HSBC HOLDINGS PLC
Form 6-K
July 31, 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 July 2017

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, 2017 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 and 333-202420.

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.
None of the websites referred to in this Interim Report on Form 6-K for the half year ended June 30, 2017 (the 'Form 6-K'), including where a link is provided, nor any of the information contained on such websites is incorporated by reference in the Form 6-K.
As a reminder
Reporting currency
We use US dollars.
Adjusted measures
We supplement our IFRS figures with adjusted measures used by management internally. These measures are highlighted with the following symbol: ^

In this document we use the following abbreviations to refer to reporting periods.
1H17 First half of 2017
2H16 Second half of 2016
1H16 First half of 2016
For a full list of abbreviations see page 115.

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

Overview

Interim Management Report

Financial Statements

Additional Information

Our photo competition winners

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

Cautionary statement regarding forward-looking statements

This Interim Report 2017 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 20 and 21.

1a HSBC Holdings plc

Certain defined terms

Unless the context requires otherwise, ‘HSBC Holdings’ means HSBC Holdings plc and ‘HSBC’, the ‘Group’, ‘we’, ‘us’ and ‘our’ refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People’s Republic of China is referred to as ‘Hong Kong’. When used in the terms ‘shareholders’ equity’ and ‘total shareholders’ equity’, ‘shareholders’ means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations ‘$m’, ‘$bn’ and ‘$tn’ represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

HSBC Holdings plc 1b

Highlights

Our international network, universal banking model and capital strength deliver long-term value for customers and shareholders

Group

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

Performance highlights for 1H17

Strategy execution

- Delivered growth from our international network with a 7% increase in revenue from transaction banking products; 17% rise in revenue synergies.
- Achieved annualised run-rate savings of $4.7bn since our 2015 Investor Update. Incremental savings in 1H17 were $1.0bn.
- Targeted initiatives removed a further $29bn of RWAs in 1H17. RWA reduction programmes have extracted $296bn of RWAs since the start of 2015.
- Maintained momentum in Asian Insurance and Asset Management, with annualised new business premiums and assets under management up 14% and 17% respectively.
- Successfully achieved a non-objection to our US capital plan, as part of the Comprehensive Capital Analysis and Review ('CCAR').

Financial performance

- Reported profit before tax of $10.2bn was $0.5bn higher than in 1H16. This included significant items of $1.7bn, which adversely impacted reported performance, compared with $1.5bn in 1H16.
- Reported revenue of $26.2bn was $3.3bn lower than in 1H16, primarily reflecting the effects of significant items. However, reported loan impairment charges and other credit risk provisions ('LICs') decreased by $1.7bn, and reported operating expenses decreased by $2.2bn.
- Adjusted profit before tax of $12.0bn was $1.3bn higher, reflecting increased adjusted revenue and lower adjusted LICs, partly offset by higher adjusted operating expenses. In 1H17, we achieved positive adjusted jaws of 0.5%.
- Adjusted revenue increased by $0.8bn or 3%, reflecting improved performance in RBWM, GB&M and CMB. This was partly offset by lower adjusted revenue in Corporate Centre and GPB.
- Adjusted LICs decreased by $0.9bn, notably reflecting lower individually assessed LICs in CMB and GB&M.
- Adjusted operating expenses increased by $0.4bn or 3%, reflecting a UK bank levy credit of $0.1bn in 1H16, together with investments in business growth, primarily in RBWM where investments were partly funded by one-off disposal proceeds.

Capital

- Our capital position further strengthened, with a common equity tier 1 ('CET1') ratio at 30 June 2017 of 14.7%, up from 13.6% at 31 December 2016, primarily due to capital generation through profits net of dividends and scrip, and favourable foreign currency translation differences.

For the half-year to 30 June 2017

(1H16: $9.7bn)

$10.2bn
(1H16: $10.7bn)
$12.0bn
(1H16: $29.5bn)
$26.2bn
At 30 June 2017
(31 Dec 2016: $857.2bn)
$876.1bn

(31 Dec 2016: 13.6%)
14.7%
(31 Dec 2016: $2,375bn)
$2,492bn

2 HSBC Holdings plc

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 1.7 million business customers in 54 countries and territories with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.	We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.	We help high net worth individuals and their families to grow, manage and preserve their wealth.
Adjusted profit before tax^			
(1H16: $2.5bn) $3.4bn	(1H16: $2.9bn) $3.4bn	(1H16: $2.6bn) $3.4bn	(1H16: $0.2bn) $0.1bn
Risk-weighted assets			
(31 Dec 2016: $115.1bn) $116.6bn	(31 Dec 2016: $275.9bn) $289.2bn	(31 Dec 2016: $300.4bn) $306.1bn	(31 Dec 2016: $15.3bn) $16.4bn

^Our global businesses are presented on an adjusted basis, which is consistent with the way in which we assess the performance of our global businesses.

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Delivery against Group financial targets

Return on equity	Adjusted jaws^	Dividends per ordinary share in respect of 1H17
8.8%	+0.5%	$0.20

For further details, see page 15.

Group Chairman's Statement
The Group delivered strong results across its major businesses, providing further evidence of a successful repositioning. Its diversified business model, international network and capital strength provide a solid foundation for further growth.

As the Group approaches a periodic transition in leadership, it is extremely pleasing to report that, in the first half of 2017, it delivered a strong set of results across its major businesses. As well as being financially robust, these results added further evidence of the successful repositioning of the Group since 2011. This has created a solid foundation, with attractive optionality, for the future.

The benefits of diversification, combined with the Group's capital and funding strength, once again were apparent. Notwithstanding uncertainties arising from increasing geopolitical tensions and ambiguous predictions around the shape of transition to, and final form of, the UK's future relationship with its major trading partners in the EU, customer activity across all business segments was resilient. Markets-based revenues benefited from market share advances, commercial banking customer activity was robust, wealth management and insurance revenues were notably stronger in Hong Kong, and credit experience globally remained remarkably sound. As central bank interest rates edged higher, led by the US, we began to benefit from improved margins on our core deposit bases, providing a welcome enhancement to the Group's revenue mix, given the likely trajectory of interest rates over the medium term. These factors drove reported profit before tax for the Group in the first six months of 2017 to $10.2bn, 5% higher than what was achieved in the first half of 2016. Earnings per share amounted to $0.35 (1H16: $0.32).

On the adjusted basis used to assess management performance, pre-tax profits were $12.0bn, 12% higher than in the comparable period. It was particularly pleasing to note improvements within both revenue and cost performance that derive from management actions taken in recent years to reshape the Group around its core strengths. Stuart Gulliver will address these in more detail in his review.

The Group's capital position remains strong, with the common equity tier 1 ratio standing at 14.7% at 30 June (31 December: 13.6%). During the period we completed the further share buy-back of $1bn that the Board approved in February and, also as previously announced, we maintained the first two dividends in respect of the year at $0.20 in aggregate, in line with the prior year. In light of the strong capital position, the Board approved a further buy-back of up to $2.0bn of ordinary shares, planned to commence shortly after publication of these interim results.

HSBC is now better positioned for the future

Management continued to make good progress against the strategic targets laid out in June 2015. The first half of the year included a number of important events that will contribute to the strengthening of HSBC's position in our two home markets and in core product areas.

One of the most significant opportunities for HSBC going forward is participation in China's domestic capital markets as these open up. Meaningful progress in this regard was made in the first half of this year, which saw the granting of further access to undertake domestic corporate bond underwriting and the establishment of Bond Connect, which enables offshore investors to trade onshore Chinese interbank bonds through Hong Kong. In equity markets, Chinese stocks traded higher in part on MSCI's decision in June to include them in its global benchmark equity index for the first time.

Given these developments, we were delighted to receive approvals at the end of June enabling The Hongkong and Shanghai Banking Corporation to establish the first joint venture securities company majority-owned by a foreign bank. This will enable HSBC to offer a broad spectrum of securities and investment banking services nationally, and is an important step in building out our global banking and markets capabilities to serve the Chinese capital markets.

The second area to highlight is the value of our network and how we are investing to enhance that value. HSBC's position as the leading bank in trade finance reflects its unique global network and heritage. Technology is offering important opportunities to automate and digitise paper-heavy supply chain processes, and organise supply chain financing on a single platform. For example, HSBC, working with its strategic business commerce partner, Tradeshift, is now offering an integrated solution to enable our clients to manage their global supply chains and working capital requirements from a simple online platform. This will improve transparency and reduce costs.

In terms of structural change, the creation of the UK ring-fenced bank to meet the central recommendation of the Independent Commission on Banking in 2011 has been one of the largest projects ever undertaken by the Group. At its peak, the project team numbered more than 2,000 and costs to date amount to approximately half a billion dollars.

In early July, the Prudential Regulation Authority approved a restricted licence for the new bank, representing an important milestone in meeting our legal obligations. We are targeting 1 July 2018 as the deadline to operationalise the UK ring-fenced bank, ahead of the statutory implementation date of 1 January 2019. Transition towards this deadline will be a key execution priority.

Finally, the Board was delighted that the successful transformation of the Group over the last six and a half years was recognised through HSBC being awarded the accolade of the 'World's Best Bank' earlier this month by Euromoney magazine. This award reflects the extraordinary efforts of the management team and all of our colleagues in reshaping the Group to meet the expectations of all our stakeholders. As ever, we owe them our sincere gratitude.

As I head towards retirement from HSBC later this year, I have taken the opportunity to set out the three public policy issues that are top of mind in terms of allowing the financial system to serve the global economy better.

Regulatory fragmentation must be avoided

The new administration in the US is leading the rest of the world in applying a retrospective lens to the aggregate of regulatory changes implemented and proposed in the aftermath of the global financial crisis. This fresh look, focusing on simplification and supporting economic growth, is to be welcomed. Earlier concerns that it could lead to fragmentation of the international regulatory concordat have substantially dissipated following supportive comments from senior US officials regarding continuing active participation in the international regulatory bodies.

However, there remain concerns, particularly in Europe, that outstanding work streams may be addressed over different time frames globally. This, too, would lead to a fragmented framework with the risk of skewing financial market activity to where the capital support required is lightest. Such an outcome has to be avoided to prevent capital misallocation, and is particularly pertinent for traded markets activity. The best outcome remains early finalisation of what has already been agreed globally in principle, and a further agreement that remaining regulatory changes will be implemented in lockstep across the major jurisdictions.

Europe must not allow its financial capacity and capabilities to be diminished

Negotiations concerning the future shape of financial service provision as the UK prepares to leave the EU will undoubtedly be complex and time-consuming. The essential questions that have to be addressed are whether, at the conclusion of the negotiations, the economies of Europe will continue to have access to at least the same amount of financing capacity and related risk management services, and as readily available and similarly priced, as they have enjoyed with the UK as part of the EU.

On a highly positive note, we are encouraged that there has been no suggestion of weakening regulatory or supervisory standards anywhere in Europe in order to improve competitive positioning; this is equally essential to preserve the credibility and capacity of European financial markets.

Increased cooperation on tackling financial crime is essential

Tackling financial crime remains both a priority and a key challenge. We have made significant progress in detecting and preventing bad actors accessing the financial system but recognise this is a never-ending effort. Additionally, as digitalisation of commercial activity increases, the risks of confidence-threatening disruption and economic loss, not least from cyber attacks, are amplified. Technology, and in particular data analytics and machine learning applied to big data, will soon provide much greater capabilities to help us meet our objectives. What is also clear is that greater cooperation between the public and private sectors, together with a refresh of bank secrecy laws and regulation designed for a different age, would significantly increase the effectiveness of our joint efforts.

