong capital and funding base
CET1 ratio of 13.6%, supported by increased shareholders' equity to meet new regulatory requirements since the end of 2010.
Four interconnected, global businesses share balance sheets and liquidity in addition to strong commercial links.
Stable shareholder returns
Industry leading dividend – approximately $55bn declared from 2011 to 2016, as well as circa $2.5bn of share repurchases.

Long-term trends
Our strategy positions us to capitalise on several long-term trends.

Increasing connectivity and global flows of trade, finance and data are key drivers of GDP growth.

Source: McKinsey Global Institute, Digital globalization: The new era of global flows (2016)

Economic weight is shifting to Asian and Middle Eastern economies, which are expected to grow GDP threefold by 2050.
Shipping volumes, measured by weight of goods unloaded

Source: United Nations Conference on Trade and Development

The middle class is expected to grow from one-third to two-thirds of the world's population by 2030, while the number of people over age 60 is expected to more than double by 2050.

Source: OECD Development Centre, Emerging Middle Class in Developing Countries (2010)

Client examples
ATN International ('ATNI'): US, telecommunications and renewable energy
International portfolio of businesses in US and elsewhere. ATNI sought out HSBC's international capabilities while pursuing renewable energy investments in India. In 2016, we helped ATNI with custodian services and provided finance structuring advice for its Singaporean and Indian subsidiaries. We provide ATNI with trade, cash management, foreign exchange and other services.

Mubea: Germany, automotive
Automotive parts manufacturer operating across 20 countries in Europe, Asia and the Americas. HSBC expanded its relationship with Mubea to also serve its subsidiaries in the US and Mexico, and provide centralised international cash and liquidity management.
Tangle Teezer: UK, consumer goods
UK-based hairbrush manufacturer with its first product launch in 2008, and a range of products now sold in more than 70 markets. Since 2009, HSBC has helped Tangle Teezer expand internationally through our knowledge and capabilities around the world. In 2016, we assisted it in developing its presence in the US, China and Hong Kong.
Grupo Aeroportuario ('GACM'): Mexico, infrastructure
Responsible for the construction, administration and operation of Mexico City's new international airport. In 2016, we advised and coordinated financing for GACM including a $1bn 30-year green bond issuance, the largest green bond in Latin America, and the first emerging market green bond to receive a Green Bond Assessment grade from Moody's.

Strategic actions
We are well on our way towards achieving the actions outlined in our June 2015 Investor Update.
Capturing value from our international network
In June 2015, we outlined a series of strategic actions to make the most of our competitive advantages and respond to a changing environment.
These actions are focused on improving efficiency in how we use our resources, and on investing for growth in line with our strategy. Each action has targets defined to the end of 2017. Additional details are provided below.
Resizing and simplifying our business
We have made significant progress in resizing and simplifying our business. In 2016, management actions reduced RWAs in GB&M and legacy credit by $46bn and we completed asset sales totalling $10.1bn from our US consumer and mortgage lending ('CML') run-off portfolio.
As part of our initiative to optimise our network, we completed the sale of HSBC Bank Brazil on 1 July 2016. We will continue to serve the international and cross-border needs of our large corporate clients in Brazil through HSBC Brasil S.A. – Banco de Investimento.
In the NAFTA region, we grew adjusted revenue in Mexico by 18% compared with 2015, supported by market share gains in RBWM across key lending products and a doubling of personal loans issued. In the US, we grew adjusted revenue in GB&M and RBWM compared with 2015 and continued to support our clients internationally. Revenues from international subsidiaries of our US clients increased by 11% compared with 2015.
We have made good progress in our cost-saving programme and are on track to exceed our exit rate target set for the end of 2017. We expect to achieve total cost savings of $6.0bn through one-off investments ('costs to achieve') of $6.0bn. The additional savings will fund increased costs related to regulatory programmes and compliance. In 2016, operating expenses fell by 4% on an adjusted basis compared with 2015, facilitated by increased efficiency in our processes. For example, we launched a new customer-facing digital portal to standardise and accelerate the onboarding process in 26 markets covering more than 70% of CMB corporate clients, and we decreased the number of manual payments by 80%.
Redeploying capital to grow our business
At the heart of our business is our international network. We are focusing efforts to grow our businesses by looking at customers' needs across products, geographies and supply chains. In 2016, revenue from transaction banking products was up 2% despite difficult macroeconomic conditions. We grew revenues in our Global Liquidity and Cash Management (GLCM) business. In 2016, we were named 'Best Bank for Corporates' by Euromoney and 'Best Supply-Chain Finance Bank Global' by the Trade Finance Awards.
We continue to invest for growth in Asia. In December, we launched our own HSBC-branded credit cards in mainland China with a full range of digital features. We increased the number of new RBWM clients in China's Pearl River Delta by 51% compared with 2015, and grew our mortgage loan books by more than 51%. We grew revenues from international subsidiaries of our ASEAN-region commercial banking clients, and in Singapore our innovation lab is developing cloud-based treasury services for businesses and exploring blockchain technology to support documentary trade transactions.
We remain recognised as the leading bank for international renminbi ('RMB') products and services. We were the first bank to facilitate overseas institutional investment into the China interbank bond market since access was expanded in early 2016. We were also the first to be appointed custodian bank in the two newly active RMB qualified foreign institutional investor ('RQFII') markets of the US and Thailand this year.
Finally, we continue to strengthen our efforts to protect customers and the wider financial system from financial crime. In 2016, this included further upgrades to our systems, as well as additional training for our employees. Further detail can be found under the Financial Crime Risk section of www.hsbc.com/financial-crime-risk.
Selected awards and recognition 2016

Euromoney Awards for Excellence 2016
Best Bank for Corporates
Best Investment Bank

Euromoney Cash Management Survey 2016
Best Global Cash Manager (Non-Financial Institutions)
#1 Global For All Transactions (Financial Institutions)

Trade Finance Awards 2016
Best Supply-Chain Finance Bank Global

Asiamoney Offshore RMB Poll 2016
Best Overall Offshore RMB Products / Services
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Financial overview

Reported results

Reported results	2016 $m	2015 $m	2014 $m
Net interest income	29,813	32,531	34,705
Net fee income	12,777	14,705	15,957
Net trading income	9,452	8,723	6,760
Other income	(4,076)	3,841	3,826
Net operating income before loan impairment charges and other credit risk provisions ('revenue')	47,966	59,800	61,248
Loan impairment charges and other credit risk provisions ('LICs')	(3,400)	(3,721)	(3,851)
Net operating income	44,566	56,079	57,397
Total operating expenses	(39,808)	(39,768)	(41,249)
Operating profit	4,758	16,311	16,148
Share of profit in associates and joint ventures	2,354	2,556	2,532
Profit before tax	7,112	18,867	18,680

This table shows our reported results for the last three years, ended 31 December 2016, 2015 and 2014.

Reported profit before tax

Reported profit before tax of $7.1bn was $11.8bn or 62% lower than in 2015. This was primarily due to net adverse movements relating to significant items and the unfavourable effects of foreign currency translation, which are described in more detail on page 30. Excluding significant items and currency translation, profit before tax fell by $0.2bn.

Reported revenue

Reported revenue of $48.0bn was $11.8bn or 20% lower than in 2015, in part due to a net unfavourable movement in significant items of $7.6bn, which included:

- adverse fair value movements of $1.8bn arising from changes in credit spreads on our own debt designated at fair value, compared with favourable movements of $1.0bn in 2015;
- a $3.6bn reduction in revenue resulting from our sale of operations in Brazil to Banco Bradesco S.A., which includes a $1.7bn accounting loss recognised on the sale; and
- the non-recurrence of a $1.4bn gain on the sale of part of our shareholding in Industrial Bank Co. Limited ('Industrial Bank') in 2015; partly offset by
- a $0.6bn gain on the disposal of our membership interest in Visa Europe in the second quarter of 2016 and a $0.1bn gain on disposal of our membership interest in Visa US in the fourth quarter of 2016.

In addition, foreign currency translation differences between the periods had an adverse effect of $3.0bn.

These factors contributed to a fall in reported revenue in all our global businesses and Corporate Centre. Excluding significant items and the adverse effects of foreign currency translation differences between the periods, revenue fell by $1.3bn or 2%.

Reported LICs

Reported LICs of $3.4bn were $0.3bn lower than in 2015 as reductions in RBWM and CMB more than offset an increase in GB&M. The reduction included favourable effects of foreign currency translation differences between the periods of $0.2bn, and the impact of LICs incurred in the disposed Brazil operations of $0.7bn compared with $0.9bn in 2015.

Reported operating expenses

Reported operating expenses of $39.8bn were $40m or 0.1% higher than in 2015. This includes favourable effects of currency translation differences of $2.1bn between the periods, and an increase in significant items of $3.3bn, including:

- a $3.2bn write-off of goodwill in our GPB business in Europe; and
- costs to achieve of $3.1bn compared with $0.9bn in 2015; partly offset by
- a reduction of $1.0bn in settlements and provisions in connection with legal matters.

In addition, the reported results include the operating expenses incurred in our Brazil business of $1.1bn compared with $2.5bn in 2015.

Excluding significant items and the adverse effects of foreign currency translation differences between the periods, operating expenses fell by $1.2bn. Reductions in all our global businesses reflected the effects of our cost-saving initiatives.

Reported income from associates

Reported income from associates and joint ventures of $2.4bn decreased by $0.2bn.

On 21 February 2017, the Board announced a fourth interim dividend of $0.21 per ordinary share.

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Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 226. We also present adjusted performance measures to align internal and external reporting, identify and quantify items management believes to be significant, and provide insight into how management assesses period-on-period performance. Adjusted performance measures are highlighted with the following symbol:

To derive adjusted performance, we adjust for:

- the year-on-year effects of foreign currency translation differences; and
- the effect of significant items that distort year-on-year comparisons and are excluded in order to understand better the underlying trends in the business.

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 62.

Adjusted results

This table shows our adjusted results for 2016 and 2015. These are discussed in more detail on the following pages.

Adjusted results	2016 $m	2015 $m
Net operating income before loan impairment charges and other credit risk provisions (revenue)	50,153	51,419
Loan impairment charges and other credit risk provisions ('LICs')	(2,652)	(2,604)
Total operating expenses	(30,556)	(31,730)
Operating profit	16,945	17,085
Share of profit in associates and joint ventures	2,355	2,443
Profit before tax	19,300	19,528

Adjusted profit before tax

On an adjusted basis, profit before tax of $19.3bn was $0.2bn or 1.2% lower than in 2015. This primarily reflected lower revenue, higher LICs and a reduction in our share of profits from associates. This was partly offset by a decrease in operating expenses.

Movement in adjusted profit before tax compared with 2015

	2016	Change ($m)	%
Revenue	50,153	See below for graph	(2)
LICs	(2,652)		(2)
Operating expenses	(30,556)		4
Share of profits in associates and joint ventures	2,355		(4)
Profit before tax	19,300		(1)

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Adjusted revenue

Adjusted revenue of $50.2bn was $1.3bn or 2% lower. The reduction reflected the following:

- In RBWM, lower revenue (down $0.3bn) was mainly a result of a fall in income in our Wealth Management business. The reduction resulted from lower investment distribution income compared with a strong performance in 2015, notably in the first half of the year, and adverse market impacts in Insurance Manufacturing. By contrast, revenue grew in savings and deposits, as we grew balances in Hong Kong, the UK and Mexico, and from wider spreads in Hong Kong and Latin America.
- In GPB, lower revenue (down $0.2bn) reflected reduced brokerage and trading activity due to the continued repositioning of the business, together with adverse market sentiment and unfavourable market conditions.
- In Corporate Centre, revenue fell (down $1.2bn), partly due to the US CML portfolio (down $0.5bn) as a result of continued run-off and portfolio sales. Revenue also fell in Central Treasury as a result of higher adverse fair value movements relating to the economic hedging of our long-term debt ($0.2bn) and higher interest expense on our debt ($0.2bn).

These were partly offset:

- In GB&M, revenue increased (up $0.4bn) despite adverse movements in credit and funding valuation adjustments of $0.3bn. In Rates and Credit, higher revenue reflected growth in market share in Europe. We also increased revenue in Global Liquidity and Cash Management ('GLCM') from balance growth and wider spreads. By contrast lower trading volumes in Europe and Asia resulted in a reduction in Equities revenue.
- In CMB, revenue rose (up $0.1bn), notably in GLCM reflecting balance growth and wider spreads in Hong Kong. Revenue also increased in Credit and Lending as a result of loan growth in the UK.

For further details on the performance of our global businesses, see page 18.

Movement in adjusted revenue compared with 2015

	2016	2015	Variance	%
	$m	$m	$m	
RBWM	18,925	19,242	(317)	(2)%
CMB	12,887	12,753	134	1%
GB&M	14,919	14,566	353	2%
GPB	1,757	1,965	(208)	(11)%
Corporate Centre	1,665	2,893	(1,228)	(42)%
Total	50,153	51,419	(1,266)	(2)%

Adjusted LICs

Adjusted LICs of $2.7bn were $48m higher than in 2015, reflecting increases in GB&M resulting from a small number of individually assessed LICs within the oil and gas, and metals and mining sectors, notably in the first half of 2016 in the US. LICs also increased in RBWM, particularly in Mexico. These increases were largely offset by a reduction in LICs in CMB.

Adjusted operating expenses

Adjusted operating expenses of $30.6bn were $1.2bn or 4% lower than in 2015. This primarily reflected cost savings of $2.2bn realised in 2016, with run-rate savings of around $3.7bn since the commencement of our cost-saving programme. The fall in operating expenses also included a reduction of $0.5bn in the UK bank levy. These reductions were partly offset by the impact of inflation and our continued investment in regulatory programmes and compliance.

Run-the-bank costs of $26.9bn were $0.3bn lower, and change-the-bank costs of $2.7bn were $0.4bn lower, both compared with 2015. Within these, our total expenditure on regulatory programmes and compliance, comprising both run-the-bank and change-the-bank elements, was $3.0bn, up $0.4bn or 14% compared with 2015. This reflected the ongoing implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

In the fourth quarter of 2016, our adjusted operating expenses increased compared with the third quarter reflecting a small number of specific items. This included the write-off of software.

The number of employees expressed in full-time equivalent staff ('FTEs') at 31 December 2016 was 235,175, a decrease of 20,028 from 31 December 2015. This included a 19,145 reduction following our disposal of operations in Brazil. Excluding Brazil, the decrease in FTEs was 883, as a reduction of 17,855 FTEs realised across global businesses and global functions was partly offset by investment in our Global Standards Programme of 5,694 FTEs, costs to achieve FTEs of 8,073 and investment for growth.

For further details on the categorisation of run-the-bank and change-the-bank costs, see page 38.

Adjusted income from associates and joint ventures
Adjusted income from associates and joint ventures of $2.4bn fell by $0.1bn compared with 2015.

Key

Bank Levy

Adjusted operating expenses (excluding bank levy)

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Balance sheet and capital

Balance sheet strength

Total reported assets were $2.4tn, 1% lower than at 31 December 2015 on a reported basis, and 5% higher on a constant currency basis. We have maintained the strength of our balance sheet, as targeted asset growth was partly offset by reductions in our legacy portfolios and the completion of our sale of operations in Brazil to Banco Bradesco S.A. We also issued more than $30bn of senior debt during the year from HSBC Holdings plc ('HSBC Holdings') to build up the Group's total loss absorbing capacity in line with anticipated regulatory requirements.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2016 were $42bn, and at 31 December 2015 were $47bn. The reduction was driven by our share buy-back ($2.5bn) and the effects of dividends paid ($11bn), which more than offset profits of $7bn.

Capital strength

We manage our capital in an effort to ensure we exceed current regulatory requirements and are well placed to meet those expected in the future. We monitor our position using capital ratios. These measure capital relative to a regulatory assessment of risks taken. We quantify how these risks relate to our businesses using RWAs.

Details of these risks are included on page 165.

Our CET1 ratio at 31 December 2016 was 13.6%, up from 11.9% at 31 December 2015.

Delivery against Group financial targets

Return on equity

Our medium-term target is to achieve a return on equity ('RoE') of more than 10%. In 2016, we achieved an RoE of 0.8% compared with 7.2% in 2015. In 2016, significant items, which included a write-off of goodwill in GPB in Europe, costs to achieve and adverse fair value movements arising from changes in credit spread on our own debt designated at fair value, had a significant effect on our reported RoE. Together with the UK bank levy, significant items reduced the return achieved by 6.9 percentage points.

Adjusted jaws

Jaws measures the difference between the rates of change for revenue and costs. Positive jaws occurs when the figure for the annual percentage change in revenue is higher than, or less negative than, the corresponding rate for costs.
We calculate adjusted jaws using adjusted revenue and costs. Our target is to maintain positive adjusted jaws.
In 2016, adjusted revenue fell by 2.5%, whereas our adjusted operating expenses reduced by 3.7%. Adjusted jaws was therefore positive 1.2%.

Adjusted revenue down 2.5%	Adjusted jaws + 1.2%
Adjusted costs down 3.7%	

Dividends

In the current uncertain environment, we plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Growing our dividend in the future will depend on the overall profitability of the Group, delivering further release of less efficiently deployed capital and meeting regulatory capital requirements in a timely manner. Actions to address these points were core elements of our Investor Update in June 2015.

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Global businesses

We manage our products and services globally through our global businesses.

Commentary is on an adjusted basis, which is the GAAP measure for our global businesses The comparative period has been restated to reflect changes to reportable segments, as described on page 59.

Retail Banking and Wealth Management (‘RBWM’)

RBWM serves close to 36 million customers worldwide through four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance.

RBWM provides services to individuals under the HSBC Premier and Advance propositions aimed at mass affluent and emerging affluent customers who value international connectivity and benefit from our global reach and scale. For customers who have simpler everyday banking needs, RBWM offers a full range of banking products and services reflecting local requirements.

