HSBC HOLDINGS PLC
Form 6-K
February 21, 2017

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of February

HSBC Holdings plc

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

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

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

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

Yes....... No X

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

21 February 2017

HSBC HOLDINGS PLC

2016 RESULTS - HIGHLIGHTS

Strategic execution

Completed a $2.5bn share buy-back following the sale of the Brazil business

- Further reduced our risk-weighted assets ('RWAs') during 2016 by $143bn as a result of extensive management actions, including the sale of operations in Brazil

- Generated annualised run rate savings of $3.7bn, following investment in costs to achieve ('CTA') of $4.0bn to date

- Expect to deliver increased annualised cost savings of c. $6.0bn while continuing to invest in regulatory programmes and compliance, with c. $6.0bn of CTA investment required

- Increased market share in a number of key markets and international product areas, including trade finance in Hong Kong and Singapore

Stuart Gulliver, Group Chief Executive, said:

"2016 was a good year in which we delivered a solid performance from all our global businesses, made better-than-anticipated progress in reducing our cost base, and delivered a total return to shareholders of 36%. We are investing over $2bn in digital transformation initiatives to improve our offer to customers, and are instigating a further $1bn buy-back programme reflecting the strength and flexibility of our balance sheet."

Financial performance

- Adjusted profit before tax of $19.3bn was broadly unchanged following solid performances from our global businesses; lower reported profit before tax of $7.1bn reflects significant items. These included a $3.2bn impairment of goodwill in GPB 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

- Adjusted revenue of $50.2bn was broadly unchanged; reported revenue of $48.0bn was 20% lower primarily driven by unfavourable movements in significant items and currency translation

- Adjusted operating expenses fell by $1.2bn or 4%, reflecting investment in cost-saving initiatives; reported operating expenses were broadly unchanged

- Positive adjusted jaws of 1.2%1

- Strong capital base with common equity tier 1 ('CET1') ratio 13.6% and a leverage ratio of 5.4%

- Maintained the dividend at $0.51 per ordinary share; total dividends in respect of the year of $10.1bn; confident of maintaining at this level

- The Board has determined to return to shareholders up to a further $1.0bn by way of a share buy-back which is expected to complete in the first half of 2017. This takes announced buy-backs since the second half of 2016 to $3.5bn following the successful sale of our Brazil business

Year ended 31 Dec

	2016	2015	Change
	$m	$m	%
Financial highlights and key ratios			
Reported profit before tax	7,112	18,867	(62.3)
Adjusted profit before tax2	19,300	19,528	(1.2)
Return on average ordinary shareholders' equity (annualised)	0.8 %	7.2 %	
Adjusted jaws1	1.2 %	(3.7)%	

We use adjusted performance to understand the underlying trends in the business. The main differences between reported and adjusted are foreign currency translation and significant items, including the operating results for our Brazil business as well as the loss recognised on disposal.

	At 31 Dec		
	2016	2015	Change
	%	%	
Capital and balance sheet			
Common equity tier 1 ratio	13.6	11.9	
Leverage ratio	5.4	5.0	
	$m	$m	$m
Loans and advances to customers	861,504	924,454	(62,950)
Customer accounts	1,272,386	1,289,586	(17,200)
Risk-weighted assets	857,181	1,102,995	(245,814)

For footnotes, see page 2.

	Registered Office and Group Head Office:
This news release is issued by	8 Canada Square, London E14 5HQ, United Kingdom
HSBC Holdings plc	Web: www.hsbc.com
	Incorporated in England with limited liability. Registered number 617987

Highlights

Highlights

	Year ended 31 Dec	
	2016	2015
	$m	$m
Reported		
Revenue3	47,966	59,800
Loan impairment charges and other credit risk provisions	(3,400)	(3,721)
Operating expenses	(39,808)	(39,768)
Profit before tax	7,112	18,867
Adjusted		
Revenue3	50,153	51,419
Loan impairment charges and other credit risk provisions	(2,652)	(2,604)
Operating expenses	(30,556)	(31,730)
Profit before tax	19,300	19,528

Significant items affecting adjusted performance		
Revenue		
Debit valuation adjustment on derivative contracts	26	230
Fair value movements on non-qualifying hedges	(687)	(327)
Gain on disposal of our membership interest in Visa - Europe	584	-
Gain on disposal of our membership interest in Visa - US	116	-
Gain on the partial sale of shareholding in Industrial Bank	-	1,372
Own credit spread	(1,792)	1,002
Portfolio disposals	(163)	(214)
Releases/(provisions) arising from the ongoing review of compliance with the UK Consumer Credit Act	2	(10)
Loss and trading results from disposed-of operations in Brazil	(273)	3,327
Loan impairment charge and other credit risk provisions ('LICs')		
Trading results from disposed-of operations in Brazil	(748)	(933)
Operating expenses		
Costs associated with portfolio disposals	(28)	-
Costs to achieve	(3,118)	(908)
Costs to establish UK ring-fenced bank	(223)	(89)
Impairment of Global Private Banking - Europe goodwill	(3,240)	-
Regulatory provisions in Global Private Banking	(344)	(172)
Restructuring and other related costs	-	(117)
Settlements and provisions in connection with legal matters	(681)	(1,649)
UK customer redress programmes	(559)	(541)
Trading results from disposed-of operations in Brazil	(1,059)	(2,471)
Share of profit in associates and joint ventures		
Trading results from disposed-of operations in Brazil	(1)	(1)

