HSBC HOLDINGS PLC
Form 6-K
August 03, 2016

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of August 2016

Commission File Number: 001-14930

HSBC Holdings plc

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

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

Form 20-F X Form 40-F ......

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

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

Yes....... No X

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2016 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-92024, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158065, 333-162565, 333-170525, 333-176732, 333-180288, 333-183806, 333-197839, 333-202420 and 333-209719.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 6-K and that it has duly caused and authorized the undersigned to sign this interim report on its behalf.

HSBC Holdings plc

By: /s/ Iain J Mackay
Name: Iain J Mackay
Title: Group Finance Director

Dated: 3 August 2016

Connecting customers
to opportunities

HSBC aims 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.

As a reminder

Reporting currency

We use US dollars.

Adjusted measures

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

In this document we use the following abbreviations to refer to reporting periods.

1H16	First half of 2016
2H15	Second half of 2015
1H15	First half of 2015

Ø For a full list of abbreviations see page 155.

Cover image:

Tsing Ma Bridge carries road and rail traffic to Hong Kong International Airport and accommodates large container ships. At HSBC, we help customers across the world to trade and invest internationally.

Cautionary statement regarding forward-looking statements

This Interim Report 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; our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the US DPA; and the other risks and uncertainties we identify in 'top and emerging risks' on pages 22 and 23.

HSBC HOLDINGS PLC
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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 ‘$m’ and ‘$bn’ represent millions and billions (thousands of millions) of US dollars, respectively.

Overview

Key highlights

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

For the half-year to 30 June 2016

Reported profit before tax
(1H15: $13.6bn)

$9.7bn

Adjusted profit before tax
(1H15: $12.6bn)

$10.8bn

Group

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

Performance highlights for 1H16 u

– Reported profit before tax fell by $3.9bn or 29%, reflecting a $3.5bn fall in revenue. In addition, reported results included a $0.8bn impairment relating to the goodwill of Global Private Banking ('GPB') in Europe.
– On a reported basis, revenue decreased by $3.5bn or 11% and loan impairment charges increased by $0.9bn. This was partly offset by lower operating expenses of $0.6bn or 3%.
– Adjusted revenue fell by 4%, with continued momentum in Commercial Banking ('CMB') more than offset by Global Banking and Markets ('GB&M') and Retail Banking and Wealth Management ('RBWM'), reflecting challenging market conditions.
– Adjusted operating expenses fell by 4%, reflecting the continuing effects of our cost-saving initiatives and focus on cost management. This was despite continued investment in regulatory programmes and compliance as well as inflationary impacts.
– Through management initiatives we managed to further reduce our risk-weighted assets ('RWAs') by $48bn, and therefore the amount of capital we are required to hold.

Reported revenue
(1H15: $32.9bn)
$29.5bn

At 30 June 2016

Risk-weighted assets
(31 Dec 2015: $1,103bn)
$1,082bn

Common equity tier 1 ratio
(31 Dec 2015: 11.9%)
12.1%

Total assets
(31 Dec 2015: $2,410bn)
$2,608bn

Key highlights

7.4% Return on equity	-0.5% Adjusted jaws (see page 21)	$0.20 Dividends per ordinary share in respect of 1H16

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 55 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.
Reported profit/(loss) before tax $2.4bn	$4.3bn	$4.0bn	$(0.6)bn
Adjusted profit before tax $2.8bn	$4.1bn	$4.1bn	$0.2bn
Risk-weighted assets $176.1bn	$414.8bn	$437.1bn	$18.5bn

Geographical regions

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

Analysis by geographical region
Half-year to 30 June 2016

Europe
Profit before tax
Reported profit before tax of $1.6bn was $626m lower than 1H15, primarily driven by lower revenue, higher operating expenses and higher loan impairment charges and other credit risk provisions ('LICs'). The effect of currency translation and the net movement in significant items had a favourable effect of $112m on the movements in reported profit before tax.
Excluding these items, adjusted profit before tax of $1.9bn was $738m lower than 1H15, driven by lower adjusted revenue and higher adjusted LICs, partly offset by lower adjusted operating expenses.
Revenue
Reported revenue fell by $347m, which included the adverse effects of currency translation movements of $523m and the net favourable effect of $942m relating to significant items, which included:
- A gain on the disposal of our membership interest in Visa Europe of $584m in 1H16; and
- Favourable fair value movements on our own debt designated at fair value from changes in credit spreads of $1.1bn. This compared with favourable movements of $512m in 1H15.

Excluding these factors revenue decreased by $766m, primarily in our GB&M and RBWM businesses. This was partly offset by an increase in revenue in CMB due to both lending and deposit balance growth. In addition, within Other, we recorded higher favourable fair value movements relating to the economic hedging of interest and exchange rate risk on our long term debt and related derivatives.
In GB&M, the reduction in revenue was mainly in Markets in the UK, notably in Equities and FX reflecting reduced client activity as a result of market volatility. In addition, revenue in both Legacy Credit and Balance Sheet Management decreased compared with 1H15. In our RBWM business, revenue was lower in France. This was mainly in life insurance manufacturing and primarily reflected adverse market updates.
LICs
Reported LICs were $110m higher, primarily in CMB. This increase was primarily in the UK (up $189m), notably in to the oil and gas sector, as well as in Spain ($48m), mainly in the construction sector. In addition, in GB&M we recorded a small net release of allowances in 1H16, compared with a net charge relating to Greek exposures in 1H15. This was partly offset by lower net releases on available-for-sale asset-backed securities.
Operating Expenses
Reported operating expenses increased by $166m, which included favourable effects of $387m from currency translation and the net adverse effect of $709m relating to significant items. These included:
- An impairment of $800m relating to the goodwill of Global Private Banking in 1H16;
- Settlements and provisions in connection with legal matters of $136m, compared with $780m in 1H15; and
- Costs to achieve of $774m in 1H16.

Excluding these factors, operating expenses decreased by $156m, which included an increased credit relating to the prior year bank levy charge, as well as lower IT costs and lower staff costs across all global businesses. This was partly offset by a marginal rise in CMB due to an increase in smaller customer remediation provisions, which are not considered significant items.
Asia
Profit before tax
Reported profit before tax of $7.2bn was $2.2bn lower than in 1H15, driven by lower revenue in RBWM and GB&M, coupled with higher LICs in GB&M, partly offset by lower operating expenses. The effect of currency translation and the net movement in significant items had an adverse effect of $1,614m on the movements in reported profit before tax.
Excluding these items, adjusted profit before tax of $7.2bn was $631m lower than in 1H15, driven by lower adjusted revenue and higher adjusted LICs, partly offset by lower adjusted operating expenses.
Revenue

Reported revenue fell by $2.3bn, which included the adverse effects of currency translation movements of $252m and net adverse effect of $1.4bn on significant items, including the non-recurrence of a gain on partial sale of our shareholding in Industrial Bank of $1.4bn in 1H15.