Higher Retail Banking revenue, but challenging market conditions in Wealth Management

- Adjusted profit before tax of $5.3bn was $0.4bn or 6% lower compared with 2015. This was driven by lower revenue in our Wealth Management business, together with higher LICs. By contrast, lower operating expenses reflected our continued focus on cost management.
- Adjusted revenue of $18.9bn was $0.3bn or 2% lower, as growth in Retail Banking revenue was more than offset by a fall in Wealth Management. The reduction in Wealth Management (down $0.5bn) was driven by decreased investment distribution revenue as a result of lower mutual fund and retail securities turnover due to weaker market sentiment. This compared with a strong performance in the first half of 2015. In addition, insurance manufacturing revenue fell, reflecting adverse market impacts ($345m), although this was partly offset by the value of new business. However, in Retail Banking revenue rose $0.2bn or 1%, as revenue increased in current accounts and savings (up $0.4bn) from growth in balances, notably in Hong Kong and the UK. We also benefited from wider deposit spreads in Hong Kong and Mexico. By contrast, revenue in personal lending fell (down $0.2bn) despite growth in balances of $9bn or 3%, notably in Hong Kong, the UK and Mexico, driven by spread compression (mainly in the UK).
- LICs increased by $0.1bn, notably in Mexico, reflecting growth in unsecured lending balances.
- Operating expenses were 1% lower as inflation and investments were more than offset by transformation and other cost-saving initiatives.

Key events:

- Our retail banking revenue rose by 1%, with increases in current account and savings partly offset by falls in credit card and mortgage revenue, reflecting spread compression, mainly in the UK.
- In the UK, growth in mortgage balances was facilitated by our expansion into the mortgage intermediary market, with 12 brokers added in 2016, which accounted for 7% of our new mortgage originations during 2016.

Change in adjusted profit before tax

-6%

Commercial Banking ('CMB')

CMB serves approximately two million customers in 54 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally.

It supports our customers with tailored financial products and services to allow them to operate efficiently and to grow.

Services provided include working capital, term loans, payment services and international trade facilitation, among other services, as well as expertise in mergers and acquisitions, and access to financial markets.

Revenue growth in a challenging market

- Adjusted profit before tax of $6.1bn was 12% higher than in 2015 primarily because of lower LICs, and revenue growth despite challenges in global trade.
- Adjusted revenue rose by $0.1bn or 1%. This included growth of $0.2bn in GLCM driven by increased balances and wider spreads in Hong Kong. Revenue in Credit and Lending also increased (up $0.1bn), reflecting continued loan growth in the UK. This was partly offset by lower revenue in Global Trade and Receivables Finance ('GTRF').
- LICs reduced by $0.4bn as 2016 included lower levels of individually assessed LICs, as well as a net release of collective allowances primarily relating to charges made in the fourth quarter of 2015, notably in the oil and gas sector.
- Operating expenses reduced compared with 2015 as the effect of inflation was more than offset by ongoing cost discipline and the impact of our transformation initiatives. This helped us achieve positive jaws of 2.1%.
- Management initiatives drove a further reduction in RWAs of $23bn in 2016, leading to a cumulative reduction of $46bn since our Investor Update in 2015, $18bn above our target.

Key events:

- Despite the fall in global trade, we gained market share in key markets, including trade finance in Hong Kong and Singapore, and Receivables Finance in the UK.
- HSBC was named '2016 Best Trade Bank in the World' by Trade and Forfaiting Review, and won the 'Best Global Cash Manager for Non-Financial Institutions' at the Euromoney Awards 2016.

Change in adjusted profit before tax
12%

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Global Banking and Markets (‘GB&M’)

GB&M serves approximately 4,100 clients in more than 50 countries and territories. It supports major government, corporate and institutional clients worldwide. Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Markets revenue up despite challenging market conditions

- Adjusted profit before tax of $5.6bn was $63m higher than in 2015, as revenue increased and operating expenses decreased, reflecting transformational cost savings, partly offset by an increase in LICs.
- Adjusted revenue of $14.9bn rose $353m or 2%, despite adverse movements in Credit and Funding valuation adjustments compared with favourable movements in 2015 (net effect, down $297m), primarily relating to movements on our own credit spreads on structured liabilities. Excluding these, revenue rose $650m or 5%, mainly in Rates and Credit, as we gained market share in Europe. In GLCM, revenue increased as we grew average balances and benefited from wider spreads. By contrast, revenue fell in Equities, reflecting lower trading volumes in Europe and Asia.
- LICs increased (up $0.4bn), predominantly driven by a small number of individually assessed exposures within the oil and gas, and metals and mining sectors, notably in the first half of 2016 in the US.
- Operating expenses fell by $93m, reflecting reduced performance-related pay, disciplined cost management, efficiency improvements including technology delivery rationalisation, and FTE reductions. These reductions more than offset the investments we made in the business.

Key events:

- Through 2016, we continued to focus on delivery of our RWA reductions, and achieved a reduction of $8bn, which included $39bn through management initiatives, partly offset by business growth.
- ‘World’s Best Investment Bank’ – Euromoney Awards for Excellence 2016

Change in adjusted profit before tax

1%

Global Private Banking (‘GPB’)

GPB serves high net worth individuals and families, including those with international banking needs, through 13 booking centres covering our priority markets.

Our products and services include Investment Management, incorporating advisory, discretionary and brokerage services; Private Wealth Solutions, comprising trusts and estate planning, designed to protect wealth and preserve it for future generations; and a full range of private banking services.

Lower revenue reflecting repositioning and adverse market conditions

- Adjusted profit before tax of $0.3bn fell by $0.1bn as revenue decreased, partly offset by a reduction in costs.
- Adjusted revenue of $1.8bn fell by $0.2bn or 11%, as brokerage and trading activity in both Europe and Asia decreased. This reflected the continued impact of client repositioning, in addition to adverse market sentiment and unfavourable market conditions throughout the year.
- Operating expenses decreased by $0.1bn, primarily as a result of reduced FTEs and cost-saving initiatives.

Key events:

- There was negative net new money of $17bn reflecting the repositioning of the business. However, we attracted positive net new money in key markets targeted for growth, notably in the UK, Channel Islands and Hong Kong.
- We recognised a $3.2bn write-off relating to the goodwill of the business in Europe, which is not reflected in the adjusted performance. For additional information, refer to Note 20 on page 270.

Change in adjusted profit before tax
-25%
Corporate Centre
During 2016, we established the Corporate Centre, to better reflect the way we manage our businesses. Corporate Centre comprises Central Treasury, including Balance Sheet Management ('BSM'), our legacy businesses, interests in associates and joint ventures, central stewardship costs that support our businesses and the UK bank levy.
Lower revenue due to continued disposal of legacy portfolios and Central Treasury, partly offset by a reduction in costs

- Adjusted profit before tax of $2.0bn was $0.5bn or 19% lower, driven by a fall in revenue and lower income from associates, partly offset by lower operating expenses, notably a reduced charge relating to the UK bank levy.
- Revenue fell by $1.2bn, partly driven by reductions in our US CML portfolio ($0.5bn) as a result of lower average lending balances and portfolio sales. Revenue also fell in Central Treasury as a result of higher adverse fair value movements relating to the economic hedging of our long-term debt ($0.2bn) and higher interest expense ($0.2bn).
- LICs were broadly unchanged as increased charges in the US CML portfolio were broadly offset by higher releases of credit risk provisions in the legacy credit portfolio.
- Operating expenses were $0.8bn lower, partly reflecting the benefits of transformational savings in our technology, operations and other functions, and a lower UK bank levy charge (down $0.5bn).
- Income from associates was $0.1bn lower, primarily in Saudi Arabia.

Key events:

- Completed asset sales of $10bn from our US CML run-off portfolio. As at 31 December 2016, gross lending balances in this portfolio were $5.7bn.

Change in adjusted profit before tax
-19%
For further details on the financial performance of our global businesses, see pages 60 to 66.

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Regions

We coordinate activities across global businesses and supporting functions through a regional structure.

Europe

We serve clients in Europe with a broad range of services, and facilitate international trade and investment. London is the strategic hub for GB&M.

Reported loss before tax included significant items of $8.4bn

- Reported loss before tax was $6.8bn. This compared with a reported profit before tax of $688m in 2015, with the fall driven by a net adverse movement in significant items, including the write-off of goodwill relating to our GPB business, adverse fair value movements arising from changes in credit spreads on our own debt designated at fair value compared with favourable movements in 2015, and higher costs to achieve.
- On an adjusted basis, profit before tax of $1.6bn fell by $0.5bn or 26%, as revenue decreased by $0.9bn (5%), partly offset by lower costs (down by $369m or 2%), which included a reduction of $0.5bn related to the UK bank levy, and a reduction in LICs of $37m (8%).
- Reported revenue fell by $5.0bn, primarily as a result of adverse movements of $1.8bn arising from changes in credit spread on our own debt, compared with favourable movements of $0.8bn in 2015, and the adverse effects of currency translation differences ($1.6bn). Adjusted revenue fell by $945m or 5%, reflecting a reduction in RBWM of $465m (7%), notably in life insurance manufacturing in France as a result of adverse market updates, and in GPB reflecting the repositioning of the business. In Corporate Centre, lower adjusted revenue (down $0.8bn), partly reflected higher adverse fair value movements of $0.2bn relating to the economic hedging of our long-term debt, and higher interest expense of $0.2bn. These reductions were partly offset by growth in revenue in GB&M ($0.2bn), notably in Rates, GLCM and Global Banking, and in CMB ($0.2bn), in Credit and Lending.
- Reported costs rose by $2.6bn, primarily reflecting a write-off of goodwill relating to our GPB business of $3.2bn and an increase of $1.5bn in costs to achieve, partly offset by the favourable effects of currency translation of $1.3bn. Adjusted costs fell by $0.4bn (2%). Excluding the reduction in the UK bank levy ($0.5bn), costs rose by 1% driven by higher charges from our global service and technology centres due to increased transformation activities relating to IT transformation and process improvement.

Key

2016

2015

Asia

HSBC's history is founded on financing trade with Asia, and the continent remains central to our strategy. We aim to grow our business in China's Pearl River Delta and the ASEAN region, and we continue to strengthen our leadership position in the internationalisation of China's renminbi currency.

Lower revenue, notably in Wealth Management, offset by cost management initiatives

- Reported profit before tax was $13.8bn, $2.0bn lower than for 2015, notably due to the non-recurrence of a gain of $1.4bn on the disposal of part of our shareholding in Industrial Bank.
- On an adjusted basis, profit before tax was broadly unchanged, as a decrease in revenue was offset by a reduction in costs.
- Reported revenue fell by $2.0bn, driven by the non-recurrence of the gain on Industrial Bank, as noted above, and the adverse effects of currency translation differences of $0.3bn. Adjusted revenue decreased by $253m (1%). Lower adjusted revenue in RBWM resulted from investment distribution income falling, reflecting weaker market sentiment compared with a strong performance in the first half of 2015. This was partly offset by wider deposit spreads and deposit balance growth. In GB&M, adjusted revenue also declined, mainly in Equities and Foreign Exchange, partly offset by increases in Rates. By contrast, revenue in Corporate Centre increased, notably as income from Balance Sheet Management, within Central Treasury, rose.

- Reported costs decreased by $104m, as an increase in costs to achieve of $354m was partly offset by the favourable effects of currency translation differences of $177m. Adjusted costs decreased by $227m (2%), notably as a result of cost management initiatives, which more than offset the effects of inflation and our investment growing our business in China’s Pearl River Delta and the ASEAN region.

Key

2016

2015

20

Middle East and North Africa

HSBC is the longest-serving international bank in the region, with one of the largest networks there, offering a universal banking model and playing a vital role in facilitating international trade. Our priority markets in the region are Saudi Arabia, Egypt and the United Arab Emirates ('UAE').

Strong performance reflecting robust cost management and lower LICs

- Reported profit before tax was $1.5bn, and was broadly unchanged from 2015.
- On an adjusted basis, profit before tax increased by $178m (13%), primarily reflecting a reduction in costs of $142m, and a decrease in LICs of $135m, partly offset by lower share of profit in associates and joint ventures.
- Reported revenue fell by $210m, primarily due to the adverse effects of currency translation differences ($182m). Adjusted revenue decreased marginally, mainly reflecting reductions in RBWM in Turkey as we restructured our business there, and in CMB in the UAE, mainly within GTRF, in part reflecting customer exits. This was partly offset by GB&M with growth in GLCM, which benefited from interest rate rises across the region, in Global Banking mainly driven by infrastructure and real estate fee income in the UAE and Egypt, and Securities Services due to higher balances and spreads.
- Reported LICs fell by $154m with adjusted LICs decreasing by $135m, mainly in CMB in the UAE due to lower charges and the release of provisions taken in 2015, notably relating to exposures in the oil and gas sector.
- Costs were $137m lower on a reported basis, and $142m (9%) lower on an adjusted basis, mainly in the UAE and Turkey due to cost-saving initiatives, which more than offset our continued investment in compliance.
- Share of profit in associates and joint ventures fell by $70m (14%), mainly due to higher impairment charges in Saudi British Bank and lower revenue in HSBC Saudi Arabia reflecting lower asset management and investment banking revenues. This was partly offset by revenue growth in Saudi British Bank and well-managed costs in both associates.

Key

2016

2015

North America

The US is a key partner in global trade, and the US dollar remains the primary currency for global trade and payments. We support our North American customers within the NAFTA region and around the world, helping them grow their businesses.

Continued run-off of the US CML portfolio led to a fall in revenue, partly offset by cost reductions across all businesses

- Reported profit before tax was $185m, and fell by $429m from 2015, partly reflecting the net adverse effects of significant items, notably higher costs to achieve of $298m.
- Adjusted profit before tax fell by $208m (14%) from the continued reduction in our US CML run-off portfolio.
- Reported revenue fell $592m, and included the adverse effects of significant items ($57m) and currency translation of $59m. Movements in significant items were primarily driven by minimal fair value movements arising from changes in credit spread on our own debt in 2016, compared with favourable movements of $219m in 2015, although these movements were partly offset by a gain of $116m recorded on our sale of Visa US shares in 2016 and lower losses on disposal in our CML run-off portfolio of $77m. Adjusted revenue was $475m lower, primarily from a decrease in income in the US CML run-off portfolio in Corporate Centre. By contrast, adjusted revenue in GB&M increased by 6%, notably as a result of increased income in Rates and Credit driven by higher client flows and collateralised financing activity.
- LICs increased by $188m on a reported basis and $191m on an adjusted basis, primarily as a result of a small number of individually assessed charges in the mining sector in GB&M, as well as higher charges in the US CML run-off portfolio. In CMB, there were net collectively assessed releases in 2016, compared with charges in 2015, relating to exposures in the oil and gas sector.
-

Reported costs fell by $353m, although this included a rise of $298m in costs to achieve in significant items, partly offset by a reduction in fines, penalties and charges in relation to legal matters of $128m. Adjusted costs fell by $460m, reflecting lower staff costs across all businesses.

Key

2016

2015

Latin America

We are focusing on growing our business in Mexico, where we are among the top five banks by assets and our branch network has a market share of more than 10%. On 1 July 2016, we completed our sale of operations in Brazil, but we will continue to provide access to the region for large multinational companies.

Continued progress in strategic initiatives with a strong business performance

- Reported loss before tax was \$1.6bn. This compared with a profit of \$310m in 2015, with the loss driven by a number of significant items, primarily the accounting loss on our sale of Brazil operations which totalled \$1.7bn.
- On an adjusted basis, profit before tax rose by \$0.4bn due to higher revenue, partly offset by higher LICs and costs.
- Reported revenue fell by \$3.9bn, partly driven by the accounting loss on our sale of Brazil operations (\$1.7bn). The reported results also include the revenue earned in our Brazil business of \$1.5bn in 2016, compared with \$3.3bn in 2015, and the adverse effects of currency translation differences of \$0.9bn. However, adjusted revenue was \$0.7bn (29%) higher than for 2015. We increased revenue in RBWM in Mexico with lending growth and an increase in market share across core retail portfolios, and in Argentina, reflecting wider spreads and growth in deposits, together with higher income from insurance. Revenue also increased in GB&M, partly due to increased client activity, and in CMB from lending and deposit balance growth.
- Reported LICs fell by \$266m, primarily driven by a reduction in Brazil (\$184m) and favourable effects of currency translation (\$120m). By contrast, adjusted LICs rose by \$38m due to higher LICs in RBWM in Mexico of \$124m reflecting growth in unsecured lending and a rise in delinquency rates, partly offset by lower LICs in CMB and GB&M.
- Reported costs fell by \$1.7bn, and included \$1.1bn of costs relating to Brazil in 2016, compared with \$2.5bn in 2015. These also included the favourable effects of currency translation differences (\$0.6bn). Excluding these factors, adjusted costs increased by \$0.3bn (or 16%), although this was below the average rate of inflation in the region as we continued to control our costs.

Key

2016

2015

21

How we do business

We conduct our business intent on supporting the sustained success of our customers, people and communities.

Building lasting business relationships

We serve more than 37 million customers around the world, ranging from individuals to the largest companies. We are committed to conducting our business in a way that delivers fair value to customers and supports them in realising their ambitions.

Conduct and ensuring fair outcomes

Operating with high standards of conduct is central to our long-term success and ability to serve customers. In 2016, we continued to embed good conduct practice across all our businesses, with a range of initiatives to further improve the service and experience we offer to customers.

For example, in the UK we have introduced a simplified overdraft charging structure with real time notifications to prompt customers whenever they are at risk of incurring unarranged overdraft charges. In the UAE, we automated pricing for foreign exchange to provide clients with consistent and competitive rates for cross-currency payments. We also enhanced our investment advice processes and introduced tools and guidelines to make all our customer communication clear and easy to understand.