The good news is that there is increasing evidence of such discussions taking place. We should aspire to a unique digital identity for all participants in the financial system; a mandatory register of beneficial ownership of corporate and other non-personal structures in every country; and finally, enabling law and regulation to allow sanctioned sharing of customer information within institutions cross-border, between peer institutions, and between the industry and law enforcement services in pursuance of tackling financial crime. With enhanced public/private cooperation to combat financial crime, we could deploy the industry's considerable investment in this area much more effectively to the benefit of the societies we serve.

Outlook

In spite of geopolitical tensions and uncertainties, the major economic regions seem more synchronised in their growth trajectories than ever. Business investment is rising in the US and could expand further if promised tax reform can be delivered. Confidence is notably improving within the eurozone, with the prospect of structural reform in

France, following the recent election outcomes, seen positively for future growth prospects. China's economic data also is evidencing resilience after a slower period, and against this backdrop China's financial regulators have taken the opportunity to tackle risks evident in both the traditional and so-called shadow banking systems. With careful coordination and calibration, these moves are positive for the economy. The UK is, however, showing some signs of slower growth as the inflationary impacts of a weaker currency, Bank of England caution over consumer indebtedness and uncertainties over the EU exit negotiations constrain consumer and business confidence and spending.

The risks to economic growth remain concentrated around geopolitical events and political mis-steps. Additionally, the formidable challenge within Europe of negotiating both the terms of the UK's exit from the EU and the basis of the future relationship will dominate political agendas for some time, crowding out time for other policy considerations.

We enter this period with confidence, given our geographical and business line diversification, and strong balance sheet. On top of this, HSBC is served by an exceptional management team and 233,000 dedicated and talented colleagues.

For the past six and a half years, it has been my great privilege to lead HSBC's employees as Group Chairman. As I prepare to pass on the baton, I could not be more proud of what we have achieved together and I thank them on behalf of the Board, for the last time, for all their support.

'One of the most significant opportunities for HSBC going forward is participation in China's domestic capital markets as these open up'

'We enter this period with confidence, given our geographical and business line diversification, and strong balance sheet'

Group Chief Executive's Review

We have a diversified, universal banking business model and an integrated global network that work for our clients and deliver industry-leading returns for our investors.

We have made an excellent start to 2017, reflecting the changes we have made since our Investor Update in 2015 and the strength of our competitive position. Our three main global businesses performed well, generating significant increases in both reported and adjusted profit before tax, and gaining market share in many of the products that are central to our strategy. Revenue grew faster than costs on an adjusted basis compared with last year's first half, and we passed a number of major milestones on the way to completing our strategic actions.

Our international network continues to distinguish us from our peers and we strengthened it further in the first half of the year. We received regulatory approval in June to establish HSBC Qianhai Securities Limited, which will be the first joint-venture securities company in mainland China to be majority-owned by a foreign bank. This is a landmark achievement that will increase access to China's markets for our domestic and international clients. The new business is expected to launch in December 2017, pending the granting of the necessary securities licences.

HSBC was named 'World's Best Bank' at the Euromoney Awards for Excellence 2017 in July. This is a fantastic endorsement of all that we have achieved in transforming HSBC since 2011, and recognises the effectiveness of our business model, the value of our network and the superior ability that these things give us to help clients achieve their international ambitions. I am grateful to all 233,000 colleagues around the world for their considerable efforts in making this possible.

Business performance

Global Banking and Markets had a strong first half with large adjusted revenue increases in the majority of businesses compared with the same period last year. Our Equities and Fixed Income businesses performed well, growing revenue and capturing market share in spite of difficult conditions at the start of the second quarter. Debt Capital Markets also gained market share in Asia, MENA and Latin America.

Retail Banking and Wealth Management adjusted revenue grew significantly, with increases across multiple business lines. In Retail Banking, our robust balance sheet and trademark capital strength continued to attract deposits, particularly in Hong Kong, with associated revenue growth supported by interest rate rises. We also increased lending in our target markets, especially Hong Kong, the UK and Mexico. Wealth management benefited from improving customer investment appetite, strong product sales across all categories, and the impact of market movements on our life insurance manufacturing businesses.

Commercial Banking adjusted revenue increased on the back of strong growth in Global Liquidity and Cash Management. This more than compensated for marginal falls in revenue in Credit and Lending, and Global Trade and Receivables Finance. While Global Trade and Receivables Finance revenue

was down compared with last year's first half, it remained stable from the end of 2016 as we grew the balance sheet in Asia. We continued to capture trade finance market share in key hubs, including Hong Kong and Singapore.

Adjusted operating expenses rose slightly compared with the same period last year, as we invested more in business growth. Performance-related compensation also rose in line with increases in profit before tax. We remain on track to hit our revised cost-saving target by the end of 2017.

Adjusted loan impairment charges were lower than in the first half of 2016, mainly due to improved credit conditions in the oil and gas industry in North America.

Delivering value for our shareholders

Our common equity tier 1 ratio was 14.7% at 30 June, up from 12.1% at the same point in 2016. In the past 12 months we have paid more in dividends than any other European or American bank and returned $3.5bn to shareholders through share buy-backs. We have done this while strengthening one of the most resilient capital ratios in the industry. Where we have excess capital, we are open to returning it to shareholders. To that end, and having received the appropriate regulatory clearances, we will execute a further share buy-back of up to $2bn in the second half of 2017. This will bring the total value of shares repurchased since August 2016 to $5.5bn.

Strategic actions

The strategic actions that we announced at our Investor Day in June 2015 have been instrumental in making HSBC a better and more profitable bank. They continue to improve our ability to increase returns and gain maximum value from our international network, and we remain on track to complete the majority of actions by the end of the year. Targeted initiatives removed a further $29bn of RWAs from the business in the first half of 2017. Our RWA reduction programmes have extracted a total of $296bn of RWAs from the business since the start of 2015, comfortably exceeding our target. We will continue to identify and remove low-return RWAs to the end of 2017 and beyond.

We remain on track to achieve around $6bn of annualised cost savings by the end of the year, in line with the revised expectations that we set at our annual results. We removed a further $0.9bn of costs in the first six months, taking the total achieved since 2015 to $4.7bn.
HSBC Mexico maintained its momentum from 2016. Higher lending balances, strong deposit growth and improved collaboration between businesses helped to generate significantly higher profits than in last year's first half. It also continued to capture market share in targeted areas, particularly consumer lending.
Our US business remains a valuable source of business for other parts of our global network, and is therefore integral to HSBC. It is off track, but continues to make important progress. The run-off of our legacy US consumer and mortgage lending portfolio has been faster than we originally projected, and is almost complete. The US business received a non-objection to its capital plan from the US Federal Reserve Board as part of the Comprehensive Capital Analysis and Review in June.
We have been granted a restricted banking licence from the Financial Conduct Authority and the Prudential Regulation Authority for our UK ring-fenced bank. This is a significant achievement and an important milestone in the creation of HSBC UK. We have made good progress in establishing the IT infrastructure for HSBC UK, and have moved around 170,000 customer sterling accounts to new HSBC UK sort codes. We expect to move all

remaining sterling accounts that require new HSBC UK sort codes by the end of September 2017. We are very well advanced in filling the roles that will move from London to Birmingham, and remain on track to have a fully functioning team in place for the opening of our new UK headquarters in the first quarter of 2018.
Our international network continues to drive revenue growth for the business. Revenue from transaction banking products, which rely on the strength of the network, grew relative to last year's first half, particularly in Global Liquidity and Cash Management, and Foreign Exchange. 49% of Group adjusted client revenue is now linked to our international network, up from 45% at the same point in 2016.
We continue to shift the Group's business mix towards Asia, building on our improved financial performance and strong customer acquisition in the region since June 2015. We won new mandates related to the China-led Belt and Road initiative in the first half of the year and helped connect more Chinese companies to international opportunities. We also continued to expand our product range in the Pearl River Delta, offering personal loans to existing customers and launching retail business banking in the region. We now have around a quarter of a million credit cards in circulation in mainland China following the launch of our exclusively HSBC-branded credit card in December 2016. HSBC was named 'Asia's Best Bank' at the Euromoney Awards for Excellence 2017.
We remain the world's leading international bank for renminbi business, and achieved a number one ranking among foreign banks for onshore bonds in the first half of the year. HSBC was appointed one of the first market makers for the new Bond Connect in mainland China's Interbank Bond Market, and we underwrote the first new bond issue under the scheme in July. We ranked number one for the sixth consecutive year in the Asiamoney Offshore RMB Poll 2017.
Over the past five years, our Global Standards programme has transformed our ability to manage financial crime risk, making the Group and its customers safer and helping us to protect the integrity of the financial system. We have more work to do this year to complete the programme before integrating it fully into 'business as usual' risk management practices. Combating financial crime will continue to be a high priority, and we will always look for ways to strengthen our capabilities.
Douglas Flint
Douglas Flint steps down as Group Chairman in October and retires from HSBC after 22 years' distinguished service. I am grateful to Douglas for his support since the end of 2010 as we have implemented our long-term strategy for HSBC. During that time, he has not only helped HSBC to negotiate an ever-evolving regulatory environment, but also played a leading role in helping the banking industry recast the regulatory framework in response to the global financial crisis. Douglas has a fantastic reputation around the world for his knowledge, experience and technical expertise. I am sure that he will continue to contribute all of those things for the benefit of business and wider society. He leaves with the best wishes of everyone at HSBC.
Looking forward

Our business is in good shape. We have a diversified, universal banking business model and an integrated global network that work for our clients and deliver industry-leading returns for our investors. It is run efficiently, with strict risk-weighted asset and cost discipline, and responsibly, with a robust balance sheet and a formidable capital base. We remain focused on growing the business, improving our competitive position and rewarding our shareholders.

‘Our international network continues to distinguish us from our peers and we strengthened it further in the first half of the year’

‘Our Global Standards programme has transformed our ability to manage financial crime risk, making the Group and its customers safer and helping us to protect the integrity of the financial system’

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Strategic actions
We are well on our way towards achieving the actions outlined in our June 2015 Investor Update.

Capturing value from our international network
In our June 2015 Investor Update, 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 summarises our progress in 2017 with additional details provided on this page.
Resizing and simplifying our business
We have exceeded our target to reduce RWAs, with a gross reduction of $28.6bn achieved in 1H17 through management actions. We completed asset sales totalling approximately $5.5bn from our US consumer and mortgage lending (‘CML’) run-off portfolio. We continue to manage RWAs in a disciplined way and aim for further RWA reductions from management actions through to the end of 2017.
We continue to develop our businesses across the North American Free Trade Agreement ('NAFTA') region. In Mexico, we grew adjusted revenue by 14% compared with 1H16, driven mainly by increased RBWM loan balances on improved product propositions. We grew adjusted profit before tax in the US and Canada, as well as cross-border revenue within the NAFTA region by 7%. Revenue from international subsidiaries of our US clients based outside the NAFTA region increased by 14% compared with 1H16.
We remain on course to complete the set-up of our UK ring-fenced bank (‘RFB’) ahead of the 1 January 2019 statutory deadline. In 1H17, we passed several significant milestones including the reconfiguration of several key IT systems required to operate the RFB and also the successful migration of approximately 170,000 customer sterling accounts to new HSBC UK sort codes. In addition, we received a restricted bank licence for the RFB and are now working through an agreed mobilisation plan with the PRA and FCA to receive an unrestricted licence in 2018.
Our programme to deliver total cost savings of around $6bn is on track. Costs to achieve in 1H17 were $1.7bn and we expect around $1bn of investment in the second half of 2017. Our cost savings allow us to fund new digital and innovation initiatives, and meet other costs related to regulatory programmes and compliance. For example, we introduced a new customised payments screen for CMB and GB&M customers, which is now live in 21 markets and has resulted in a near 20% reduction in customer queries. We are also one of the largest financial services users of biometrics globally, and continue to introduce voice recognition and fingerprint technology across our network.
Redeploying capital to grow our business
We continue to leverage our international network to support our clients. International client revenue continues to represent approximately one half of our total revenue. In 1H17, transaction banking revenue rose by 7%, with strong growth in our Global Liquidity and Cash Management (‘GLCM’) and foreign exchange businesses. Revenue synergies across our businesses grew by 17% compared with 1H16.
Our pivot towards Asia continues. In 1H17, we grew our loan portfolio in the region by approximately $31bn to $401bn. Our asset management and insurance businesses in Asia realised significant revenue growth, driven by strong net flows, and market movements supported by strong sales momentum, respectively. Since our launch of credit cards in China at the end of last year, we have reached nearly 250,000 cards in circulation.
We continue to be recognised as the leading bank for international renminbi (‘RMB’) products and services, ranking first for the sixth year in a row in the Asiamoney Offshore RMB Poll 2017. In 1H17, we were appointed as one of the first market makers for the launch of Bond Connect, a bond trading link between mainland China and Hong Kong. This allows, for the first time, foreign fund managers to trade in China’s bond markets without using an onshore account. HSBC acted as joint lead underwriter for the first Belt and Road initiative RMB-denominated bond issued in mainland China by a non-Chinese issuer (‘Panda bond’) under Bond Connect.