1 Includes UK bank levy.

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

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

Group Chairman's Statement

Statement by Douglas Flint, Group Chairman

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.

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.

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.

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.

Review by Stuart Gulliver, Group Chief Executive

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 pages 12 to 13), 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. 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.

Financial Review

Financial Summary

	Year ended 31 Dec	
	2016	2015
	$m	$m
For the year		
Profit before tax	7,112	18,867
Profit attributable to:		
- ordinary shareholders of the parent company	1,299	12,572
Dividends declared on ordinary shares	10,099	9,710
At the year-end		
Total shareholders' equity	175,386	188,460
Total regulatory capital	172,358	189,833
Customer accounts	1,272,386	1,289,586
Total assets	2,374,986	2,409,656
Risk-weighted assets	857,181	1,102,995
Per ordinary share	$	$
Basic earnings	0.07	0.65
Dividends1	0.51	0.50
Net asset value	7.91	8.73
Share information		
Number of $0.50 ordinary shares in issue (millions)	20,192	19,685

1 Dividends per ordinary share declared in the year.

Distribution of results by global business

Adjusted profit/(loss) before tax

Year ended 31 Dec

	2016		2015	
	$m	%	$m	%
Retail Banking and Wealth Management	5,333	27.6	5,690	29.1
Commercial Banking	6,052	31.4	5,423	27.8
Global Banking and Markets	5,597	29.0	5,534	28.3
Global Private Banking	289	1.5	387	2.0
Corporate Centre	2,029	10.5	2,494	12.8
	19,300	100.0	19,528	100.0

Distribution of results by geographical region

Reported profit/(loss) before tax

	Year ended 31 Dec			
	2016		2015	
	$m	%	$m	%
Europe	(6,774)	(95.2)	688	3.6
Asia	13,779	193.7	15,763	83.5
Middle East and North Africa	1,503	21.1	1,492	7.9
North America	185	2.6	614	3.3
Latin America	(1,581)	(22.2)	310	1.7
Profit before tax	7,112	100.0	18,867	100.0
Tax expense	(3,666)		(3,771)	
Profit for the year	3,446		15,096	
Attributable to:				
- ordinary shareholders of the parent company	1,299		12,572	
- preference shareholders of the parent company	90		90	
- other equity holders	1,090		860	
- non-controlling interests	967		1,574	
Profit for the year	3,446		15,096	

Consolidated Income Statement

Consolidated income statement
for the year ended 31 December

	2016	2015
	$m	$m
Net interest income	29,813	32,531
- interest income	42,414	47,189
- interest expense	(12,601)	(14,658)
Net fee income	12,777	14,705
- fee income	15,669	18,016

- fee expense	(2,892)	(3,311)
Net trading income	9,452	8,723
- trading income excluding net interest income	8,066	6,948
- net interest income on trading activities	1,386	1,775
Net income/(expense) from financial instruments designated at fair value	(2,666)	1,532
- changes in fair value of long-term debt and related derivatives	(3,975)	863
- net income from other financial instruments designated at fair value	1,309	669
Gains less losses from financial investments	1,385	2,068
Dividend income	95	123
Net insurance premium income	9,951	10,355
Other operating income/(expense)	(971)	1,055
Total operating income	59,836	71,092
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,870)	(11,292)
Net operating income before loan impairment charges and other credit risk provisions	47,966	59,800
Loan impairment charges and other credit risk provisions	(3,400)	(3,721)
Net operating income	44,566	56,079
Employee compensation and benefits	(18,089)	(19,900)
General and administrative expenses	(16,473)	(17,662)
Depreciation and impairment of property, plant and equipment	(1,229)	(1,269)
Amortisation and impairment of intangible assets	(777)	(937)
Goodwill impairment of Global Private Banking - Europe	(3,240)	-
Total operating expenses	(39,808)	(39,768)
Operating profit	4,758	16,311
Share of profit in associates and joint ventures	2,354	2,556
Profit before tax	7,112	18,867
Tax expense	(3,666)	(3,771)
Profit for the year	3,446	15,096
Attributable to:		
- ordinary shareholders of the parent company	1,299	12,572
- preference shareholders of the parent company	90	90
- other equity holders	1,090	860
- non-controlling interests	967	1,574
Profit for the year	3,446	15,096
	$	$
Basic earnings per ordinary share	0.07	0.65
Diluted earnings per ordinary share	0.07	0.64

