

HSBC Holdings plc

FORM 20-F SEC Specific Disclosures 2023

2022 compared with 2021

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Comparative data for 2021 has not been restated.

Net interest income ('NII') for 2022 was \$30.4bn, an increase of \$3.9bn or 15% compared with 2021. The 2022 figure has been restated to reflect the impact of the adoption of IFRS 17 'Insurance contracts' on 1 January 2023, which resulted in a reduction in net interest income of \$2.2bn.

The increase in NII reflected the benefit of rising global interest rates, while actively managing our pricing strategy and funding requirements, with growth in all regions, notably in Asia and the UK.

NII for the fourth quarter of \$9.0bn, which included an adverse impact from the IFRS 17 restatement of \$0.6bn, was \$2.2bn of 33% higher than in the fourth quarter of 2021. The increase was driven by higher interest rates and management of our funding costs, with growth in all legal entities, notably in Asia and the UK.

Net interest margin ('NIM') for 2022 of 1.42% included an adverse impact of the IFRS 17 restatement of 6bps. The remaining increase of 28 basis points ('bps'), was due to an increase in the gross yield on AIEA due to the rising interest rate environment. This was partly offset by a rise in the funding cost of average interest-bearing liabilities.

NIM for the fourth quarter of 2022 was 1.68%, up 49bps year on year, which included an adverse impact of 6bps due to the IFRS 17 restatement. The increase was driven by the impact of higher market interest rates.

Interest income for 2022 of \$52.8bn, which included an adverse impact of \$2.3bn from the IFRS 17 restatement, increased by \$16.6bn or 46%. This was primarily due to higher average interest rates compared with 2021, as the yield on AIEA rose, mainly driven by loans and advances to customers, short-term funds, loans and advances to banks, and reverse repurchase agreements. However, mortgage yields rose more modestly due to competitive pressures and market factors in the UK and Hong Kong.

Interest income of \$19.0bn in the fourth quarter, which included an adverse impact of \$0.6bn from the IFRS 17 restatement, was up \$9.7bn compared with the fourth quarter of 2021. The increase was driven by the impact of higher interest rates, resulting in improved yields on loans and advances to customers and reverse repurchase agreements.

Interest expense for 2022 of \$22.4bn increased by \$12.8bn compared with 2021. This reflected the increase in funding cost of 71bps, mainly arising from higher interest rates paid on interest-bearing customer accounts, repurchase agreements and debt securities in issue.

Included within net interest income in 2022 was a \$2.5bn interest expense representing a component of centrally allocated funding costs associated with generating 'net income from financial instruments held for trading or managed on a fair value basis'. This compared with an interest expense of \$0.4bn in 2021.

Interest expense of \$10.0bn in the fourth quarter of 2022 was up \$7.5bn year on year, and up \$3.9bn compared with the previous quarter. The steep rise in interest expense was mainly driven by higher funding cost on customer accounts as interest rates increased, particularly in Asia and Europe.

Net fee income of \$11.8bn was \$1.3bn lower than in 2021, and included an adverse impact from foreign currency translation differences of \$0.6bn. Net fee income fell in WPB and GBM, although it increased in CMB.

In WPB, reported net fee income decreased by \$0.6bn. The reduction was mainly in Wealth, as adverse market sentiment resulted in lower customer demand, mainly in Hong Kong. Fee income fell due to lower sales of unit trusts and from subdued customer demand in funds under management, as well as from lower broking income. Cards income grew as spending increased compared with 2021. This also resulted in higher fee expense.

In GBM, reported net fee income decreased by \$0.9bn. This was driven by lower fee income from underwriting, in line with the reduction in the global fee pool. Fee income also decreased in credit facilities and in corporate finance, reflecting subdued client demand.

In CMB, reported net fee income increased by \$0.1bn. Fee income grew in cards, as spending increased compared with 2021, and in account services, reflecting greater client activity in transaction banking, notably Global Payments Solutions ('GPS').

Net income from financial instruments held for trading or managed on a fair value basis of \$10.3bn was \$2.5bn higher compared with 2021. This primarily reflected a strong trading performance in Global Foreign Exchange due to increased client activity, driven by elevated levels of market volatility. This was partly offset by adverse fair value movements on non-qualifying hedges of \$0.5bn

Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss of \$13.8bn compared with a net income of \$4.1bn in 2021. This reduction included a \$10.4bn impact on the transition to IFRS 17 following the re-designation of financial assets supporting policyholder liabilities to fair value through profit or loss classification. Under IFRS 17, the offsetting increase in the carrying value of insurance contracts is reported within the 'insurance finance income/(expense)' line described below.

The remaining reduction reflected unfavourable equity market performances in Hong Kong and France. This compared with 2021, which benefited from favourable equity markets.

On the implementation of IFRS 17, new income statement lines associated with insurance accounting were introduced. Consequently, the previously reported IFRS 4 line items '**Net insurance premium income**' and '**Net insurance claims and benefits paid and movement in liabilities to policyholders**' were removed.

Insurance finance income of \$13.8bn represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For variable fee approach contracts, which represent more than 90% of HSBC's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Insurance service result of \$0.8bn mainly relates to the release of the contractual service margin ('CSM'), which comprises the insurance service income associated with insurance contracts held during the period.

Impairment losses related to the planned sale of our retail banking operations in France was \$2.3bn. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the disposal group was classified as held for sale on 30 September 2022, at which point the Group recognised the estimated impairment of \$2.3bn, which included impairment of goodwill of \$0.4bn and related transaction costs.

Other operating income was an expense of \$0.3bn compared with an income of \$1.7bn in 2021. The reduction reflected lower revaluation gains of \$0.6bn in our Principal Investments business in GBM, losses of \$0.4bn related to the planned sales of our branch operations in Greece and our business in Russia in 2022, as well as the non-recurrence of a prior year gain on the sale of a property in Germany. In addition, there were also lower gains on the disposal of debt securities in Market Treasury. These reductions were partly

offset by a gain of \$0.1bn on the completion of our acquisition of AXA Singapore.

Following the implementation of IFRS 17, we no longer recognise a PVIF asset and the associated revenue is no longer reported, including the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances. PVIF gains of \$0.1bn were recognised in 2021 with no equivalent amount reported in 2022, as PVIF is no longer recognised following the transition to IFRS 17.