Selected awards and recognition in 1H17
Euromoney Awards for Excellence 2017
World’s Best Bank

World's Best Investment Bank in the Emerging Markets
Asia's Best Bank

Asiamoney Banking Awards 2017
Best International Bank in China

Asiamoney Offshore RMB Poll 2017
Best overall offshore RMB products / services

Extel Survey 2017
#1 SRI & Sustainability
#1 Integrated Climate Change

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Financial overview

Reported results

This table shows our reported results for the last three half-years, ended 30 June 2017 ('1H17'), 31 December 2016 ('2H16') and 30 June 2016 ('1H16').

All commentary in this Financial overview compares the 1H17 results with 1H16, unless otherwise stated.

Reported profit before tax

Reported profit before tax of $10.2bn was $0.5bn or 5% higher than in 1H16, despite net adverse movements of significant items and unfavourable effects of foreign currency translation, which are described in more detail on page 22. Excluding significant items and currency translation, profit before tax increased by $1.3bn or 12%.

Reported revenue

Reported revenue of $26.2bn was $3.3bn or 11% lower, largely reflecting a net unfavourable movement in significant items of $3.1bn, which included:

- in 1H16, favourable fair value movements on our own debt designated at fair value reflecting changes in our own credit spread of $1.2bn, which are now reported in other comprehensive income, following our partial early adoption of IFRS 9 'Financial Instruments' on 1 January 2017;
- revenue of $1.5bn in 1H16 relating to the operations in Brazil that we sold in July 2016; and
- in 1H16, a $0.6bn gain on the disposal of our membership interest in Visa Europe. This compared with a $0.3bn gain on the disposal of our shares in Visa Inc. in 1H17.

Excluding significant items, and adverse effects of foreign currency translation of $1.0bn, revenue increased by $0.8bn or 3%.

Reported LICs

Reported LICs of $0.7bn were $1.7bn or 72% lower, notably from reductions in CMB and GB&M, as well as the effect of our sale of operations in Brazil ($0.7bn). We also recorded lower LICs in our US run-off portfolio in Corporate Centre, and favourable effects of foreign currency translation of $0.1bn.

Reported operating expenses

Reported operating expenses of $16.4bn were $2.2bn or 12% lower. This reflected a reduction in significant items of $2.0bn, which included:

- in 1H16, a $0.8bn write-off of goodwill in our GPB business in Europe;
- a net release of $0.3bn in 1H17 related to settlements and provisions in connection with legal matters compared with charges of $0.7bn in 1H16; and
- operating expenses of $1.1bn in 1H16 incurred in the operations in Brazil that we sold.

These were partly offset by:

- costs to achieve of $1.7bn, compared with $1.0bn in 1H16.

Excluding significant items and the favourable effects of foreign currency translation of $0.6bn, operating expenses increased by $0.4bn, partly due to a $0.1bn credit in 1H16 related to the 2015 UK bank levy. The remaining increase reflected investment in growth programmes, primarily in RBWM where investments were in part funded by the proceeds from our sale of Visa shares.

Reported income from associates

Reported income from associates and joint ventures of $1.2bn decreased by $55m, primarily reflecting the adverse impact of foreign currency translation.

	Half-year to		
Reported results	30 Jun 2017 $m	30 Jun 2016 $m	31 Dec 2016 $m
Net interest income	13,777	15,760	14,053
Net fee income	6,491	6,586	6,191
Net trading income	3,928	5,324	4,128
Other income	1,970	1,800	(5,876)
Net operating income before loan impairment charges and other credit risk provisions (‘revenue’)	26,166	29,470	18,496
Loan impairment charges and other credit risk provisions (‘LICs’)	(663)	(2,366)	(1,034)
Net operating income	25,503	27,104	17,462
Total operating expenses	(16,443)	(18,628)	(21,180)
Operating profit	9,060	8,476	(3,718)
Share of profit in associates and joint ventures	1,183	1,238	1,116
Profit before tax	10,243	9,714	(2,602)

Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 80. We also present adjusted performance measures to align internal and external reporting, identify and quantify items management believes to be significant, and provide insight into how management assesses period-on-period performance. Adjusted performance measures are highlighted with the following symbol: ^

To derive adjusted performance, we adjust for:

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

For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 38.

Adjusted results^

This table shows our adjusted results for 1H17 and 1H16. These are discussed in more detail on the following pages.

	Half-year to		Movements compared with 1H16		
Adjusted results^	30 Jun 2017 $m	30 Jun 2016 $m	Adverse	Favourable	(%)
Net operating income before loan impairment charges and other credit risk provisions (‘revenue’)	26,053	25,235		818	3
Loan impairment charges and other credit risk provisions (‘LICs’)	(663)	(1,556)		893	57
Total operating expenses	(14,606)	(14,222)	(384)		(3)
Operating profit	10,784	9,457		1,327	14
Share of profit in associates and joint ventures	1,183	1,194	(11)		(1)

Profit before tax	11,967	10,651	1,316	12

Adjusted profit before tax^

On an adjusted basis, profit before tax of $12.0bn was $1.3bn or 12% higher than in 1H16. This reflected higher revenue (up $0.8bn) and lower LICs (down $0.9bn), partly offset by an increase in operating expenses (up $0.4bn).

Adjusted revenue^

Adjusted revenue of $26.1bn was $0.8bn or 3% higher. The increase reflected the following:

In RBWM, revenue increased by $1.1bn or 12%, primarily in Wealth Management, driven by insurance manufacturing (up $554m), as favourable market impacts compared with adverse impacts in 1H16, notably in Asia and France. Investment distribution income also grew, notably in Asia, reflecting improved investor confidence. In Retail Banking, revenue grew in current accounts, savings and deposits, reflecting wider spreads and increased balances in Hong Kong. This was partly offset by lower personal lending revenue as a result of narrower spreads in Hong Kong and the UK.

In GB&M, revenue increased by $0.6bn or 8%. Revenue rose in Fixed Income, Currencies and Commodities ('FICC') (up $176m), primarily in Rates and Credit, as we captured higher client flows and increased our market share, notably in Europe, and in Equities (up $167m) as we grew market share in Prime Financing. In Global Banking, revenue increased (up $168m), with continued momentum in investment banking products and growth in lending

balances, which more than offset spread compression; the increase also reflected recoveries on restructured facilities in 1H17 compared with write-downs in 1H16. Revenue also increased by $129m in Global Liquidity and Cash Management ('GLCM'), reflecting balance growth from increased client mandates, and wider spreads, notably in Asia. These increases were partly offset by net adverse movements on credit and funding valuation adjustments of $147m.

In CMB, revenue increased by $0.1bn or 1%, notably in GLCM from balance growth and wider spreads in Hong Kong. In the UK, we grew balances, though this was more than offset by narrower spreads. Revenue decreased in Credit and Lending from narrower spreads, notably in Hong Kong, although we increased average lending balances in both the UK (up 14%) and Hong Kong (up 13%). Revenue also decreased in Global Trade and Receivables Finance ('GTRF'), notably reflecting managed customer exits in the Middle East and North Africa ('MENA').

These increases were partly offset:

In Corporate Centre, revenue decreased by $0.9bn or 50%, mainly in Central Treasury ($0.6bn). This reflected lower favourable fair value movements ($0.1bn in 1H17 compared with $0.4bn in 1H16) relating to the economic hedging of our long-term debt, as well as higher interest expense on our debt ($0.3bn). Revenue also fell in the US run-off portfolio ($0.3bn) from continuing disposals. These reductions were partly offset by a rise in Legacy Credit as a result of net favourable movements on credit and funding valuation adjustments.

In GPB, revenue decreased by $48m or 5%, reflecting the continued impact of our repositioning actions. These actions are now largely completed. Revenue increased in markets targeted for growth, notably in Hong Kong reflecting an increase in client activity and wider deposit spreads.

Adjusted revenue^	Half-year to 30 Jun 2017 $m	30 Jun 2016 $m	Variance $m	%
RBWM	10,043	8,955	1,088	12
CMB	6,407	6,315	92	1
GB&M	7,823	7,213	610	8
GPB	846	894	(48)	(5)
Corporate Centre	934	1,858	(924)	(50)
Total	26,053	25,235	818	3

Adjusted LICs^

Adjusted LICs of $0.7bn were $0.9bn or 57% lower, reflecting reductions in:

CMB ($0.4bn lower), notably in North America and the UK, reflecting lower individually assessed LICs, primarily against exposures in the oil and gas sector. In addition, there was a net release in 1H17 in the UK relating to the construction sector. This was partly offset by higher LICs in Hong Kong relating to a small number of customers;

- GB&M ($0.4bn lower), as individually assessed LICs reduced, notably because 1H16 included charges against exposures in the oil and gas, and mining sectors in the US; and
- Corporate Centre ($0.1bn lower), primarily from lower collective LICs in the US run-off portfolio in 1H17.

Adjusted operating expenses^

Adjusted operating expenses of $14.6bn were $0.4bn or 3% higher. This was partly due to a credit of $0.1bn in 1H16 relating to the 2015 UK bank levy.

Excluding the impact of the UK bank levy, adjusted operating expenses were higher reflecting investments in business growth, primarily in RBWM where investments were in part funded by the proceeds from our sale of Visa shares. The impact of our cost-saving initiatives broadly offset inflation and continued investment in our regulatory programmes and compliance.

Our total investment in regulatory and compliance programmes in 1H17 was $1.6bn, up $168m or 12%. This reflected the continued implementation of our Global Standards programme to enhance financial crime risk controls and capabilities, and investment in stress testing and other regulatory programmes. These costs included spend incurred to deliver the programmes, as well as recurring costs to maintain the activities.

The number of employees expressed in full-time equivalent staff ('FTEs') at 30 June 2017 was 232,957, a decrease of 2,218 from 31 December 2016. This reflected reductions resulting from our transformation programmes, partly offset by investment in our Global Standards programme of 5,585 FTEs.

Adjusted income from associates^

Adjusted income from associates and joint ventures of $1.2bn fell by $11m compared with 1H16.

Balance sheet and capital

Balance sheet strength

Total reported assets were $2.5tn, 5% higher than at 31 December 2016 on a reported basis, and 2% higher on a constant currency basis. We have increased the size of our balance sheet, reflecting targeted asset growth, supported by growth in customer accounts.