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income
for the year ended 31 December

	2016	2015
	$m	$m
Profit for the year	3,446	15,096
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	(299)	(3,072)
- fair value gains/(losses)	475	(1,231)
- fair value gains reclassified to the income statement	(895)	(2,437)
- amounts reclassified to the income statement in respect of impairment losses	71	127
- income taxes	50	469
Cash flow hedges	(68)	(24)
- fair value (losses)/gains	(297)	704
- fair value losses/(gains) reclassified to the income statement	195	(705)
- income taxes	34	(23)
Share of other comprehensive income/(expense) of associates and joint ventures	54	(9)
- share for the year	54	(9)
- reclassified to income statement on disposal	-	-
Exchange differences	(8,092)	(10,945)
- foreign exchange gains reclassified to income statement on disposal of a foreign operation	1,894	-
- other exchange differences	(9,791)	(11,112)
- income tax attributable to exchange differences	(195)	167
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	7	101
- before income taxes	(84)	130
- income taxes	91	(29)
Other comprehensive income for the year, net of tax	(8,398)	(13,949)
Total comprehensive income for the year	(4,952)	1,147
Attributable to:		
- ordinary shareholders of the parent company	(6,968)	(490)
- preference shareholders of the parent company	90	90
- other equity holders	1,090	860
- non-controlling interests	836	687
Total comprehensive income for the year	(4,952)	1,147

Consolidated Balance Sheet

Consolidated balance sheet
at 31 December

	2016	2015
	$m	$m
Assets		

Cash and balances at central banks	128,009	98,934
Items in the course of collection from other banks	5,003	5,768
Hong Kong Government certificates of indebtedness	31,228	28,410
Trading assets	235,125	224,837
Financial assets designated at fair value	24,756	23,852
Derivatives	290,872	288,476
Loans and advances to banks	88,126	90,401
Loans and advances to customers	861,504	924,454
Reverse repurchase agreements - non-trading	160,974	146,255
Financial investments	436,797	428,955
Assets held for sale	4,389	43,900
Prepayments, accrued income and other assets	59,520	54,398
Current tax assets	1,145	1,221
Interests in associates and joint ventures	20,029	19,139
Goodwill and intangible assets	21,346	24,605
Deferred tax assets	6,163	6,051
Total assets at 31 Dec	2,374,986	2,409,656
Liabilities and equity		
Liabilities		
Hong Kong currency notes in circulation	31,228	28,410
Deposits by banks	59,939	54,371
Customer accounts	1,272,386	1,289,586
Repurchase agreements - non-trading	88,958	80,400
Items in the course of transmission to other banks	5,977	5,638
Trading liabilities	153,691	141,614
Financial liabilities designated at fair value	86,832	66,408
Derivatives	279,819	281,071
Debt securities in issue	65,915	88,949
Liabilities of disposal groups held for sale	2,790	36,840
Accruals, deferred income and other liabilities	41,501	38,116
Current tax liabilities	719	783
Liabilities under insurance contracts	75,273	69,938
Provisions	4,773	5,552
Deferred tax liabilities	1,623	1,760
Subordinated liabilities	20,984	22,702
Total liabilities at 31 Dec	2,192,408	2,212,138
Equity		
Called up share capital	10,096	9,842
Share premium account	12,619	12,421
Other equity instruments	17,110	15,112
Other reserves	(1,234)	7,109
Retained earnings	136,795	143,976
Total shareholders' equity	175,386	188,460
Non-controlling interests	7,192	9,058
Total equity at 31 Dec	182,578	197,518
Total liabilities and equity at 31 Dec	2,374,986	2,409,656