These and related initiatives are guided by our Conduct Framework, which focuses on delivering fair customer outcomes and improved market integrity through our behaviours. The Conduct Framework guides activities to strengthen our business, and increases our understanding and awareness of how the decisions we make affect customers and other stakeholders.

Additional detail on the Conduct Framework is available online at www.hsbc.com/conduct. For further details on regulatory compliance risk and on conduct-related costs included in significant items, see pages 114 and 78, respectively.

Our values

Our values define who we are as an organisation and make us distinctive.

Open

We are open to different ideas and cultures, and value diverse perspectives.

Connected

We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

Dependable

We are dependable, standing firm for what is right and delivering on commitments.

Increasing quality of service

We rely on customer feedback to help determine where we can make improvements. In RBWM, we conducted more than 1.6 million customer surveys in 2016 across multiple points of customer interaction, including live online chat. We also improved the speed and quality of complaint resolution, with more than two-thirds of retail customer complaints resolved on first contact, an improvement of 9% compared with 2015.

Customer feedback helps us to identify and address root causes of complaints. For example, we increased capacity in our call centres in response to concerns about long waiting times in the UK. We also addressed the most common complaints related to fees and charges through increased staff training and customer communication. As a result, complaints of this type reduced significantly in a number of our markets, including a 35% reduction in Hong Kong and a 27% reduction in France.

Innovation and technology

Our customers increasingly use digital channels to interact, including mobile banking. We are investing in innovation and technology to serve customers better and enhance security around financial transactions and customer data. In 2016, we introduced voice biometric identification technology for retail customers globally. HSBC is one of the first large-scale global users of this technology.

In the UK, we also launched a mobile application for commercial banking customers that allows them to digitally verify their identity. Since its launch, nearly 80% of the customers able to use this digital channel have chosen to do so. We have also adjusted our branch network to reflect changing customer needs and concluded our retail branch review in the UK, with a further reduction of 117 branches in 2016.

In Hong Kong, we launched a research and development lab in partnership with the government to promote technology development for the financial sector. Areas of focus include biometrics, data analytics, cybersecurity and internet finance. Separately, we are developing a mobile application to help retail customers manage all of their finances more effectively through a single interface.

Sustainable finance

We recognise that reducing global carbon dioxide emissions is a critical challenge for society. We seek to be a leader in managing climate change risk while developing opportunities with our customers. We continue to facilitate investment in areas such as infrastructure and renewable energy that help lower carbon dioxide emissions.

In 2016, for example, we helped issue the largest-ever renewable energy bond in Canada to support a solar power farm. In the UK, we provided financing and asset management expertise to support deployment of energy smart meters throughout the country. In December, we established a team dedicated to sustainable finance within the business in order to engage clients more effectively in assessing and responding to potential impacts from climate change.

255,000
workday hours volunteered
$137m
charitable giving in 2016

Empowering people

Valuing diversity

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to improve workforce agility, enhance our risk management capability, drive innovation and grow markets.

Our diversity and inclusion ambitions focus on attracting, developing and retaining talent that reflects our customers and the communities where we do business, and deploying that talent effectively to anticipate and address expectations. Our seven global employee networks support this strategy and focus on gender, age, ethnicity, LGBT+, faith, working parents and carers, and ability. We have continued our focus on improving gender balance within senior leadership.

Supporting our employees

We believe that if someone is worth talking to, they are worth listening to. Exchange meetings are our way of doing that: meetings with no agendas and where managers are participants rather than leaders. These meetings bring people together to listen to each other, and allow people to express themselves without interruption or rebuttal. Our employee surveys indicate that Exchange participants respond positively by 11% more than others when asked if there is honest, two-way communication.

Similarly, our At Our Best programme reinforces the habits required for a strong culture, including asking for feedback, being mindful of one's own emotions and deploying tools for making better decisions. In 2016, nearly 100,000 employees attended an At Our Best training course, and a further 18,000 managers attended similar training centred on managing teams. The programme is supported through a behaviour recognition scheme and the launch of Our Charter, a framework for good decision-making.

To further strengthen our culture and promote positive behaviours, we have developed culture change plans that are regularly discussed in global and local management forums. The plans emphasise enabling a speak-up culture, principles-based judgement and other behaviours that are key to supporting the Group's strategic objectives, such as managing financial crime risk. In 2016, our employees completed more than eight million courses in person or through online learning in order to build skills and reinforce behaviours more broadly.

We have a wellbeing programme that provides benefits and services to support employees' wellness. For example, we offer free, confidential counselling to address personal issues at home or work. We also allow employees who have been at HSBC for five years or more to apply to take a sabbatical. Above all, we aim to provide a working environment where colleagues can talk openly about wellbeing issues, including anxiety and stress. Such measures are particularly valuable amid the demands of multiple change programmes and financial crime remediation initiatives.

Whistleblowing

We operate a global whistleblowing platform, HSBC Confidential, which allows staff to report matters of concern confidentially. During 2016, employees have raised more than 1,100 cases. Common themes among the cases raised included concerns regarding staff behaviour and recruitment practices, allegations of fraud perpetrated by staff, and weaknesses in incentive arrangements and information security.

Exchange meeting insights
(% of employees who believe Exchange allows them to talk freely about issues important to them)
84%
Employee retention
81.7%
24

Ensuring sustainable outcomes

Our Global Sustainability function works with our global businesses, global functions and our regions to manage environmental and social issues that affect the Group and on which we can have an impact. Key issues are reviewed below and further details are available online at www.hsbc.com/sustainability. Sustainability performance data for 2016 will be available in spring 2017.

Climate change

We have committed to supporting the global shift to a low-carbon economy. Our award-winning Global Research team published 60 reports on sustainability topics in 2016. These included the implications of the Paris Agreement on climate change.

In light of the Paris Agreement, we reviewed our mining and metals policy, and included restrictions on lending to new thermal coal mines, in addition to our existing policies on coal-fired power plants and deforestation. We also added more specific guidance on human rights impacts that could arise in the mining sector.

For more information about our sustainability risk policies see page 117.

We completed a number of GB&M and CMB client transactions that help lower carbon dioxide emissions in areas including infrastructure and renewable energy. In 2016, HSBC was the third-ranked bookrunner for green, social and sustainability bonds that exceeded $250m excluding self-led transactions by Dealogic. We also published a report on our own green bond, issued in 2015.

We scored the highest grade in a global index run by CDP, a not-for-profit organisation that rates companies and governments on how they are tackling the climate change challenge. We also published an HSBC Statement on Climate Change, providing a summary of our approach and initiatives.

We are reducing the amount of energy we consume, and increasing the proportion from renewable sources. By the end of 2016, more than 17% of our electricity was from wind or solar farms, compared with 9% in 2015. We signed additional agreements in 2016 to increase the percentage of the electricity we use from new wind and solar sources. In total, we have agreements in place to meet 23% of our global electricity needs from these sources by 2018.

We report our carbon dioxide emissions on page 78.

Sustainable investment

Our Global Research team has expanded its environmental, social and governance research offering, hiring analysts to specifically cover social and governance drivers, and to cover the fast-growing green bond market.

Our Global Asset Management business published a new climate change policy to encourage the transition to a low-carbon economy and increase the climate resilience of clients' investments.

Human rights

We have issued our first statement as required by the UK's Modern Slavery Act, which can be found at www.hsbc.com.

We updated our supplier code of conduct to take account of revised legislation on modern slavery and human rights. More than 240 of our largest suppliers have already accepted this code.

Community investment

In 2016, we contributed $137m to charitable programmes, and our employees volunteered 255,000 hours in community activities during the working day.

Our flagship environmental partnership, the HSBC Water Programme, exceeded its five-year targets at the end of 2016. Building on this success, we are extending the programme for a further three years.

In 2016, we renewed our commitments to our two flagship global education programmes, the HSBC Youth Opportunities Programme and Junior Achievement More than Money, for another three years. These programmes help young people access education and realise their potential.

Tax

Taxes paid by HSBC relate to HSBC's own tax liabilities including tax on profits earned, employer taxes, bank levy and other duties/levies such as stamp duty.

Our approach to tax

We apply the spirit and the letter of the law in all territories where we operate. We have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to facilitate tax evasion. HSBC continues to apply global initiatives to improve tax transparency such as:

- the US Foreign Account Tax Compliance Act (‘FATCA’);
- the OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- the Capital Requirements Directive IV (‘CRD IV’) Country by Country Reporting; and
- the OECD Base Erosion and Profit Shifting (‘BEPS’) initiative.

We do not expect BEPS or similar initiatives adopted by national governments to adversely impact HSBC’s results. Further financial and tax information for the countries in which we operate will be published in 2017 in a CRD IV Country by Country report at www.hsbc.com/tax.

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Risk overview

We actively manage risk to protect and enable the business.

Managing risk

HSBC has maintained a conservative and consistent approach to risk throughout its history, helping to ensure we protect customers’ funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver long-term shareholder returns.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the Group, with effective governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by the HSBC Values and our Global Standards programme.

Our Global Risk function oversees the framework, and is led by the Group Chief Risk Officer, an executive Director. It is independent from the global businesses, including our sales and trading functions, to provide challenge, appropriate oversight, and balance in risk/reward decisions.

HSBC’s risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process.

It is articulated in our Risk Appetite Statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

We operate a comprehensive stress testing programme to help ensure the strength and resilience of HSBC, taking part in regulators' as well as our own internal stress tests. In 2016, we participated in the annual stress test by the Bank of England, our lead regulator, and again exceeded its requirements comfortably. This reflected our conservative risk appetite, and our diversified geographical and business mix. It also reflected our ongoing strategic actions, including the sale of our operations in Brazil, RWA reductions in GB&M and continued sales from our US CML run-off portfolio. Our internal stress test scenarios include potential macroeconomic, geopolitical and operational risk events, and events that are applicable to HSBC. The results help management understand material risks and consider potential mitigants.

Key risk appetite metrics

Component	Measure	Risk appetite	2016
Returns	Return on average ordinary shareholders’ equity	≥10.0%	0.8
Capital	Common equity tier 1 ratio – CRD IV end point basis	≥11.0%	13.6 %
Liquidity	HSBC consolidated balance sheet advances-to-deposits ratio	≤90%	67.7 %
Loan impairment charges	Loan impairment charges as % of advances: RBWM	≤0.50%	0.37%
	Loan impairment charges as % of advances: wholesale (CMB, GB&M and GPB)	≤0.45%	0.27%

Our risk management framework and risks associated with our banking and insurance manufacturing operations are described on pages 101 and 115 respectively.

Top and emerging risks

Our top and emerging risks framework helps enable us to identify current and forward-looking risks so that we may take action to either prevent them materialising or limit their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks were to occur, they could have a material effect on HSBC.

During 2016, we made two changes to our top and emerging risks to reflect our assessment of their effect on HSBC. Firstly, ‘IT systems infrastructure and resilience’ was added as a new risk due to the need to ensure core banking systems remain robust as digital and mobile banking services continue to evolve. Secondly, 'Dispute risk' was removed as the key drivers of this thematic issue have already materialised and are therefore reported through other reporting channels. In addition, three thematic risks were renamed to better reflect the challenges facing HSBC. We use the new names in the table that follows.

Our current top and emerging risks are summarised on the next page and discussed in more detail on page 89.

Our approach to identifying and monitoring top and emerging risks is described on page 103.

Risk	Trend	Mitigants
Externally driven		
Economic outlook and capital flows	^	We are actively monitoring our wholesale credit and trading portfolios to identify areas of stress following the UK electorate's vote to leave the European Union. We have also undertaken stress tests on our businesses and portfolios to assess potential impacts under a range of possible exit scenarios.
Geopolitical risk	^	We have increased physical security at our premises where the risk of terrorism is heightened and have enhanced our major incident response capabilities.
Turning of the credit cycle	>	A number of sectors remain under enhanced monitoring with risk appetite and new lending significantly curtailed, including our oil and gas and commodities lending portfolios.
Cyber threat and unauthorised access to systems	^	We have brought all cybersecurity initiatives together under one programme in order to strengthen our resilience and defence capabilities. We have revised our cybersecurity risk appetite to reflect our evolving defence approach.
• Regulatory and technological developments with adverse impact on business model and profitability	>	We are actively engaged with regulators and policy makers to help ensure that new regulatory requirements are considered fully and can be implemented in an effective manner. We have established a specialist digital solutions team to lead our response to new technologies.
Regulatory focus on conduct of business and financial crime	>	We created a new function, Financial Crime Risk, which brings together all areas of financial crime risk management at HSBC and continued to enhance our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance management.
US deferred prosecution agreement and related agreements and consent orders	>	We are continuing to take concerted action to remediate anti-money laundering and sanctions compliance deficiencies and to implement Global Standards.
Internally driven		
IT systems infrastructure and resilience	^	We have invested in specialist teams and are upgrading our systems capability to enhance data and digital capabilities and help ensure strong delivery quality and resilience to customers.
• Impact of organisational change and regulatory demands on employees	>	We have increased our focus on resource planning and employee retention and well-being, and are developing initiatives to equip line managers with skills to both manage change and support their employees.
Execution risk	>	The Group Change Committee monitored the progress of the high priority programmes across the Group that support the strategic actions, reviewing progress on deliverables and addressing resource prioritisation issues as they arose.
Third-party risk management	>	To help enable a consistent risk assessment of the third-party services that the Group utilises, we are implementing a framework to provide a holistic view of third-party risks, which assesses third parties against key criteria, combined with associated control monitoring, testing and assurance throughout the third-party lifecycle.
• Enhanced model risk management expectations	^	We have implemented a new global policy on model risk management and updated the model governance framework to address key internal and regulatory requirements. Additional resources have also been recruited to support the independent model review function.

Data management	>	We continued to enhance our data governance, quality and architecture to help enable consistent data aggregation, reporting and management.

^ Risk heightened during 2016
> Risk remained at the same level as 2015
• Thematic risk renamed during 2016

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Remuneration

Our remuneration policy supports the achievement of our strategic objectives by balancing reward for short- and long-term sustainable performance.

Remuneration principles

The remuneration strategy for our employees is based on a series of key principles.

What we do

- Focus on total compensation with a strong link between pay and performance
- Judge not only what is achieved, but also how it is achieved, in line with the HSBC Values
- Operate a thorough performance management and HSBC Values assessment process
- Recognise and reward our employees for outstanding positive behaviour
- Design our policy to align compensation with long-term stakeholder interests
- Apply consequence management to strengthen the alignment between risk and reward

What we don’t do

- Reward inappropriate or excessive risk taking or short-term performance at the expense of long-term company sustainability
- Use only a formulaic approach to determine bonuses for our executives
- Award discretionary bonuses to employees rated unacceptable against the HSBC Values and behaviours
- Allow our employees to hedge against their unvested or retained awards
- Offer employment contracts with a notice period of more than 12 months
- Have pre-arranged individual severance agreements

Embedding our values in our remuneration framework

Instilling the right behaviours, and driving and encouraging actions that are aligned to organisational values and expectations, are essential. We therefore have a number of programmes to reinforce our values.

Pay	Outcomes
Positive adjustments	- Individuals who exhibit exceptional conduct and behaviours are awarded positive variable pay adjustments during the year.
Global consequence management policy	- Ensures clear messaging to employees on the impact of any inappropriate conduct as part of reward communications, with consistency in approach and actions taken depending on the severity of the misconduct.
Global recognition programme	- Our global recognition programme is now available in more than 50 countries. - In 2016, approximately 600,000 recognitions were made with a total value of $8.1m.
Performance management	- Employees set objectives, which connect business, team and individual goals, and are guided by expected behaviours aligned to our core values. - All employees receive a behaviour rating based on their adherence to HSBC Values to ensure performance is judged not only on what is achieved, but also on how it is achieved. - Employees and managers are encouraged to hold frequent conversations throughout the year, exploring alternative ways to stay connected outside the regular performance management cycle using a mix of informal and formal check-ins on a range of topics, including performance, development and wellbeing.

How we set our variable pay pool

When deciding on the variable pay pool, the Remuneration Committee considers a number of factors, which are set out in the following table:

Performance and risk appetite statement	– Our variable pay pool takes into account our performance in the context of our risk appetite.
Countercyclical funding methodology	– To dampen effects of economic cycles, the variable pay pool's size has a floor and a ceiling, and we also limit the payout ratio as performance increases to prevent the risk of inappropriate behaviour.
Distribution of profits	– Our funding methodology ensures that the distribution of post-tax profit between capital, shareholders and variable pay is appropriate, and that the majority of post-tax profit is allocated to capital and shareholders.
Commerciality and affordability	– We face challenges arising from being headquartered in the UK, which has more stringent reward practices. We take into account these challenges in determining the size of the variable pay pool to ensure we can continue to attract and retain talent in key markets.

Our variable pay pool for 2016

Our variable pay pool is $3,035m, a decrease of 12.3% compared with 2015.

Remuneration for our executive Directors

Our remuneration policy for executive Directors was approved at our 2016 Annual General Meeting and implemented for the first time in 2016. Full details of our remuneration policy can be found online in our Directors' Remuneration Policy Supplement 2016.

The table below shows the amount our executive Directors earned in 2016.

For details of Directors' pay and performance for 2016, see the Directors' Remuneration Report on page 191.

(Audited – in £000)		Base salary	Fixed pay allowance	Pension	Annual incentive	GPSP/LTI [1]	Sub-total	Taxable benefits	Non-taxable benefits	Notional returns	Total
Douglas Flint	2016	1,500	—	450	—	—	1,950	100	86	—	2,136
	2015	1,500	—	750	—	—	2,250	151	95	—	2,496
Stuart Gulliver	2016	1,250	1,700	375	1,695	—	5,020	557	71	27	5,675
	2015	1,250	1,700	625	1,072	1,969	6,616	662	53	9	7,340
Iain Mackay	2016	700	950	210	987	—	2,847	52	37	17	2,953
	2015	700	950	350	1,068	1,101	4,169	54	28	5	4,256
Marc Moses	2016	700	950	210	1,005	—	2,865	15	38	18	2,936
	2015	700	950	350	827	1,101	3,928	6	29	5	3,968

[1] Executive Directors received Group Performance Share Plan ('GPSP') awards for 2015. For 2016, executive Directors will receive a long-term incentive ('LTI') award, with a performance period ending in 2019, which will be included in the single figure table for the financial year ending on 31 December 2019. If target performance is achieved for this award, LTI payout would be 50% of grant value. In this case, the 2016 total single figure for year-on-year comparison would be (in £000) £7,670 for Stuart Gulliver, £4,069 for Iain Mackay and £4,052 for Marc Moses.