Distributable reserves

The distributable reserves of HSBC Holdings at 30 June 2017 were $41bn, compared with $42bn at 31 December 2016. The decrease was primarily driven by distributions to shareholders of $4.0bn, which were higher than profits generated of $3.7bn, as well as fair value losses due to movements in our own credit spread of $486m.

Capital strength

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

Our CET1 ratio at 30 June 2017 was 14.7%, up from 13.6% at 31 December 2016.

Delivery against Group financial targets

Return on equity

Our medium-term target is to achieve a return on equity ('RoE') of more than 10%. In 1H17, we achieved an RoE of 8.8% compared with 7.4% in 1H16.

Adjusted jaws^
Jaws measures the difference between the rates of change in revenue and costs. Positive jaws occurs when the figure for the percentage change in revenue is higher than, or less negative than, the corresponding rate for costs.
We calculate adjusted jaws using adjusted revenue and costs. Our target is to maintain positive adjusted jaws.
In 1H17, adjusted revenue increased by 3.2%, whereas our adjusted operating expenses increased by 2.7%. Adjusted jaws was therefore positive 0.5%.
Dividends
In the current uncertain environment, we plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Growing our dividend in the future will depend on the overall profitability of the Group, delivering further release of less efficiently deployed capital and meeting regulatory capital requirements in a timely manner. Actions to address these points were core elements of the strategic actions set out in our Investor Update in June 2015.

Global businesses

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

The 'Management view of adjusted revenue' tables provide a breakdown of revenue by major products, and reflect the basis on which revenue performance of each business is assessed and managed.

The comparative periods have been restated to reflect changes to reportable segments, as described on page 36.

Commentary is on an adjusted basis, which is consistent with how we assess the performance of our global businesses.^

Retail Banking and Wealth Management

RBWM serves close to 36 million customers worldwide through four main businesses: Retail Banking, Wealth Management, Asset Management and Insurance. Our HSBC Premier and Advance propositions are aimed at mass affluent and emerging affluent customers who value international connectivity and benefit from our global reach and scale. For customers with simpler banking needs, RBWM offers a full range of products and services reflecting local requirements.

Key events

- Continued to attract customer deposits (up 3% from December 2016), providing potential benefits from future rate rises.
- Gains on our sale of Visa shares are being used to finance strategic investments in Insurance and Retail Business Banking business growth.

Financial performance

Adjusted profit before tax of $3.4bn was $0.8bn or 32% higher than for 1H16, reflecting strong revenue growth, partly offset by higher costs and LICs, with positive adjusted jaws of 8.3%.

Adjusted revenue of $10.0bn was $1.1bn or 12% higher, as revenue grew in both Wealth Management and Retail Banking.

The revenue increase in Wealth Management resulted from:

- growth in insurance manufacturing revenue from favourable market impacts of $217m due to interest rates and equity markets, notably in Asia and France, compared with adverse market impacts in 1H16 of $319m, and higher insurance sales in Asia; and
- higher investment distribution revenue, primarily driven by higher sales of mutual funds in Hong Kong, reflecting increased investor confidence.

The revenue increase in Retail Banking resulted from:

- current accounts, savings and deposits due to wider spreads and balances in Hong Kong and Mexico.

This was partly offset by:

- lower personal lending revenue reflecting narrower spreads in mortgages, notably in Hong Kong and the UK, as well as lower revenue in the UK from current accounts, savings and deposits as spreads narrowed, though balances grew.

Adjusted LICs of $556m were $25m or 5% higher, reflecting our strategy to shift our portfolio to unsecured lending. This included an increase of $43m in Mexico, reflecting targeted growth in unsecured lending and associated higher delinquency rates. In addition, LICs in the UK increased by $47m, primarily against our mortgages and cards exposures. LICs in the UK remain at low levels, representing 16bps of the overall portfolio. The increases in LICs were partly offset by lower LICs in Turkey and the US.

Adjusted operating expenses of $6.1bn were $0.2bn or 4% higher, as transformational and other cost savings were more than offset by investments, increased technology costs resulting partly from higher transaction volumes, performance-related pay and inflation.

Management view of adjusted revenue^	Half-year to			1H17 vs 1H16	
	30 Jun 2017 $m	30 Jun 2016 $m	31 Dec 2016 $m	$m	%
Net operating income [1]					
Retail Banking	6,549	6,275	6,310	274	4
Current accounts, savings and deposits	3,011	2,574	2,619	437	17
Personal lending	3,538	3,701	3,691	(163)	(4)
– mortgages	1,150	1,274	1,249	(124)	(10)
– credit cards	1,479	1,521	1,504	(42)	(3)
– other personal lending [2]	909	906	938	3	—
Wealth Management	3,221	2,443	2,821	778	32
– investment distribution [3]	1,598	1,414	1,477	184	13
– life insurance manufacturing	1,113	559	837	554	99
– asset management	510	470	507	40	9
Other [4]	273	237	266	36	15
Total	10,043	8,955	9,397	1,088	12
RoRWA (%) [5]	5.9	4.5	4.7		

For footnotes, see page 55.

Change in adjusted
profit before tax
++32%

Commercial Banking

CMB serves approximately 1.7 million customers in 54 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally. We support customers with tailored financial products and services to allow them to operate efficiently and grow.

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

Key events

- Launched Move Money, a single payments screen customised for specific clients, in 21 markets.
- Launched LinkScreen in the UK, making us the world's first bank to provide small and medium-sized clients with key elements of a traditional face-to-face meeting via an online platform.

Financial performance

Adjusted profit before tax of $3.4bn was $0.5bn or 17% higher, reflecting lower LICs and higher revenue. We achieved positive adjusted jaws of 1.5%.

Adjusted revenue rose by $0.1bn or 1%, as higher revenue in GLCM was partly offset in Credit and Lending, and GTRF.

- In GLCM, revenue increased by $192m or 9%, reflecting wider spreads in Hong Kong and mainland China. In the UK, growth in average deposit balances of 14% was more than offset by narrower spreads, following the UK base rate reduction in August 2016.
- In Credit and Lending, revenue decreased by $31m or 1%. This reduction was mainly in Asia reflecting narrower spreads, notably in Hong Kong and mainland China as a result of competitive environments, partly offset by growth in average balances in Hong Kong (13%). In the UK, revenue increased from growth in average balances (14%) which more than offset the effects of spread compression following the base rate reduction in August 2016.
- In GTRF, revenue decreased by $27m or 3%, primarily in MENA, reflecting managed customer exits in the UAE. GTRF revenue has stabilised since the end of 2016, supported by lending growth in Asia. Despite challenges in global trade, we continued to increase our share of key markets compared with 1H16, including trade finance in Hong Kong and Singapore, and receivables finance in the UK.

Adjusted LICs reduced by $0.4bn, notably in North America and the UK, reflecting lower individually assessed LICs, primarily against exposures in the oil and gas sector. 1H17 also included net releases in the UK relating to the construction sector. These reductions were partly offset by higher individually assessed LICs in Hong Kong relating to a small number of customers. Collectively assessed LICs were higher in Hong Kong and MENA, in part offset in the UK where the reduction reflected reduced exposures and lower loss rates in the oil and gas sector.

Adjusted operating expenses were unchanged as wage inflation and investment in digital initiatives and Global Standards were offset by cost-saving initiatives.

As a result of management initiatives, RWAs were reduced by $7bn, resulting in a cumulative decrease of $53bn since our Investor Update in June 2015, exceeding our target of $29bn.

	Half-year to			1H17 vs 1H16	
Management view of adjusted revenue^	30 Jun 2017 $m	30 Jun 2016 $m	31 Dec 2016 $m	$m	%
Net operating income [1]					
Global Trade and Receivables Finance	900	927	897	(27)	(3)
Credit and Lending	2,441	2,472	2,467	(31)	(1)
Global Liquidity and Cash Management	2,269	2,077	2,121	192	9
Markets products, Insurance and Investments and Other [6]	797	839	670	(42)	(5)
Total	6,407	6,315	6,155	92	1
RoRWA (%) [5]	2.5	2.2	2.1		

For footnotes, see page 55.

Change in adjusted
profit before tax
+17%

Global Banking and Markets

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

Key events

- The first foreign bank with a majority-owned securities joint venture in China, which will allow us to provide GB&M and CMB clients with a broad spectrum of investment banking and markets services in China.
- Growth of 4% in average balances in GLCM from December 2016 positioning us to benefit from potential interest rate rises.

Financial performance

Adjusted profit before tax of $3.4bn was $0.8bn or 33% higher, reflecting a strong revenue performance in 1H17, as well as a reduction in LICs of $0.4bn, partly offset by higher operating expenses of $0.2bn. We achieved positive adjusted jaws of 4.9%. Adjusted revenue increased by $0.6bn or 8% including a net adverse movement of $147m on credit and funding valuation adjustments. Excluding these movements, profit before tax rose by $1.0bn or 40%, and revenue increased by $0.8bn or 11%, with increases in all of our businesses. The rise in adjusted revenue was driven by:

- FICC (up $176m to $3.1bn), primarily in Rates and Credit, as we captured higher client flows and grew our market share in Europe, despite challenging industry-wide conditions at the start of 2Q17.
- Equities (up $167m), as we continued to capture market share in Prime Financing products. By contrast, performance in 1H16 was affected by market volatility which led to reduced client activity.
- A strong performance in Global Banking (up $168m), with continued momentum in Investment Banking products and growth in lending balances, which more than offset the effects of tightening spreads on lending in Asia. The increase in revenue also included recoveries on restructured facilities in 1H17 compared with write-downs in 1H16.
- An increase from all our transaction banking products, notably GLCM (up $129m) and Securities Services ('HSS') (up $92m). In GLCM, balances grew as we won client mandates and spreads widened, notably in Asia and the US, although UK balance growth was offset by narrower spreads.

Adjusted LICs of $41m in 1H17 decreased by $387m. This largely reflected a reduction in individually assessed charges, particularly as the prior year included LICs on exposures in the oil and gas, and mining sectors in the US.

Adjusted operating expenses increased by $152m or 4%, which reflected higher performance and severance costs, including pension costs. In addition, we made strategic investments in GLCM, HSS and Foreign Exchange. Our continued cost management, efficiency improvements and FTE reductions were broadly offset by the effects of inflation.

We have now exceeded the RWA reduction target set in our Investor Update in June 2015, with the cumulative reduction in RWAs from management initiatives reaching $107bn. This includes a further RWA reduction of $11bn in 1H17. Our adjusted RoRWA improved to 2.3% from 1.6% in 1H16.

Management view of adjusted revenue^	Half-year to 30 Jun 2017 $m	30 Jun 2016 $m	31 Dec 2016 $m	1H17 vs 1H16 $m	%
Net operating income[1]					
Global Markets	3,722	3,379	3,196	343	10
– Equities	659	492	482	167	34
– FICC	3,063	2,887	2,714	176	6
Foreign Exchange	1,351	1,354	1,381	(3)	—
Rates	1,147	1,053	1,039	94	9
Credit	565	480	294	85	18
Global Banking	1,950	1,782	1,954	168	9
Global Liquidity and Cash Management	1,042	913	953	129	14
Securities Services	839	747	793	92	12
Global Trade and Receivables Finance	358	340	341	18	5
Principal Investments	77	(1)	223	78	> 100
Credit and funding valuation adjustments[7]	(95)	52	(104)	(147)	> (100)
Other[8]	(70)	1	(34)	(71)	> (100)
Total	7,823	7,213	7,322	610	8
RoRWA (%) [5]	2.3	1.6	1.9		

For footnotes, see page 55.