Consolidated Statement of Cash Flows

Consolidated statement of cash flows
for the year ended 31 December

	Footnotes	2016 $m	2015 $m
Profit before tax		7,112	18,867
Adjustments for non-cash items:			
Depreciation, amortisation and impairment		5,212	2,181
Net gain from investing activities		(1,215)	(1,935)
Share of profits in associates and joint ventures		(2,354)	(2,556)
(Gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures		1,743	-
Loan impairment losses gross of recoveries and other credit risk provisions		4,090	4,546
Provisions including pensions		2,482	3,472
Share-based payment expense		534	757
Other non-cash items included in profit before tax		(207)	(191)
Elimination of exchange differences	1	15,364	18,308
Changes in operating assets and liabilities			
Change in net trading securities and derivatives		4,395	24,384
Change in loans and advances to banks and customers		52,868	32,971
Change in reverse repurchase agreements - non-trading		(13,138)	(3,011)
Change in financial assets designated at fair value		(1,235)	2,394
Change in other assets		(6,591)	9,090
Change in deposits by banks and customer accounts		(8,918)	(65,907)
Change in repurchase agreements - non-trading		8,558	(26,481)
Change in debt securities in issue		(23,034)	960
Change in financial liabilities designated at fair value		17,802	(10,785)
Change in other liabilities		8,792	(4,549)
Dividends received from associates		689	879
Contributions paid to defined benefit plans		(726)	(664)
Tax paid		(3,264)	(3,852)
Net cash from operating activities		68,959	(1,122)
Purchase of financial investments		(457,084)	(438,376)
Proceeds from the sale and maturity of financial investments		430,085	399,636
Net cash flows from the purchase and sale of property, plant and equipment		(1,151)	(1,249)
Net cash inflow/(outflow) from disposal of customer and loan portfolios		9,194	2,023
Net investment in intangible assets		(906)	(954)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	2	4,802	8
Net cash from investing activities		(15,060)	(38,912)
Issue of ordinary share capital and other equity instruments		2,024	3,727
Net sales/(purchases) of own shares for market-making and investment purposes		523	331
Purchase of treasury shares		(2,510)	-
Redemption of preference shares and other equity instruments		(1,825)	(463)
Subordinated loan capital issued		2,622	3,180

Subordinated loan capital repaid		(595)	(2,157)
Dividends paid to shareholders of the parent company and non-controlling interests		(9,157)	(8,195)
Net cash from financing activities		(8,918)	(3,577)
Net increase/(decrease) in cash and cash equivalents		44,981	(43,611)
Cash and cash equivalents at 1 Jan		243,863	301,301
Exchange differences in respect of cash and cash equivalents		(14,294)	(13,827)
Cash and cash equivalents at 31 Dec		274,550	243,863
Cash and cash equivalents comprise:	3		
- cash and balances at central banks		128,009	98,934
- items in the course of collection from other banks		5,003	5,768
- loans and advances to banks of one month or less		77,318	70,985
- reverse repurchase agreements with banks of one month or less		55,551	53,971
- treasury bills, other bills and certificates of deposit less than three months		14,646	19,843
- less: items in the course of transmission to other banks		(5,977)	(5,638)
		274,550	243,863

Interest received was $42,586m (2015: $47,623m; 2014: $51,522m), interest paid was $12,027m (2015: $14,559m; 2014: $15,633m) and dividends received were $475m (2015: $914m; 2014: $1,199m).

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

2 In July 2016, we completed the disposal of the Brazilian operations resulting in net cash inflow of $4.8bn.

3 At 31 December 2016 $35,501m (2015: $33,744m) was not available for use by HSBC, of which $21,108m (2015: $21,773m) related to mandatory deposits at central banks.

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity
for the year ended 31 December

				Other reserves						
	Called up share capital and share premium	Other equity instruments1	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve	Total share-holders' equity	Non-controlling interests	T e
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$
At 1 Jan 2016	22,263	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058	1
Profit for the year	-	-	2,479	-	-	-	-	2,479	967	3

Other comprehensive income(net of tax)	-	-	59	(271)	(61)	(7,994)	-	(8,267)	(131)	(
- available-for-sale investments	-	-	-	(271)	-	-	-	(271)	(28)	(
- cash flow hedges	-	-	-	-	(61)	-	-	(61)	(7)	(
- remeasurement of defined benefit asset/liability	-	-	5	-	-	-	-	5	2	7
- share of other comprehensive income of associates and joint ventures	-	-	54	-	-	-	-	54	-	5
- foreign exchange reclassified to income statement on disposal of a foreign operation	-	-	-	-	-	1,894	-	1,894	-	1
- exchange differences	-	-	-	-	-	(9,888)	-	(9,888)	(98)	(
Total comprehensive income for the year	-	-	2,538	(271)	(61)	(7,994)	-	(5,788)	836	(
Shares issued under employee remuneration and share plans	452	-	(425)	-	-	-	-	27	-	2
Shares issued in lieu of dividends and amounts arising thereon	-	-	3,040	-	-	-	-	3,040	-	3
Net increase in treasury shares	-	-	(2,510)	-	-	-	-	(2,510)	-	(
Capital securities issued	-	1,998	-	-	-	-	-	1,998	-	1
Dividends to shareholders	-	-	(11,279)	-	-	-	-	(11,279)	(919)	(
Cost of share-based payment arrangements	-	-	534	-	-	-	-	534	-	5
Other movements	-	-	921	(17)	-	-	-	904	(1,783)	(
At 31 Dec 2016	22,715	17,110	136,795	(477)	(27)	(28,038)	27,308	175,386	7,192	1
At 1 Jan 2015	21,527	11,532	137,144	2,143	58	(9,265)	27,308	190,447	9,531	1