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Financial summary

The management commentary included in the Strategic Report, 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 starting on page 215. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered non-GAAP financial measures.

Non-GAAP financial measures that we use throughout the Annual Report and Accounts 2016 are described below. Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

The global business segmental results on pages 60 to 76 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation' on page 59.

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.

We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items, which are detailed below, are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business.

These items include the operating results for our Brazil operations sold to Banco Bradesco S.A. on 1 July 2016, as well as the loss recognised on disposal.
We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses year-on-year performance.
Foreign currency translation differences
Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2016. We exclude our reporting currency translation differences when deriving constant currency data because using these data allows us to assess balance sheet and income statement performance on a like-for-like basis to understand better the underlying trends in the business.
Foreign currency translation differences
Foreign currency translation differences for 2016 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for 2015 and 2014 at the average rates of exchange for 2016; and
- the balance sheets at 31 December 2015 and 31 December 2014 at the prevailing rates of exchange on 31 December 2016.

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 period on the basis described above.
Significant items
The tables on pages 70 to 76 detail the effects of significant items on each of our global business segments and geographical regions in 2016, 2015 and 2014.
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 1.2 on the Financial Statements. The accounting policies listed below are highlighted as they involve a high degree of uncertainty and have a material impact on the financial statements:

- Impairment of loans and advances: For collective impairment allowances, estimation methods include the use of historical information supplemented by significant management judgement about whether current economic and credit conditions are such that actual incurred losses are likely to be greater or less than experienced in the past. For individually assessed loans, judgements are made about the financial condition of individual borrowers, which can involve a wide range of factors relating to their business and the value of any security. The exercise of judgement requires the use of assumptions that are highly subjective and sensitive, in particular to changes in economic and credit conditions across a large number of geographical areas. See Note 1.2(d) on page 230.
- Deferred tax assets: The most significant judgements relate to those made in respect of expected future profitability. See Note 1.2(h) on page 234.
- Valuation of financial instruments: In determining the fair value of financial instruments a variety of valuation

techniques are used, some of which feature significant unobservable inputs and are subject to substantial uncertainty. See Note 1.2(c) on page 229.

- Impairment of interests in associates: Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions. See Note 1.2(a) on page 228.
- Goodwill impairment: A high degree of uncertainty is involved in estimating the future cash flows of the cash generating units ('CGUs') and the rates used to discount these cash flows. See Note 1.2(a) on page 228.

- Provisions: A high degree of judgement may be required due to the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. See Note 1.2(i) on page 234.

Given 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 the expectations on which management's estimates are based, resulting in the recognition and measurement of materially different amounts from those estimated by management in these Financial Statements.

Consolidated income statement

Summary consolidated income statement

	2016	2015	2014	2013	2012
	$m	$m	$m	$m	$m
Net interest income	29,813	32,531	34,705	35,539	37,672
Net fee income	12,777	14,705	15,957	16,434	16,430
Net trading income	9,452	8,723	6,760	8,690	7,091
Net income/(expense) from financial instruments designated at fair value	(2,666)	1,532	2,473	768	(2,226)
Gains less losses from financial investments	1,385	2,068	1,335	2,012	1,189
Dividend income	95	123	311	322	221
Net insurance premium income	9,951	10,355	11,921	11,940	13,044
Gains on disposal of US branch network, US cards business and Ping An Insurance (Group) Company of China, Ltd	—	—	—	—	7,024
Other operating income/(expense)	(971)	1,055	1,131	2,632	2,100
Total operating income	59,836	71,092	74,593	78,337	82,545
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,870)	(11,292)	(13,345)	(13,692)	(14,215)
Net operating income before loan impairment charges and other credit risk provisions	47,966	59,800	61,248	64,645	68,330
Loan impairment charges and other credit risk provisions	(3,400)	(3,721)	(3,851)	(5,849)	(8,311)
Net operating income	44,566	56,079	57,397	58,796	60,019
Total operating expenses	(39,808)	(39,768)	(41,249)	(38,556)	(42,927)
Operating profit	4,758	16,311	16,148	20,240	17,092
Share of profit in associates and joint ventures	2,354	2,556	2,532	2,325	3,557
Profit before tax	7,112	18,867	18,680	22,565	20,649
Tax expense	(3,666)	(3,771)	(3,975)	(4,765)	(5,315)
Profit for the year	3,446	15,096	14,705	17,800	15,334
Attributable to:					
– ordinary shareholders of the parent company	1,299	12,572	13,115	15,631	13,454
– preference shareholders of the parent company	90	90	90	90	90
– other equity holders	1,090	860	483	483	483
– non-controlling interests	967	1,574	1,017	1,596	1,307
Profit for the year	3,446	15,096	14,705	17,800	15,334

Five-year financial information

	Footnotes	2016 $	2015 $	2014 $	2013 $	2012 $
Basic earnings per share		0.07	0.65	0.69	0.84	0.74
Diluted earnings per share		0.07	0.64	0.69	0.84	0.74
Dividends per ordinary share	1	0.51	0.50	0.49	0.48	0.41
		%	%	%	%	%
Dividend payout ratio	2	728.6	76.5	71.0	57.1	55.4
Post-tax return on average total assets		0.1	0.6	0.5	0.7	0.6
Return on risk-weighted assets	3	0.7	1.6	1.5	2.0	1.8
Return on average ordinary shareholders' equity		0.8	7.2	7.3	9.2	8.4
Average foreign exchange translation rates to $:						
$1: £		0.741	0.654	0.607	0.639	0.631
$1: €		0.904	0.902	0.754	0.753	0.778

For footnotes, see page 79.

Unless stated otherwise, all tables in the Annual Report and Accounts 2016 are presented on a reported basis.

For a summary of our financial performance in 2016, see page 14.

For further financial performance data for each global business and geographical region, see pages 60 to 66 and 70 to 76, respectively.

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Group performance by income and expense item

Net interest income

	Footnotes	2016 $m	2015 $m	2014 $m
Interest income		42,414	47,189	50,955
Interest expense		(12,601)	(14,658)	(16,250)
Net interest income	4	29,813	32,531	34,705
Average interest-earning assets		1,723,702	1,726,949	1,786,536
		%	%	%
Gross interest yield	5	2.46	2.73	2.85
Less: cost of funds		(0.87)	(1.00)	(1.05)
Net interest spread	6	1.59	1.73	1.80
Net interest margin	7	1.73	1.88	1.94

For footnotes, see page 79.

In 2016, we earned net interest income of $0.9bn in Brazil (2015: $2.1bn) from average interest earning assets in Brazil of

$25.8bn (2015: $40.0bn). Our net interest margin excluding Brazil was 1.70% (2015: 1.79%).

Summary of interest income by type of asset

	Footnotes	2016 Average balance $m	Interest income $m	Yield %	2015 Average balance $m	Interest income $m	Yield %	2014 Average balance $m	Interest income $m	Yield %
Short-term funds and loans and advances to banks		203,799	1,510	0.74	221,924	2,277	1.03	237,148	3,068	1.29
Loans and advances to customers		865,356	29,272	3.38	909,707	33,104	3.64	931,311	37,429	4.02
Reverse repurchase agreements – non-trading		168,207	1,227	0.73	162,308	1,301	0.80	198,273	1,800	0.91
Financial investments		430,775	7,248	1.68	396,113	7,508	1.90	399,816	8,323	2.08
Other interest-earning assets		55,565	3,157	5.68	36,897	2,999	8.13	19,988	335	1.68
Total interest-earning assets		1,723,702	42,414	2.46	1,726,949	47,189	2.73	1,786,536	50,955	2.85
Trading assets and financial assets designated at fair value	8, 9	179,780	3,897	2.17	195,285	4,626	2.37	238,958	5,596	2.34
Impairment allowances		(9,127)			(10,606)			(14,015)		
Non-interest-earning assets		653,115			682,143			668,564		
Year ended 31 Dec		2,547,470	46,311	1.82	2,593,771	51,815	2.00	2,680,043	56,551	2.11

For footnotes, see page 79.

Summary of interest expense by type of liability and equity

	Footnotes	2016 Average balance $m	Interest expense $m	Cost %	2015 Average balance $m	Interest expense $m	Cost %	2014 Average balance $m	Interest expense $m	Cost %
Deposits by banks	10	49,782	342	0.69	55,863	378	0.68	61,217	481	0.79
Financial liabilities designated at fair value – own debt issued	11	62,042	942	1.52	58,489	717	1.23	66,374	837	1.26
Customer accounts	12	1,074,661	5,492	0.51	1,075,901	7,401	0.69	1,088,493	9,131	0.84

Repurchase agreements – non-trading	118,789	626	0.53	117,947	355	0.30	190,705	652	0.34
Debt securities in issue	114,343	2,807	2.45	129,039	3,521	2.73	129,724	4,554	3.51
Other interest-bearing liabilities	22,387	2,392	10.68	28,396	2,286	8.05	10,120	595	5.88
Total interest-bearing liabilities	1,442,004	12,601	0.87	1,465,635	14,658	1.00	1,546,633	16,250	1.05
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)	138,486	1,986	1.43	151,294	2,071	1.37	178,518	2,856	1.60
Non-interest bearing current accounts	184,016			190,914			185,990		
Total equity and other non-interest bearing liabilities	782,964			785,928			768,902		
Year ended 31 Dec	2,547,470	14,587	0.57	2,593,771	16,729	0.64	2,680,043	19,106	0.71

For footnotes, see page 79.

Significant items and currency translation

	2016	2015
	$m	$m
Significant items	951	2,104
– releases/(provisions) arising from the ongoing review of compliance with the UK Consumer Credit Act	2	(10)
– acquisitions, disposals and dilutions	949	2,114
Currency translation		1,808
Year ended 31 Dec	951	3,912

Net interest income of $29.8bn decreased by $2.7bn or 8% compared with 2015. This was partly the impact of the disposal of our operations in Brazil on 1 July 2016, which reduced net interest income by ($1.2bn), and adverse effects of currency translation differences. These decreases were partly offset by growth in net interest income in Asia, notably in Hong Kong, and in Mexico, partly offset by a decrease in the UK and the US.

Net interest margin in 2016 of 1.73% was 15 basis points ('bps') lower than 2015. This reflected the effects of the disposal and currency translation noted above, which had an adverse effect of 8bps. The remainder of the decrease was primarily as a result of lower yields on customer lending, which had an adverse effect of 9bps on our net interest margin, partly reflecting the continuing run-off of our US CML portfolio. In addition, we recorded an increase in the cost of debt, partly offset by a lower cost of funds on customer accounts, notably in Hong Kong.

Interest income

Interest income decreased by $4.8bn compared with 2015, notably driven by our sale of Brazil operations ($3.1bn) and currency translation. Excluding these factors, total interest income increased marginally.

Interest income on loans and advances to customers decreased by $3.8bn, driven by a reduction of $1.9bn relating to our operations in Brazil, and the adverse effects of currency translation. Excluding these factors, interest income on customer lending was broadly unchanged. The effects of growth in balances in Europe and Mexico, together with central bank rate rises in Mexico and Argentina, were broadly offset by the run-off of our US CML portfolio and the effect of lower average balances in Asia.

Income growth in Mexico was driven by growth in average balances, reflecting gains in market share and higher yields, notably on term lending due to central bank rate increases. Income increased in Europe as the effect of growth in average balances, primarily an increase in term lending volumes, more than offset the effect of lower yields on both term lending and mortgages, reflecting competitive pricing in the market and lower interest rates in the eurozone. By contrast, interest income decreased in Asia, as a result of lower average balances in term lending, despite increased mortgage balances, notably in Hong Kong. Yields in Asia also decreased marginally as a result of central bank rate cuts in China during 2015, although these were partly offset by rate rises in Hong Kong.

Interest income on short-term funds and financial investments decreased by $1.0bn in 2016, including a decrease of $0.7bn relating to Brazil. Excluding the effect of currency translation and Brazil, interest income on short-term funds and financial investments increased by $0.2bn. The movement predominantly reflected increases in available-for-sale debt securities in Asia, reflecting growth in our surplus liquidity. In North America income increased, driven by higher balances primarily due to net purchase of US Treasury securities, and a higher yield, following the US rate rise at the end of 2015.

Interest income on reverse repurchase agreements – non-trading was $0.1bn lower, including a decrease relating to Brazil ($0.4bn). Excluding currency translation and Brazil, income increased primarily in North America, reflecting higher balances and improved market rates.

Interest expense

Reported interest expense decreased by $2.1bn, driven by the reductions relating to Brazil ($1.8bn) and currency translation. Excluding these factors, interest expense rose by $0.4bn, as increases in the cost of debt and repurchase agreements were partly offset by decreases in interest expense on customer accounts.

Interest expense on customer accounts decreased by $1.9bn, including amounts relating to Brazil ($0.8bn) and currency translation. Excluding these factors, interest expense on customer accounts decreased by $0.5bn, driven by Asia and Europe, partly offset by Mexico, Argentina and North America. In Asia, the effect of an increase in balances was more than offset by a lower cost of funds, partly a change in portfolio mix towards lower-cost accounts in Hong Kong, which more than offset the effect of central bank rate rises. In addition to these factors, the central bank rate cuts in a number of markets, including mainland China, Australia and India, further lowered our cost of funds. In Europe, interest expense decreased as a result of a reduction in the cost of funds, partly due to a negative rate environment, although the average balances increased, notably in the UK. These decreases were partly offset by higher interest expense on customer accounts in the US, Mexico and Argentina, reflecting promotional deposit offerings and the central bank rate rises.

Interest expense on debt securities in issue and own debt designated at fair value decreased by $0.5bn, including the impact of Brazil ($0.8bn). Excluding currency translation and the effect of Brazil, interest expense increased by $0.4bn. This was driven by an increase in the cost of funds and an increase in average balances, as redemptions across the Group were more than offset by issuances of senior debt from HSBC Holdings plc (‘HSBC Holdings’). The increase in the cost of debt designated at fair value was as a result of longer maturities and the structural subordination of our new issuances from HSBC Holdings.

Interest expense increased on repurchase agreements by $0.3bn, notably in North America, reflecting higher balances and market rates.

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Net fee income

	2016	2015	2014
	$m	$m	$m
Account services	2,417	2,745	3,407
Funds under management	2,076	2,570	2,658
Cards	1,970	2,281	2,460
Credit facilities	1,795	1,919	1,890
Broking income	1,060	1,441	1,371
Unit trusts	863	1,007	1,005
Imports/exports	820	971	1,115
Remittances	766	772	833
Underwriting	705	762	872
Global custody	662	721	726
Insurance agency commission	419	519	516
Other	2,116	2,308	2,692
Fee income	15,669	18,016	19,545
Less: fee expense	(2,892)	(3,311)	(3,588)
Year ended 31 Dec	12,777	14,705	15,957

Significant items and currency translation

	2016	2015
	$m	$m
Significant items		
– acquisitions, disposals and dilutions	233	533
Currency translation		574
Year ended 31 Dec	233	1,107

Net fee income fell by $1.9bn compared with 2015, partly as a result of the adverse effects of currency translation of $0.6bn, primarily in the UK, Argentina and Mexico, which notably affected account services, cards and fee expense. The sale of our operations in Brazil to Banco Bradesco S.A. reduced net fee income by a further $0.3bn. In addition, the decrease was driven by RBWM in Hong Kong, reflecting risk-averse retail investor sentiment in Asia.

Fee income from broking and unit trusts decreased by $525m, largely due to a strong performance in Hong Kong in the first half of 2015. The decrease was mainly in RBWM in Hong Kong, from lower securities broking income resulting from a reduction in stock market turnover.

In addition, fee income from cards decreased by $311m, primarily reflecting lower interchange fees in the UK, following regulatory change in late 2015.

Fee income from funds under management decreased by $0.5bn, partly driven by a reclassification between fee income from funds under management and fee expense in Germany ($0.2bn). In addition, fee income from funds under management decreased in RBWM's Global Asset Management business, driven by a change in the product mix towards lower margin fixed income products, as well as in GPB in Switzerland.

The reduction in fee income from funds under management was partly offset by a fall in fee expense of $419m, primarily reflecting lower brokerage fees, and the reclassification noted above.

Net trading income

		2016	2015	2014
	Footnote	$m	$m	$m
Trading activities		8,702	7,285	5,419

Net interest income on trading activities		1,386	1,775	1,907
Gain/(loss) on termination of hedges		1	(11)	1
Other trading income – hedge ineffectiveness				
– on cash flow hedges		(5)	15	34
– on fair value hedges		23	(11)	19
Fair value movement on non-qualifying hedges	13	(655)	(330)	(620)
Year ended 31 Dec		9,452	8,723	6,760

For footnote, see page 79.

Significant items and currency translation

	Footnote	2016 $m	2015 $m
Significant items			
Included within trading activities		26	230
– favourable debit valuation adjustment on derivative contracts		26	230
Included in other net trading income		(508)	(42)
– fair value movement on non-qualifying hedges	13	(687)	(327)
– acquisitions, disposals and dilutions		179	285
Total significant items		(482)	188
Currency translation			596
Year ended 31 Dec		(482)	784

For footnote, see page 79.