Excluding these factors, revenue decreased $708m, primarily in our RBWM business. This was mainly in Wealth Management in Hong Kong and reflected lower revenue from securities brokerage and fund sales compared with a strong 1H15. In addition life insurance manufacturing revenue also fell from adverse market updates. Within RBWM, these decreases were partly offset by wider deposit spreads, and an increase in deposit balances. In GB&M revenue was also lower, mainly in Markets from lower Equities revenue due to a fall in market turnover and, in Foreign Exchange due to reduced client activity.

LICs

Reported LICs rose by $98m, which included the favourable effect of currency translation of $8m. Excluding this, LICs increased by $106m, primarily in GB&M reflecting higher individually assessed LICs in Australia, notably in the metals and mining sector. By contrast, 1H15 included a partial release of an individually assessed charge in Hong Kong.

Operating Expenses

Reported operating expenses fell by $212m, including the favourable effects of $144m of currency translation and the net adverse effects of $106m from significant items, which included costs to achieve of $114m in 1H16.

Excluding these factors, operating expenses decreased by $174m, driven by cost management initiatives which more than offset the effects of wage inflation and investment as we aim to grow our business in mainland China’s Pearl River Delta and the ASEAN region.

Middle East and North Africa

Profit before tax

Reported profit before tax of $985m was $84m higher than in 1H15, driven by lower operating expenses and higher revenue. The effect of currency translation and the net movement in significant items had an adverse effect of $24m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of $983m was $108m higher than in 1H15, driven by higher adjusted revenue and lower adjusted operating expenses.

Revenue

Reported revenue rose by $45m, which included the adverse effects of currency translation of $33m and the net favourable effect of $2m on significant items.

Excluding these factors, revenue rose $76m, primarily in Egypt in GB&M and CMB. In our GB&M business revenue increased from higher Treasury bill balances and improved GLCM performance. In CMB, revenue increased from balance growth and wider spreads in our lending portfolio as well as from wider deposit spreads. In addition, revenue increased in the UAE, primarily in GB&M and RBWM, partly offset by decreases in CMB. In RBWM these increases were driven by the gain on disposal of HBME’s shareholding in Rewards Management Middle East Ltd (RMMEL).

LICs

Reported LICs were $9m higher, primarily in RBWM, as 1H15 included a net release of allowances on our mortgage portfolio, while 1H16 included an increase in charges following a rise in delinquency rates. This was partly offset by a fall in CMB from higher recoveries coupled with lower customer specific impairments.

Operating Expense

Reported operating expenses fell by $65m, including the favourable effects of $9m of currency translation and net adverse effects of $2m of significant items.

Excluding these factors, operating expenses decreased by $58m primarily in the UAE, notably staff costs. This reflected the impact of cost-saving initiatives.

North America

Profit before tax

Reported profit before tax of $50m was $640m lower than in 1H15, driven by higher LICs in our GB&M and CMB businesses and lower revenue primarily in the Consumer and Mortgage Lending (‘CML’) run-off portfolio in RBWM. The effect of currency translation and the net movement in significant items had an adverse effect of $420m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of $684m was $220m lower than in 1H15, driven by higher adjusted LICs partly offset by lower adjusted operating expenses.

Revenue

Reported revenue declined by $174m, which included the adverse effects of currency translation movements of $61m and a net adverse effect of $83m on significant items, which included:

- Adverse fair value movements on non-qualifying hedges of $109m in 1H16, compared with adverse movements of $21m in 1H15; and

Excluding these factors, revenue was broadly in line with 1H15. Lower revenue in our RBWM US CML portfolio reflecting a reduction in average lending balances from the continued run-off and loan sales was broadly offset in GB&M by increased interest income from higher yields on reverse repos and securities, and increased trading income in Canada. In addition, residential mortgage balances increased in RBWM.

LICs

Reported LICs rose by $464m, which included the favourable effect of currency translation of $3m. Excluding this, LICs were $467m higher, driven by an increase in both our GB&M and CMB businesses. In GB&M, higher individually assessed LICs were mainly in the US and primarily related to a significant specific charge on a mining related corporate exposure, as well as charges in the oil and gas sector. In CMB, the increase was mainly in Canada and related to specific oil and gas sector exposures. In addition, collectively assessed provisions increased in our RBWM US CML portfolio.

Operating Expenses

Reported operating expenses were broadly in line with 1H15, including the favourable effects of $32m of currency translation and net adverse effects of $310m of significant items, which included:

- Settlements and provisions in connection with legal matters of $587m in 1H16 compared with $364m in 1H15; and
- Costs to achieve of $121m in 1H16.

Excluding these factors, operating expenses decreased by $282m, primarily due to lower staff costs and a reduction in Risk and IT costs.

Latin America

Profit before tax

Reported loss before tax of $55m was $487m lower than the profit before tax 1H15. This was driven by lower revenue and higher LICs primarily in Brazil, partly offset by lower operating expenses. The effect of currency translation between the periods and the net movement in significant items had an adverse effect of $213m on the movements in reported profit before tax.

Excluding these factors, adjusted profit before tax of $27m was $274m lower than in 1H15, driven by higher adjusted LICs, partly offset by higher adjusted revenue.

Revenue

Reported revenue fell by $633m, including the adverse effects of $758m of currency translation and $77m of net adverse movements on significant items, including:

- Adverse movements of $35m on DVA, in 1H16 compared with favourable movements of $13m in 1H15; and
- Adverse movements of $32m relating to the disposal of our operations in Brazil in the current period.

Excluding these factors, revenue rose by $202m, notably in Mexico and Argentina, partly offset by a decrease in Brazil. Both Argentina and Mexico benefited from wider deposit spreads in RBWM and CMB due to higher interest rates, while deposit balances also rose in Argentina. In addition revenue in Mexico increased from higher lending balances across all businesses. By contrast revenue decreased in Brazil reflecting the economic slowdown.

LICs

Reported LICs rose by $246m, which included the favourable effect of currency translation of $136m. Excluding this, LICs rose by $382m, due to an increase in collectively assessed LICs. This was mainly in Brazil (up $346m) in both our RBWM and CMB businesses, where delinquency rates have increased following the deterioration of economic conditions. In addition, LICs increased in Mexico. This was primarily in our RBWM business reflecting our strategic focus on growing unsecured lending, as well as rising delinquency rates.