Profit for the year	-	-	13,522	-	-	-	-	13,522	1,574	1
Other comprehensive income(net of tax)	-	-	73	(2,332)	(24)	(10,779)	-	(13,062)	(887)	(
- available-for-sale investments	-	-	-	(2,332)	-	-	-	(2,332)	(740)	(
- cash flow hedges	-	-	-	-	(24)	-	-	(24)	-	(
- remeasurement of defined benefit asset/liability	-	-	82	-	-	-	-	82	19	1
- share of other comprehensive income of associates and joint ventures	-	-	(9)	-	-	-	-	(9)	-	(
- exchange differences	-	-	-	-	-	(10,779)	-	(10,779)	(166)	(
Total comprehensive income forthe year	-	-	13,595	(2,332)	(24)	(10,779)	-	460	687	1
Shares issued under employee remuneration and share plans	736	-	(589)	-	-	-	-	147	-	1
Shares issued in lieu of dividends and amounts arising thereon	-	-	3,162	-	-	-	-	3,162	-	3
Capital securities issued	-	3,580	-	-	-	-	-	3,580	-	3
Dividends to shareholders	-	-	(10,660)	-	-	-	-	(10,660)	(697)	(
Cost of share-based payment arrangements	-	-	757	-	-	-	-	757	-	7
Other movements	-	-	567	-	-	-	-	567	(463)	1
At 31 Dec 2015	22,263	15,112	143,976	(189)	34	(20,044)	27,308	188,460	9,058	1

1 During 2016, HSBC Holdings issued $2,000m of Perpetual Subordinated Contingent Convertible Capital Securities, on which there were $6m of external issuance costs, and $4m of tax. In 2015, HSBC Holdings issued $2,450m and €1,000m of Perpetual Subordinated Contingent Convertible Capital Securities, on which there were $12m of external issuance costs, $25m of intra-group issuance costs and $19m of tax. In 2014, HSBC Holdings issued $2,250m, $1,500m and €1,500m of Perpetual Subordinated Contingent Convertible Capital Securities, on which there were $13m of external issuance costs and $33m of intra-group issuance costs. Under IFRSs these issuance costs and tax benefits are classified as equity.

Additional Information

1 Basis of preparation and significant accounting policies

The basis of preparation and summary of significant accounting policies applicable to the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings can be found in Note 1, or the relevant Note, in the Financial Statements in the Annual Report and Accounts 2016.

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings have been prepared in accordance with IFRSs as issued by the IASB, including interpretations ('IFRICS') issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these consolidated and separate financial statements and HSBC's application of IFRS results in no differences between IFRSs as issued by the IASB and IFRS as endorsed by the EU.

Standards adopted during the year ended 31 December 2016

There were no new standards applied during the year ended 31 December 2016.

The requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted in the separate financial statements of HSBC Holdings. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income with the remaining effect presented in profit or loss. In accordance with the transitional requirements of IFRS 9, comparatives have not been restated. Adoption increased profit before tax by $896m with the opposite effect on other comprehensive income, with no effect on net assets.

During 2016, HSBC adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings.

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

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

(c) Going concern

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

2 Tax

Tax expense

	2016	2015	2014
	$m	$m	$m
Current tax1	3,669	3,797	3,950
- for this year	3,525	3,882	4,477
- adjustments in respect of prior years	144	(85)	(527)
Deferred tax	(3)	(26)	25
- origination and reversal of temporary differences	(111)	(153)	(477)
- effect of changes in tax rates	(4)	110	83
- adjustments in respect of prior years	112	17	419
Year ended 31 Dec	3,666	3,771	3,975

1 Current tax included Hong Kong profits tax of $1,118m (2015:$1,294m; 2014: $1,135m). The Hong Kong tax rate applying to the profits of subsidiaries assessable in Hong Kong was 16.5% (2015:16.5%; 2014: 16.5%).