Changes in expected credit losses and other credit impairment charges ('ECL') were a charge of \$3.6bn, compared with a net release of \$0.9bn in 2021.

The charges in 2022 reflected stage 3 charges of \$2.2bn, in part relating to exposures to the commercial real estate sector in mainland China. We also recognised stage 1 and stage 2 charges in all global businesses, reflecting a deterioration in the macroeconomic environment, with many markets experiencing increased interest rates, continued inflation, supply chain risks and heightened recessionary risks. These economic conditions also contributed to the increase in stage 3 charges, mainly in CMB and GBM. These increases were in part mitigated by the release of most of our remaining Covid-19-related allowances.

The charge in 2022 compared with a net release in 2021, primarily relating to Covid-19-related allowances previously built up in 2020.

For further details on the calculation of ECL, including the measurement uncertainties and significant judgements applied to such calculations, the impact of alternative/additional scenarios and management judgemental adjustments, see pages 185 to 194 of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Operating expenses of \$32.7bn were \$1.9bn or 6% lower than in 2021, primarily as foreign currency translation differences resulted in a favourable impact of \$2.0bn, and due to the non-recurrence of a 2021 goodwill impairment of \$0.6bn related to our WPB business in Latin America.

Reported operating expenses also reflected the impact of ongoing cost discipline across the Group. This helped mitigate growth from increased investment in technology of \$0.5bn, which included investments in our digital capabilities, the impact of business volume growth, and inflation. Restructuring and other related costs increased by \$1.0bn.

In 2022, cost to achieve spend, included within restructuring and other related costs, was \$2.9bn. This three-year programme ended on 31 December 2022 with a total spend of \$6.5bn and cumulative gross saves realised of \$5.6bn.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2022 was 219,199, a decrease of 498 compared with 31 December 2021. The number of contractors at 31 December 2022 was 6,047, a decrease of 145 compared with 31 December 2021.

Share of profit in associates and joint ventures of \$2.7bn was \$0.3bn lower, primarily as 2021 included a higher share of profit from Business Growth Fund in the UK due to the recovery in asset valuations. This was partly offset by an increase in the share of profit from Saudi Awwal Bank ('SAB').

In relation to Bank of Communications Co., Limited ('BoCom'), we continued to be subject to a risk of impairment in the carrying value of our investment. We performed an impairment test on the carrying amount of our investment and confirmed there was no impairment at 31 December 2022.

For more information on the key assumptions in our VIU calculation, including the sensitivity of the VIU to each key assumption, see Note 18 on the financial statements of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Tax expense The effective tax rate for 2022 of 4.7% was lower than the 22.3% in 2021. Tax in 2022 included a \$2.2bn credit arising from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings, which was recognised as a significant item (from 1 January 2023, termed a notable item). This was a result of improved profit forecasts for the UK tax group, which accelerated the expected utilisation of these losses and reduced uncertainty regarding their recoverability. We also benefited from other deferred tax asset reassessments during 2022. Excluding these, the effective tax rate for 2022 was 19.2%, which was 3.1 percentage points lower than in 2021. The effective tax rate for 2022 was also decreased by the remeasurement of deferred tax balances following the substantive enactment in the first quarter of 2022 of legislation to reduce the rate of the UK banking surcharge from 8% to 3% from 1 April 2023.

Further details are provided in Note 7 on the financial statements of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Average balance sheet

Average balance sheet and net interest income

Average balances and related interest are shown for the domestic operations of our principal commercial banks by legal entity. 'Other trading entities' comprise the operations of our principal commercial banking and consumer finance entities outside their domestic markets and all other banking operations, including investment banking balances and transactions.

Average balances are based on daily averages for the principal areas of our banking activities with monthly or less frequent averages used elsewhere.

Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking and consumer finance entities, and the elimination entries are included within 'Holding companies, shared service centres and intra-group eliminations'.

Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the 'Net interest income' line of the income statement. Total interest-earning assets include credit-impaired loans where the carrying amount has been adjusted as a result of impairment allowances. In accordance with IFRSs, we recognise interest income on credit-impaired assets after the carrying amount has been adjusted as a result of impairment. Fee income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

Assets

	2023			2022 ¹		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Summary						
Interest-earning assets measured at amortised cost (itemised below)	2,161,746	100,868	4.67	2,143,758	52,826	2.46
Trading assets and financial assets designated and otherwise mandatorily measured at fair value through profit or loss	215,435	6,598	3.06	206,398	4,386	2.13
Expected credit losses provision	(11,603)	N/A	N/A	(10,753)	N/A	N/A
Non-interest-earning assets	694,309	N/A	N/A	678,092	N/A	N/A
Total assets and interest income	3,059,887	107,466	3.51	3,017,495	57,212	1.90
Average yield on all interest-earning assets			4.52			2.43
Short-term funds and loans and advances to banks						
HSBC Bank plc	174,004	6,201	3.56	178,340	1,535	0.86
HSBC UK Bank plc	100,780	3,486	3.46	120,954	1,713	1.42
The Hongkong and Shanghai Banking Corporation Limited	88,089	3,078	3.49	91,681	1,266	1.38
HSBC Bank Middle East Limited	6,289	354	5.63	5,125	121	2.36
HSBC North America Holdings Inc.	33,034	1,136	3.44	43,326	526	1.21
HSBC Bank Canada	102	2	1.96	6,143	77	1.25
Grupo Financiero HSBC, S.A. de C.V.	2,609	267	10.23	2,323	162	6.97
Other trading entities	12,752	807	6.33	12,190	230	1.89
Holding companies, shared service centres and intra-group eliminations	(13,985)	(561)	4.01	(14,423)	(53)	0.37
At 31 Dec	403,674	14,770	3.66	445,659	5,577	1.25
Loans and advances to customers						
HSBC Bank plc	109,576	4,989	4.55	113,146	2,591	2.29
HSBC UK Bank plc	261,516	11,219	4.29	249,502	7,100	2.85
The Hongkong and Shanghai Banking Corporation Limited	467,179	21,821	4.67	489,742	14,254	2.91
HSBC Bank Middle East Limited	19,769	1,229	6.22	20,546	781	3.80
HSBC North America Holdings Inc.	54,129	3,175	5.87	55,766	1,979	3.55
HSBC Bank Canada	—	—	—	51,415	1,684	3.28
Grupo Financiero HSBC, S.A. de C.V.	24,844	3,406	13.71	20,177	2,374	11.77
Other trading entities	21,083	2,338	11.09	22,375	1,828	8.17
Holding companies, shared service centres and intra-group eliminations	(379)	(504)	132.98	(349)	(48)	13.75
At 31 Dec	957,717	47,673	4.98	1,022,320	32,543	3.18
Reverse repurchase agreements – banks²						
HSBC Bank plc	53,042	3,177	5.99	32,587	644	1.98
HSBC UK Bank plc	1,700	69	4.06	1,685	22	1.31
The Hongkong and Shanghai Banking Corporation Limited	65,387	2,437	3.73	63,682	1,220	1.92
HSBC Bank Middle East Limited	3,105	171	5.51	2,696	53	1.97
HSBC North America Holdings Inc.	8,859	645	7.28	10,547	208	1.97
HSBC Bank Canada	—	—	—	1,851	19	1.03
Grupo Financiero HSBC, S.A. de C.V.	2,419	254	10.50	1,629	135	8.29
Other trading entities	3,825	604	15.79	2,238	231	10.32
Holding companies, shared service centres and intra-group eliminations	(25,187)	(871)	3.46	(10,318)	(307)	2.98
At 31 Dec	113,150	6,486	5.73	106,597	2,225	2.09