Operating Expenses

Reported operating expenses fell by $393m, including the favourable effects of $498m of currency translation and $11m net adverse effect of significant items, primarily costs relating to the disposal of our operations in Brazil of $11m.

Excluding these factors, operating expenses increased by $94m, primarily due to wage inflation and union-agreed salary increases. This was partly offset by reduced amortisation costs in Brazil following the classification of assets to held for sale.

Regional performance tables can be found on pages 52 to 57 and reconciliations of reported results to adjusted performance for geographic regions can be found on pages 59 to 61.

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Overview
| Key
highlights

Global business snapshot u
RBWM

Higher Retail Banking revenue, but challenging market conditions in Wealth Management
- Adjusted profit before tax fell by $0.9bn, including $0.8bn from our Principal RBWM business driven by lower Wealth Management income in Hong Kong and France, and higher loan impairment charges and other credit risk provisions ('LICs') in Brazil (up $0.2bn).
- Adjusted revenue in Principal RBWM Retail Banking rose as asset and deposit balances grew ($8.2bn and $32.5bn, respectively).
- Personal lending adjusted revenue grew in Latin America as unsecured lending balances grew in our Mexico business.
- Adjusted costs fell by $0.3bn, driven by a strong focus on cost management, the impact of transformation programmes and other cost-saving initiatives.
- Lending balances in the US Consumer and Mortgage lending ('CML') run-off portfolio fell from continued run-off, and sales of $4.7bn, with a reduction in associated costs.
- Return on risk-weighted assets ('RoRWA') was 4.0% in 1H16 for Principal RBWM on a reported basis.

CMB

Adjusted revenue growth of $0.1bn in a challenging environment
- Adjusted profit before tax fell by 6% due to higher LICs across a small number of markets.
- Adjusted revenue growth of 2% was driven by continued balance growth in Global Liquidity and Cash Management ('GLCM') and in Credit and Lending, which was partly offset by lower revenue in Global Trade and Receivables Finance ('GTRF') reflecting weaker world trade due to reduced demand and lower commodity prices.
- Positive adjusted jaws of 1.7% reflected revenue growth, disciplined cost management and lower full-time equivalent employees ('FTEs').
- Management initiatives drove a further $11bn reduction in RWAs in 1H16, leading to a cumulative reduction of $34bn since our Investor Update in June 2015.

GB&M

Client-facing GB&M revenue down by 8% in challenging market conditions
– Adjusted profit before tax fell by $1.1bn or 21%. Despite a decline in revenue (down $0.9bn) from reduced client flows amid challenging market conditions, notably in Equities and Foreign Exchange, revenue grew in our Rates and GLCM businesses demonstrating the value of our diversified business model.
– Our market share in Global Debt Capital Markets increased by 14% against an overall market growth of just 2%.
– Progress continued in our transformational cost-saving initiatives (total costs down $0.2bn), with headcount now at its lowest since February 2014.
– RWAs remained broadly unchanged in 1H16. This included a total of $23bn of RWA reductions through management actions, leading to a cumulative reduction of $94bn since our Investor Update in June 2015.

GPB

Continued repositioning of our GPB business

- Adjusted profit before tax fell by 23%, reflecting challenging market conditions in Europe and Asia, despite a 9% fall in costs.
- We continued to grow the parts of the business that fit our desired model, attracting net new money of $5bn, notably in the UK, with more than 50% coming from collaboration with other global businesses.
- We broadened our product base through collaboration with the Asset Management Group in RBWM to support future growth.
- Within our reported results, we recognised a $0.8bn impairment relating to the goodwill of the business in Europe. For further details, see Note 20 on page 145.

Key highlights

Regions snapshot u

Europe

Cost reduction against a backdrop of challenging market conditions

- Adjusted profit before tax fell by $0.7bn or 28%, driven by challenging market conditions in client-facing GB&M and in life insurance manufacturing in RBWM from adverse market updates.

- Although revenue decreased, in CMB there was strong revenue growth in the UK and Germany, in part driven by lending balance growth.

- We reduced costs by $0.2bn through cost management initiatives, more than offsetting the effects of investment and inflation. This fall included the benefit of an increased bank levy credit of $0.1bn relating to a prior year charge.

Asia

Revenue headwinds from adverse market conditions

– Adjusted profit before tax fell by $0.6bn or 8%, driven by lower revenues in RBWM both from wealth distribution income reflecting weak market sentiment and from life insurance manufacturing due to adverse market updates coupled with challenging market conditions in our client-facing GB&M business.

– RoRWA remained strong at 3.1%.

– We reduced costs by $0.2bn through cost management initiatives, more than offsetting the effects of inflation and investment as we aim to grow our business in China's Pearl River Delta and the ASEAN region.

- We strengthened our leading position in the internationalisation of China's renminbi currency and for the fifth consecutive year achieved the Asiamoney Best Overall Offshore RMB Product and Services Award.

Middle East and North Africa

Strong performance, supported by robust cost management despite a low oil price environment

– Adjusted profit before tax rose by $0.1bn or 12%, primarily due to increased revenue across all our global businesses, especially GB&M.

- Operating expenses fell $58m or 9% with reductions in RBWM, GB&M and CMB and across our priority countries.

- This decline in operating expenses reflected the impact of cost-saving initiatives which more than offset continued investment in compliance.

- We grew revenue across our strategic trade corridors and in the majority of the cross-business synergies we track, including a 34% increase in revenue from GLCM products sold to GB&M customers.

North America

Lower profit before tax from higher LICs, partly mitigated by cost reductions

– Adjusted profit before tax fell by $0.2bn or 24% as cost savings were more than offset by higher LICs, notably related to the mining, and oil and gas sectors.

– We continued to focus on trade corridors, with revenue growth from our US commercial clients and their international subsidiaries.

– The run-off of the US CML run-off portfolio continued, its profit before tax fell due to lower revenue, and LICs increased. Portfolio sales totalled $4.7bn in 1H16.

Latin America

Continued progress in strategic initiatives with a strong business performance

– Adjusted profit before tax fell by $0.3bn driven by a decrease in Brazil of $0.4bn, reflecting an increase in LICs, partly offset by an increase in profit before tax in Mexico and Argentina from revenue growth.

– Growth initiatives in Mexico resulted in a 18% increase in lending balances and an increase in market share across core retail portfolios. Revenue increased, while cost growth was controlled, resulting in positive jaws.

– The sale of our operations in Brazil completed on 1 July 2016.

Ø For detailed information on our financial performance, see pages 26 to 36.