Additional Information

Tax reconciliation

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

	2016		2015		2014	
	$m	%	$m	%	$m	%
Profit before tax	7,112		18,867		18,680	
Tax expense						
Taxation at UK corporation tax rate of 20.0% (2015: 20.25%; 2014: 21.5%)	1,422	20.0	3,821	20.25	4,016	21.50
Impact of differently taxed overseas profits in overseas locations	43	0.6	71	0.4	33	0.2
Items increasing tax charge in 2016 not in 2015:						
- non-deductible goodwill write-down	648	9.1	-	-	-	-
- non-deductible loss and taxes suffered on Brazil disposal	464	6.5	-	-	-	-
- UK tax losses not recognised	305	4.3	-	-	-	-
- adjustments in respect of prior period liabilities	256	3.6	(68)	(0.4)	(108)	(0.6)
- UK Banking Surcharge	199	2.8	-	-	-	-
- non-UK tax losses not recognised	147	2.1	-	-	-	-
Other items increasing tax charge in 2016:						
- local taxes and overseas withholding taxes	434	6.1	416	2.2	434	2.3
- other permanent disallowables	438	6.2	421	2.2	476	2.5
- bank levy	170	2.4	286	1.5	229	1.2
- non-deductible UK customer compensation	162	2.3	87	0.5	-	-
- other items	-	-	(116)	(0.6)	(22)	(0.1)
- non-deductible regulatory settlements	20	0.3	184	1.0	264	1.4
Items reducing tax charge in 2016:						
- non-taxable income and gains	(577)	(8.1)	(501)	(2.7)	(668)	(3.5)

- effect of profits in associates and joint ventures	(461)	(6.5)	(508)	(2.7)	(547)	(2.9)
- change in tax rates	(4)	(0.1)	110	0.6	22	0.1
Non-taxable income and gains - Industrial Bank	-	-	(227)	(1.2)	-	-
US deferred tax temporary differences previously not recognised	-	-	(184)	(1.0)	(154)	(0.8)
Other deferred tax temporary differences previously not recognised	-	-	(21)	(0.1)	-	-
Year ended 31 Dec	3,666	51.6	3,771	20.0	3,975	21.3

The Group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable tax rates include Hong Kong (16.5%), USA (35%) and UK (20%). If the Group's profits were taxed at the statutory rates of the countries in which the profits arise then the tax rate for the year would have been 20.6% (2015: 20.65%). The effective tax rate for the year was 51.6% (2015: 20%) and was significantly higher than 2015 due to the non-deductible goodwill write-down and loss on disposal of Brazil, tax losses not recognised, adjustments in respect of prior periods and the 8% UK banking surcharge, which became applicable from 1 January 2016.

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

Additional Information

Movement of deferred tax assets and liabilities

	Footnotes	Loan impairment provisions	Unused tax losses and tax credits	Derivatives, FVOD1 and other investments	Insurance business	Expense provisions	Other	Total
		$m	$m	$m	$m	$m	$m	$m
Assets		1,351	1,388	1,400	-	1,271	1,050	6,460
Liabilities		-	-	(230)	(1,056)	-	(883)	(2,169)
At 1 Jan 2016		1,351	1,388	1,170	(1,056)	1,271	167	4,291
Income statement	3	(279)	876	18	(123)	(370)	(314)	(192)
Other comprehensive income		-	-	28	-	-	259	287
Equity		-	-	-	-	-	20	20
Foreign exchange and other adjustments		(122)	(52)	(49)	9	(8)	356	134
At 31 Dec 2016		950	2,212	1,167	(1,170)	893	488	4,540
Assets	2	950	2,212	1,441	-	893	1,857	7,353
Liabilities	2	-	-	(274)	(1,170)	-	(1,369)	(2,813)
Assets		2,264	1,332	1,764	-	1,244	836	7,440
Liabilities		-	-	(233)	(861)	-	(759)	(1,853)
At 1 Jan 2015		2,264	1,332	1,531	(861)	1,244	77	5,587

Income statement		45	379	(557)	(143)	418	(116)	26
Other comprehensive income		-	-	22	-	156	321	499
Reclassification to 'Assets held for sale'		(673)	(186)	76	87	(386)	(136)	(1,218)
Equity		-	-	-	-	-	4	4
Foreign exchange and other adjustments		(285)	(137)	98	(139)	(161)	17	(607)
At 31 Dec 2015		1,351	1,388	1,170	(1,056)	1,271	167	4,291
Assets	2	1,351	1,388	1,400	-	1,271	1,050	6,460
Liabilities	2	-	-	(230)	(1,056)	-	(883)	(2,169)

1 Fair value of own debt.

2 After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets $6,163m (2015: $6,051m); and deferred tax liabilities $1,623m (2015: $1,760m).

3 Excludes tax credit of $195m relating to deferred tax balances in Brazil, which were included within assets held for sale prior to disposal.

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

The net deferred tax asset of $4.5bn (2015: $4.3bn) includes $4.8bn (2015: $4.5bn) deferred tax assets relating to the US, of which $2bn deferred tax asset relates to US tax losses that expire in 16-20 years. Management expects the US deferred tax asset to be substantially recovered in six to seven years, with the majority recovered in the first five years. The most recent financial forecasts approved by management cover a five year period and the forecasts have been extrapolated beyond five years by assuming that performance remains constant after the fifth year. The forecasts also include additional tax losses in 2017 - these losses expire in 2037 and are expected to be utilised by 2023.