Assets (continued)

	2023			2022 ¹		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Reverse repurchase agreements – customers²						
HSBC Bank plc	36,414	2,707	7.43	36,549	901	2.47
HSBC UK Bank plc	5,841	327	5.60	11,309	139	1.23
The Hongkong and Shanghai Banking Corporation Limited	49,010	970	1.98	45,268	374	0.83
HSBC Bank Middle East Limited	2,418	113	4.67	1,857	37	1.99
HSBC North America Holdings Inc.	34,842	3,756	10.78	28,956	1,108	3.83
HSBC Bank Canada	36	2	5.56	3,004	89	2.96
Grupo Financiero HSBC, S.A. de C.V.	269	31	11.52	215	12	5.58
Other trading entities	—	—	—	—	—	—
Holding companies, shared service centres and intra-group eliminations	(1,717)	(1)	0.06	(2,697)	1	(0.04)
At 31 Dec	127,113	7,905	6.22	124,461	2,661	2.14
Financial investments						
HSBC Bank plc	51,179	1,866	3.65	46,640	776	1.66
HSBC UK Bank plc	27,025	891	3.30	19,003	268	1.41
The Hongkong and Shanghai Banking Corporation Limited	241,467	8,664	3.59	208,592	3,466	1.66
HSBC Bank Middle East Limited	10,682	451	4.22	9,249	136	1.47
HSBC North America Holdings Inc.	39,961	1,634	4.09	37,380	836	2.24
HSBC Bank Canada	—	—	—	13,695	252	1.84
Grupo Financiero HSBC, S.A. de C.V.	4,050	291	7.19	3,929	241	6.13
Other trading entities	11,091	1,908	17.20	13,004	1,513	11.63
Holding companies, shared service centres and intra-group eliminations	21,908	1,153	5.26	21,210	216	1.02
At 31 Dec	407,363	16,858	4.14	372,702	7,704	2.07
Other interest-earning assets						
HSBC Bank plc	58,744	3,197	5.44	50,787	1,469	2.89
HSBC UK Bank plc	1,304	79	6.06	1,253	40	3.19
The Hongkong and Shanghai Banking Corporation Limited	11,182	744	6.65	10,697	250	2.34
HSBC Bank Middle East Limited	583	2	0.34	(1,522)	8	(0.53)
HSBC North America Holdings Inc.	3,720	233	6.26	4,703	101	2.15
HSBC Bank Canada	82,832	4,023	4.86	8,153	329	4.04
Grupo Financiero HSBC, S.A. de C.V.	650	24	3.69	589	8	1.36
Other trading entities	104	1,853	1,781.73	184	638	346.74
Holding companies, shared service centres and intra-group eliminations	(6,390)	(2,979)	46.62	(2,825)	(727)	25.73
At 31 Dec	152,729	7,176	4.70	72,019	2,116	2.94
Total interest-earning assets						
HSBC Bank plc	482,959	22,137	4.58	458,049	7,916	1.73
HSBC UK Bank plc	398,166	16,071	4.04	403,706	9,282	2.30
The Hongkong and Shanghai Banking Corporation Limited	922,314	37,714	4.09	909,662	20,830	2.29
HSBC Bank Middle East Limited	42,846	2,320	5.41	37,951	1,136	2.99
HSBC North America Holdings Inc.	174,545	10,579	6.06	180,678	4,758	2.63
HSBC Bank Canada	82,970	4,027	4.85	84,261	2,450	2.91
Grupo Financiero HSBC, S.A. de C.V.	34,841	4,273	12.26	28,862	2,932	10.16
Other trading entities	48,855	7,510	15.37	49,991	4,440	8.88
Holding companies, shared service centres and intra-group eliminations	(25,750)	(3,763)	14.61	(9,402)	(918)	9.76
At 31 Dec	2,161,746	100,868	4.67	2,143,758	52,826	2.46

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

² The average balances for repurchase and reverse repurchase agreements include net amounts where the criteria for offsetting are met, resulting in a lower net balance reported for repurchase agreements and thus higher cost.

Equity and liabilities

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Summary						
Interest-bearing liabilities measured at amortised cost (itemised below)	1,872,883	65,072	3.47	1,804,129	22,449	1.24
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)	126,969	4,960	3.91	122,021	2,596	2.13
Non-interest bearing current accounts	253,741	N/A	N/A	310,595	N/A	N/A
Total equity and other non-interest bearing liabilities	806,294	N/A	N/A	780,750	N/A	N/A
Total equity and liabilities	3,059,887	70,032	2.29	3,017,495	25,045	0.83
Average cost on all interest-bearing liabilities			3.50			1.30

20F Specific Disclosures

Equity and liabilities (continued)