Overview
Group Chairman's
Statement
Amid a turbulent period, nothing cast doubt on the strategic direction and priorities we laid out just over a year ago.

The first half of 2016 was characterised by spikes of uncertainty which greatly impacted business and market confidence. This was reflected in lower volumes of customer activity and higher levels of market volatility. Concern over the sustainable level of economic growth in China was the most significant feature of the first quarter and, as this moderated, uncertainty over the upcoming UK referendum on membership of the European Union intensified. Demand for credit for investment slowed as a consequence. Equity market activity was also markedly lower, particularly in Hong Kong, reflecting both economic uncertainty and weaker market pricing, which was exacerbated by net selling from sovereign funds impacted by lower oil prices. The period ended with exceptional volatility as financial markets reacted to the UK referendum decision to leave the EU, a result that had not been anticipated. HSBC came through this period securely as our diversified business model and geographic profile again demonstrated resilience in difficult market conditions.

Pre-tax profits of $9.7bn on a reported basis were $3.9bn, 29% lower than in the first half of 2015. On the adjusted basis used to assess management performance, pre-tax profits were $10.8bn, some 14% lower than in the comparable period. Most of the decline in respect of our global business revenues reflected weaker market-facing activity, where lower transaction volumes evidenced customer restraint in uncertain times. Credit-related income remained solid although impairment charges rose against historically low levels. We made progress against our cost challenges, in reducing legacy assets and taking actions to release capital from secondary activities.
As a consequence, our common equity tier 1 capital position, which is critical to our capacity to sustain our dividend, strengthened to 12.1% from 11.9% at the beginning of the year. The sale of our Brazilian operations which closed on 1 July is expected to add a further 0.7 of a percentage point in the third quarter. Earnings per share were $0.32 (1H15: $0.48). Our first two dividends in respect of the year, of $0.20 in aggregate, were in line with our plans and the prior year.
Reflecting this strengthened capital position, the Board has determined to return to shareholders $2.5bn, approximately half of the capital released through the sale of Brazil, by way of a share buy-back to be executed during the second half of the year.

The Board has also determined that in light of the current uncertain economic and geo-political environment, together with our projections for an extended period of low interest rates, it would be appropriate to remove a timetable for reaching our target return on equity in excess of 10%. While the target remains intact and appropriate, the current guidance which points to the end of next year is no longer considered achievable. In addition, the Board is planning in this environment on the basis of sustaining the annual dividend in respect of the year at its current level for the foreseeable future.

Strategic direction remains clear

Nothing that has happened in this turbulent period casts doubt on the strategic direction and priorities we laid out just over a year ago. Our focus on the Pearl River Delta remains a key priority. We see growing movement in public policy decisions towards needed infrastructure investment on a massive scale, notably through the Belt and Road initiative in China, to underpin increased urbanisation across Asia, the Middle East and Africa, and in support of the transition to a lower carbon economy. Capital markets development in both Europe and Asia remains essential to diversify funding sources, to address demographic ageing and to expand the role of 'green' bond finance. Outward investment from China is growing fast and is expected to accelerate. Internationalisation of the renminbi is also expected to accelerate as a consequence of all of the above. HSBC is well positioned for all of these mega trends, with clear evidence of this contained within the Group Chief Executive's Review.

Regulatory policy must be aligned with public policy support for growth

At the end of June we, along with the rest of the banking industry, submitted analysis to the Basel Committee on Banking Supervision in response to their request for a quantitative impact assessment around new proposals, inter alia, aimed at reducing the complexity of the regulatory framework and improving comparability. How the regulatory community responds to this consultation, due by the end of this year, is of huge importance to our customers and our shareholders. Any substantial further increase in capital requirements, which is quite possible within the range of outcomes implied by industry-wide impact studies, could have a major impact on the availability and cost of credit, as well as on the return on capital our industry is able to generate. Such constraints would also lean against the increased public policy emphasis on stimulating economic growth at a time of elevated uncertainties.

We therefore welcome statements from within the regulatory community and, most recently, in the communiqué from the G20 Finance Ministers and Central Bank Governors meeting in Chengdu, China, that these proposals should not lead to a significant broad-based increase in overall capital requirements. This is consistent with our view that satisfactory levels of capital have been achieved in most banks through the already extensive revisions to the regulatory capital framework. These, together with improvements in risk management and stress testing, have contributed to financial stability, with significantly increased levels of regulatory capital now in place. Near finalisation of the principal resolution regimes have also significantly extended the range of capacity available to absorb losses in the event of failure. A revised calibration that failed to take this progress into account would, in our view, risk undermining that progress.

UK referendum on EU membership

As a consequence of the UK referendum decision to leave the European Union, we are entering a new era for the UK and UK business. The work to establish fresh terms of trade with our European and global partners will be complex and time-consuming. Our first priorities have been to offer support to our colleagues working outside their home country who may feel unsettled, as well as proactively reaching out to and working with our customers as they prepare for the new environment.

Now is a time for calm consideration of all the issues at hand and careful assessment of how prosperity, growth and a dynamic economy for both the UK and the rest of Europe can be ensured following an orderly transition period. Critical elements include securing the best possible outcome on continuing terms of trade and market access, and ensuring the UK remains attractive for inward investment and has access to all the skills necessary to be fully competitive.

HSBC's experience in facilitating and financing trade for over 150 years has shown the value and importance of open trading relationships – for individuals, businesses, communities and nations. We believe that such an open trading relationship must be at the centre of the new relationship between the UK and the EU, and indeed the rest of the world. We aim to do our part in making the transition for our customers to the new arrangements as smooth as possible.

Board changes

Since we last reported to shareholders we have welcomed David Nish to the Board. David most recently served as Chief Executive Officer of Standard Life plc between 2010 and 2015, having originally joined as its Group Finance Director in 2006. He brings to HSBC considerable relevant experience in financial services, in financial accounting and reporting, as well as a wide-ranging understanding of all aspects of corporate governance. David has also joined the Group Audit Committee.

Outlook

It is evident that we are entering a period of heightened uncertainty where economics risks being overshadowed by political and geo-political events. We are entering this environment strongly capitalised and highly liquid. More importantly, given our history we have considerable experience within the senior management ranks of responding to severe stress events, experience that was deployed most recently in successfully dealing with the market volatility which followed the UK referendum decision on EU membership. Re-positioning our own European business once the future of the UK's current 'passporting' arrangements for financial services is clarified in the upcoming negotiations will add to the very heavy workload already in place to address the regulatory and technological changes that are reshaping our industry. On behalf of the Board let me therefore close my statement by once again recognising the dedicated commitment and effort by all of our 239,000 colleagues to implement these changes and so position HSBC for future success.