Net trading income of $9.5bn was $0.7bn higher than in 2015, despite the net adverse effects of $1.3bn of significant items and currency translation summarised in the table above. The increase (excluding the movements tabulated above) was driven by:

- favourable movements on assets held as economic hedges of foreign currency debt designated at fair value of $1.7bn in 2016 compared to minimal movements in 2015. These movements were offset by adverse movements in foreign

currency debt designated at fair value in 'Net income/(expense) from financial instruments designated at fair value'; and

- increases in GB&M ($0.2bn), notably in Rates and in Credit, as we gained market share in Europe, partly offset by a decrease in Equities, reflecting lower trading volumes in Europe and Asia. In addition, we recorded adverse movements of $70m in credit and funding valuation adjustments compared with favourable movements of $227m in the prior year, primarily relating to movements in our own credit spread on structured liabilities.

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

	2016 $m	2015 $m	2014 $m
Net income/(expense) arising from:			
Financial assets held to meet liabilities under insurance and investment contracts	1,480	531	2,300
Liabilities to customers under investment contracts	(218)	34	(435)
HSBC's long-term debt issued and related derivatives	(3,975)	863	508
– change in own credit spread on long-term debt (significant item)	(1,792)	1,002	417
– other changes in fair value	(2,183)	(139)	91
Other instruments designated at fair value and related derivatives	47	104	100
Year ended 31 Dec	(2,666)	1,532	2,473

The majority of our financial liabilities designated at fair value are fixed-rate, long-term debt issuances, and are managed in conjunction with interest rate swaps as part of our interest rate management strategy.

These liabilities are discussed further on page 274.

Significant items and currency translation

	2016 $m	2015 $m
Significant items	(1,488)	1,426
– own credit spread	(1,792)	1,002
– acquisitions, disposals and dilutions	304	424
Currency translation		24
Year ended 31 Dec	(1,488)	1,450

We recorded a net expense from financial instruments designated at fair value of $2.7bn in 2016, compared with net income of $1.5bn in 2015. In 2016, there were unfavourable movements of $1.8bn in the fair value of our own long-term debt reflecting changes in credit spread, compared with favourable movements of $1.0bn in 2015.

The decrease was also as a result of 'Other changes in fair value' on our long-term debt and related derivatives, which reflected:

- higher adverse movements of $1.7bn in 2016 compared with minimal movements in 2015 on foreign currency debt designated at fair value and issued as part of our overall funding strategy (offset by assets held as economic hedges in 'Net trading income'); and
- higher adverse movements of $0.2bn relating to the economic hedging of interest and exchange rate risk on our long-term debt.

By contrast, net income from financial assets held to meet liabilities under insurance and investment contracts of $1.5bn was $0.9bn higher than in 2015. This was primarily driven by improved equity market performance in Asia and Europe in 2016, partly offset by the disposal of our operations in Brazil in July 2016.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts results in a corresponding movement in liabilities to customers, reflecting the extent to which they participate in the investment performance of the associated asset portfolio. These offsetting movements are recorded in 'Net income/(expense) arising from liabilities to customers under investment contracts' and 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

In 2016, the majority of the variance arose in unit-linked contracts where the policyholder bears the investment risk, and was therefore offset by movements in liabilities to customers.

Gains less losses from financial investments

	2016	2015	2014
	$m	$m	$m
Net gains from disposal	1,421	2,179	1,708
– debt securities	357	345	665
– equity securities	1,058	1,829	1,037
– other financial investments	6	5	6
Impairment of available-for-sale equity securities	(36)	(111)	(373)
Year ended 31 Dec	1,385	2,068	1,335

Significant items and currency translation

	2016	2015
	$m	$m
Significant items	701	1,385
– gain on disposal of our membership interest in Visa – Europe	584	—
– gain on disposal of our membership interest in Visa – US	116	—
– gain on the partial sale of shareholding in Industrial Bank	—	1,372
– acquisitions, disposals and dilutions	1	13
Currency translation		34
Year ended 31 Dec	701	1,419

In 2016, gains less losses from financial investments decreased by $0.7bn compared with 2015. This was largely due to the significant items and currency translation tabulated above, notably the non-recurrence of the gain on the partial sale of

our shareholding in Industrial Bank of $1.4bn in 2015, partly offset by gains on disposal of our membership interests in Visa Europe of $0.6bn and in Visa US of $0.1bn in 2016.

Net insurance premium income

	2016	2015	2014
	$m	$m	$m
Gross insurance premium income	10,588	11,012	12,370
Reinsurance premiums	(637)	(657)	(449)
Year ended 31 Dec	9,951	10,355	11,921

Significant items and currency translation

	2016	2015
	$m	$m
Significant items		
– acquisitions, disposals and dilutions	362	764
Currency translation		169
Year ended 31 Dec	362	933

Net insurance premium income was $0.4bn lower than in 2015, and included reductions due to the disposal of our operations in Brazil ($0.4bn) and currency translation movements of $0.2bn. Net insurance premium income increased in Hong Kong, partly offset by reductions in France in response to low interest rates

and market volatility, and in the UK, following the disposal of our pension business in 2015.

Other operating income

	2016	2015	2014
	$m	$m	$m
Rent received	157	171	162
Gains/(losses) recognised on assets held for sale	(1,949)	(244)	220
Gains on investment properties	4	61	120
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	35	53	32
Losses arising from dilution of interest in Industrial Bank and other associates and joint ventures	—	—	(32)
Change in present value of in-force long-term insurance business	902	799	261
Other	(120)	215	368
Year ended 31 Dec	(971)	1,055	1,131

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

	2016	2015	2014
	$m	$m	$m
Value of new business	900	809	870
Expected return	(532)	(552)	(545)
Assumption changes and experience variances	513	504	(116)
Other adjustments	21	38	52
Year ended 31 Dec	902	799	261

Significant items and currency translation

	2016	2015
	$m	$m
Significant items		
Included within gains/(losses) recognised on assets held for sale:	(163)	(214)
– portfolio disposals	(163)	(214)
Included within the remaining line items:	(1,763)	157
– acquisitions, disposals and dilutions	(1,763)	157
Total significant items	(1,926)	(57)
Currency translation		71
Year ended 31 Dec	(1,926)	14

Other operating income decreased by $2.0bn from 2015. This was as a result of the loss on the sale of our operations in Brazil of $1.7bn and the effects of the other significant items recorded in the table above. In addition, we recorded lower revaluation gains on investment properties.

These decreases were partly offset by higher favourable movements of $0.1bn in present value of in-force ('PVIF') long-term insurance business, which was primarily driven by an

increase in the value of new business written in Hong Kong, partly offset by a reduction in France and the impact of the disposal of our operations in Brazil.

In 2016, we recognised $513m of income in 'Assumption changes and experience variances', which was broadly unchanged from the $504m recognised in 2015. For further details, please see Note 20.

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

		2016	2015	2014
	Footnote	$m	$m	$m
Net insurance claims and benefits paid and movement in liabilities to policyholders:				
– gross		12,508	11,872	13,723
– less reinsurers' share		(638)	(580)	(378)
Year ended 31 Dec	14	11,870	11,292	13,345

For footnote, see page 79.

Significant items and currency translation

	2016	2015
	$m	$m
Significant items		
– acquisitions, disposals and dilutions	538	962
Currency translation		246
Year ended 31 Dec	538	1,208

Net insurance claims and benefits paid and movement in liabilities to policyholders were $0.6bn higher compared with 2015, and included reductions due to the disposal of our operations in Brazil ($0.4bn) and currency translation movements of $0.2bn.

This increase was primarily due to improved returns on financial assets supporting unit-linked contracts, where the policyholder bears the investment risk, reflecting improved equity market performance in Hong Kong compared to 2015. In addition, movements in liabilities to policyholders were higher due to

increased premium income, and interest rate-driven changes to liability valuations in Hong Kong.
These increases were partly offset by decreased premiums and reducing investment returns in France.
The gains or losses recognised on the financial assets designated at fair value that are held to support these insurance contract liabilities are reported in 'Net income/(expense) from financial instruments designated at fair value' on page 235.

Loan impairment charges and other credit risk provisions

	2016	2015	2014
	$m	$m	$m
New allowances net of allowance releases	3,977	4,400	5,010
Recoveries of amounts previously written off	(627)	(808)	(955)
Loan impairment charges:	3,350	3,592	4,055
– individually assessed allowances	1,831	1,505	1,780
– collectively assessed allowances	1,519	2,087	2,275
Releases of impairment on available-for-sale debt securities	(63)	(17)	(319)
Other credit risk provisions	113	146	115
Year ended 31 Dec	3,400	3,721	3,851
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers	0.39 %	0.39 %	0.43 %

Significant items and currency translation

	2016	2015
	$m	$m
Significant items	748	933
– acquisitions, disposals and dilutions	748	933
Currency translation		184
Year ended 31 Dec	748	1,117

Loan impairment charges and other credit risk provisions (‘LICs’) of $3.4bn were $0.3bn lower than in 2015. This was partly as a result of favourable currency translation differences of $0.2bn, notably in Mexico and the UK. In addition, our sale of operations in Brazil resulted in a $0.2bn reduction.

Collectively assessed LICs of $1.5bn were down $568m compared with 2015. This reduction included the net favourable effect of $230m as a result of our sale of operations in Brazil and favourable currency translation of $95m. The remaining variance reflected the following:

- In CMB (down $226m), a net release of collectively assessed LICs compared with a net charge in 2015. The net release of allowances in 2016 was primarily on exposures related to the oil and gas sector, notably in the US and Canada, the UAE and Asia. This reflected a more positive outlook for this sector. By contrast, in 2015 we increased our collective allowances on exposures related to the oil and gas sector. The reduction in collectively assessed LICs was partly offset by an increase in the UK, primarily reflecting new allowances against exposures in the oil and gas sector.
- In GB&M, a net release of collectively assessed LICs, notably in the UK and US, compared with a net charge in 2015.

This was partly offset:

- In RBWM, where collectively assessed LICs rose by $75m. The increase was mainly in Mexico reflecting our strategic focus on growing unsecured lending, as well as an increase in delinquency rates. By contrast, collectively assessed LICs decreased in a small number of markets in the Middle East and North Africa and Asia.
- In Corporate Centre, LICs increased in our US CML run-off portfolio by $67m.

Individually assessed LICs of $1.8bn increased by $326m compared with 2015. Higher charges in GB&M were partly offset by a reduction in CMB and favourable currency translation of $79m. This primarily reflected the following:

- In GB&M (up $0.6bn), the increase was primarily in the US related to a significant specific charge against a mining-related corporate exposure, as well as charges relating to exposures in the oil and gas sector. Additionally, in Hong Kong, individually assessed LICs in 2016 largely related to a single corporate exposure. This compared with a net release of LICs in 2015.

This was partly offset:

-

In CMB, lower individually assessed LICs (down $261m), included favourable currency translation of $70m and a net favourable effect of $45m attributable to our sale of operations in Brazil. The decrease also reflected lower individually assessed LICs in Indonesia, where charges in 2015 related to a small number of exposures across multiple sectors. Lower charges in both the UK and the UAE also contributed to the reduction. These decreases were partly offset by higher LICs in Hong Kong, related to various sectors, including manufacturing, and in Canada due to a rise in the number of exposures in the oil and gas sector migrating to default. Notably, the increase in individually assessed LICs in Canada was more than offset by the movement in collective allowances related to the oil and gas sector, discussed above.

In 2016, we recorded higher net releases of impairment allowances against available for sale debt securities. These were primarily related to asset-backed securities ('ABSs') in our Legacy Credit business in Corporate Centre.

Operating expenses

In addition to detailing operating expense items by category, as set out in the table below, we also categorise adjusted expenses as follows:

- 'Run-the-bank' costs comprise business-as-usual running costs that keep operations functioning at the required quality and standard year on year, maintain IT infrastructure and support revenue growth. Run-the-bank costs are split between front office and back office, reflecting the way the Group is organised into four global businesses ('front office') supported by global functions ('back office').
- 'Change-the-bank' costs comprise expenses relating to the implementation of mandatory regulatory changes and other investment costs incurred relating to projects to change business-as usual activity to enhance future operating capabilities.
- 'Costs to achieve' comprise those specific costs relating to the achievement of the strategic actions set out in the Investor Update in June 2015. They comprise costs incurred between 1 July 2015 and 31 December 2017, and do not include ongoing initiatives such as Global Standards. Any costs arising within this category have been incurred as part of a significant transformation programme. Costs to achieve are included within significant items and incorporate restructuring costs that were identified as a separate significant item prior to 1 July 2015.
- The UK bank levy is reported as a separate category.

Operating expenses

	2016	2015	2014
	$m	$m	$m
By expense category			
Employee compensation and benefits	18,089	19,900	20,366
Premises and equipment (excluding depreciation and impairment)	3,758	3,830	4,204
General and administrative expenses	12,715	13,832	14,361
Administrative expenses	34,562	37,562	38,931
Depreciation and impairment of property, plant and equipment	1,229	1,269	1,382
Amortisation and impairment of intangible assets	777	937	936
Goodwill impairment	3,240	—	—
Year ended 31 Dec	39,808	39,768	41,249

	2016	2015
	$m	$m
By expense group		
Run-the-bank – front office	13,612	13,711
Run-the-bank – back office	13,275	13,437
Change-the-bank	2,746	3,161
Bank levy	922	1,421
Significant items	9,253	5,947
Currency translation		2,091
Year ended 31 Dec	39,808	39,768

Staff numbers (full-time equivalents)

	2016	2015	2014
Global businesses			
Retail Banking and Wealth Management	124,810	145,868	151,802
Commercial Banking	44,712	48,651	48,650
Global Banking and Markets	46,659	47,894	46,605
Global Private Banking	8,054	8,513	8,775
Corporate Centre	10,940	4,277	1,771
At 31 Dec	235,175	255,203	257,603

Reported operating expenses of $39.8bn were $40m higher than in 2015. This reflected an increase in significant items of $3.3bn which included:

- a $3.2bn write-off of the goodwill in our GPB business in Europe (please see Note 20 for further details);
- costs to achieve of $3.1bn, compared with $0.9bn in 2015; partly offset by

- the operating expenses incurred in our Brazil business of $1.1bn in 2016, compared with $2.5bn in 2015; and
- a reduction of $1.0bn in settlements and provisions in connection with legal matters.

The increase in significant items was partly offset by the favourable effects of currency translation of $2.1bn.

Significant items and currency translation

	2016	2015
	$m	$m
Significant items	9,252	5,947
– costs associated with portfolio disposals	28	—
– costs to achieve	3,118	908
– cost to establish UK ring-fenced bank	223	89
– impairment of GPB – Europe goodwill	3,240	—
– regulatory provisions in GPB	344	172

– restructuring and other related costs	—	117
– settlements and provisions in connection with legal matters	681	1,649
– UK customer redress programmes	559	541
– acquisitions, disposals and dilutions	1,059	2,471
Currency translation	—	2,091
Year ended 31 Dec	9,252	8,038

Excluding the significant items and currency translation tabulated above, operating expenses of $30.6bn were $1.2bn lower than in 2015. This primarily reflected cost savings of $2.2bn achieved in 2016 and a reduction in the UK bank levy of $0.5bn. This was partly offset by the impact of inflation and continued investment in regulatory programmes and compliance.

Run-the-bank costs of $26.9bn were $0.3bn lower than in 2015 and change-the-bank costs of $2.7bn were $0.4bn lower than in 2015.

Our total investment in regulatory programmes and compliance, comprising both run the-bank and change-the-bank elements, was $3.0bn, up $0.4bn or 14% from 2015. This reflected the ongoing implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

We have maintained our transformational efforts and continue to realise the benefit of our cost-saving programme.

- Within RBWM, savings of $0.4bn reflected the impact of our branch optimisation programme enabled by our digital initiatives.
- Within Operations and Technology, savings of $1.2bn reflected migrations to lower cost locations, the simplification of our IT structure and the implementation of target operating models.
- Within our back office functions, savings of $0.4bn were realised as a result of the re-engineering and simplification of processes and the implementation of global operating models.

Taking the 2016 savings into account, our run rate savings are now $3.7bn since the start of our initiatives.
The number of employees expressed in FTEs at 31 December 2016 was 235,175, a decrease of 20,028 since 31 December 2015. This included a 19,145 reduction following our disposal of operations in Brazil. Excluding Brazil, the decrease in FTE was 883 as a reduction of 17,855 FTEs realised across global businesses and global functions was partly offset by investment in our Global Standards Programme of 5,694 FTEs, costs to achieve FTEs of 8,073 and investment for growth.

Share of profit in associates and joint ventures

	2016	2015	2014
	$m	$m	$m
Share of profit in associates	2,326	2,518	2,493
– Bank of Communications Co., Limited	1,892	2,011	1,974
– The Saudi British Bank	415	462	455
– other	19	45	64
Share of profit in joint ventures	28	38	39
Year ended 31 Dec	2,354	2,556	2,532

Our share of profit in associates and joint ventures was $2.4bn, a decrease of $0.2bn or 8%, which included the adverse effects of currency translation of $0.1bn, notably affecting our share of profit in BoCom.
Excluding the impact of currency translation, our share of profit in associates and joint ventures fell by $0.1bn or 4%, relating to higher impairment charges in the Saudi British Bank and lower revenue in HSBC Saudi Arabia, reflecting lower asset management and investment banking revenue. This was partly offset by revenue growth in Saudi British Bank and well-managed costs in both associates.
Our share of profit in BoCom for the year was $1.9bn. At 31 December 2016, 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 2017 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.

Tax expense

	2016	2015	2014
	$m	$m	$m
Profit before tax	7,112	18,867	18,680
Tax expense	(3,666)	(3,771)	(3,975)
Profit after tax for the year ended 31 Dec	3,446	15,096	14,705
Effective tax rate	51.55 %	19.99 %	21.28 %

The effective tax rate for 2016 of 51.6% was higher than the 20.0% in 2015, reflecting events that occurred in 2016 that reduced the reported profit before tax but not taxable profits. These included the non-deductible goodwill impairment and the non-deductible loss on our disposal of operations in Brazil. The

2016 tax charge includes tax losses not recognised, prior year adjustments and the impact of the 8% bank corporation tax surcharge applicable in the UK from 1 January 2016. Further detail is provided in Note 7 of the Financial Statements.