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Deposits by banks²						
HSBC Bank plc	29,222	1,137	3.89	39,318	235	0.60
HSBC UK Bank plc	12,917	616	4.77	12,748	194	1.52
The Hongkong and Shanghai Banking Corporation Limited	22,416	507	2.26	28,897	239	0.83
HSBC Bank Middle East Limited	4,253	200	4.70	2,355	92	3.91
HSBC North America Holdings Inc.	8,150	315	3.87	8,177	88	1.08
HSBC Bank Canada	270	6	2.22	700	2	0.29
Grupo Financiero HSBC, S.A. de C.V.	540	101	18.70	657	69	10.50
Other trading entities	3,245	31	0.96	2,211	17	0.77
Holding companies, shared service centres and intra-group eliminations	(20,621)	(512)	2.48	(19,324)	(166)	0.86
At 31 Dec	60,392	2,401	3.98	75,739	770	1.02
Debt Securities in issue – non trading						
HSBC Bank plc	38,067	1,887	4.96	36,187	694	1.92
HSBC UK Bank plc	18,285	759	4.15	16,566	448	2.70
The Hongkong and Shanghai Banking Corporation Limited	48,728	2,816	5.78	46,017	1,369	2.97
HSBC Bank Middle East Limited	1,970	73	3.71	2,221	47	2.12
HSBC North America Holdings Inc.	23,921	1,505	6.29	20,872	659	3.16
HSBC Bank Canada	741	51	6.88	11,816	293	2.48
Grupo Financiero HSBC, S.A. de C.V.	1,696	92	5.42	1,184	74	6.25
Other trading entities	1,643	155	9.43	1,934	178	9.20
Holding companies, shared service centres and intra-group eliminations	49,816	3,885	7.80	42,978	1,845	4.29
At 31 Dec	184,867	11,223	6.07	179,775	5,607	3.12
Customer accounts³						
HSBC Bank plc	230,846	8,511	3.69	202,791	2,181	1.08
HSBC UK Bank plc	269,034	4,532	1.68	270,509	860	0.32
The Hongkong and Shanghai Banking Corporation Limited	702,788	14,523	2.07	694,032	4,156	0.60
HSBC Bank Middle East Limited	12,996	382	2.94	9,714	70	0.72
HSBC North America Holdings Inc.	77,557	2,731	3.52	76,652	809	1.06
HSBC Bank Canada	1	—	—	47,862	567	1.18
Grupo Financiero HSBC, S.A. de C.V.	22,579	1,489	6.59	19,121	783	4.09
Other trading entities	28,887	2,396	8.29	28,960	1,585	5.47
Holding companies, shared service centres and intra-group eliminations	(9,885)	(402)	4.07	(7,299)	(108)	1.48
At 31 Dec	1,334,803	34,162	2.56	1,342,342	10,903	0.81
Repurchase agreements – with banks⁴						
HSBC Bank plc	22,132	1,915	8.65	13,098	282	2.15
HSBC UK Bank plc	656	34	5.18	191	4	2.09
The Hongkong and Shanghai Banking Corporation Limited	43,153	1,368	3.17	26,253	464	1.77
HSBC Bank Middle East Limited	1,982	99	4.99	1,355	23	1.70
HSBC North America Holdings Inc.	5,542	444	8.01	6,756	141	2.09
HSBC Bank Canada	—	—	—	514	12	2.33
Grupo Financiero HSBC, S.A. de C.V.	296	36	12.16	148	10	6.76
Other trading entities	737	114	15.47	333	48	14.41
Holding companies, shared service centres and intra-group eliminations	(24,798)	(1,009)	4.07	(12,986)	(286)	2.20
At 31 Dec	49,700	3,001	6.04	35,662	698	1.96
Repurchase agreements – with customers⁴						
HSBC Bank plc	34,218	2,514	7.35	26,182	711	2.72
HSBC UK Bank plc	7,556	428	5.66	9,596	151	1.57
The Hongkong and Shanghai Banking Corporation Limited	22,496	994	4.42	14,401	228	1.58
HSBC Bank Middle East Limited	—	—	—	—	—	—
HSBC North America Holdings Inc.	31,161	3,538	11.35	28,597	1,025	3.58
HSBC Bank Canada	487	25	5.13	4,158	91	2.19
Grupo Financiero HSBC, S.A. de C.V.	3,429	382	11.14	2,239	178	7.95
Other trading entities	12	1	8.33	13	1	7.69
Holding companies, shared service centres and intra-group eliminations	(2,454)	(25)	1.02	(2,540)	2	(0.08)
At 31 Dec	96,905	7,857	8.11	82,646	2,387	2.89

Equity and liabilities (continued)

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Other interest-bearing liabilities						
HSBC Bank plc	65,326	3,498	5.35	61,942	1,458	2.35
HSBC UK Bank plc	607	19	3.13	736	11	1.49
The Hongkong and Shanghai Banking Corporation Limited	16,699	800	4.79	17,002	345	2.03
HSBC Bank Middle East Limited	92	14	15.22	79	2	2.53
HSBC North America Holdings Inc.	3,253	334	10.27	5,488	113	2.06
HSBC Bank Canada	70,814	2,519	3.56	8,390	233	2.78
Grupo Financiero HSBC, S.A. de C.V.	191	27	14.14	163	19	11.66
Other trading entities	271	1,046	385.98	238	367	154.20
Holding companies, shared service centres and intra-group eliminations	(11,037)	(1,829)	16.57	(6,073)	(464)	7.64
At 31 Dec	146,216	6,428	4.40	87,965	2,084	2.37
Total interest-bearing liabilities						
HSBC Bank plc	419,811	19,462	4.64	379,517	5,561	1.47
HSBC UK Bank plc	309,055	6,388	2.07	310,346	1,668	0.54
The Hongkong and Shanghai Banking Corporation Limited	856,280	21,008	2.45	826,602	6,801	0.82
HSBC Bank Middle East Limited	21,293	768	3.61	15,724	234	1.49
HSBC North America Holdings Inc.	149,584	8,867	5.93	146,542	2,835	1.93
HSBC Bank Canada	72,313	2,601	3.60	73,440	1,198	1.63
Grupo Financiero HSBC, S.A. de C.V.	28,731	2,127	7.40	23,512	1,133	4.82
Other trading entities	34,795	3,743	10.76	33,689	2,196	6.52
Holding companies, shared service centres and intra-group eliminations	(18,979)	108	(0.57)	(5,243)	823	(15.70)
At 31 Dec	1,872,883	65,072	3.47	1,804,129	22,449	1.24

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 This includes interest-bearing bank deposits only. See page 11 for an analysis of all bank deposits.