Change in adjusted profit before tax
+33%

Global Private Banking

GPB serves high net worth individuals and families, including those with international banking needs, through 12 booking centres covering our priority markets.

We provide a full range of private banking services, including Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

Key events

- Net new money of $1bn was driven by positive inflows of $8bn in key markets targeted for growth, mainly in Hong Kong. This was partly offset by outflows resulting from the repositioning of the business. These repositioning actions are largely complete.
- Positive momentum with strong growth in client inflows.

Financial performance

Adjusted profit before tax of $143m was $39m or 21% lower as revenue decreased, partly offset by a reduction in costs.

Adjusted revenue of $846m was $48m or 5% lower, reflecting the continued impact of client repositioning. Revenue from markets targeted for growth increased by 9%, mainly in Hong Kong reflecting higher investment revenue and wider deposit spreads.

Adjusted operating expenses of $702m were $20m or 3% lower, mainly as a result of the managed reduction in FTEs and the impact of our cost-saving initiatives.

	Half-year to			1H17 vs 1H16	
Management view of adjusted revenue^	30 Jun 2017 $m	30 Jun 2016 $m	31 Dec 2016 $m	$m	%
Net operating income[1]					
Investment Revenue	354	381	349	(27)	(7)
Lending	186	211	198	(25)	(12)
Deposit	191	176	164	15	9
Other	115	126	127	(11)	(9)
Total	846	894	838	(48)	(5)
RoRWA (%) [5]	1.8	2.1	1.2		

For footnotes, see page 55.

Change in adjusted profit before tax
-21%

Corporate Centre

Corporate Centre comprises Central Treasury, including Balance Sheet Management (´BSM`), our legacy businesses, interests in our associates and joint ventures, central stewardship costs that support our businesses, and the UK bank levy.

Financial performance

Adjusted profit before tax of $1.6bn was $0.8bn or 33% lower, as revenue decreased, partly offset by a reduction in LICs.

Adjusted revenue fell by $0.9bn or 50%, reflecting a decrease in Central Treasury ($0.6bn) and continuing disposals in the US run-off portfolio ($0.3bn). In Central Treasury, revenue decreased as a result of:

- lower favourable fair value movements ($0.1bn in 1H17 compared with $0.4bn in 1H16) relating to the economic hedging of interest-rate and exchange-rate risk on our long-term debt with long-term derivatives; and
- higher interest expense on our debt ($0.3bn), mainly reflecting the higher cost of debt issued to meet regulatory requirements.

These reductions were partly offset by an increase in legacy credit ($0.2bn), primarily resulting from net favourable movements in credit and funding valuation adjustments.

Adjusted LICs were $136m lower, primarily in the US run-off portfolio.

Adjusted operating expenses were $29m or 5% higher, due to a credit booked in 1H16 relating to the UK bank levy in 2015 ($0.1bn), compared with minimal charges in 1H17. Excluding this, operating expenses fell by $116m, due to lower costs in the US run-off portfolio.

Adjusted income from associates rose by $13m or 1%.

	Half-year to			1H17 vs 1H16	
Management view of adjusted revenue^	30 Jun 2017	30 Jun 2016	31 Dec 2016		
	$m	$m	$m	$m	%
Net operating income[1]					
Central Treasury[9]	765	1,354	83	(589)	(44)
Legacy portfolios	134	328	392	(194)	(59)
– US run-off portfolio	75	420	272	(345)	(82)
– Legacy credit	59	(92)	120	151	> 100
Other[10]	35	176	(725)	(141)	(80)
Total	934	1,858	(250)	(924)	(50)

For footnotes, see page 55.

Risk overview

We actively manage risk to protect and enable the business.

Managing risk

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

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

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

HSBC's risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. It is articulated in a risk appetite statement, which is approved by the Board. Key elements include:

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

Our risk management framework and risks associated with our banking and insurance manufacturing operations are described on pages 68 to 73 of the Annual Report and Accounts 2016.

Top and emerging risks

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

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

During 1H17, we made two changes to our top and emerging risks to reflect our assessment of their potential effects on the Group. The thematic issue ‘Regulatory focus on conduct of business and financial crime’ was removed and ‘Financial crime risk environment’ was added to further emphasise the heightened focus on, and robust oversight, monitoring and active risk management of, financial crime risks.

In addition, one thematic issue was renamed to better reflect the challenges facing the Group. We use the new name in the table opposite, which summarises our top and emerging risks.
Our top and emerging risks are also summarised and discussed in more detail on pages 27 and 64 of the Annual Report and Accounts 2016.
Our approach to identifying and monitoring top and emerging risks is described on page 70 of the Annual Report and Accounts 2016.

	Risk	Trend	Mitigants
	Externally driven		
	Geopolitical risk	é	We continually assess the impact of geopolitical events on our business including examining a range of potential impacts arising from the UK's exit from the European Union ('EU'). Where required, we take steps to mitigate these risks to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.
	Economic outlook and capital flows	é	We actively monitor our wholesale credit and trading portfolios, and undertake stress tests and other analysis, to identify sectors and clients that may come under stress due to economic conditions in the eurozone, mainland China and the UK as its negotiations to exit from the EU commence.
	Turning of the credit cycle	è	We have conducted detailed reviews of our oil and gas, and commercial real estate portfolios. We are actively assessing sectors likely to come under stress due to macroeconomic or geopolitical events, and reducing limits where appropriate.
	Cyber threat and unauthorised access to systems	é	We continue to enhance our cybersecurity capabilities, strengthening the threat detection capability within our security operations centres, delivering enhanced anti-malware capability across our infrastructure, and improving our access control.
*	Regulatory, technological and sustainability developments with adverse impact on business model and profitability	è	We proactively engage with regulators and policy makers to help ensure new regulatory requirements are effectively implemented. We continue to engage with non-governmental organisations to ensure we address environmental concerns adopting changes in policy as required.
	Financial crime risk environment	è	We remain on track to complete the introduction of major compliance IT systems by the end of 2017 to support our global anti-money laundering ('AML') and sanctions policy framework. We are conducting an assessment against the core capabilities of our financial crime risk framework to enable the capabilities to be fully integrated in our day-to-day operations.
	US deferred prosecution agreement and related agreements and consent orders	è	We are taking concerted action to remediate AML and sanctions compliance deficiencies and to implement our Global Standards.
	Internally driven		

IT systems infrastructure and resilience	è	We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem diagnosis/resolution and change execution capabilities. This has significantly reduced service disruption to our customers since 1H16.
Impact of organisational change and regulatory demands on employees	è	We continue to focus on resourcing and employee development to meet regulatory changes, including the UK ring-fenced bank, and to maintain and enhance our leadership strength.
Execution risk	è	The Group Change Committee continues to oversee the progress of the highest priority programmes across the Group, underpinning the implementation of our strategic actions by managing interdependencies, providing direction and taking action to help ensure successful delivery.
Third-party risk management	è	We are implementing our enhanced Group policy and framework to strengthen how we identify, assess, mitigate and manage risks across the range of third parties with which we do business.
Enhanced model risk management expectations	è	We have established a model risk management sub-function in the second line of defence to further strengthen governance of this risk type. We continue to enhance our model risk management framework in order to address evolving requirements, both internal and external.
Data management	è	We continue to enhance our data governance, quality and architecture to help enable consistent data aggregation, reporting and management.

[é] Risk heightened during 2017
[è] Risk remained at the same level as 2016
* Thematic risk renamed during 1H17

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 80. To measure our performance we also use non-GAAP financial measures, including those derived from our reported results that eliminate factors that distort period-on-period comparisons. The 'adjusted performance' measure used throughout this report is described below, and where others are used they are described. All non-GAAP financial measures are reconciled to the closest reported financial measure.

The global business segmental results on pages 37 to 43 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation' on page 36.

Adjusted performance

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

Foreign currency translation differences are described below. 'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to understand better the 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 during 2017. We exclude them to derive constant currency data, allowing us to assess balance sheet and income statement performance on a like-for-like basis and better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for the half-year to 30 June 2017 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 2016 and 31 December 2016 at the average rates of exchange for the half-year to 30 June 2017; and
- the balance sheets at 30 June 2016 and 31 December 2016 at the prevailing rates of exchange on 30 June 2017.

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 has been translated at the appropriate exchange rates applied in the current period on the basis described above.

Change to presentation from 1 January 2017

Own credit spread

'Own credit spread' includes the fair value movements on our long-term debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities. On 1 January 2017, HSBC adopted the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income. Refer to 'Standards applied during the half-year to 30 June 2017' on page 86 for further detail.

Adjusted performance – foreign currency translation of significant items

The foreign currency translation differences related to significant items are presented as a separate component of significant items. This is considered a more meaningful presentation as it allows better comparison of period-on-period movements in performance.

Significant items

The tables on pages 40 to 43 and pages 50 to 52 detail the effect of significant items on each of our global business segments and geographical regions during 1H17 and the two halves of 2016.

Consolidated income statement

Summary consolidated income statement

		Half-year to		
		30 Jun 2017	30 Jun 2016	31 Dec 2016
	Footnote	$m	$m	$m
Net interest income		13,777	15,760	14,053
Net fee income		6,491	6,586	6,191
Net trading income		3,928	5,324	4,128
Net income/(expense) from financial instruments designated at fair value		2,007	561	(3,227)
Gains less losses from financial investments		691	965	420
Dividend income		49	64	31
Net insurance premium income		4,811	5,356	4,595
Other operating income/(expense)		526	644	(1,615)
Total operating income		32,280	35,260	24,576
Net insurance claims and benefits paid and movement in liabilities to policyholders		(6,114)	(5,790)	(6,080)
Net operating income before loan impairment charges and other credit risk provisions		26,166	29,470	18,496
Loan impairment charges and other credit risk provisions		(663)	(2,366)	(1,034)
Net operating income		25,503	27,104	17,462
Total operating expenses		(16,443)	(18,628)	(21,180)
Operating profit/(loss)		9,060	8,476	(3,718)
Share of profit in associates and joint ventures		1,183	1,238	1,116
Profit/(loss) before tax		10,243	9,714	(2,602)
Tax expense		(2,195)	(2,291)	(1,375)
Profit/(loss) for the period		8,048	7,423	(3,977)
Attributable to:				
– ordinary shareholders of the parent company		6,999	6,356	(5,057)
– preference shareholders of the parent company		45	45	45
– other equity holders		466	511	579
– non-controlling interests		538	511	456
Profit/(loss) for the period		8,048	7,423	(3,977)
		$	$	$
Basic earnings per share		0.35	0.32	(0.25)
Diluted earnings per share		0.35	0.32	(0.25)
Dividend per ordinary share (declared in the period)		0.31	0.31	0.20
		%	%	%
Post-tax return on average total assets		0.7	0.6	(0.3)
Return on average risk-weighted assets	11	2.4	1.8	(0.5)
Return on average ordinary shareholders' equity (annualised)		8.8	7.4	(6.0)
Average foreign exchange translation rates to $:				
$1: £		0.795	0.698	0.783
$1: €		0.924	0.896	0.911

For footnotes, see page 55.

Group performance by income and expense item

For further financial performance data for each global business and geographical region, see pages 39 to 43, and 48 to 52, respectively.

Net interest income

		Half-year to		
		30 Jun 2017	30 Jun 2016	31 Dec 2016
	Footnotes	$m	$m	$m
Interest income		19,727	23,011	19,403
Interest expense		(5,950)	(7,251)	(5,350)
Net interest income	12	13,777	15,760	14,053
Average interest-earning assets		1,690,585	1,733,961	1,713,555
		%	%	%
Gross interest yield	13	2.35	2.67	2.25
Less: cost of funds		(0.84)	(1.01)	(0.74)
Net interest spread	14	1.51	1.66	1.51
Net interest margin	15	1.64	1.83	1.63

For footnotes, see page 55.