Douglas Flint
Group Chairman
3 August 2016

Overview
Group Chief
Executive's Review

Our highly diversified, universal banking business model helped to drive growth and capture market share in a number of areas.

Performance

We performed reasonably well in the first half in the face of considerable uncertainty. Profits were down against a strong first half of 2015, but our highly diversified, universal banking business model helped to drive growth in a number of areas. We also captured market share in many of the product categories that are central to our strategy.

We completed the sale of our Brazil business to Banco Bradesco S.A. in July. This transaction reduces Group risk-weighted assets by around $40bn and would increase the Group's common equity tier 1 ratio from 12.1% at 30 June 2016 to 12.8%.

Global Banking and Markets weathered a large reduction in client activity in January and February, but staged a partial recovery in the second quarter. Equities and Foreign Exchange had a difficult half, but Rates performed well on the back of increased client volumes. Global Banking and Markets also achieved some of its strongest rankings for Debt Capital Markets and Mergers and Acquisitions. Improved collaboration with Commercial Banking was cited as a major factor in the naming of HSBC as 'World's Best Investment Bank' and 'World's Best Bank for Corporates' at the Euromoney Awards for Excellence 2016. The citation also highlighted HSBC's diversified and differentiated business model, and described HSBC as 'one of the most joined-up firms in the industry'.

Retail Banking and Wealth Management was also affected by reduced client activity. This led to lower revenue in our Wealth businesses, albeit against last year's strong second quarter which was boosted by the Shanghai-Hong Kong Stock Connect. While the revenue environment was challenging, we were able to capture our highest ever share of the Hong Kong mutual fund market by providing the right products to help clients manage the current economic environment. Higher lending balances in Mexico and increased customer deposits in all but one region compensated partly for the reduction in revenue from Wealth Management, with positive implications for future growth.

Commercial Banking performed well on the back of targeted loan growth in the UK and Mexico, and higher client balances in Global Liquidity and Cash Management. We maintained our position as the world's number one trade finance bank, with revenue growth and market share gains in Receivables Finance and Supply Chain Finance. We are in an excellent position to capitalise when global trade starts to recover.

Global Private Banking attracted $5bn of net new money in the first half, more than half of which came through greater collaboration with our other Global Businesses. This demonstrates the value that the Private Bank brings to our clients from across the Group and the important role it plays within our universal banking business model.

Loan impairment charges increased, mainly in the oil and gas, and metals and mining sectors, and in Brazil due to weakness in the Brazilian economy. We remain confident of our credit quality.

Strategy

We are now more than a year into implementing our strategic actions to improve returns and gain the maximum value from our international network. We have made good progress in the most pressing areas but have further to go in others, due largely to external factors.

In the first half of the year we removed an extra $48bn of risk-weighted assets from the business, around half of which came from Global Banking and Markets. This takes us more than 60% of the way towards our target and keeps us on track to deliver the savings we promised by the end of 2017. These savings were in addition to the $40bn reduction from the completion of the sale of our operations in Brazil in July.

We continue to make material progress in cutting costs. In the first half of 2016 we reduced our cost base compared with the first half of 2015, in spite of inflation and continued investment in compliance, regulatory programmes and growth. We have achieved this through tight cost control, operational enhancements and better use of digital platforms, improving our service to customers in the process. We are on track to hit the top end of our $4.5-5.0bn cost savings target range.

We are on the way to restoring profitability in our businesses in Mexico and the US. These are important businesses for the wider Group.

Having commenced the reshaping and de-risking of our Mexico operations in 2012, we have been rebuilding the business since the start of 2015. Since then, we have expanded our share of the cards, personal loans and mortgage markets, and grown our trade finance and international payments operations. As a consequence, adjusted revenues were up by 12% in Retail Banking and Wealth Management and 27% in Commercial Banking. Adjusted profits in our Mexico business were up 37% on the same period last year.

In the US, we have invested in Commercial Banking, and Global Banking and Markets to increase revenue from our network. We have also made rapid progress in cutting costs and removing wholesale risk-weighted assets. We have continued to wind down our US CML run-off portfolio quickly and efficiently, disposing of an extra $4.7bn of legacy assets in the first half of 2016. This progress, along with further improvements in our capital planning and management processes, helped the US business to achieve a non-objection to the capital plan it submitted as part of this year's Federal Reserve Comprehensive Capital Analysis and Review ('CCAR'). This plan includes a proposed dividend payment to HSBC Holdings plc in 2017, which would be the first such payment to the Group from our US business since 2007.

Two-thirds of our adjusted profit before tax, or $7.2bn, came from Asia in the first half of 2016, up from 62% in the same period last year. We have continued to develop our Asia businesses, particularly Asset Management and Insurance, and our operations in the ASEAN region and the Pearl River Delta. We increased revenue in all four areas compared with the same period last year and increased assets under management in Asia by 7%. We also maintained our leadership of the market for renminbi business, topping the Asiamoney Offshore RMB Poll for 'Best Overall Provider of Offshore RMB Products and Services' for the fifth year in a row.

There are areas where we have more to do. Our pivot to Asia depends on our ability to redeploy the capital that we have made available. While we have clearly demonstrated that we can release capital by reducing risk-weighted assets, the global slow-down has delayed the process of redistributing that capital in Asian growth markets. This will not happen until we judge it to be in the best interests of shareholders.

We are continuing to implement Global Standards throughout HSBC.

Share buy-back

Our strong capital position and stable earnings mean that we are able to retire some of the equity that we no longer require to support the Brazil business. Having received the appropriate regulatory clearances, we will therefore execute a $2.5bn share buy-back in the second half of the year.

Looking forward

Following the outcome of the referendum on the UK's membership of the European Union, there has been a period of volatility and uncertainty which is likely to continue for some time. We are actively monitoring our portfolio to quickly identify any areas of stress, however it is still too early to tell which parts may be impacted and to what extent.

While the economic environment remains difficult, the action we have taken has already put us in a far better position for when normal conditions return. HSBC is stronger, leaner and better connected than it was last June. There is much still to do, but we are making progress in all of the areas within our control. In the meantime, our balanced and diversified business model, strong liquidity and strict cost management make us highly resilient.

Stuart Gulliver
Group Chief Executive
3 August 2016

Overview

Strategic actions

We have made significant progress against 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. The table opposite contains a summary of our progress in 1H16 with additional details provided below.