3 This includes interest-bearing customer accounts only. See page 12 for an analysis of all customer accounts.

4 The average balances for repurchase and reverse repurchase agreements include net amounts where the criteria for offsetting are met, resulting in a lower net balance reported for repurchase agreements and thus higher cost.

Net interest margin¹

	2023	2022 ²	2021
	%	%	%
HSBC Bank plc	0.55	0.51	0.49
HSBC UK Bank plc	2.43	1.89	1.53
The Hongkong and Shanghai Banking Corporation Limited	1.81	1.54	1.37
HSBC Bank Middle East Limited	3.62	2.38	1.66
HSBC North America Holdings Inc.	0.98	1.06	0.93
HSBC Bank Canada	1.54	1.49	1.19
Grupo Financiero HSBC, S.A. de C.V.	6.17	6.22	5.61
Other trading entities	7.71	4.49	3.17
At 31 Dec	1.66	1.42	1.20

1 Net interest margin is calculated as net interest income divided by average interest-earning assets.

2 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

Distribution of average total assets

	2023	2022 ¹	2021
	%	%	%
HSBC Bank plc	30.0	29.0	30.0
HSBC UK Bank plc	14.0	14.0	14.0
The Hongkong and Shanghai Banking Corporation Limited	44.0	44.0	42.0
HSBC Bank Middle East Limited	2.0	2.0	2.0
HSBC North America Holdings Inc.	8.0	9.0	9.0
HSBC Bank Canada	3.0	3.0	3.0
Grupo Financiero HSBC, S.A. de C.V.	2.0	1.0	1.0
Other trading entities	2.0	2.0	2.0
Holding companies, shared service centres and intra-group eliminations	(5.0)	(4.0)	(3.0)
At 31 Dec	100.0	100.0	100.0

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

Analysis of changes in net interest income and net interest expense

The following tables allocate changes in interest income and interest expense between volume and rate for 2023 compared with 2022, and for 2022 compared with 2021. We isolate rate variances and allocate any change arising from both volume and rate/volume to volume.

Interest income

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Short-term funds and loans and advances to banks							
HSBC Bank plc	6,201	(149)	4,815	1,535	134	1,244	157
HSBC UK Bank plc	3,486	(694)	2,467	1,713	(52)	1,633	132
The Hongkong and Shanghai Banking Corporation Limited	3,078	(122)	1,934	1,266	68	696	502
HSBC Bank Middle East Limited	354	65	168	121	(12)	99	34
HSBC North America Holdings Inc.	1,136	(356)	966	526	(129)	545	110
HSBC Bank Canada	2	(119)	44	77	(78)	126	29
Grupo Financiero HSBC, S.A. de C.V.	267	29	76	162	13	64	85
Other trading entities	807	36	541	230	(13)	164	79
Holding companies, shared service centres and intra-group eliminations	(561)	17	(525)	(53)	(10)	(20)	(23)
At 31 Dec	14,770	(1,547)	10,740	5,577	(35)	4,507	1,105
Loans and advances to customers							
HSBC Bank plc	4,989	(159)	2,557	2,591	(535)	900	2,226
HSBC UK Bank plc	11,219	526	3,593	7,100	(522)	989	6,633
The Hongkong and Shanghai Banking Corporation Limited	21,821	(1,052)	8,619	14,254	36	3,619	10,599
HSBC Bank Middle East Limited	1,229	(49)	497	781	21	146	614
HSBC North America Holdings Inc.	3,175	(98)	1,294	1,979	34	400	1,545
HSBC Bank Canada	—	(1,684)	—	1,684	(16)	378	1,322
Grupo Financiero HSBC, S.A. de C.V.	3,406	641	391	2,374	198	327	1,849
Other trading entities	2,338	(143)	653	1,828	(74)	531	1,371
Holding companies, shared service centres and intra-group eliminations	(504)	(40)	(416)	(48)	5	35	(88)
At 31 Dec	47,673	(3,272)	18,402	32,543	(1,165)	7,637	26,071
Reverse repurchase agreements – with banks							
HSBC Bank plc	3,177	1,226	1,307	644	(178)	685	137
HSBC UK Bank plc	69	1	46	22	11	10	1
The Hongkong and Shanghai Banking Corporation Limited	2,437	64	1,153	1,220	135	701	384
HSBC Bank Middle East Limited	171	23	95	53	13	24	16
HSBC North America Holdings Inc.	645	(123)	560	208	(45)	245	8
HSBC Bank Canada	—	(19)	—	19	4	11	4
Grupo Financiero HSBC, S.A. de C.V.	254	83	36	135	(15)	97	53
Other trading entities	604	251	122	231	5	(19)	245
Holding companies, shared service centres and intra-group eliminations	(871)	(514)	(50)	(307)	(52)	(152)	(103)
At 31 Dec	6,486	381	3,880	2,225	(91)	1,571	745
Reverse repurchase agreements – with customers							
HSBC Bank plc	2,707	(7)	1,813	901	(30)	811	120
HSBC UK Bank plc	327	(306)	494	139	88	43	8
The Hongkong and Shanghai Banking Corporation Limited	970	75	521	374	155	155	64
HSBC Bank Middle East Limited	113	26	50	37	33	3	1
HSBC North America Holdings Inc.	3,756	636	2,012	1,108	103	970	35
HSBC Bank Canada	2	(165)	78	89	(29)	105	13
Grupo Financiero HSBC, S.A. de C.V.	31	6	13	12	8	(29)	33
Other trading entities	—	—	—	—	—	—	—
Holding companies, shared service centres and intra-group eliminations	(1)	1	(3)	1	—	1	—
At 31 Dec	7,905	166	5,078	2,661	619	1,768	274

Interest income (continued)

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Financial investments							
HSBC Bank plc	1,866	162	928	776	(252)	335	693
HSBC UK Bank plc	891	264	359	268	(14)	102	180
The Hongkong and Shanghai Banking Corporation Limited	8,664	1,172	4,026	3,466	(765)	230	4,001
HSBC Bank Middle East Limited	451	61	254	136	(25)	100	61
HSBC North America Holdings Inc.	1,634	106	692	836	(123)	308	651
HSBC Bank Canada	—	(252)	—	252	26	149	77
Grupo Financiero HSBC, S.A. de C.V.	291	8	42	241	(17)	35	223
Other trading entities	1,908	(329)	724	1,513	151	575	787
Holding companies, shared service centres and intra-group eliminations	1,153	38	899	216	20	140	56
At 31 Dec	16,858	1,439	7,715	7,704	(1,395)	2,370	6,729