2015 compared with 2014

Net interest income

Reported net interest income of $32.5bn decreased by $2.2bn or 6% compared with 2014.

This was primarily driven by the adverse effects of currency translation differences between 2015 and 2014 ($2.9bn), partly offset by a lower provision of $10m, compared to $632m in 2014, arising from the ongoing review of compliance with the Consumer Credit Act ('CCA') in the UK. Excluding these factors, net interest income was broadly unchanged compared with 2014 as increases in Asia and Latin America were offset by a reduction in North America.

On a reported basis, net interest spread and margin both fell, driven by the factors noted above. Excluding these factors, net interest spread and margin were marginally lower due to reduced yields on customer lending in Europe and North America. However, during the year, we changed the mix of our overall portfolio towards higher yielding customer lending balances. This was through a managed reduction in the average balances of lower yielding short-term funds, reverse repos and financial investments, notably in Europe, reflecting our continued focus on the efficient use of our balance sheet.

Interest income by type of asset and interest expense by type of liability, and the associated average balances as set out in the summary tables above, were affected by the reclassification in June 2015, of our operations in Brazil to 'Assets held for sale' in 'Other interest-earning assets' and liabilities of disposal groups held for sale in 'Other interest-bearing liabilities', respectively.

Interest income

Reported interest income decreased by $3.8bn compared with 2014. This was driven by currency translation differences between 2015 and 2014, notably in Latin America and Europe, although this was partly offset in Europe as 2014 included higher provisions arising from the ongoing review of compliance with the CCA.

Excluding these factors, interest income was broadly unchanged compared with 2014.

Interest income on loans and advances to customers fell by $4.3bn. Excluding the effects of currency translation between 2015 and 2014 and the reclassification of amounts relating to Brazil, interest income on loans and advances to customers was broadly unchanged as lower interest income in Europe and North America was offset by increases in Asia and Latin America.

In Europe, the reduction in interest income was driven by lower yields on mortgages in the UK in line with competitive pricing, and the effect of downward movements in market interest rates in the eurozone. Interest income also fell in North America as the CML portfolio continued to decrease from run-off and sales. In addition, new lending to customers in RBWM and CMB was at reduced yields in the current low interest rate environment, although the effect of this was partly offset by an increase in average term lending balances.

By contrast, in Asia, the rise in interest income was driven by growth in average term lending balances, primarily in Hong Kong and mainland China. This was partly offset by compressed yields on customer lending, notably in mainland China and Australia due to central bank rate reductions, although yields in Hong Kong marginally increased.

In Latin America, the increase was primarily in Argentina, driven by growth in average balances.

Interest income on short-term funds and financial investments in Balance Sheet Management marginally decreased. This was driven by lower interest income in Europe, due to a managed reduction in average balances, and in Asia, reflecting movement in central bank interest rates in mainland China and India. These factors were partly offset in North America by a change in product mix towards higher yielding mortgage-backed securities in order to maximise the effectiveness of the portfolio.

Interest income from other interest-earning assets rose due to the reclassification of our operations in Brazil to 'Assets held for sale' in June 2015. In Brazil, excluding the impact of currency translation, interest income rose due to growth in average term lending balances and financial investments, together with higher yields reflecting successive increases in central bank interest rates in 2014 and 2015.

Interest expense

Reported interest expense decreased by $1.6bn compared with 2014 driven by currency translation, primarily in Latin America and Europe.

Excluding this, interest expense fell driven by a lower cost of customer accounts, debt issued and repos.

Interest expense on customer accounts fell by $1.7bn. Excluding the effects of currency translation between 2015 and 2014 and the reclassification of amounts relating to Brazil, interest expense on customer accounts fell marginally despite growth in average balances on a constant currency basis. This reflected central bank rate reductions in a number of markets, notably Mexico, mainland China, Australia and India. Europe was affected by downward movements in market rates in the eurozone. This was partly offset by rising costs in North America, in line with promotional deposit offerings.

Interest expense on debt issued also fell, primarily in Europe as new debt was issued at lower prevailing rates and average outstanding balances fell as a result of net redemptions. Interest expense also fell on repos, notably in Europe, reflecting the managed reduction in average balances.

Interest expense on other interest-bearing liabilities increased due to the reclassification of our operations in Brazil. In Brazil, excluding currency translation, interest expense rose, primarily on debt securities in issue and also on customer accounts driven by successive increases in central bank rates. Other interest expense also increased in North America, as 2014 benefited from the release of accrued interest associated with uncertain tax positions.

Net fee income

Reported net fee income fell by $1.3bn compared with 2014, primarily reflecting the adverse effects of currency translation differences between 2015 and 2014 of $1.2bn, notably in Europe and Latin America. Excluding currency translation differences, net fee income decreased by $38m. This reflected a reduction in Europe, primarily within RBWM and GB&M, largely offset by increases in Asia in RBWM and North America in GB&M.

Account services fee income fell by $662m, in part due to adverse currency translation differences between 2015 and 2014 of $314m. Excluding currency translation, account services fees decreased mainly in the UK in RBWM where lower overdraft fees reflected repricing and fewer overdrawn balances following the introduction in November 2014 of a text-alert service for customers. Account services fees also fell in Switzerland due to the continuing repositioning of our GPB business.

Import and export fees also fell (by $144m), mainly in Asia reflecting a reduction in trade activity. In addition, our underwriting fee income fell by $110m, mainly in Hong Kong in GB&M, where there was reduced activity in equity capital markets, although this was partly offset by higher debt issuances in the US.

Fees from funds under management decreased by $88m, mainly due to adverse currency translation differences between 2015 and 2014. This was partly offset by growth in our Global Asset Management business, notably in France and the US due to volume growth from fixed income products. In addition, fee income from funds under management increased in Germany from growth in Securities Services in GB&M, and in Hong Kong from increased funds under management in GPB.

By contrast, our fee income from broking and unit trusts grew (up by $72m), mainly in Hong Kong, driven by higher sales of equities and mutual funds in RBWM. This was from increased stock-market turnover, in part facilitated by the Shanghai-Hong Kong Stock Connect platform and greater investor appetite following improvements in Asian equity markets in the first half of the year, however there was weaker investor sentiment in the second half of the year.
Our credit facilities fee income also grew (by $29m) despite adverse currency translation differences between 2015 and 2014 of $161m. Higher credit facilities in North America and, to a lesser extent, in Asia, reflected continued growth in average lending balances, although balances were broadly unchanged in Asia in the second half of the year.
Fee expense decreased by $277m as a rise in brokerage fees, notably in Germany was more than offset by adverse currency translation differences between 2015 and 2014.

Net trading income

Reported net trading income of $8.7bn was $2.0bn higher than in 2014, predominantly in Europe. The movement in net trading income in part reflected the favourable effect of significant items ($0.8bn) and the adverse effect of currency translation differences between 2015 and 2014 of $0.5bn. Excluding these factors, net trading income increased by $1.7bn, mainly in GB&M, notably Equities, Foreign Exchange and Credit. This was primarily in the UK following an increase in volatility and client activity.
Net trading income from trading activities also rose due to a number of other valuation movements. In 2014, we revised our estimation methodology for valuing uncollateralised derivative portfolios by introducing the funding fair value adjustment ('FFVA') which resulted in a charge of $263m. In addition, the Equities and Rates businesses benefited from favourable movements on own credit spreads compared with minimal movements in 2014.
These movements contributed to an increase in net trading income from trading activities in Rates, although client activity remained subdued.

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

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issuances and are managed in conjunction with interest rate swaps as part of our interest rate management strategy.
Reported net income from financial instruments designated at fair value was $1.5bn in 2015, compared with $2.5bn in 2014. In 2015, there were favourable movements in the fair value of our own long-term debt of $1.0bn due to changes in credit spread, compared with favourable movements of $417m in 2014.
The increase in these favourable movements was more than offset by a $1.8bn reduction in net income from financial assets held to meet liabilities under insurance and investment contracts. This was primarily driven by weaker equity markets in Hong Kong and the UK, notably in the second half of the year. The fair value movement in 2015 included gains in Brazil and France, partly offset by losses in Hong Kong. These gains and losses are broadly offset by 'Net insurance claims and benefits paid and movements in liabilities to policyholders' and 'Liabilities to customers under investment contracts'.
Other changes in fair value reflected a higher adverse movement relating to the economic hedging of interest and exchange rate risk on our long term debt.

Gains less losses from financial investments

Reported gains less losses from financial investments increased by $733m compared with 2014. This was driven by a net increase significant items of $1.2bn, notably the gain on the partial sale of our shareholding in Industrial Bank Co. Ltd ('Industrial Bank') of $1.4bn in 2015 which was partly offset by a gain on the sale of our shareholding in Bank of Shanghai in 2014. The net favourable impact of significant items was partly offset by lower gains on disposals of available-for-sale debt securities, notably in the UK and US and lower gains on equity securities in Principal Investments in the UK.

In addition, we recorded minor losses on disposals from our legacy credit portfolio compared with gains in 2014. The disposal of these assets reflects our continued efforts to manage down low-returning assets to maximise returns.

Net insurance premium income

Reported net insurance premium income was $1.6bn lower, largely from the adverse effects of currency translation differences between 2015 and 2014 of $930m. Excluding the effect of currency translation, net insurance premium

income fell by $636m or 6%, driven by Asia, primarily in Hong Kong where it declined because of lower unit-linked contract premiums and new reinsurance agreements.
In Europe, premium income fell mainly in the UK, reflecting a decision to exit the commercial pensions market in 2014.
Other operating income
Reported other operating income decreased by $76m from 2014. This reduction reflected losses of $214m in 2015 related to the sale of several tranches of real estate secured accounts in the US. By contrast, we recognised gains of $168m on similar sales in 2014.
Excluding these items and currency translation differences between 2015 and 2014, other operating income increased by $219m. This was primarily from higher favourable movements in present value of in-force ('PVIF') long-term insurance business, partly offset by lower disposal and revaluation gains on investment properties, mainly in Asia.
The higher favourable movement in the PVIF balance was driven by changes in interest rates and investment return assumptions, notably in France and Hong Kong.
Net insurance claims and benefits paid and movement in liabilities to policyholders
Reported net insurance claims and benefits paid and movement in liabilities to policyholders were $2.1bn lower than in 2014, in part reflecting the effect of currency translation differences between 2015 and 2014 of $1.1bn.
Excluding the effects of currency translation, net insurance claims and benefits paid and movements in liabilities to policyholders were $0.9bn lower.
This was primarily driven by a decrease in returns on financial assets supporting liabilities to policyholders, where the policyholder shares in the investment risk. This decrease in returns reflected a weaker equity market performance in Hong Kong in the second half of the year.
The gains or losses recognised on the financial assets designated at fair value that are held to support these insurance contract liabilities are reported in 'Net income from financial instruments designated at fair value'.
In addition, movements in liabilities to policyholders were lower due to a decrease in premiums written in Asia, as explained in 'Net earned insurance premiums'.
Loan impairment charges and other credit risk provisions
Reported loan impairment charges and other credit risk provisions ('LICs') of $3.7bn were $0.1bn lower than in 2014, primarily due to favourable currency translation differences between 2015 and 2014 of $683m. Excluding the effects of currency translation, LICs were $0.6bn higher than in 2014.
In the fourth quarter of 2015, our LICs increased compared with the third quarter following a rise in individually assessed LICs in a small number of countries. This was reflective of specific circumstances associated with those countries with no common underlying theme. In addition, we increased our collectively assessed LICs on exposures related to the oil and gas industry by $0.2bn, notably in North America, Middle East and North Africa, and Asia.
The following paragraphs set out in more detail the factors that contributed to movements in our collectively and individually assessed LICs compared with 2014.
Collectively assessed LICs decreased by $188m, reflecting favourable currency translation differences of $409m between

2015 and 2014, notably in Latin America. Excluding currency translation differences, collectively assessed LICs increased by $221m, mainly in Middle East and North Africa, North America and Asia, partly offset in Europe. It arose from the following:

- in Middle East and North Africa (up by $167m), this was mainly in the UAE in RBWM, where we increased the impairment allowances on our mortgage book following a review of the quality and value of collateral. In addition, LICs grew in our CMB business, notably relating to the oil and gas and foodstuffs industries;
- in North America (up by $132m) and Asia (up by $108m), this reflected an increase in allowances against exposures related to the oil and gas sector. In our US CML portfolio, LICs were higher than in 2014 reflecting lower favourable market value adjustments of underlying properties as improvements in the housing market conditions were less pronounced in 2015. This was partly offset by a fall in LICs from lower levels of newly impaired loans and reduced lending balances from continued run-off and sales. Additionally, collectively assessed LICs rose in Indonesia following credit deterioration; and
- in Europe, collectively assessed LICs were $192m lower, most notably in our GB&M business in the UK, as 2014 included additional impairment charges from revisions to certain estimates used in our corporate collective loan impairment calculation.

Individually assessed LICs were $275m lower compared with 2014, driven by favourable foreign currency translation differences of $273m. Excluding these differences, individually assessed LICs were broadly unchanged from 2014. This reflected decreases in Latin America, Europe and Asia which were offset by increases in Middle East and North Africa and in North America. This included the following:

- in Latin America (down by $95m), Europe (down by $44m) and Asia (down by $44m), we saw reductions in individually assessed LICs in our GB&M business as 2014 included significant impairment charges related to corporate clients in our respective regions. In Asia, the reduction was partly offset by an increase in LICs against a small number of CMB customers in Indonesia; and
- in Middle East and North Africa (up by $134m) and North America (up by $47m), individually assessed LICs increased in our CMB business. In the former, this primarily related to higher LICs on food wholesalers, while in North America LICs rose in the oil and gas sector.

In 2015, there were lower net releases of credit risk provisions than in 2014, down by $0.3bn, mainly on available-for-sale asset-backed securities ('ABSs') in our UK Corporate Centre.

Operating expenses

Reported operating expenses for 2015 of $39.8bn were $1.5bn or 4% lower than in 2014. The reduction in reported expenses was driven by the favourable effects of currency translation between 2015 and 2014 of $3.3bn. Significant items increased by $0.2bn, with a reduction in fines, penalties, redress and associated provisions of $0.7bn, more than offset by transformation costs (costs-to-achieve) of $0.9bn.

Costs-to-achieve, which relate to specific programmes aimed at achieving the cost reduction and productivity outcomes outlined in the Investor Update, comprise:

- severance costs of $0.4bn across a number of areas including CMB ($147m), RBWM ($49m), GB&M ($45m) and our Global Risk function ($44m);
- staff costs for the transformation programme in progress of $0.1bn in the second half of 2015; and
- other costs of $0.4bn, including software write-offs, US portfolio run-off costs and consultancy costs.

Excluding currency translation and significant items, operating expenses of $36.2bn were $1.6bn or 5% higher than in 2014, reflecting increases in both run-the-bank and change-the-bank costs. Run-the-bank costs totalled $31.3bn for 2015, an increase of $0.8bn or 2% on 2014. This was primarily driven by targeted investment in Latin America, Asia and Europe. We

recruited new staff to support growth in targeted areas as follows:

- in GB&M we invested in Global Liquidity and Cash Management ('GLCM') mainly in Europe;
- in CMB, we invested in GLCM revenue-generating full-time equivalent staff ('FTEs') in North America and Asia; and
- in RBWM, we invested in additional FTEs in Asia in our branch network to support revenue growth.

Our total expenditure on regulatory programmes and compliance in 2015, including both run-the-bank and change-the-bank elements, was $2.9bn, up by $0.7bn or 33% from 2014.

Run-the-bank costs associated with regulatory programmes and compliance increased by $0.2bn reflecting the continued implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

Change-the-bank costs totalled $3.5bn in 2015, an increase of $0.5bn or 16% on 2014, primarily driven by regulatory programmes and compliance costs. This reflected investment in strategic IT infrastructure including systems enhancements for customer due diligence, transaction monitoring and sanctions screening as part of the Global Standards programme. There was also further investment in stress testing and other programmes to meet legal and regulatory requirements.

The bank levy totalled $1.4bn, up by $0.4bn or 34% from 2014. Excluding the bank levy, operating expenses in the second half of 2015 were broadly in line with the first half of the year. Investment in regulatory programmes and compliance and inflationary pressures were offset by cost-saving initiatives mainly driven by reduced staff costs. This reflected a reduction in FTEs of 4,585 from 30 June 2015 to 31 December 2015. In addition we reduced travel and entertainment costs through a strong focus on cost management.

The number of employees, expressed in FTEs, at 31 December 2015 was 255,203, a decrease of 4,585 from 30 June 2015 reflecting the initial impact of cost-saving initiatives. Compared with 31 December 2014, FTEs decreased by 2,400. This was driven by reductions in global businesses and global functions, offset by an increase in compliance of 2,419 FTEs.

The average number of FTEs adjusted for business disposals increased by 1.2% compared with 2014 due to additional FTE requirements for regulatory programmes and compliance, and investment in growth areas.

Share of profit in associates and joint ventures

Our reported share of profit in associates and joint ventures was $2.6bn, an increase of $24m or 1%, driven by higher contributions from Bank of Communications Co., Limited ('BoCom') and The Saudi British Bank.

Our share of profit from BoCom rose as a result of balance sheet growth, partly offset by higher operating expenses. Profits from The Saudi British Bank also rose, by $7m, reflecting strong balance sheet growth.