Financial summary

In July 2016, we completed the sale of operations in Brazil. In 1H16, we recorded net interest income of $0.9bn in Brazil from average interest earning assets of $25.8bn.

In 1H17, our net interest margin was 1.64%, compared with 1.73% in 1H16, excluding the effects of the sale of operations in Brazil and foreign currency translation.

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	—	1,106	—
– releases arising from the ongoing review of compliance with the UK Consumer Credit Act	—	2	—
– trading results from disposed-of operations in Brazil	—	949	—
– currency translation on significant items		155	—
Currency translation		583	230
Total	—	1,689	230

Reported net interest income of $13.8bn decreased by $2.0bn or 13% compared with 1H16. This included the significant items and currency translation totalling $1.7bn, including the effects of the sale of operations in Brazil of $0.9bn.

Excluding the effects of foreign currency translation and the sale of operations in Brazil, net interest income decreased by $0.3bn, mainly in North America and Europe, partly offset by a rise in Asia.

On a reported basis, net interest margin of 1.64% fell by 19 basis points ('bps'), including the effects of the sale of operations in Brazil and foreign currency translation, which contributed a decrease of 10bps. Net interest margin excluding the effects of sale of operations in Brazil and foreign currency translation decreased by 9bps, reflecting lower cost of customer accounts and an increase in yield on surplus liquidity, notably in Asia and North America. These factors were more than offset by lower yields on customer lending, partly reflecting the continuing run-off of our US CML portfolio, and an increase in the cost of Group debt.

Compared with 31 March 2017, net interest margin remained unchanged.

Interest income

Reported interest income fell by $3.3bn compared with 1H16, mainly as a result of the effect of the sale of operations in Brazil of $2.7bn and foreign currency translation of $1.0bn. Excluding these, interest income increased by $0.4bn. This was driven by higher income from reverse repurchase agreements and surplus liquidity, partly offset by a fall in customer lending income.

Interest income on loans and advances to customers was $0.3bn lower, excluding the effects of our sale of operations in Brazil and foreign currency translation totalling $0.8bn. The decrease arose in:

- North America, primarily resulting from the continuing run-off of our US CML portfolio; and
- Europe, as the effects of decreased lending yields more than offset balance growth in mortgages, term lending and overdrafts. This resulted from lower central bank rates, negative interest rates in continental Europe and market competition. Mortgage yields were also affected by a change in portfolio mix towards lower-yielding fixed-rate products.

These decreases were partly offset by increases in:

- Asia, primarily driven by balance growth in term lending and mortgages, although yields fell reflecting competitive pressures; and
- Mexico, as balances and yields rose, following the effects of central bank rate rises.

Interest income on reverse repurchase agreements – non-trading was $0.4bn higher, driven by higher yields in all regions and balance growth in North America and Asia. This increase was broadly offset by the cost of repurchase

agreements.
Interest income on short-term funds and financial investments, excluding the effects of sale of operations in Brazil and foreign currency translation, also rose, primarily in Asia and North America, following central bank rate rises. This was partly offset by a reduction in Europe, following the Bank of England rate cut in August 2016.
Interest expense
Reported interest expense fell by $1.3bn compared with 1H16, including the effects of the sale of operations in Brazil and foreign currency translation totalling $2.0bn. Excluding these, interest expense increased by $0.7bn. This was mainly as a result of increased cost of repurchase agreements and Group debt, partly offset by lower costs of customer accounts.
Interest expense on repurchase agreements rose by $0.4bn, notably in North America, reflecting higher balances and market rates.
Interest expense on debt issued rose by $0.3bn, excluding the effects of the sale of operations in Brazil and foreign currency translation. This reflected a rise in the cost of funds, although average balances fell as an increase in debt issued by HSBC Holdings to meet regulatory requirements was more than offset by redemptions of senior debt across the Group. The increase in the cost of debt was driven by a combination of longer maturities and the structural subordination of our new issuances.
By contrast, interest expense on customer accounts fell by $0.3bn, excluding the effects of the sale of operations in Brazil and foreign currency translation, although average balances grew in the majority of our regions. This arose in:
- Asia, reflecting a change in mix towards lower-cost accounts, and central bank rate reductions in a number of markets, including India and Australia;
- Europe, as a result of the impact of rate reductions in the UK and negative interest rates in continental Europe; and
- Argentina, reflecting decreases in central bank rates.

These decreases were partly offset by an increase in North America following central bank rate rises.

Net fee income

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Account services	1,123	1,310	1,107
Funds under management	1,061	1,172	904
Cards	930	1,010	960
Credit facilities	873	908	887
Broking income	564	530	530
Unit trusts	516	412	451
Underwriting	485	372	333
Imports/exports	379	436	384
Remittances	372	371	395
Global custody	326	330	332
Insurance agency commission	209	228	191
Other	1,068	1,123	993
Fee income	7,906	8,202	7,467
Less: fee expense	(1,415)	(1,616)	(1,276)
Net fee income	6,491	6,586	6,191

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	—	271	—
– trading results from disposed-of operations in Brazil	—	233	—
– currency translation on significant items		38	—
Currency translation		187	66
Total	—	458	66

Net fee income fell by $0.1bn compared with 1H16, as a result of our sale of operations in Brazil, which reduced net fee income by $0.2bn, notably fee income from account services and fee income from cards. The effect of foreign currency translation also reduced net fee income, by $0.2bn.

Excluding the effects of our sale of operations in Brazil and currency translation, net fee income rose by $0.4bn, reflecting increases in RBWM and GB&M. These increases were driven by higher broking and unit trust income, notably in RBWM in Hong Kong due to higher sales reflecting improved retail investor sentiment. We also recorded higher underwriting income,

notably in GB&M in the UK, with continued momentum in investment banking products. In addition, fee expense decreased by $0.2bn, primarily in Germany, reflecting the re-presentation of brokerage fees from ‘fee income from funds under management’ to ‘fee expense’ during the second half of 2016.

By contrast, fee income from funds under management fell by $0.1bn, partly driven by the change in presentation in Germany ($0.2bn) noted above.

Net trading income

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016

	$m	$m	$m
Trading activities	3,125	5,020	3,682
Net interest income on trading activities	751	730	656
Gain on termination of hedges	6	—	1
Other trading income – hedge ineffectiveness			
– on cash flow hedges	4	4	(9)
– on fair value hedges	32	(41)	64
Fair value movement on non-qualifying hedges	10	(389)	(266)
Net trading income	3,928	5,324	4,128

Financial summary

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	(245)	(39)	(415)
– debit valuation adjustment on derivative contracts	(275)	151	(125)
– fair value movement on non-qualifying hedges	30	(397)	(290)
– trading results from disposed-of operations in Brazil	—	179	—
– currency translation on significant items		28	—
Currency translation		321	45
Total	(245)	282	(370)

Net trading income of $3.9bn was $1.4bn lower than in 1H16, as increased income in Global Markets was more than offset by:

- Adverse movements on assets held as economic hedges of foreign currency debt designated at fair value of $0.2bn in 1H17, compared with favourable movements of $1.2bn in 1H16. These movements were offset by favourable movements in foreign currency debt designated at fair value in 'Net income/(expense) from financial instruments designated at fair value'.

- Net adverse effects of $0.5bn of significant items and foreign currency translation, summarised in the table above.

In Global Markets, adjusted net trading income increased by $0.3bn compared with 1H16, notably in FICC, primarily in Rates and Credit, as we gained market share in Europe, and Equities, mainly driven by increased revenue from Prime Financing products.

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

		Half-year to		
		30 Jun 2017	30 Jun 2016	31 Dec 2016
	Footnote	$m	$m	$m
Net income/(expense) arising from:				
Financial assets held to meet liabilities under insurance and investment contracts		1,709	209	1,271
Liabilities to customers under investment contracts		(210)	30	(248)
HSBC's long-term debt issued and related derivatives		480	270	(4,245)
– change in own credit spread on long-term debt (significant item)	16	—	1,226	(3,018)
– other changes in fair value		480	(956)	(1,227)
Other instruments designated at fair value and related derivatives		28	52	(5)
Net income/(expense) from financial instruments designated at fair value		2,007	561	(3,227)

For footnotes, see page 55.

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

These liabilities are discussed further on page 42 of the Annual Report and Accounts 2016.

In accordance with IFRS 9 'Financial Instruments', fair value movements attributable to changes in our own credit spread on our own debt designated at fair value are now reported in other comprehensive income; by contrast, 1H16 included favourable movements of $1.2bn in the fair value of our own long-term debt reflecting changes in credit spread.

Significant items and currency translation

		Half-year to		
		30 Jun 2017	30 Jun 2016	31 Dec 2016
	Footnote	$m	$m	$m
Significant items		—	1,547	(3,009)
– own credit spread	16	—	1,226	(3,018)
– trading results from disposed-of operations in Brazil		—	304	—
– currency translation on significant items			17	9
Currency translation			(177)	(14)
Total		—	1,370	(3,023)

For footnotes, see page 55.

Net income from financial instruments designated at fair value was $2.0bn in 1H17, $1.4bn higher than in 1H16. The increase primarily reflected:

- Favourable movements of $0.2bn, compared with adverse movements of $1.2bn in 1H16 on foreign currency debt designated at fair value and issued as part of our overall funding strategy (reported as part of 'other changes in fair value' in the table above, and offset in 'Net trading income' by assets held as economic hedges); and
- Higher net income of $1.3bn from financial assets and liabilities from insurance and investment contracts, primarily driven by improved equity market performance in Asia and Europe in 1H17. This was partly offset by our sale of operations in Brazil in July 2016.

These increases were partly offset by:

- the effects of favourable fair value movements attributable to changes in our own credit spread on our own debt designated at fair value of $1.2bn in 1H16, now reported in other comprehensive income; and
- lower favourable movements of $0.3bn relating to the economic hedging of interest and exchange rate risk on our long-term debt in Corporate Centre.

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

Gains less losses from financial investments

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Net gains from disposal	712	977	444
– debt securities	287	280	77
– equity securities	419	693	365
– other financial investments	6	4	2
Impairment of available-for-sale equity securities	(21)	(12)	(24)
Gains less losses from financial investments	691	965	420

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	312	638	116
– gain on disposal of our membership interest in Visa – Europe	—	584	—
– gain on disposal of our membership interest in Visa – US	312	—	116
– trading results from disposed-of operations in Brazil	—	1	—
– currency translation on significant items		53	—
Currency translation		72	5
Total	312	710	121

In 1H17, gains less losses from financial investments of $0.7bn decreased by $0.3bn compared with 1H16. This was largely as a result of movements in significant items and the effects of foreign currency translation tabulated above. In 1H16, we

recorded gains of $0.6bn on the sale of our membership interest in Visa Europe, compared with gains of $0.3bn on the sale of our membership interest in Visa Inc. in the US in 1H17.

Net insurance premium income

Half-year to		
30 Jun 2017	30 Jun 2016	31 Dec 2016
$m	$m	$m

Gross insurance premium income	5,551	5,728	4,860
Reinsurance premiums	(740)	(372)	(265)
Net insurance premium income	4,811	5,356	4,595

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	—	420	—
– trading results from disposed-of operations in Brazil	—	362	—
– currency translation on significant items		58	—
Currency translation		9	29
Total	—	429	29

Net insurance premium income was $0.5bn lower compared with 1H16, and included the effect of our sale of operations in Brazil ($0.4bn) and the effect of currency translation.

In addition, the reduction was due to:

- in Singapore, lower sales through third-party channels;
- in France, lower volumes of participating products linked to political uncertainty and the lower rate environment, partly offset by higher volumes of unit-linked and protection products; and
- in Hong Kong, the impact of a new reinsurance treaty, partly offset by increased gross premium income.