Interest expense

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Deposits by banks							
HSBC Bank plc	1,137	(392)	1,294	235	(39)	213	61
HSBC UK Bank plc	616	8	414	194	144	46	4
The Hongkong and Shanghai Banking Corporation Limited	507	(145)	413	239	(18)	190	67
HSBC Bank Middle East Limited	200	89	19	92	(15)	78	29
HSBC North America Holdings Inc.	315	(1)	228	88	—	84	4
HSBC Bank Canada	6	(10)	14	2	(4)	6	—
Grupo Financiero HSBC, S.A. de C.V.	101	(22)	54	69	(10)	29	50
Other trading entities	31	10	4	17	1	4	12
Holding companies, shared service centres and intra-group eliminations	(512)	(33)	(313)	(166)	(10)	(127)	(29)
At 31 Dec	2,401	(611)	2,242	770	(3)	575	198
Customer accounts							
HSBC Bank plc	8,511	1,037	5,293	2,181	(54)	1,857	378
HSBC UK Bank plc	4,532	(7)	3,679	860	(57)	751	166
The Hongkong and Shanghai Banking Corporation Limited	14,523	165	10,202	4,156	35	2,187	1,934
HSBC Bank Middle East Limited	382	96	216	70	3	42	25
HSBC North America Holdings Inc.	2,731	36	1,886	809	(93)	707	195
HSBC Bank Canada	—	(567)	—	567	(26)	423	170
Grupo Financiero HSBC, S.A. de C.V.	1,489	228	478	783	62	310	411
Other trading entities	2,396	(6)	817	1,585	83	672	830
Holding companies, shared service centres and intra-group eliminations	(402)	(105)	(189)	(108)	(5)	(93)	(10)
At 31 Dec	34,162	(232)	23,491	10,903	(145)	6,949	4,099

20F Specific Disclosures

Interest expense (continued)

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Repurchase agreements – with banks							
HSBC Bank plc	1,915	782	851	282	(151)	406	27
HSBC UK Bank plc	34	24	6	4	(1)	5	—
The Hongkong and Shanghai Banking Corporation Limited	1,368	536	368	464	79	244	141
HSBC Bank Middle East Limited	99	31	45	23	10	12	1
HSBC North America Holdings Inc.	444	(97)	400	141	3	134	4
HSBC Bank Canada	—	(12)	—	12	4	6	2
Grupo Financiero HSBC, S.A. de C.V.	36	18	8	10	7	(5)	8
Other trading entities	114	62	4	48	26	—	22
Holding companies, shared service centres and intra-group eliminations	(1,009)	(480)	(243)	(286)	(79)	(180)	(27)
At 31 Dec	3,001	848	1,455	698	(98)	618	178
Repurchase agreements – with customers							
HSBC Bank plc	2,514	591	1,212	711	25	645	41
HSBC UK Bank plc	428	(115)	392	151	63	87	1
The Hongkong and Shanghai Banking Corporation Limited	994	357	409	228	44	137	47
HSBC Bank Middle East Limited	—	—	—	—	—	—	—
HSBC North America Holdings Inc.	3,538	291	2,222	1,025	(11)	1,029	7
HSBC Bank Canada	25	(188)	122	91	9	74	8
Grupo Financiero HSBC, S.A. de C.V.	382	133	71	178	22	76	80
Other trading entities	1	—	—	1	1	—	—
Holding companies, shared service centres and intra-group eliminations	(25)	1	(28)	2	(1)	2	1
At 31 Dec	7,857	1,156	4,314	2,387	261	1,941	185
Debt securities in issue – non trading							
HSBC Bank plc	1,887	93	1,100	694	(330)	671	353
HSBC UK Bank plc	759	71	240	448	(9)	61	396
The Hongkong and Shanghai Banking Corporation Limited	2,816	154	1,293	1,369	182	535	652
HSBC Bank Middle East Limited	73	(9)	35	47	(20)	29	38
HSBC North America Holdings Inc.	1,505	193	653	659	(21)	314	366
HSBC Bank Canada	51	(762)	520	293	(26)	86	233
Grupo Financiero HSBC, S.A. de C.V.	92	28	(10)	74	(50)	(3)	127
Other trading entities	155	(27)	4	178	(1)	69	110
Holding companies, shared service centres and intra-group eliminations	3,885	531	1,509	1,845	59	458	1,328
At 31 Dec	11,223	313	5,303	5,607	(430)	2,434	3,603

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Loan maturity and interest sensitivity analysis

The analysis of loan maturity and interest sensitivity is presented for loans where repayment is expected to occur on a contractual repayment basis (presented within Loans and advances to banks and Loans and advances to customers on our balance sheet). Loans that have been re-classified to Assets held for sale are excluded as

recovery is expected from sale proceeds within the next 12 months rather than individual contractual repayment terms. The analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis was as follows.

	2023	2022
	\$m	\$m
Maturity of 1 year or less		
Loans and advances to banks	107,658	97,785
Loans and advances to customers	344,777	350,325
	452,435	448,110
Maturity after 1 year but within 5 years		
Loans and advances to banks	5,086	6,628
Loans and advances to customers	272,772	276,826
	277,858	283,454
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	2,623	3,100
Variable interest rate	2,463	3,528
	5,086	6,628
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	60,734	62,582
Variable interest rate	212,038	214,244
	272,772	276,826
Maturity after 5 years but within 15 years		
Loans and advances to banks	173	41
Loans and advances to customers	169,345	161,596
	169,518	161,637
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	173	41
Variable interest rate	—	—
	173	41
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	72,458	67,516
Variable interest rate	96,887	94,080
	169,345	161,596
Maturity after 15 years		
Loans and advances to banks	—	90
Loans and advances to customers	162,713	146,262
	162,713	146,352
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	—	90
Variable interest rate	—	—
	—	90
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	72,014	61,051
Variable interest rate	90,699	85,211
	162,713	146,262

20F Specific Disclosures

Deposits

The following tables summarise the average amount of bank deposits, customer deposits and certificates of deposit ('CDs') and other money market instruments (that are included within 'Debt securities in issue' in the balance sheet), together with the average interest rates paid thereon for each of the past two years.