The US reported a loss for the current period, mainly due to the Household International class action litigation settlement. Excluding the Household International class action settlement the US would have reported a profit for the current year. In addition, the US reported a profit in 2014 and 2015. Management does not expect the current year loss to adversely impact future deferred tax asset recovery to a significant extent.

The US deferred tax asset has been calculated using the current federal tax rate of 35%. Any possible future reduction of the US federal tax rate from 35% would reduce the value of the US deferred tax assets and create a tax charge in the period in which any change in the tax rate is enacted. This tax charge should be ultimately offset by the benefit of reduced US tax charges in future years.

Unrecognised deferred tax

The amount of gross temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was $18.2bn (2015: $15.5bn). These amounts included unused state losses arising in the Group's US operations of $12.3bn (2015: $11.3bn). Of the total amounts unrecognised, $4.9bn (2015: $3.1bn) had no expiry date, $1.0bn (2015: $0.9bn) was scheduled to expire within 10 years and the remaining balance is expected to expire after 10 years.

Deferred tax is not recognised in respect of the Group's investments in subsidiaries and branches where HSBC is able to control the timing of remittance or other realisation and where remittance or realisation is not probable in the foreseeable future. The aggregate temporary differences relating to unrecognised deferred tax liabilities arising on investments in subsidiaries and branches is $10.6bn (2015: $9.1bn) and the corresponding unrecognised deferred tax liability is $0.7bn (2015: $0.6bn).

Additional Information

3 Dividends

Dividends to shareholders of the parent company

	2016 Per share	Total	Settled in scrip	2015 Per share	Total	Settled in scrip	2014 Per share	Total	Settled in scrip
	$	$m	$m	$	$m	$m	$	$m	$m
Dividends paid on ordinary shares									
In respect of previous year:									
- fourth interim dividend	0.21	4,137	408	0.20	3,845	2,011	0.19	3,582	1,827
In respect of current year:									
- first interim dividend	0.10	1,981	703	0.10	1,951	231	0.10	1,906	284
- second interim dividend	0.10	1,991	994	0.10	1,956	160	0.10	1,914	372
- third interim dividend	0.10	1,990	935	0.10	1,958	760	0.10	1,918	226
Total	0.51	10,099	3,040	0.50	9,710	3,162	0.49	9,320	2,709
Total dividends on preference shares classified as equity (paid quarterly)	62.00	90		62.00	90		62.00	90	

On 17 January 2017, HSBC paid a coupon on its $2,200m subordinated capital securities of $0.508 per security, a distribution of $45m. On 17 January 2017, HSBC paid a coupon on its $1,500m subordinated contingent convertible securities of $28.125 per security, a distribution of $42m. No liability was recorded in the balance sheet at 31 December 2016 in respect of these coupon payments.

The reserves available for distribution at 31 December 2016 were $42bn.

Fourth interim dividend for 2016 on ordinary shares

After the end of the year, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2016 of $0.21 per ordinary share, a distribution of approximately $4,172m. The fourth interim dividend will be payable on 6 April 2017 to holders on the Principal Register in the UK, the Hong Kong Overseas Branch register or the Bermuda Overseas Branch register on 24 February 2017. As the dividend was declared after the balance sheet date, no liability has been recorded in the financial statements in respect of the fourth interim dividend for 2016. The dividend will be payable in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11.00am on 27 March 2017. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 8 March 2017 and elections must be received by 23 March 2017.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 6 April 2017 to holders of record on 24 February 2017. The dividend will be payable by Euroclear France in euros, at the forward exchange rate quoted by HSBC France on 27 March 2017, or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 24 February 2017, 3 March 2017 and 27 March 2017.

The dividend will be payable on American Depositary Shares ('ADS'), each of which represents five ordinary shares, on 6 April 2017 to holders of record on 24 February 2017. The dividend of $1.05 per ADS will be payable by the depositary in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depository on or before 17 March 2017.

Alternatively, the cash dividend may be invested in additional ADSs by participants in the dividend reinvestment plan operated by the depositary.
Ordinary shares will be quoted ex-dividend in London, Hong Kong, Paris and Bermuda on 23 February 2017. The ADSs will be quoted ex dividend in New York on 22 February 2017.
Any person who has acquired ordinary shares registered on the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register but who has not lodged the share transfer with the Principal Registrar, Hong Kong or Bermuda Overseas Branch registrar should do so before 4.00pm local time on 24 February 2017 in order to receive the dividend.
Ordinary shares may not be removed from or transferred to the Principal Register in the United Kingdom, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 24 February 2017. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 23 February 2017.
Transfer of ADSs must be lodged with the depository by 11.00am on 24 February 2017 to receive the dividend.