Financial summary

Other operating income

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Rent received	87	82	75
Gains/(losses) recognised on assets held for sale	131	57	(2,006)
Gains/(losses) on investment properties	27	(3)	7
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	1	28	7
Change in present value of in-force long-term insurance business	151	351	551
Other	129	129	(249)
Other operating income	526	644	(1,615)

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	46	46	(1,974)
– portfolio disposals	(32)	68	(231)
– loss and trading results from disposed-of operations in Brazil	—	(20)	(1,743)
– other acquisitions, disposals and dilutions	78	—	—
– currency translation on significant items		(2)	—
Currency translation		2	—
Total	46	48	(1,974)

Other operating income fell by $118m compared with 1H16. This included net losses recognised on portfolio disposals in 1H17 ($32m) compared with net gains in 1H16 ($68m), and the effect of our sale of operations in Brazil ($20m).

In addition, we recorded a reduction of $0.2bn in favourable movements in the present value of in-force ('PVIF') long-term insurance business, due to:

- adverse movements in Singapore, offsetting the impact of regulation-driven changes on the valuation of liabilities (the corresponding movement is recorded in 'Net insurance claims and benefits paid and movement in liabilities to policyholders)'; and
- adverse movements in Hong Kong, reflecting the future sharing of investment returns with policyholders, partly offset by:
- favourable movements in France, due to market-driven changes in investment assumptions; and
- an increase in the value of new business, primarily in Asia.

These decreases were partly offset by gains on the sale of our holding in VocaLink in 1H17 ($78m) reported in 'other acquisitions, disposals and dilutions' in the table above and higher revaluation gains on investment properties, notably in Hong Kong.

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

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m

Net insurance claims and benefits paid and movement in liabilities to policyholders:			
– gross	6,795	6,192	6,316
– less reinsurers' share	(681)	(402)	(236)
Net total	6,114	5,790	6,080

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	—	627	—
– trading results from disposed-of operations in Brazil	—	538	—
– currency translation on significant items		89	—
Currency translation		(21)	43
Total	—	606	43

Net insurance claims and benefits paid and movement in liabilities to policyholders were $0.3bn higher compared with 1H16, and included reductions due to our sale of operations in Brazil ($0.5bn) and the effect of currency translation movements ($0.1bn).

This increase was primarily due to improved returns on financial assets supporting contracts where the policyholder shares the investment risk, reflecting improved equity market performance in Hong Kong and France compared with 1H16.

These increases were partly offset by decreased net insurance premium income and the impact of regulation-driven changes in the valuation of liabilities in Singapore.

The gains or losses recognised on the financial assets designated at fair value that are held to support these insurance contract liabilities are reported in ‘Net income/(expense) from financial instruments designated at fair value’ on page 26.

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
New allowances net of allowance releases	1,065	2,623	1,354
Recoveries of amounts previously written off	(286)	(340)	(287)
Loan impairment charges	779	2,283	1,067
– individually assessed allowances	270	1,263	568
– collectively assessed allowances	509	1,020	499
Impairment allowances/(releases) of available-for-sale debt securities	(69)	34	(97)
Other credit risk provisions/(releases)	(47)	49	64
Loan impairment charges and other credit risk provisions	663	2,366	1,034
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	0.18%	0.52%	0.25%

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	—	867	—
– trading results from disposed-of operations in Brazil	—	748	—
– currency translation on significant items		119	—
Currency translation		(57)	20
Total	—	810	20

Loan impairment charges and other credit risk provisions (‘LICs’) of $0.7bn were $1.7bn or 72% lower compared with 1H16. This was partly due to our sale of operations in Brazil ($0.7bn) in July 2016 as well as favourable effects of foreign currency translation of $0.1bn.

Individually assessed LICs of $0.3bn were down $1.0bn or 79% compared with 1H16. This reduction included a net effect of our sale of operations in Brazil of $0.2bn and the favourable effect of foreign currency translation, which was minimal.

The remaining variance reflected:

- In CMB (down $0.4bn), lower individually assessed LICs, notably in North America and the UK, primarily against exposures in the oil and gas sector. It also reflected a net release in 1H17 in the UK relating to the construction sector. This was partly offset by higher individually assessed LICs in Hong Kong relating to a small number of customers.
- In GB&M (down $0.3bn), lower individually assessed LICs, as 1H16 included charges against exposures in the oil and gas sector and a single significant charge against a mining-related corporate exposure in the US. It also reflected lower individually assessed LICs in Australia, as 1H16 included a charge against a mining-related exposure.

Collectively assessed LICs of $0.5bn were also down, by $0.5bn or 50% compared with 1H16. This reduction included the net effect of our sale of operations in Brazil ($0.6bn) and the favourable effects of foreign currency translation of $50m.

The remaining variance reflected:

- In Corporate Centre (down $94m), lower net charges in the US run-off portfolio in 1H17 compared with 1H16.

This was partly offset:

- In RBWM, collectively adjusted LICs increased (up $89m). This included an increase in the UK (up $71m) as we increased collective allowances against our mortgages and cards exposures. In addition, we increased collective allowances in Mexico (up $54m), to reflect growth in unsecured lending balances and an increase in delinquencies.

In 1H17, we recorded net releases of impairment allowances against available-for-sale debt securities ($69m), whereas 1H16 included charges. Both were primarily related to asset-backed securities ('ABSs') in our legacy credit portfolio in Corporate Centre.

Financial summary

Operating expenses

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

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

Operating expenses by category

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Employee compensation and benefits	8,680	9,354	8,735
Premises and equipment (excluding depreciation and impairment)	1,711	1,901	1,857
General and administrative expenses	5,189	5,566	7,149
Administrative expenses	15,580	16,821	17,741
Depreciation and impairment of property, plant and equipment	567	605	624
Amortisation and impairment of intangible assets	296	402	375
Goodwill impairment	—	800	2,440
Operating expenses	16,443	18,628	21,180

Operating expenses by group

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Run-the-bank – front office	6,789	6,560	6,622
Run-the-bank – back office	6,442	6,462	6,396
Change-the-bank	1,358	1,328	1,441
Bank levy	17	(128)	1,050
Significant items	1,837	3,830	5,482
Currency translation		576	189
Operating expenses	16,443	18,628	21,180

Staff numbers (full-time equivalents)

At		
30 Jun	30 Jun	31 Dec

	2017	2016	2016
Global businesses			
Retail Banking and Wealth Management	127,469	140,176	124,810
Commercial Banking	44,659	46,605	44,712
Global Banking and Markets	46,270	48,846	46,659
Global Private Banking	8,069	8,229	8,054
Corporate Centre	6,490	7,480	10,940
Staff numbers	232,957	251,336	235,175

Reported operating expenses of $16.4bn were $2.2bn or 12% lower than in 1H16. This reflected a reduction in significant items of $2.0bn, which included:

- a $0.8bn write-off of goodwill in our GPB business in Europe in 1H16;
- a net release of $0.3bn in 1H17 related to settlements and provisions in connection with legal matters. This compared with charges of $0.7bn in 1H16; and
- the operating expenses incurred in our Brazil business of $1.1bn in 1H16.

These were partly offset by:

- costs to achieve of $1.7bn, compared with $1.0bn in 1H16.

In addition, the reduction included favourable effects of foreign currency translation of $0.6bn.

Significant items and currency translation

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Significant items	1,837	3,830	5,482
– costs associated with portfolio disposals	10	—	28
– costs associated with the UK's exit from the EU	4	—	—
– costs to achieve	1,670	1,018	2,100
– costs to establish UK ring-fenced bank	176	94	129
– impairment of GPB – Europe goodwill	—	800	2,440
– regulatory provisions in GPB	—	4	340
– settlements and provisions in connection with legal matters	(322)	723	(42)
– UK customer redress programmes	299	33	526
– trading results from disposed-of operations in Brazil	—	1,059	—
– currency translation on significant items		99	(39)
Currency translation		576	189
Total	1,837	4,406	5,671

Excluding the significant items and currency translation tabulated above, operating expenses of $14.6bn were $0.4bn or 3% higher than in 1H16, in part due to a credit of $0.1bn in 1H16 relating to the 2015 UK bank levy. The remaining increase primarily reflected investments in business growth, primarily in RBWM where investments were in part funded by the proceeds of our sale of Visa shares. The impact of our cost-saving initiatives broadly offset inflation and continued investment in regulatory programmes and compliance.

Our total investment in regulatory programmes and compliance was $1.6bn, up $168m or 12% from 1H16. This reflected the ongoing implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and meet external commitments.

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

- Within global businesses, savings of $0.3bn reflected the impact of our branch optimisation programmes and digital initiatives.
- Within our Operations and Technology functions, savings of $0.5bn reflected migrations to lower-cost locations, the simplification of our IT structure and the implementation of target operating models.
- Within our other back office functions, savings of $0.1bn were realised as a result of the re-engineering and simplification of processes and the implementation of global operating models.

Taking the 1H17 savings into account, our annualised run rate savings are now $4.7bn since the start of our initiatives in 2015.

The number of employees expressed in FTEs at 30 June 2017 was 232,957, a decrease of 2,218 since 31 December 2016. This included a reduction of 9,492 FTEs realised across global businesses and global functions, and a reduction in costs to achieve of 3,676. This was partly offset by investment in our Global Standards programme of 5,585 FTEs, and by investment for growth.

Share of profit in associates and joint ventures

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Share of profit in associates	1,173	1,226	1,100
– Bank of Communications Co., Limited	938	974	918

– The Saudi British Bank	231	244	171
– other	4	8	11
Share of profit in joint ventures	10	12	16
Share of profit in associates and joint ventures	1,183	1,238	1,116

Our share of profit in associates and joint ventures was $1.2bn in 1H17, a decrease of $55m or 4%, which included adverse effects of foreign currency translation and significant items of $44m, mainly relating to Bank of Communications Co., Limited ('BoCom').

Excluding the effects of foreign currency translation and significant items, our share of profit in associates and joint ventures decreased by $11m or 1%, as a result of property revaluation losses in 1H17 compared with gains in 1H16 in Barrowgate Limited. We also recorded lower income from The Saudi British Bank ('SABB'), as higher loan impairment charges more than offset higher revenue. By contrast, we recorded higher income from BoCom.

Our share of profit in BoCom was $0.9bn. At 30 June 2017, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value in use calculation (see Note 9 on the Financial Statements for further details).

In future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase in 2017 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Financial summary

Tax expense

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	$m	$m	$m
Profit/(loss) before tax	10,243	9,714	(2,602)
Tax expense	(2,195)	(2,291)	(1,375)
Profit/(loss) after tax	8,048	7,423	(3,977)
Effective tax rate	21.4%	23.6%	(52.8)%

The effective tax rate for 1H17 of 21.4% was lower than the 23.6% in 1H16, principally due to a non-deductible goodwill write-down in 1H16 that did not recur in 1H17.

