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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(Address of principal executive offices)
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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.

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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.

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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

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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, regul