The analysis of average deposits by legal entity is based on the legal entity in which the deposits are recorded and excludes balances with HSBC companies.

Deposits by banks

	2023		2022	
	Average balance \$m	Average rate %	Average balance \$m	Average rate %
HSBC UK Bank Plc	12,966		12,927	
- demand and other – non-interest bearing	85	—	196	—
- demand – interest bearing	20	5.0	8	—
- time	12,861	4.6	12,723	1.4
- other	—	—	—	—
HSBC Bank plc	29,569		39,361	
- demand and other – non-interest bearing	6,354	—	6,498	—
- demand – interest bearing	16,781	4.1	17,491	0.9
- time	6,113	4.0	15,126	0.2
- other	321	—	246	—
The Hong Kong and Shanghai Banking Corporation Limited	21,179		28,348	
- demand and other – non-interest bearing	3,569	—	4,598	—
- demand – interest bearing	14,311	2.2	19,665	0.7
- time	3,295	4.9	4,079	2.2
- other	4	—	6	—
HSBC Bank Middle East Limited	1,517		1,297	
- demand and other – non-interest bearing	140	—	152	—
- demand – interest bearing	558	1.3	523	0.4
- time	717	5.4	540	2.2
- other	102	—	82	—
HSBC North America Holdings Inc.	5,352		6,017	
- demand and other – non-interest bearing	780	—	1,603	—
- demand – interest bearing	3,918	4.4	4,414	1.3
- time	654	5.4	—	—
- other	—	—	—	—
HSBC Bank Canada	—		162	
- demand and other – non-interest bearing	—	—	77	—
- demand – interest bearing	—	—	14	—
- time	—	—	71	1.4
- other	—	—	—	—
Grupo Financiero HSBC, S.A. de C.V	540		657	
- demand and other – non-interest bearing	—	—	—	—
- demand – interest bearing	43	11.6	31	6.4
- time	497	18.7	626	10.4
- other	—	—	—	—
Other trading entities	291		240	
- demand and other – non-interest bearing	94	—	145	—
- demand – interest bearing	37	5.4	52	17.2
- time	160	11.3	43	9.4
- other	—	—	—	—
Total	71,414	3.4	89,009	
- demand and other – non-interest bearing	11,022	—	13,269	—
- demand – interest bearing	35,668	3.4	42,198	0.9
- time	24,297	4.9	33,208	1.2
- other	427	—	334	—

Customer accounts

	2023		2022	
	Average balance	Average rate	Average balance	Average rate
	\$m	%	\$m	%
HSBC UK Bank Plc	334,043		345,868	
- demand and other – non-interest bearing	65,498	—	75,363	—
- demand – interest bearing	225,190	1.5	241,749	0.3
- savings	31,666	2.5	24,762	0.5
- time	11,538	3.8	3,859	1.3
- other	151	4.0	135	1.5
HSBC Bank plc	282,193		273,892	
- demand and other – non-interest bearing	59,751	—	77,329	—
- demand – interest bearing	156,071	3.8	151,092	1.0
- savings	41,771	2.9	28,140	0.9
- time	22,647	4.4	16,435	1.7
- other	1,953	4.4	896	1.3
The Hong Kong and Shanghai Banking Corporation Limited	777,111		782,339	
- demand and other – non-interest bearing	74,908	—	88,876	—
- demand – interest bearing	441,399	0.9	553,526	0.2
- savings	225,530	4.0	119,439	2.1
- time	35,274	4.5	20,493	1.9
- other	—	—	5	—
HSBC Bank Middle East Limited	31,265		28,202	
- demand and other – non-interest bearing	18,308	—	18,586	—
- demand – interest bearing	6,255	1.8	6,309	0.5
- savings	5,414	3.6	3,246	1.0
- time	1,288	5.6	61	5.0
- other	—	—	—	—
HSBC North America Holdings Inc.	99,377		104,208	
- demand and other – non-interest bearing	22,096	—	27,855	—
- demand – interest bearing	28,438	4.2	27,821	1.4
- savings	40,380	2.8	45,810	0.8
- time	8,463	4.8	2,722	2.4
- other	—	—	—	—
HSBC Bank Canada	—		53,883	
- demand and other – non-interest bearing	—	—	6,022	—
- demand – interest bearing	—	—	16,583	1.1
- savings	—	—	30,945	1.7
- time	—	—	333	1.8
- other	—	—	—	—
Grupo Financiero HSBC, S.A. de C.V.	28,315	5.3	24,281	
- demand and other – non-interest bearing	5,736	—	5,160	—
- demand – interest bearing	13,174	5.3	11,586	3.5
- savings	1,166	—	993	—
- time	8,239	9.6	6,542	5.8
- other	—	—	—	—
Other trading entities	40,516	4.3	44,475	
- demand and other – non-interest bearing	11,720	—	15,616	—
- demand – interest bearing	11,936	—	15,164	12.7
- savings	10,476	16.7	9,845	2.0
- time	6,384	—	3,850	—
- other	—	—	—	—
Total	1,592,820	2.3	1,657,148	
- demand and other – non-interest bearing	258,017	—	314,807	—
- demand – interest bearing	882,463	1.8	1,023,830	0.5
- savings	356,403	4.4	263,180	1.9
- time	93,833	5.0	54,295	2.3
- other	2,104	4.4	1,036	1.4

20F Specific Disclosures

Net charge-offs to average loans

The following table provides the net charge-offs to average loans for loans and advances to banks and customers.

Net charge-offs to average loans

	2023	2022
	%	%
Loans and advances to banks	—	—
Loans and advances to customers	0.38	0.24

Allowances for credit losses to total loans are presented in Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at page 152.

Maturity analysis of uninsured time deposits

	At 31 Dec 2023					Total \$m
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months		
	\$m	\$m	\$m	\$m		
Uninsured time deposits	246,148	18,293	10,831	3,676		278,948
	At 31 Dec 2022					
Uninsured time deposits	202,777	14,935	8,436	4,894		231,042

Wealth and Personal Banking

From 1 January 2023, we adopted IFRS17 and have restated 2022 financial data. 2021 data is not restated, and 'Life insurance manufacturing' is disclosed on the basis of preparation prevailing in 2021, which includes results from our manufacturing business only, with insurance distribution presented in 'investment distribution'.