Resizing and simplifying our business

We have made significant progress in resizing and simplifying our business. In 1H16, management actions reduced RWAs in client facing GB&M and legacy credit by $23bn and we completed asset sales totalling $4.7bn 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, and 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 revenues in Mexico by 12% compared with 1H15, supported by market share gains in RBWM across key lending products. They include a doubling of personal loans issued compared with 1H15. In the US, we grew revenues and increased cost efficiency while continuing to support our clients internationally. Revenues from international subsidiaries of our US clients increased by 13% compared with 1H15.

Our cost-saving programme has shown good progress and we are on track to meet our target set for the end of 2017. Operating expenses fell by 4% compared with 1H15, facilitated by increased efficiency in our processes. For example, we have shortened the average time it takes to open accounts

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 1H16, revenue from transaction banking products was down by 1% overall due to deteriorating macroeconomic conditions, however, we grew revenues in our GLCM business. In 2016, we were named Best Bank for Corporates by Euromoney and Best Supply-Chain Finance Bank Global by Trade Finance Awards.

We continue to invest for growth in Asia. In China's Pearl River Delta, we increased the number of new RBWM and CMB clients by 66% and 34%, respectively, compared with 1H15, and grew our mortgage loan books by more than 35%. We are also using our network to connect clients into and out of China, including Chinese investments linked to the government's Belt and Road initiative.

In the ASEAN region, we developed a new automated statutory payments platform for companies across the region. We grew revenues from international subsidiaries of our ASEAN-region clients. In Singapore, we completed the transfer of our RBWM business to our locally incorporated subsidiary, HSBC Bank Singapore.

We remain recognised as the leading bank for international RMB products and services. We were the first bank to facilitate overseas institutional investment into the China interbank bond market under newly relaxed regulations, and were among the first foreign banks to complete RMB cross-border settlement for individuals, as permitted in the Guangdong Free Trade Zone.

Finally, we continue to make progress in implementing our Global Standards programme to help protect customers and the wider financial system from financial crime.

Selected awards and recognition 2016

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

Trade Finance Awards 2016
Best Supply-Chain Finance Bank Global

Asiamoney Offshore RMB Poll
Best Overall Offshore RMB Products/Services

for CMB clients by 30% since 1H15, and we decreased the number of high value manual payments by 64% compared with 1H15.

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Overview
Financial overview

Reported results

This table shows our reported results for the last three half-years, ended 30 June 2016 ('1H16'), 31 December 2015 ('2H15') and 30 June 2015 ('1H15').

Reported profit before tax of $9.7bn in 1H16 was $3.9bn or 29% lower than in 1H15. This decrease was in part due to the non-recurrence of a gain on the partial sale of our shareholding in Industrial Bank of $1.4bn in 1H15, and from an impairment of $0.8bn relating to the goodwill of our GPB business in 1H16 in Europe. It was also driven by transformation activities to deliver cost reductions and productivity outcomes ('costs-to-achieve') of $1.0bn in 1H16 and the adverse effect of foreign currency movements.

Excluding the effects of significant items and currency translation, profit before tax fell by $1.8bn or 14% from 1H15. We describe the drivers of our adjusted performance on pages 19 and 20.

	Half-year to		
$m Reported results	30 Jun 2016	30 Jun 2015	31 Dec 2015
Net interest income	15,760	16,444	16,087
Net fee income	6,586	7,725	6,980
Net trading income	5,324	4,573	4,150
Other income	1,800	4,201	(360)
Net operating income before loan impairment charges and other credit risk provisions ('revenue')	29,470	32,943	26,857
Loan impairment charges and other credit risk provisions ('LICs')	(2,366)	(1,439)	(2,282)
Net operating income	27,104	31,504	24,575
Total operating expenses	(18,628)	(19,187)	(20,581)
	8,476	12,317	3,994

Operating profit			
Share of profit in associates and joint ventures	1,238	1,311	1,245
Profit before tax	9,714	13,628	5,239

Reported revenue of $29.5bn in 1H16 was $3.5bn or 11% lower than in 1H15. This was in part due to a decrease in significant items totalling $0.6bn and the adverse effect of currency translation between the periods of $1.6bn. Significant items included:
- the non-recurrence a $1.4bn gain on the partial sale of our shareholding in Industrial Bank Co. Ltd ('Industrial Bank') recognised in 1H15;
- a gain of $0.6bn on disposal of our membership interest in Visa Europe in 1H16; and
- fair value movements on our own debt designated at fair value from changes in credit spreads of $1.2bn in 1H16 compared with $0.7bn in 1H15.

Reported LICs of $2.4bn were $0.9bn higher than in 1H15. This reflected an increase in Brazil from a deterioration in its economy of $0.3bn. In addition, LICs rose in our GB&M and CMB businesses, notably in the oil and gas sector. This was partly offset by the favourable effects of currency translation between the periods of $0.2bn.

Reported operating expenses of $18.6bn were $0.6bn or 3% lower than in 1H15. This reduction was partly driven by the continuing impact of our cost-saving initiatives, and the favourable effects of currency translation between the periods of $1.0bn. Significant items increased by $1.1bn, and included:
- costs-to-achieve of $1.0bn;
- an impairment of $0.8bn relating to the goodwill of our GPB business in Europe (please refer to Note 20 on page 146 for further details); and
- settlements and provisions relating to legal matters of $0.7bn in 1H16 compared with $1.1bn in 1H15.

Reported income from associates of $1.2bn decreased marginally from 1H15.

For further details of our reported results, see pages 26 to 36.

Financial overview

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 116. 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: u

To arrive at adjusted performance, we adjust for:
– the year-on-year effects of foreign currency translation; 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.

Ø For reconciliations of our reported results to an adjusted basis, including lists of significant items, see pages 59 to 64.

Adjusted results u
This table shows our adjusted results for 1H16. These are discussed in more detail on the following pages.