Additional Information

4 Earnings per share

Profit attributable to ordinary shareholders of the parent company

	2016	2015
	$m	$m
Profit attributable to shareholders of the parent company	2,479	13,522
Dividend payable on preference shares classified as equity	(90)	(90)
Coupon payable on capital securities classified as equity	(1,090)	(860)
Year ended 31 Dec	1,299	12,572

Basic and diluted earnings per share

		2016			2015		
		Profit	Number of shares	Per share	Profit	Number of shares	Per share
	Footnotes	$m	(millions)	$	$m	(millions)	$
Basic	1	1,299	19,753	0.07	12,572	19,380	0.65
Effect of dilutive potential ordinary shares			92			137	
Diluted	1	1,299	19,845	0.07	12,572	19,517	0.64

1 Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).
The weighted average number of dilutive potential ordinary shares excludes 10m employee share options that were anti-dilutive (2015: 7m).

5 Loan impairment charges and other credit risk provisions

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

6 Segmental analysis

The Group Chief Executive as supported by the GMB is considered to be the CODM for the purposes of identifying the Group's reportable segments.

They review operating activity on a number of bases, including by global business and geographical region. While in 2015 we considered the reportable segments to be the geographical regions, over time the focus of internal management reporting provided to the GMB and CODM has moved towards global business. The shift in internal reporting was further augmented in 2016 to include financial information and metrics on the consumption of, and returns on, capital by global business to support the GMB assessment of business performance and the allocation of capital resources. As a result global business is now the most prominent view used by management to allocate resources and assess performance, and is considered to be the Group's reportable segment.

In addition, we made the following realignments within our internal reporting to the GMB and CODM:

Creation of a Corporate Centre: Certain functions were combined to create a Corporate Centre. These include Balance Sheet Management, legacy businesses and interests in associates and joint ventures. The Corporate Centre also includes the results of our financing operations, central support costs with associated recoveries and the UK bank levy, previously reported within Other.

Reallocation of Head Office costs: We have reviewed central costs previously reported in Other and reallocated them to the global businesses where appropriate. Residual costs are reported within the Corporate Centre.

Customer realignment: We conducted a number of internal reviews aligning customer requirements to those global businesses best suited to service their respective needs, resulting in the transfer of a portfolio of customers from CMB to GB&M and the transfer of certain policyholders in Asia from CMB to RBWM during the year.

Comparative data have been represented accordingly.

In addition, geographical comparative data for Europe and Middle East and North Africa have been re-presented to reflect the management oversight provided by our Middle East and North Africa region following the management services agreement entered between HSBC Bank plc and HSBC Bank Middle East Limited in 2016 in respect of HSBC Bank A.S. (Turkey).

HSBC Holdings plc News Release 2016 17

Additional Information

Analysis of adjusted results by global business

HSBC profit/(loss) before tax and balance sheet data

		2016					
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
	Footnotes	$m	$m	$m	$m	$m	$m
Profit before tax							
Net interest income		13,198	8,689	4,923	809	1,243	28,862
Net fee income/(expense)		4,839	3,627	3,392	749	(63)	12,544
Net trading income	1	435	447	6,327	183	2,542	9,934
Other income/(expenses)	2	453	124	277	16	(2,057)	(1,187)
Net operating income before loan impairment charges and other credit risk provisions	3	18,925	12,887	14,919	1,757	1,665	50,153
- external		16,319	12,953	17,798	1,498	1,585	50,153
- inter-segment		2,606	(66)	(2,879)	259	80	-
Loan impairment (charges)/recoveries and other credit risk provisions		(1,171)	(1,000)	(457)	1	(25)	(2,652)
Net operating income		17,754	11,887	14,462	1,758	1,640	47,501
Total operating expenses		(12,441)	(5,835)	(8,865)	(1,469)	(1,946)	(30,556)
Operating profit/(loss)		5,313	6,052	5,597	289	(306)	16,945
Share of profit in associates and joint ventures		20	-	-	-	2,335	2,355
Adjusted profit before tax		5,333	6,052	5,597	289	2,029	19,300
		%	%	%	%	%	%
Share of HSBC's adjusted profit before tax		27.6	31.4	29.0	1.5	10.5	100.0
Adjusted cost efficiency ratio		65.7	45.3	59.4	83.6	116.9	60.9
Adjusted balance sheet data		$m	$m	$m	$m	$m	$m
Loans and advances to customers (net)		306,056	281,930	225,855	35,456	12,207	861,504

Interests in associates and joint ventures		395	-	-	-	19,634	20,029
Total external assets		413,287	306,256	925,187	41,459	688,797	2,374,986
Customer accounts		590,502	341,729	256,095	69,850	14,210	1,272,386
Adjusted risk-weighted assets (unaudited)	4	111,899	274,893	299,629	15,213	150,327	851,961

Additional Information

HSBC profit/(loss) before tax and balance sheet data (continued)

20155					
Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
$m	$m	$m	$m		