Consolidated balance sheet

Summary consolidated balance sheet

	At 30 Jun 2017 $m	31 Dec 2016 $m
Assets		
Cash and balances at central banks	163,353	128,009
Trading assets	320,037	235,125
Financial assets designated at fair value	27,937	24,756
Derivatives	229,719	290,872
Loans and advances to banks	86,633	88,126
Loans and advances to customers	919,838	861,504
Reverse repurchase agreements – non-trading	196,834	160,974
Financial investments	385,378	436,797
Assets held for sale	2,301	4,389
Other assets	160,413	144,434
Total assets	2,492,443	2,374,986
Liabilities and equity		
Liabilities		
Deposits by banks	64,230	59,939
Customer accounts	1,311,958	1,272,386
Repurchase agreements – non-trading	145,306	88,958
Trading liabilities	202,401	153,691
Financial liabilities designated at fair value	93,163	86,832
Derivatives	223,413	279,819
Debt securities in issue	63,289	65,915
Liabilities of disposal groups held for sale	620	2,790
Liabilities under insurance contracts	81,147	75,273
Other liabilities	111,130	106,805
Total liabilities	2,296,657	2,192,408
Equity		
Total shareholders’ equity	188,396	175,386
Non-controlling interests	7,390	7,192
Total equity	195,786	182,578
Total liabilities and equity	2,492,443	2,374,986

Selected financial information

	At 30 Jun 2017 $m	31 Dec 2016 $m
Called up share capital	10,188	10,096
Capital resources	183,892	172,358
Undated subordinated loan capital	1,968	1,967
Preferred securities and dated subordinated loan capital	43,864	42,600
Risk-weighted assets	876,118	857,181

Financial statistics		
Loans and advances to customers as a percentage of customer accounts	70.1%	67.7%
Average total shareholders' equity to average total assets	7.24	7.37
Net asset value per ordinary share at period end ($)	8.30	7.91
Number of $0.50 ordinary shares in issue (millions)	20,376	20,192
Closing foreign exchange translation rates to $:		
$1: £	0.771	0.811
$1: €	0.876	0.949

A more detailed consolidated balance sheet is contained in the Financial Statements on page 82.

Financial summary

Movement from 31 December 2016 to 30 June 2017
Total reported assets of $2.5tn were 5% higher than at 31 December 2016 on a reported basis, and 2% higher on a constant currency basis.
We increased the strength of our balance sheet by targeting growth in lending, notably in Asia, while continuing to run-off legacy portfolios.
Our ratio of customer advances to customer accounts was 70%, up from 68% at 31 December 2016, reflecting targeted lending growth. Loans and advances increased on a reported basis by $58bn, and customer accounts increased by $40bn. These changes included:

- favourable currency translation of $26bn on loans and advances to customers, and $32bn on customer accounts.

This was partly offset by:

- a $4bn reduction in corporate overdraft and current account balances relating to a small number of customers that settled their overdraft and deposit balances on a net basis; and
- a $5bn transfer to 'Assets held for sale' of US first lien mortgage balances in Corporate Centre, and ongoing run-off.

Excluding these movements, customer lending increased by $41bn or 5%, with this growth mainly in Asia, reflecting continued momentum from our initiatives to grow corporate lending there.
Assets
Cash and balances at central banks increased by $35bn or 28%, reflecting higher euro-denominated balances in continental Europe, and the redeployment of surplus liquidity in the US to maximise returns.
Trading assets increased by $85bn, reflecting increased equity securities, notably in the UK, and increased debt securities in most regions, reflecting higher client activity in our FICC and Equities businesses. In addition, settlement accounts rose in Europe, Asia and North America from higher trading activity compared with the seasonal reduction in December.
Reverse repurchase agreements – non-trading increased by $36bn, notably in the US and the UK, mainly driven by our Markets business.
Derivative assets decreased by $61bn, primarily reflecting revaluation movements, as a result of movements in yield curves and exchange rates. These movements were broadly offset by derivative liabilities.
Financial investments decreased by $51bn. In Asia, this primarily reflected a managed reduction in our commercial surplus, while in Europe and the US, a reduction in available-for-sale investments reflected redeployment of these assets to cash to manage our liquidity and for risk management.
Loans and advances to customers increased by $58bn on a reported basis compared with 31 December 2016, notably in Europe and Asia. This included:

- favourable currency translation of $26bn.

This was partly offset by:

- a $4bn reduction in corporate overdraft balances in the UK relating to a small number of customers that settled their overdraft and deposit balances on a net basis, with a corresponding reduction in customer accounts; and
- a $5bn transfer to 'Assets held for sale' of US first lien mortgage balance in Corporate Centre, reflecting our strategic focus on reducing our legacy portfolios, and ongoing run-off.

Excluding these factors, customer lending balances increased by $41bn or 5%. This growth was primarily in Asia, which contributed $31bn of this increase. Lending grew in GB&M ($13bn) and CMB (up $11bn), reflecting higher term lending in Hong Kong from continued management focus on loan growth in the region, as well as customer demand. Trade lending in Hong Kong contributed $2bn of the increase in CMB, reflecting increased market share, although it was broadly unchanged in GB&M. We also increased balances in RBWM in Asia by $5bn, primarily in mortgages in Hong Kong.
We increased balances in Europe by $12bn, notably in overdrafts (up $7bn), as a result of customers in CMB and GB&M who no longer settled their overdraft and deposit balances on a net basis. We also grew term lending in CMB

and GB&M, primarily in the UK. We grew RBWM mortgages in the UK by $3bn, reflecting our focus on broker originated mortgages.
Customer lending growth was partly offset in the US, reflecting our continued active management of client returns.
Liabilities
Customer accounts increased by $40bn on a reported basis, and included the following items:
• favourable currency translation differences of $32bn.
This was partly offset by:
• a $4bn reduction in corporate current account balances, in line with the decrease in corporate overdrafts.
Excluding these factors, customer accounts increased by $12bn, notably in RBWM, driven by Hong Kong ($12bn), reflecting surplus in the region, and North America ($3bn). We grew balances in GB&M in France ($4bn) and Germany ($3bn), reflecting higher foreign currency corporate deposits, as we priced competitively to facilitate higher stable funding.
These increases were partly offset by managed reductions in Asia CMB ($6bn), notably in Hong Kong and mainland China, and GB&M ($4bn), primarily in mainland China, as customer outflows exceeded deposits during 1Q17 after the high value of deposits placed during 4Q16.
Repurchase agreements – non-trading increased by $56bn primarily in the US and the UK, mainly driven by an increased use of repurchase agreements for funding in our Markets business.
Trading liabilities increased by $49bn, mainly in the UK, as well as in France and the US, partly reflecting increased settlement accounts (up $27bn) from higher seasonal trading activity than in December.
Derivative liabilities decreased by $56bn, which is in line with the decrease in derivative assets because the underlying risk is broadly matched.
Equity
Total shareholders' equity increased by $13.0bn or 7%. This was driven by the effects of profits generated in the period, a reduction in accumulated foreign exchange losses, and the issue of convertible capital securities. These increases more than offset the effects of dividends paid to shareholders and the $1.0bn share buy-back, completed in April 2017.

Customer accounts by country

	At	
	30 Jun 2017	31 Dec 2016
	$m	$m
Europe	479,079	446,615
– UK	378,800	361,278
– France	43,124	35,996
– Germany	18,656	13,925
– Switzerland	8,763	9,474
– other	29,736	25,942
Asia	635,809	631,723
– Hong Kong	467,278	461,626
– mainland China	43,362	46,576
– Singapore	38,285	39,062
– Australia	18,746	18,030
– India	13,595	11,289
– Malaysia	13,460	12,904
– Taiwan	11,467	11,731
– Indonesia	4,361	5,092
– other	25,255	25,413
Middle East and North Africa	34,794	34,766
– United Arab Emirates	16,822	16,532
– Turkey	3,816	4,122
– Egypt	3,911	3,790
– other	10,245	10,322
North America	139,770	138,790
– US	88,643	88,751
– Canada	43,167	42,096
– other	7,960	7,943
Latin America	22,506	20,492
– Mexico	16,617	14,423
– other	5,889	6,069
At end of period	1,311,958	1,272,386

Risk-weighted assets

Risk-weighted assets totalled $876bn at 30 June 2017, a $19bn increase in the first half of the year that includes $17bn growth due to foreign currency translation differences. The $2bn increase (excluding foreign currency translation differences) is mainly due to an increase in asset size of $25bn and changes to methodology and policy of $10bn, less reductions due to RWA initiatives of $29bn and an improvement in asset quality of $5bn.

Ratios of earnings to combined fixed charges (and preference share dividends)

	Footnotes	Half-year to 30 Jun	Year ended 31 Dec				
		2017	2016	2015	2014	2013	2012
		%	%	%	%	%	%
Ratios of earnings to fixed charges:	1						
– excluding interest on deposits		3.34	1.79	3.68	3.39	3.84	3.03
– including interest on deposits		2.33	1.37	2.00	1.86	2.09	1.76
Ratios of earnings to fixed charges and preference share dividends:	1						

– excluding interest on deposits	2.80	1.31	3.05	3.07	3.50	2.79
– including interest on deposits	2.10	1.17	1.85	1.79	2.01	1.71

1 For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interest plus fixed charges and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.

Global businesses and geographical regions

Global businesses and geographical regions

Change in reportable segments

The Group Chief Executive, supported by the rest of the Group Management Board ('GMB'), is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Group's reportable segments.

The Group Chief Executive and the rest of the GMB review operating activity on a number of bases, including by global business and geographical region.

In 2016, we changed our reportable segments from geographical regions to global businesses. This reflected a shift in emphasis of our internal reporting towards the global business basis.

Comparative data has been re-presented accordingly.

In addition, 1H16 geographical comparative data for Europe and Middle East and North Africa ('MENA') has been re-presented to reflect the change in management oversight from our Europe region to our MENA region in respect of HSBC Bank A.S. (Turkey) from 1 July 2016.

Basis of preparation

Analysis by global business is considered more prominent than the geographical region view in the way the CODM assesses performance and allocates resources. The global businesses are therefore considered our reportable segments under IFRS 8.

Global business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items and currency translation from reported results. We therefore present these results on an adjusted basis as required by IFRSs. 1H16 and 2H16 adjusted performance information is presented on a constant currency basis as described on page 22.

As required by IFRS 8, reconciliations of the total adjusted global business results of the Group reported results are presented on page 38. Supplementary reconciliations from reported to adjusted results by global business are presented on pages 40 to 42 for information purposes.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines and geographical regions. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

Costs that are not allocated to global businesses are included in the Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-Group elimination items for the global businesses are presented in the Corporate Centre.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the presentation by global business, the cost of the levy is included in the Corporate Centre.

The results of geographical regions are presented on a reported basis.

A description of the global businesses is provided in the Overview Section, pages 3, 16 and 17.

Analysis of adjusted results by global business
HSBC adjusted profit before tax and balance sheet data

		Half-year to 30 Jun 2017					
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
	Footnotes	$m	$m	$m	$m	$m	$m
Net interest income		6,745	4,288	2,252	394	98	13,777
Net fee income/(expense)		2,516	1,774	1,875	355	(29)	6,491
Net trading income	12	297	270	3,385	95	127	4,174
Other income	17	485	75	311	2	738	1,611
Net operating income before loan impairment charges and other credit risk provisions	18	10,043	6,407	7,823	846	934	26,053
– external		8,596	6,468	8,371	711	1,907	26,053
– inter-segment		1,447	(61)	(548)	135	(973)	—
Loan impairment (charges)/recoveries and other credit risk provisions		(556)	(118)	(41)	(1)	53	(663)
Net operating income		9,487	6,289	7,782	845	987	25,390
Total operating expenses		(6,121)	(2,846)	(4,379)	(702)	(558)	(14,606)
Operating profit		3,366	3,443	3,403	143	429	10,784
Share of profit/(loss) in associates and joint ventures		(11)	—	—	—	1,194	1,183
Adjusted profit before tax		3,355	3,443	3,403	143	1,623	11,967
		%	%	%	%	%	%
Share of HSBC's adjusted profit before tax		28.0	28.8	28.4	1.2	13.6	100.0
Adjusted cost efficiency ratio		60.9	44.4	56.0	83.0	59.7	56.1
Adjusted balance sheet data		$m	$m	$m	$m	$m	$m