Tax expense

The effective tax rate for 2016 of 51.6% was higher than the 20.0% in 2015, reflecting events that occurred in 2016 that reduced the reported profit before tax but not taxable profits. These included the non-deductible goodwill impairment and the non-deductible loss on disposal of Brazil. The 2016 tax charge includes tax losses not recognised, prior year adjustments and the introduction of the 8% corporation tax surcharge on banking profits from 1 January 2016. Further detail is provided in Note 7 of the Financial Statements.

Consolidated balance sheet

Five-year summary consolidated balance sheet

	Footnote	2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Assets						
Cash and balances at central banks		128,009	98,934	129,957	166,599	141,532
Trading assets		235,125	224,837	304,193	303,192	408,811
Financial assets designated at fair value		24,756	23,852	29,037	38,430	33,582
Derivatives		290,872	288,476	345,008	282,265	357,450
Loans and advances to banks		88,126	90,401	112,149	120,046	117,085
Loans and advances to customers	15	861,504	924,454	974,660	992,089	962,972
Reverse repurchase agreements – non-trading		160,974	146,255	161,713	179,690	70,112
Financial investments		436,797	428,955	415,467	425,925	421,101
Assets held for sale		4,389	43,900	7,647	4,050	19,269
Other assets		144,434	139,592	154,308	159,032	160,624
Total assets at 31 Dec		2,374,986	2,409,656	2,634,139	2,671,318	2,692,538
Liabilities and equity						
Liabilities						
Deposits by banks		59,939	54,371	77,426	86,507	95,480
Customer accounts		1,272,386	1,289,586	1,350,642	1,361,297	1,311,396
Repurchase agreements – non-trading		88,958	80,400	107,432	164,220	40,567
Trading liabilities		153,691	141,614	190,572	207,025	304,563
Financial liabilities designated at fair value		86,832	66,408	76,153	89,084	87,720
Derivatives		279,819	281,071	340,669	274,284	358,886
Debt securities in issue		65,915	88,949	95,947	104,080	119,461
Liabilities of disposal groups held for sale		2,790	36,840	6,934	2,804	5,018
Liabilities under insurance contracts		75,273	69,938	73,861	74,181	68,195
Other liabilities		106,805	102,961	114,525	117,377	118,123
Total liabilities at 31 Dec		2,192,408	2,212,138	2,434,161	2,480,859	2,509,409
Equity						
Total shareholders' equity		175,386	188,460	190,447	181,871	175,242
Non-controlling interests		7,192	9,058	9,531	8,588	7,887
Total equity at 31 Dec		182,578	197,518	199,978	190,459	183,129
Total liabilities and equity at 31 Dec		2,374,986	2,409,656	2,634,139	2,671,318	2,692,538

For footnote, see page 79.

Five-year selected financial information

	Footnotes	2016 $m	2015 $m	2014 $m	2013 $m	2012 $m
Called up share capital		10,096	9,842	9,609	9,415	9,238
Capital resources	16, 17	172,358	189,833	190,730	194,009	180,806
Undated subordinated loan capital		1,967	2,368	2,773	2,777	2,778
Preferred securities and dated subordinated loan capital	18	42,600	42,844	47,208	48,114	48,260
Risk-weighted assets	16	857,181	1,102,995	1,219,765	1,092,653	1,123,943
Financial statistics						
Loans and advances to customers as a percentage of customer accounts		67.7	71.7	72.2	72.9	73.4
Average total shareholders' equity to average total assets		7.37	7.31	7.01	6.55	6.16
Net asset value per ordinary share at year-end ($)	19	7.91	8.73	9.28	9.27	9.09

Number of $0.50 ordinary shares in issue (millions)	20,192	19,685	19,218	18,830	18,476
Closing foreign exchange translation rates to $:					
$1: £	0.811	0.675	0.642	0.605	0.619
$1: €	0.949	0.919	0.823	0.726	0.758

For footnotes, see page 79.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 218.

Combined view of customer lending and customer deposits

	Footnote	2016 $m	2015 $m
Combined customer lending			
Loans and advances to customers		861,504	924,454
Loans and advances to customers reported in 'Assets held for sale'		3,623	19,021
– Brazil	20	—	17,001
– other		3,623	2,020
At 31 Dec		865,127	943,475
Combined customer deposits			
Customer accounts		1,272,386	1,289,586
Customer accounts reported in 'Liabilities of disposal groups held for sale'		2,713	16,682
– Brazil	20	—	15,094
– other		2,713	1,588
At 31 Dec		1,275,099	1,306,268

For footnote, see page 79.

Movement in 2016

Total reported assets of $2.4tn were 1% lower than at 31 December 2015 on a reported basis, and 5% higher on a constant currency basis.

We have maintained the strength of our balance sheet, as targeted asset growth was partly offset by reductions in our legacy portfolios and the completion of our sale of operations in Brazil to Banco Bradesco S.A. We also issued more than $30bn of senior debt during the year from HSBC Holdings to build up the Group's total loss-absorbing capacity in line with anticipated regulatory requirements.

Our ratio of customer advances to customer accounts was 68%. Loans and advances to customers fell on a reported basis by $63bn and customer accounts fell on a reported basis by $17bn. These changes included:

- adverse currency translation movements of $62bn on loans and advances to customers and $81bn on customer accounts;
- a $9bn reduction in corporate overdraft and current account balances relating to a small number of clients in our Global Liquidity and Cash Management business in the UK that settled their overdraft and deposit balances on a net basis; and
- an $11bn transfer to 'Assets held for sale' of US first lien mortgage balances in Corporate Centre.

Excluding these movements, customer lending increased by $19bn, as a result of strong fourth-quarter growth in Asia and increases in Europe throughout the year.

Assets

Cash and balances at central banks increased by $29bn or 29%, primarily from higher euro denominated balances in continental Europe, and in the US.

Trading assets increased by $10bn, mainly in Hong Kong and the US. This included higher balances in settlement accounts and an increase in debt and equity securities.

Reverse repurchase agreements – non-trading increased by $15bn, primarily in the US, as we managed our surplus liquidity to maximise returns.

Assets held for sale reduced by $40bn, of which $42bn related to our disposal of operations in Brazil.

Loans and advances to customers decreased by $63bn on a reported basis, primarily in Europe (down $48bn) and North America (down $17bn), partly offset by Asia (up $9bn). This included:

- adverse currency translation movements of $62bn;
- a $9bn reduction in corporate overdraft balances in Europe, with a corresponding fall in corporate customer accounts; and
- an $11bn transfer to 'Assets held for sale' of US first lien mortgage balances in Corporate Centre, reflecting our strategic focus on reducing our legacy portfolios. (We sold most of these loans during 2016).

Excluding these factors, customer lending balances increased by $19bn or 2%. We grew balances in Asia by $13bn, notably in Hong Kong in both GB&M ($8bn) and CMB ($4bn) in term lending, although trade lending remained broadly unchanged. We also grew RBWM balances ($4bn), particularly in mortgages in Hong Kong. We recorded particularly strong growth in the fourth quarter ($20bn) in the region. In addition, we increased balances in Europe by $15bn as a result of higher term lending in CMB and mortgages in RBWM, both mainly in the UK. By contrast, US GB&M balances fell, reflecting our active management of overall client returns.

Liabilities

Customer accounts at 31 December 2016 were $17bn lower than at 31 December 2015 and included:

- adverse currency translation movements of $81bn; and
- a $9bn reduction in corporate current account balances, in line with a fall in corporate overdraft positions.

Excluding these factors, customer accounts grew by $73bn, primarily in RBWM and in GLCM in Hong Kong and the UK, with the latter driven by targeted customer mandate acquisition.

Trading liabilities increased by $12bn, mainly in the US, reflecting an increase in settlement accounts and net short positions from increased trading activity at the end of 2016, compared with the same period in 2015.

Financial liabilities designated at fair value increased by $20bn, reflecting new issuances of senior debt by HSBC Holdings.

Debt securities in issue fell by $23bn, mainly in HSBC Bank plc., following reductions in commercial paper issuances. These have been replaced by intra-group funding from HSBC Holdings from total loss-absorbing capacity resources. In the US, balances also fell, reflecting a lower funding requirement as we continued to run off legacy portfolios.

Liabilities of disposal groups held for sale decreased by $34bn, reflecting the completion of our sale of operations in Brazil.

Equity

Total shareholders' equity fell by $13.1bn or 7%. The effects of profits generated in the year were more than offset by dividends paid and an increase in accumulated foreign exchange losses, reflecting the significant appreciation of the US dollar against the British pound and the euro. The net increase in treasury shares, principally reflecting our share buy-back initiative, also reduced shareholders' equity by $2.5bn.

Risk-weighted assets

Risk-weighted assets ('RWAs') were $857.2bn at 31 December 2016, a decrease of $245.8bn compared with 31 December 2015. After foreign currency translation differences, RWAs reduced by $207.7bn in 2016. This reflected targeted RWA-reduction initiatives of $143.2bn and the change of regulatory treatment of our investment in BoCom reducing RWAs by $120.9bn. This was partly offset by book size increases of $38.7bn.

The RWA initiatives included:

- exposure reductions, process improvements and refined calculations, which reduced RWAs by $69.8bn, 55% of which were in GB&M;
- the disposal of our activities in Brazil, which reduced RWAs by $41.8bn; and

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- an accelerated sell-down of our consumer mortgage portfolio in the US and our Legacy Credit book, together contributing $31.6bn to the reduction

The book size increase of $38.7bn primarily came from higher term lending to corporate customers in CMB and higher general lending to customers in GB&M, both mainly in Europe and Asia.

Customer accounts by country

	2016	2015
	$m	$m
Europe	446,615	491,520
– UK	361,278	404,084
– France	35,996	35,635
– Germany	13,925	13,873
– Switzerland	9,474	10,448
– other	25,942	27,480
Asia	631,723	598,620
– Hong Kong	461,626	421,538
– Mainland China	46,576	46,177
– Singapore	39,062	41,307
– Australia	18,030	17,703
– Malaysia	12,904	14,114
– Taiwan	11,731	11,812
– India	11,289	11,795
– Indonesia	5,092	5,366
– other	25,413	28,808
Middle East and North Africa (excluding Saudi Arabia)	34,766	42,824
– United Arab Emirates	16,532	18,281
– Turkey	4,122	6,356
– Egypt	3,790	6,602
– other	10,322	11,585
North America	138,790	135,152
– US	88,751	86,322
– Canada	42,096	39,727
– other	7,943	9,103
Latin America	20,492	21,470
– Mexico	14,423	15,798
– other	6,069	5,672
At 31 Dec	1,272,386	1,289,586

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 that 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’.

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Assets

		2016 Average balance $m	Interest income $m	Yield %	2015 Average balance $m	Interest income $m	Yield %	2014 Average balance $m	Interest income $m	Yield %
Summary										
Interest-earning assets measured at amortised cost (itemised below)		1,723,702	42,414	2.46	1,726,949	47,189	2.73	1,786,536	50,955	2.85
Trading assets and financial assets designated at fair value		179,780	3,897	2.17	195,285	4,626	2.37	238,958	5,596	2.34
Impairment allowances		(9,127)			(10,606)			(14,015)		
Non-interest-earning assets		653,115			682,143			668,564		
Total assets and interest income		2,547,470	46,311	1.82	2,593,771	51,815	2.00	2,680,043	56,551	2.11
Average yield on all interest-earning assets				2.43			2.70			2.79
Short-term funds and loans and advances to banks										
Europe	HSBC Bank	68,015	276	0.41	79,101	827	1.05	96,638	997	1.03
	HSBC Private Banking Holdings (Suisse)	10,597	—	—	11,498	4	0.03	9,704	10	0.10
	HSBC France	5,705	27	0.47	5,242	40	0.76	7,055	66	0.94
Asia	Hang Seng Bank	10,533	133	1.26	14,379	210	1.46	15,374	279	1.81
	The Hongkong and Shanghai Banking Corporation	50,741	490	0.97	55,951	536	0.96	57,141	822	1.44
	HSBC Bank Malaysia	3,680	99	2.69	3,994	121	3.03	5,060	158	3.12
MENA	HSBC Bank Middle East	3,658	30	0.82	5,038	30	0.60	4,678	29	0.62
North America	HSBC Bank USA	34,858	214	0.61	35,271	134	0.38	28,148	105	0.37
	HSBC Bank Canada	745	2	0.27	767	2	0.26	606	4	0.66
Latin America	HSBC Mexico	2,217	92	4.15	2,463	76	3.09	2,675	86	3.21
	Brazilian operations	—	—	—	1,717	193	11.24	5,416	498	9.19
	HSBC Bank Argentina	818	8	0.98	1,050	4	0.38	1,083	12	1.11
Other operations		12,232	139	1.14	5,453	100	1.83	3,570	2	0.06
		203,799	1,510	0.74	221,924	2,277	1.03	237,148	3,068	1.29
Loans and advances to customers										
Europe	HSBC Bank	277,995	9,203	3.31	291,311	9,916	3.40	302,817	10,423	3.44
	HSBC Private Banking Holdings (Suisse)	10,528	143	1.36	12,006	136	1.13	13,026	159	1.22
	HSBC France	42,676	1,026	2.40	41,257	1,252	3.03	43,736	1,626	3.72
	HSBC Finance	—	—	—	—	—	—	—	—	—
Asia	Hang Seng Bank	87,073	2,540	2.92	86,149	2,579	2.99	79,586	2,410	3.03
	The Hongkong and Shanghai Banking Corporation	253,802	7,630	3.01	261,705	8,082	3.09	263,732	8,517	3.23
	HSBC Bank Malaysia	11,636	546	4.69	12,517	589	4.71	13,548	672	4.96
MENA	HSBC Bank Middle East	23,595	883	3.74	27,240	1,041	3.82	26,618	1,133	4.26
North America	HSBC Bank USA	73,002	2,187	3.00	74,013	1,981	2.68	63,770	1,791	2.81

	HSBC Finance	13,169	1,089	8.27	21,529	1,705	7.92	26,446	2,171	8.21
	HSBC Bank Canada	35,894	1,070	2.98	33,280	1,086	3.26	37,472	1,371	3.66
Latin America	HSBC Mexico	14,050	1,427	10.16	14,304	1,319	9.22	15,770	1,542	9.78
	Brazilian operations	—	—	—	10,388	1,915	18.43	27,275	4,579	16.79
	HSBC Bank Argentina	2,642	715	27.06	3,381	880	26.03	3,078	798	25.93
Other operations		19,294	813	4.21	20,627	623	3.02	14,437	237	1.64
		865,356	29,272	3.38	909,707	33,104	3.64	931,311	37,429	4.02
Reverse repurchase agreements – non-trading										
Europe	HSBC Bank	47,663	305	0.64	53,036	354	0.67	66,360	450	0.68
	HSBC France	10,338	1	0.01	12,986	7	0.05	29,703	62	0.21
Asia	The Hongkong and Shanghai Banking Corporation	33,257	298	0.90	26,714	273	1.02	23,562	333	1.41
	HSBC Bank Malaysia	1,141	35	3.07	1,001	32	3.20	991	31	3.13
MENA	HSBC Bank Middle East	650	9	1.38	272	2	0.74	18	2	11.11
North America	HSBC Bank USA	11,632	131	1.13	4,589	23	0.50	1,196	10	0.84
	HSBC Finance	–	–	–	—	—	—	—	—	—
	HSBC Bank Canada	5,985	30	0.50	5,814	40	0.69	7,169	84	1.17
Latin America	HSBC Mexico	754	33	4.38	877	27	3.08	90	3	3.33
	Brazilian operations	—	—	—	3,248	421	12.96	7,241	753	10.40
	HSBC Bank Argentina	59	13	22.03	42	7	16.67	88	10	11.36
Other operations		56,728	372	0.66	53,729	115	0.21	61,855	62	0.10
		168,207	1,227	0.73	162,308	1,301	0.80	198,273	1,800	0.91

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Assets (continued)

		2016			2015			2014		
		Average balance $m	Interest income $m	Yield %	Average balance $m	Interest income $m	Yield %	Average balance $m	Interest income $m	Yield %
Financial investments										
Europe	HSBC Bank	71,215	965	1.36	73,043	753	1.03	100,609	867	0.86
	HSBC Private Banking Holdings (Suisse)	5,905	57	0.97	7,479	75	1.00	10,890	114	1.05
	HSBC France	14,753	10	0.07	13,608	17	0.12	12,685	113	0.89
Asia	Hang Seng Bank	49,469	686	1.39	39,891	647	1.62	33,246	655	1.97
	The Hongkong and Shanghai Banking Corporation	154,087	2,079	1.35	128,922	1,909	1.48	118,096	2,109	1.79
	HSBC Bank Malaysia	1,766	61	3.45	2,864	104	3.63	2,749	94	3.42
MENA	HSBC Bank Middle East	6,654	68	1.02	8,186	70	0.86	10,515	104	0.99
North America	HSBC Bank USA	52,479	952	1.81	49,268	893	1.81	47,963	774	1.61
	HSBC Bank Canada	17,769	209	1.18	17,486	199	1.14	17,970	246	1.37
Latin America	HSBC Mexico	4,709	234	4.97	6,301	286	4.54	9,914	409	4.13
	Brazilian operations	—	—	—	3,520	515	14.63	8,350	1,003	12.01
	HSBC Bank Argentina	627	142	22.65	650	149	22.92	518	130	25.10
Other operations		51,342	1,785	3.48	44,895	1,891	4.21	26,311	1,705	6.48
		430,775	7,248	1.68	396,113	7,508	1.90	399,816	8,323	2.08
Other interest-earning assets										
Europe	HSBC Bank	65,884	84	0.13	61,355	100	0.16	85,604	25	0.03
	HSBC Private Banking Holdings (Suisse)	1,874	24	1.28	2,200	24	1.09	5,220	32	0.61
	HSBC France	2,106	45	2.14	2,818	61	2.16	6,016	97	1.61
Asia	Hang Seng Bank	1,828	15	0.82	3,551	14	0.39	2,504	14	0.56
	The Hongkong and Shanghai Banking Corporation	92,650	615	0.66	82,422	451	0.55	86,361	583	0.68
	HSBC Bank Malaysia	242	—	—	92	—	—	152	—	—
MENA	HSBC Bank Middle East	1,942	80	4.12	1,263	37	2.93	2,221	32	1.44
North America	HSBC Bank USA	7,930	130	1.64	4,012	132	3.29	6,936	123	1.77
	HSBC Finance	2,975	6	0.20	5,538	7	0.13	6,081	5	0.08
	HSBC Bank Canada	352	6	1.70	249	5	2.01	292	5	1.71
Latin America	HSBC Mexico	587	1	0.17	517	1	0.19	324	—	—
	Brazilian operations	25,783	2,705	10.49	20,972	2,744	13.08	1,215	136	11.19
	HSBC Bank Argentina	76	—	—	69	—	—	61	—	—
Other operations		(148,664)	(554)		(148,161)	(577)		(182,999)	(717)	
		55,565	3,157	5.68	36,897	2,999	8.13	19,988	335	1.68
Total interest-earning assets										