$m	Half-year to 30 June 2016	30 June 2015
Adjusted results		
Net operating income before loan impairment charges and other credit risk provisions (revenue)	27,868	29,178
Loan impairment charges and other credit risk provisions ('LICs')	(2,366)	(1,279)
Total operating expenses	(15,945)	(16,605)
Operating profit	9,557	11,294
Share of profit in associates and joint ventures	1,238	1,256
Profit before tax	10,795	12,550

Adjusted profit before tax u
On an adjusted basis, profit before tax of $10.8bn was $1.8bn or 14% lower than in 1H15. Despite a fall in operating expenses of $0.7bn, the reduction in profit before tax was driven by lower revenue and higher LICs.
Adjusted revenue u
Adjusted revenue of $27.9bn was $1.3bn or 4% lower. Notably:
- In GB&M, total revenue was $0.9bn or 9% lower against a strong performance in 1H15. This was driven by a decrease in
- In RBWM, revenue decreased by $0.9bn or 7%, mainly in our Principal RBWM business (down by $0.7bn) following a strong performance in 1H15, while revenue in our US CML run-off portfolio fell $0.2bn. The reduction in Wealth Management of $0.9bn was driven by lower revenue in life insurance manufacturing in both Europe and Asia because of adverse market updates as a result of equities movements, as well as lower investment distribution revenue in

By contrast, current account and savings revenue increased, reflecting growth in customer deposits, notably in Hong Kong and the UK. Personal lending revenue was broadly unchanged, with growth in unsecured lending, notably in Mexico from increased balances, offset by lower credit card revenue in the UK due to regulatory changes and spread compression in mortgages. In our US CML run-off portfolio, revenue decreased by our client-facing business (down $0.6bn or 8%), notably Markets (down $0.4bn) and Principal Investments (down $0.1bn). The fall in Markets was principally in Equities (down $0.5bn) and Foreign Exchange (down $0.1bn), due to market volatility which led to reduced client activity. However, revenue was higher in Rates due to increased client activity and in Global Liquidity and Cash Management, which continued to perform well. In legacy credit, revenue was $0.2bn lower, due to higher revaluation losses in 1H16.

Asia due to lower retail securities and mutual funds turnover.

$0.2bn reflecting lower average lending balances and the impact of portfolio sales.

- In GPB, revenue fell by $0.2bn or 14% driven by lower brokerage and trading activity in both Europe and Asia reflecting adverse market sentiment in unfavourable market conditions.

Adjusted performance continued

These factors were partly offset:

- In CMB, revenue rose by $0.1bn or 2% driven by Global Liquidity and Cash Management from higher average balances, notably in Hong Kong and the UK, together with higher margins in Argentina, as well as in Credit and Lending, primarily from continued loan growth in the UK. This was partly offset by lower revenue in Global Trade and Receivables Finance, notably in Hong Kong reflecting reduced demand and lower trade lending due to lower interest rates in mainland China. However, we continue to increase market share in Hong Kong.
- In 'Other' revenue grew by $0.4bn, primarily reflecting the fair value measurement and presentation of long-term debt issued by HSBC Holdings and related hedging instruments. This included higher favourable fair value movements relating to the economic hedging of interest and exchange rate risk on our long-term debt and related derivatives.

Adjusted LICs u

Our LICs of $2.4bn were $1.1bn higher than in 1H15, notably reflecting an increase in Brazil of $0.3bn in RBWM and CMB related to the deterioration in the local economy. In addition, LICs also increased across our GB&M and CMB businesses:

- In GB&M, LICs were $0.4bn compared with a marginal release in 1H15, driven by higher individually assessed provisions, notably in the oil and gas, and metals and mining sectors.
- In CMB, the increase from $0.5bn to $0.8bn reflected higher individually assessed provisions in Canada and Spain, as well as Brazil. Collectively

	1H16 $m	1H15 $m	Variance $m	%
Principal RBWM	10,423	11,116	(693)	(6)
RBWM US run-off portfolio	414	577	(163)	(28)
CMB	7,279	7,141	138	2
Client-facing GB&M and BSM	8,882	9,558	(676)	(7)
Legacy credit	(100)	96	(196)	(204)
GPB	971	1,125	(154)	(14)
Other (including Intersegment)	(1)	(435)	434	(100)
Total	27,868	29,178	(1,310)	(4.5)

Adjusted operating expenses u

Our adjusted operating expenses of $16.0bn in 1H16 fell by $0.7bn or 4% compared with 1H15, despite inflationary pressures and increases in regulatory programmes and compliance. This included an increased credit relating to the prior-year bank levy charge of $0.1bn. Excluding this, costs in 1H16 were $0.6bn lower. This reflects the continuing effect of our cost-saving initiatives and a strong focus on cost management. These resulted in a reduction in full-time equivalent staff in 1H16 of 3,900.

The initiatives which have helped us decrease our costs include:

- In RBWM, our branch rationalisation programme;
- In GB&M significantly lower headcount, and better use of our global service centres. GB&M also benefited from lower performance-related costs.
- In CMB, a simplified organisation structure and process optimisation within our lending, on-boarding and servicing platforms, although overall costs in CMB were broadly unchanged.
- These cost savings were also supported by the benefits of transformational activities in our technology, operations and other functions, primarily from process automation and organisational re-design.

Adjusted income from associates u

Our share of income from associates of $1.2bn was marginally lower than in 1H15. The majority of this income was from our investments in Bank of Communications Co., Limited (‘BoCom’) and The Saudi British Bank.

assessed provisions also rose in the UK and Brazil.

-In RBWM, LICs rose from $0.8bn to $1.1bn, mainly in Brazil ($0.2bn higher).

	1H16 Group excluding Brazil $m	Brazil $m	Group$m	1H15 Group excluding Brazil $m	Brazil $m	Group$m	Variance Group excluding Brazil $m	Group$m
Revenue	26,337	1,531	27,868	27,547	1,631	29,178	(1,210)	(1,310)
LICs	(1,618)	(748)	(2,366)	(877)	(402)	(1,279)	(741)	(1,087)
Operating expenses	(14,886)	(1,059)	(15,945)	(15,522)	(1,083)	(16,605)	636	660
Income from associates	1,239	(1)	1,238	1,257	(1)	1,256	(18)	(18)
Adjusted profit before tax	11,072	(277)	10,795	12,405	145	12,550	(1,333)	(1,755)

The strategic actions set out on page 16 are being undertaken to support our aim of achieving our medium-term financial targets.

Ø For detailed information on our financial performance, see pages 26 to 36.

Delivering on our Group financial targets

Return on equity

Our medium-term target is to achieve a return on equity ('RoE') of more than 10%. This target is modelled on a CET1 ratio in the range of 12% to 13%.

In 1H16, we achieved an RoE of 7.4% compared with 10.6% in 1H15.

Adjusted jaws

Our target is to grow revenue faster than operating expenses on an adjusted basis. This is referred to as positive jaws. In 1H16, adjusted revenue fell by 4.5%, whereas our adjusted operating expenses reduced by 4.0%. Jaws was therefore negative 0.5%.

Jaws was affected by our revenue performance in 1H16. Adjusted revenue fell by 3.8% in the first quarter of 2016 ('1Q16') against the first quarter of 2015 ('1Q15'), and this had increased to 4.5% by the end of 1H16, reflecting the challenging economic environment.