Europe	HSBC Bank	530,772	10,833	2.04	557,846	11,950	2.14	652,028	12,762	1.96
	HSBC Private Banking Holdings (Suisse)	28,904	224	0.77	33,183	239	0.72	38,840	315	0.81
	HSBC France	75,578	1,109	1.47	75,911	1,377	1.81	99,195	1,964	1.98
Asia	Hang Seng Bank	148,903	3,374	2.27	143,970	3,450	2.40	130,710	3,358	2.57
	The Hongkong and Shanghai Banking Corporation	584,537	11,112	1.90	555,714	11,251	2.02	548,892	12,364	2.25
	HSBC Bank Malaysia	18,465	741	4.01	20,468	846	4.13	22,500	955	4.24
MENA	HSBC Bank Middle East	36,499	1,070	2.93	41,999	1,180	2.81	44,050	1,300	2.95
North America	HSBC Bank USA	179,901	3,614	2.01	167,153	3,163	1.89	148,013	2,803	1.89
	HSBC Finance	16,144	1,095	6.78	27,067	1,712	6.33	32,527	2,176	6.69
	HSBC Bank Canada	60,745	1,317	2.17	57,596	1,332	2.31	63,509	1,710	2.69
Latin America	HSBC Mexico	22,317	1,787	8.01	24,462	1,709	6.99	28,773	2,040	7.09
	Brazilian operations	25,783	2,705	10.49	39,845	5,788	14.53	49,497	6,969	14.08
	HSBC Bank Argentina	4,222	878	20.80	5,192	1,040	20.03	4,828	950	19.68
Other operations		(9,068)	2,555		(23,457)	2,152		(76,826)	1,289	
		1,723,702	42,414	2.46	1,726,949	47,189	2.73	1,786,536	50,955	2.85

Equity and liabilities

		2016			2015			2014		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
	Footnotes	$m	$m	%	$m	$m	%	$m	$m	%
Summary										
Interest-bearing liabilities measured at amortised cost (itemised below)		1,442,004	12,601	0.87	1,465,635	14,658	1.00	1,546,633	16,250	1.05
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)		138,486	1,986	1.43	151,294	2,071	1.37	178,518	2,856	1.60
Non-interest bearing current accounts		184,016			190,914			185,990		
Total equity and other non-interest bearing liabilities		782,964			785,928			768,902		
Total equity and liabilities		2,547,470	14,587	0.57	2,593,771	16,729	0.64	2,680,043	19,106	0.71
Average cost on all interest-bearing liabilities				0.92			1.03			1.11

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Equity and liabilities (continued)

		Footnotes	2016 Average balance $m	Interest expense $m	Cost %	2015 Average balance $m	Interest expense $m	Cost %	2014 Average balance $m	Interest expense $m	Cost %
Deposits by banks		47									
Europe	HSBC Bank		12,408	49	0.39	16,333	75	0.46	20,508	139	0.68
	HSBC Private Banking Holdings (Suisse)		186	2	1.08	400	1	0.25	354	1	0.28
	HSBC France		7,520	33	0.44	7,323	41	0.56	6,191	53	0.86
Asia	Hang Seng Bank		587	11	1.87	1,098	19	1.73	960	9	0.94
	The Hongkong and Shanghai Banking Corporation		19,867	125	0.63	19,426	80	0.41	19,589	79	0.40
	HSBC Bank Malaysia		360	4	1.11	974	26	2.67	1,095	26	2.37
MENA	HSBC Bank Middle East		492	4	0.81	737	3	0.41	982	3	0.31
North America	HSBC Bank USA		5,316	30	0.56	5,503	17	0.31	6,436	12	0.19
	HSBC Bank Canada		358	1	0.28	319	1	0.31	371	1	0.27
Latin America	HSBC Mexico		1,631	70	4.29	1,506	55	3.65	2,078	73	3.51
	Brazilian operations		—	—	—	1,024	49	4.79	2,309	84	3.64
	HSBC Bank Argentina		2	—	—	10	2	20.00	10	1	10.00
Other operations			1,055	13	1.23	1,210	9	0.74	334	—	—
			49,782	342	0.69	55,863	378	0.68	61,217	481	0.79
Financial liabilities designated at fair value – own debt issued		48									
Europe	HSBC Holdings		26,900	609	2.26	18,816	263	1.40	18,745	234	1.25
	HSBC Bank		15,548	225	1.45	20,758	316	1.52	27,762	421	1.52
	HSBC France		8,821	15	0.17	8,472	31	0.37	8,232	66	0.80
North America	HSBC Bank USA		2,039	38	1.86	2,100	32	1.52	2,032	33	1.62
	HSBC Finance		1,498	19	1.27	5,169	47	0.91	7,195	58	0.81
Other operations			7,236	36	0.50	3,174	28	0.88	2,408	25	1.04
			62,042	942	1.52	58,489	717	1.23	66,374	837	1.26
Customer accounts		49									
Europe	HSBC Bank		352,318	1,613	0.46	364,503	2,051	0.56	372,151	2,268	0.61
	HSBC Private Banking Holdings (Suisse)		6,128	31	0.51	7,201	29	0.40	8,165	31	0.38
	HSBC France		14,697	93	0.63	15,900	116	0.73	20,988	189	0.90
Asia	Hang Seng Bank		111,457	339	0.30	106,783	464	0.43	98,794	472	0.48
	The Hongkong and Shanghai		421,711	1,981	0.47	394,313	2,446	0.62	377,748	2,743	0.73

	Banking Corporation									
	HSBC Bank Malaysia	11,055	228	2.06	11,865	264	2.23	13,457	291	2.16
MENA	HSBC Bank Middle East	10,780	27	0.25	14,360	53	0.37	16,533	75	0.45
North America	HSBC Bank USA	64,546	205	0.32	61,314	147	0.24	57,015	78	0.14
	HSBC Bank Canada	37,125	194	0.52	35,998	197	0.55	40,682	319	0.78
Latin America	HSBC Mexico	10,996	227	2.06	12,568	201	1.60	15,050	300	1.99
	Brazilian operations	—	—	—	6,938	830	11.96	18,542	1,828	9.86
	HSBC Bank Argentina	2,574	351	13.64	2,989	436	14.59	2,758	373	13.52
Other operations		31,274	203	0.65	41,169	167	0.41	46,610	164	0.35
		1,074,661	5,492	0.51	1,075,901	7,401	0.69	1,088,493	9,131	0.84
Repurchase agreements – non-trading										
Europe	HSBC Bank	29,171	88	0.30	31,782	119	0.37	72,481	213	0.29
	HSBC Private Banking Holdings (Suisse)	—	—	—	—	—	—	74	—	—
	HSBC France	7,145	—	—	8,965	2	0.02	29,539	59	0.20
Asia	Hang Seng Bank	410	9	2.20	203	4	1.97	11	—	—
	The Hongkong and Shanghai Banking Corporation	5,130	111	2.16	3,022	70	2.32	1,760	56	3.18
	HSBC Bank Malaysia	23	1	4.35	43	1	2.33	35	1	2.86
MENA	HSBC Bank Middle East	—	—	—	—	—	—	2	—	—
North America	HSBC Bank USA	3,543	30	0.85	6,828	26	0.38	11,485	20	0.17
	HSBC Bank Canada	2,933	14	0.48	2,534	17	0.67	2,167	25	1.15
Latin America	HSBC Mexico	2,085	94	4.51	2,127	62	2.91	4,748	152	3.20
	Brazilian operations	—	—	—	334	6	1.80	910	96	10.55
	HSBC Bank Argentina	7	2	28.57	5	—	—	3	—	—
Other operations		68,342	277	0.41	62,104	48	0.08	67,490	30	0.04
		118,789	626	0.53	117,947	355	0.30	190,705	652	0.34

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Equity and liabilities (continued)

		Footnotes	2016 Average balance $m	Interest expense $m	Cost %	2015 Average balance $m	Interest expense $m	Cost %	2014 Average balance $m	Interest expense $m	Cost %
Debt securities in issue											
Europe	HSBC Holdings		25,145	1,087	4.32	16,230	904	5.57	16,781	945	5.63
	HSBC Bank		27,290	397	1.45	41,413	359	0.87	56,949	589	1.03
	HSBC France		7,471	11	0.15	12,379	40	0.32	10,846	52	0.48
Asia	Hang Seng Bank		208	6	2.88	428	7	1.64	1,155	8	0.69
	The Hongkong and Shanghai Banking Corporation		4,245	88	2.07	5,520	123	2.23	6,365	176	2.77
	HSBC Bank Malaysia		363	15	4.13	385	17	4.42	461	19	4.12
MENA	HSBC Bank Middle East		1,793	20	1.12	2,199	33	1.50	2,262	45	1.99
North America	HSBC Bank USA		35,571	690	1.94	31,089	542	1.74	15,935	414	2.60
	HSBC Finance		4,577	266	5.81	8,961	407	4.54	13,045	483	3.70
	HSBC Bank Canada		8,026	192	2.39	8,718	211	2.42	10,232	257	2.51
Latin America	HSBC Mexico		928	60	6.47	2,005	90	4.49	1,061	57	5.37
	Brazilian operations		—	—	—	4,795	782	16.31	12,707	1,565	12.32
	HSBC Bank Argentina		—	—	—	—	—	—	1	—	—
Other operations			(1,274)	(25)		(5,083)	6		(18,076)	(56)	
			114,343	2,807	2.45	129,039	3,521	2.73	129,724	4,554	3.51
Other interest-bearing liabilities											
Europe	HSBC Bank		79,358	732	0.92	77,583	471	0.61	103,819	646	0.62
	HSBC Private Banking Holdings (Suisse)		6,885	100	1.45	8,347	94	1.13	7,903	23	0.29
	HSBC France		8,371	276	3.30	10,481	112	1.07	12,838	34	0.26
Asia	Hang Seng Bank		1,338	30	2.24	1,899	35	1.84	1,918	45	2.35
	The Hongkong and Shanghai Banking Corporation		81,764	598	0.73	78,630	412	0.52	91,468	635	0.69
	HSBC Bank Malaysia		771	14	1.82	1,158	15	1.30	1,342	14	1.04

MENA	HSBC Bank Middle East	2,994	82	2.74	2,429	46	1.89	2,617	57	2.18
North America	HSBC Bank USA	20,187	152	0.75	16,250	81	0.50	17,632	11	0.06
	HSBC Finance	4,936	173	3.50	5,807	241	4.15	5,817	258	4.44
	HSBC Bank Canada	3,759	63	1.68	2,539	7	0.28	599	4	0.67
Latin America	HSBC Mexico	782	22	2.81	837	16	1.91	1,031	13	1.26
	Brazilian operations	18,936	1,748	9.23	16,943	1,897	11.20	3,927	357	9.09
	HSBC Bank Argentina	53	5	9.43	22	4	18.18	40	7	17.50
Other operations		(207,747)	(1,603)		(194,529)	(1,145)		(240,831)	(1,509)	
		22,387	2,392	10.68	28,396	2,286	8.05	10,120	595	5.88
Total interest-bearing liabilities										
Europe	HSBC Holdings	52,045	1,696	3.26	35,046	1,167	3.33	35,526	1,179	3.32
	HSBC Bank	516,093	3,104	0.60	552,372	3,391	0.61	653,670	4,276	0.65
	HSBC Private Banking Holdings (Suisse)	13,199	133	1.01	15,948	124	0.78	16,496	55	0.33
	HSBC France	54,025	428	0.79	63,520	342	0.54	88,634	453	0.51
Asia	Hang Seng Bank	114,000	395	0.35	110,411	533	0.48	102,927	535	0.52
	The Hongkong and Shanghai Banking Corporation	532,717	2,903	0.54	500,911	3,131	0.63	496,930	3,689	0.74
	HSBC Bank Malaysia	12,572	262	2.08	14,425	323	2.24	16,390	351	2.14
MENA	HSBC Bank Middle East	16,059	133	0.83	20,580	148	0.72	22,994	190	0.83
North America	HSBC Bank USA	131,202	1,145	0.87	123,084	845	0.69	110,535	568	0.51
	HSBC Finance	11,011	458	4.16	19,937	695	3.49	26,057	799	3.07
	HSBC Bank Canada	52,201	464	0.89	50,108	433	0.86	54,051	606	1.12
Latin America	HSBC Mexico	16,422	473	2.88	19,043	424	2.23	23,968	595	2.48
	Brazilian operations	18,936	1,748	9.23	30,034	3,564	11.87	38,395	3,930	10.24
	HSBC Bank Argentina	2,636	358	13.58	3,026	442	14.61	2,812	381	13.55
Other operations		(101,114)	(1,099)		(92,810)	(904)		(142,752)	(1,357)	
		1,442,004	12,601	0.87	1,465,635	14,658	1.00	1,546,633	16,250	1.05

For footnotes, see page 79.

Net interest margin[50]

		2016	2015	2014
		%	%	%
Total		1.73	1.88	1.94
Europe	HSBC Bank	1.46	1.53	1.30
	HSBC Private Banking Holdings (Suisse)	0.31	0.35	0.67
	HSBC France	0.90	1.36	1.52
Asia	Hang Seng Bank	2.00	2.03	2.16
	The Hongkong and Shanghai Banking Corporation	1.40	1.46	1.58
	HSBC Bank Malaysia	2.59	2.56	2.68
MENA	HSBC Bank Middle East	2.57	2.46	2.52
North America	HSBC Bank USA	1.37	1.39	1.51
	HSBC Finance	3.95	3.76	4.23
	HSBC Bank Canada	1.40	1.56	1.74
Latin America	HSBC Mexico	5.89	5.25	5.02
	Brazilian operations	3.71	5.58	6.14
	HSBC Bank Argentina	12.32	11.52	11.79

Distribution of average total assets

		2016	2015	2014
		%	%	%
Europe	HSBC Bank	36.9	37.0	39.2
	HSBC Private Banking Holdings (Suisse)	1.2	1.4	1.5
	HSBC France	6.9	7.4	9.0
Asia	Hang Seng Bank	6.7	6.5	5.7
	The Hongkong and Shanghai Banking Corporation	32.2	30.0	26.3
	HSBC Bank Malaysia	0.8	0.9	0.9
MENA	HSBC Bank Middle East	1.6	1.9	1.9
North America	HSBC Bank USA	10.1	9.6	8.5
	HSBC Finance	0.8	1.2	1.3
	HSBC Bank Canada	2.9	2.8	3.0
Latin America	HSBC Mexico	1.3	1.4	1.5
	Brazilian operations	1.2	2.0	2.4
	HSBC Bank Argentina	—	—	—
Other operations (including consolidation adjustments)		(2.6)	(2.1)	(1.2)
		100.0	100.0	100.0

For footnote, see page 79.

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 2016

compared with 2015, and for 2015 compared with 2014. We isolate volume variances and allocate any change arising from both volume and rate to rate.

Interest income

			Increase/(decrease) in 2016 compared with 2015			Increase/(decrease) in 2015 compared with 2014		
		2016	Volume	Rate	2015	Volume	Rate	2014
		$m	$m	$m	$m	$m	$m	$m
Short-term funds and loans and advances to banks								
Europe	HSBC Bank	276	(116)	(435)	827	(181)	11	997
	HSBC Private Banking Holdings (Suisse)	—	—	(4)	4	2	(8)	10
	HSBC France	27	4	(17)	40	(17)	(9)	66
Asia	Hang Seng Bank	133	(56)	(21)	210	(18)	(51)	279
	The Hongkong and Shanghai Banking Corporation	490	(50)	4	536	(17)	(269)	822
	HSBC Bank Malaysia	99	(10)	(12)	121	(33)	(4)	158
MENA	HSBC Bank Middle East	30	(8)	8	30	2	(1)	29
North America	HSBC Bank USA	214	(2)	82	134	26	3	105
	HSBC Bank Canada	2	(1)	1	2	1	(3)	4
Latin America	HSBC Mexico	92	(8)	24	76	(7)	(3)	86
	Brazilian operations	—	(193)	—	193	(340)	35	498
	HSBC Bank Argentina	8	(1)	5	4	—	(8)	12
Other operations		139	124	(85)	100	1	97	2
		1,510	(187)	(580)	2,277	(196)	(595)	3,068
Loans and advances to customers								
Europe	HSBC Bank	9,203	(453)	(260)	9,916	(396)	(111)	10,423
	HSBC Private Banking Holdings (Suisse)	143	(17)	24	136	(12)	(11)	159
	HSBC France	1,026	43	(269)	1,252	(92)	(282)	1,626
Asia	Hang Seng Bank	2,540	28	(67)	2,579	199	(30)	2,410
	The Hongkong and Shanghai Banking Corporation	7,630	(244)	(208)	8,082	(65)	(370)	8,517
	HSBC Bank Malaysia	546	(41)	(2)	589	(51)	(32)	672
MENA	HSBC Bank Middle East	883	(139)	(19)	1,041	26	(118)	1,133