However, adjusted operating expenses fell by 1.0% in the first quarter of 2016 and this increased to a fall of 4.0% by the end of 1H16, as we continued with our progress on our cost-saving plans set out at our Investor Update.

In the second quarter of 2016 ('2Q16') our adjusted jaws was positive 1.4%, despite a reduction in adjusted revenue of 5.3% compared with the second quarter of 2015 ('2Q15'), as our adjusted operating expenses were 6.7% lower.

Understanding jaws

Jaws measures the difference between revenue and cost growth rates. Positive jaws is where the revenue growth rate exceeds the cost growth rate. We calculate jaws on an adjusted basis as described on page 24.

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 depends on the overall profitability of the Group, delivering further release of the less efficiently deployed capital and meeting regulatory capital requirements in a timely manner. Actions to address these points are core elements of the investor update in June 2015.

Overview

Risk overview

We actively manage risk to protect and enable the business.

Managing risk

As a provider of banking and financial services, managing risk is part of our core day-to-day activities. Our success in doing so is due to our clear risk appetite, which is aligned to our strategy. We set out the aggregate level and types of risk that we are willing to accept in order to achieve our medium- and long-term strategic objectives in our risk appetite statement. This statement is approved by the Board and includes:

– risks that we accept as part of doing business, such as credit risk and market risk;

– risks that we incur to generate income, such as operational risk, which are managed to remain below an acceptable tolerance; and

– risks for which we have zero tolerance, such as reputational risk.

To ensure that risks are managed in a consistent way across the Group, we employ an enterprise risk management framework at all levels of the organisation and across all risk types. It ensures that we have appropriate oversight of and effective accountability for the management of risk. This framework is underpinned by our risk culture and reinforced by the HSBC Values and our Global Standards.

The Global Risk function, led by the Group Chief Risk Officer, who is an executive Director, is responsible for enterprise-wide risk oversight and is independent of the sales and trading functions of the Group's businesses. This independence helps ensure an appropriate balance in risk/return decisions, and appropriate independent challenge and assurance.

ø Our risk management framework and the material risk types associated with our banking and insurance manufacturing operations are provided on pages 101 and 105, respectively, of the Annual Report and Accounts 2015.

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 that either prevents them crystallising or limits 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 1H16, we made one change to our top and emerging risks. 'IT systems infrastructure and resilience' was added as a new thematic risk due to the need to ensure core banking systems remain robust as digital and mobile banking services continue to evolve.

In addition, two thematic risks were renamed to better reflect the issues facing HSBC. We use the new names in the table that follows.

Our current top and emerging risks are summarised on the next page.

Ø Our approach to identifying and monitoring top and emerging risks is described on page 103 of the Annual Report and Accounts 2015.

HSBC HOLDINGS PLC
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Risk overview

Risk	Trend	Mitigants
Externally driven		
Geopolitical risk	é	We conducted physical security risk reassessments in higher risk locations in which we operate in response to the heightened threat of terrorism, and we enhanced procedures and training where required.
Economic outlook and capital flows	é	We undertook scenario analysis and stress tests in the lead up to the UK referendum on EU membership to identify vulnerabilities in the event of a vote to leave the EU and potential mitigating actions, and closely engaged with the Prudential Regulation Authority on liquidity planning.
Turning of the credit cycle	è	Stress tests were conducted on our oil and gas portfolio on $25 and $20 per barrel price scenarios. This sector remains under enhanced monitoring with risk appetite and new lending significantly curtailed.
Cyber threat and unauthorised access to systems	é	We took part in an industry-wide cyber resilience exercise, and incorporated lessons learned into our new and existing cyber programmes, which are designed to mitigate specific cyber risks and enhance our control environment.
* Regulatory developments with adverse impact on business model and profitability	é	We actively engaged with regulators and policymakers to help ensure that new regulatory requirements, such as the recent Basel Committee on Banking Supervision consultation on reducing variation in credit risk RWAs, are considered fully and can be implemented in an effective manner.
US deferred prosecution agreement and related agreements and consent orders	è	We are continuing to take concerted action to remediate anti-money laundering ('AML') and sanctions compliance deficiencies and to implement Global Standards. We also continue to embed our Affiliate Risk Forum to further mitigate financial crime risk issues arising from operations conducted within the HSBC network.

è

Regulatory focus on conduct of business and financial crime		We are focusing on embedding our global AML and sanctions policies and procedures. We further enhanced our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance management.
Internally driven		
IT systems infrastructure and resilience	é	We are investing in specialist teams and our systems capability to help ensure strong digital capabilities, delivery quality and resilience within our customer journeys.
* Impact of organisational change and regulatory demands on employees	è	We have increased our focus on resource planning and employee retention, and are developing initiatives to equip line managers with skills to both manage change and support their employees.
Execution risk	è	The Group Change Committee monitored the status of the high priority programmes across the Group that support the strategic actions, facilitating resource prioritisation and increased departmental coordination.
Third-party risk management	é	We are implementing a framework to provide a holistic view of third-party risks which will help enable the consistent risk assessment of any third-party service against key criteria, combined with associated control monitoring, testing and assurance throughout the third-party lifecycle.
Model risk	é	We implemented a new global policy on model risk management and are rolling out an enhanced model governance framework globally to address key internal and regulatory requirements. We continue to strengthen the capabilities of the independent model review team.
Data management	é	We continued to enhance our data governance, quality and architecture to help enable consistent data aggregation, reporting and management.

é Risk heightened during 1H16
è Risk remained at the same level as 31 December 2015
* Thematic risk renamed during 1H16

Financial summary

Financial summary

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 109. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures.

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

Adjusted performance

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

We use 'significant items' to collectively describe the group of individual adjustments that are 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 in order to better understand underlying trends in the business.

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 period-on-period performance.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies for 1H16. We exclude the 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 better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for the half-years to 30 June 2015 and 31 December 2015 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2015 and 31 December 2015 at the average rates of exchange for the half year to 30 June 2016; and
- the balance sheets at 30 June 2015 and 31 December 2015 at the prevailing rates of exchange on 30 June 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 59 to 64 detail the effect of significant items on each of our geographical segments and global businesses during 1H16 and the two halves of 2015.

Financial summary (continued)

Consolidated income statement

Summary consolidated income statement

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	$m	$m	$m
Net interest income	15,760	16,444	16,087
Net fee income	6,586	7,725	6,980
Net trading income	5,324	4,573	4,150
Net income/(expense) from financial instruments designated at fair value	561	2,666	(1,134)
Gains less losses from financial investments	965	1,874	194
Dividend income	64	68	55
Net insurance premium income	5,356	5,607	4,748
Other operating income	644	836	219