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$5.5bn was \$0.4bn or 7% lower than in 2021 on a constant currency basis. This reflected higher net interest income in Personal Banking and Private Banking from rising interest rates, partly offset by a reduction in net interest income of \$2.1bn due to the impact of the IFRS17 restatement. There was also a net ECL charge in 2022 of \$1.2bn, compared with a net release of \$0.2bn in 2021.

Revenue of \$20.9bn was \$0.1bn lower on a constant currency basis. Net interest income grew in Personal Banking by \$4.3bn due to rising interest rates and balance sheet growth in our main legal entities in the UK, Asia, Mexico and the Middle East. In addition, there was an increase in net interest income of \$0.3bn in Global Private Banking. This was offset by lower insurance revenue, mainly due to the adoption of IFRS 17 'Insurance Contracts', as well as from adverse equity markets performance in 2022 compared with a favourable performance in 2021, and an impairment of \$2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022.

In Personal Banking, revenue of \$15.9bn was up \$4.3bn or 37%.

- Net interest income was \$4.3bn or 42% higher due to the positive impact of rising interest rates. This was supported by strong balance sheet growth in our main legal entities in the UK, Asia, Mexico and the Middle East. Compared with 2021, deposit balances in our main legal entity in Asia increased by \$6bn. Mortgage lending increased in the UK by \$9bn and in Hong Kong by \$3bn. In addition, unsecured lending increased in our main legal entities in Asia by 5% and Mexico by 18%.

In Wealth, revenue of \$7.0bn was down by \$1.8bn or 21%, notably from lower life insurance revenue as described above. However, our investments in Asia contributed to the generation of net new invested assets of \$80bn during 2022.

Estimate of uninsured deposits and uninsured time deposits

HSBC provides deposit services to customers across the many countries in which we operate and are therefore subject to differing national and state deposit insurance regimes. Uninsured deposits are presented on an estimated basis using the same methodologies and assumptions inherent in our liquidity reporting requirements to our primary regulator, the Prudential Regulation Authority.

The insured status of a deposit is determined on the basis of individual insurance limits enacted within local regulations.

At 31 December 2023, the amount of uninsured deposits was \$1.3tn (31 December 2022: \$1.3tn).

Uninsured time deposits are uninsured deposits which are subject to contractual maturity requirements prior to withdrawal. Amounts are presented on a residual contractual maturity basis and exclude overnight deposits where contractual requirements are imminently satisfied.

- Life insurance revenue was \$1.2bn or 46% lower compared with 2021. The 2022 figure has been restated to reflect the impact of the adoption of IFRS 17 on 1 January 2023, which resulted in a reduction in revenue of \$1.1bn. The 2021 figure included positive market impacts of \$0.5bn, reflecting favourable equity markets performance. This compared with adverse movements in equity markets 2022, although the impact on revenue of these movements were lower under IFRS 17 than under IFRS 4, as they are distributed over the remaining life of the impacted contracts. The value of new business written in 2022 increased by \$0.2bn or 23%, reflecting the launch of new products. In addition, there was a \$0.3bn gain in 2022 following a pricing update for our policyholders' funds held on deposit with us in Hong Kong to reflect the cost to provide this service. We also recognised a \$0.1bn gain on the completion of our acquisition of AXA Singapore.
- Investment distribution revenue was \$0.9bn or 27% lower, as muted customer sentiment led to lower activity in equity markets, which compared with a strong 2021, and as Covid-19-related restrictions in Hong Kong in early 2022 resulted in the temporary closure of parts of our branch network. Since then, restrictions have substantially been eased. In 2021, insurance distribution income of \$0.5bn was reported in investment distribution, and from 1 January 2022 this income was reported in life insurance.
- In Global Private Banking, revenue was \$0.2bn or 13% higher due to the positive impact of rising interest rates on net interest income. This increase was partly offset by a decline in brokerage and trading revenue, reflecting reduced client activity compared with a strong 2021.
- Asset management revenue was \$25m or 2% lower, as adverse market conditions led to unfavourable valuation movements. This was in part mitigated by growth in management fees from net new invested assets of \$45bn in 2022 and improved performance fees.

In Other, revenue fell by \$2.5bn, notably from an impairment of \$2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022 and lower allocation of revenue from Markets Treasury.

ECL were a net charge of \$1.2bn, reflecting a more normalised level of ECL charges, including provisions relating to a deterioration in the forward economic outlook from heightened levels of uncertainty and inflationary pressures. This compared with a net release of \$0.2bn in 2021 from Covid-19-related allowances previously built up in 2020.

Operating expenses of \$14.2bn were \$1.1bn lower on a constant currency basis, in part due to the non-recurrence of a 2021 goodwill impairment of \$0.6bn related to our WPB business in Latin America. The increase also reflected continued investments, notably in wealth in Asia including the costs related to our AXA Singapore acquisition, and from the impact of higher inflation. These increases were partly offset by the benefits of our cost-saving initiatives.

Commercial Banking

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$7.5bn was \$1.2bn higher than in 2021 on a constant currency basis. This was driven by an increase in revenue across all CMB products and in all our main legal entities, notably in Asia and the UK, and included a 149% increase in GPS net interest income. This was partly offset by a net ECL charge compared with a net release of ECL in 2021. Operating expenses remained stable, as increased investment spend was mitigated by continued cost discipline.

Revenue of \$16.3bn was \$3.6bn or 28% higher on a constant currency basis.

- In GPS, revenue increased by \$3.6bn, with growth in all our main legal entities, particularly in Asia and the UK, driven by higher margins, reflecting interest rate rises and business repricing actions. Revenue also benefited from a 6% increase in average deposit balances. There was a 19% increase in fee income, notably in cards and payments, with growth in all our main legal entities, notably in the UK, supported by the delivery of our strategic fee initiatives.
- In GTRF, revenue increased by \$0.2bn or 13%, with growth in all our main legal entities, notably in the UK and Asia, driven by an increase in average balances, which rose by 17% compared with 2021 at improved margins. In addition, fee income grew by 4% compared with 2021.
- In GBM products, Insurance and Investments and Other, revenue decreased by \$0.2bn or 12%, reflecting the adverse effects of hyperinflation accounting in Türkiye and Argentina, as well as lower Markets Treasury and insurance revenue. This was partly offset by an 17% increase in collaboration revenue from GBM products, notably Foreign Exchange.

ECL were a net charge of \$1.9bn, compared with a net release of \$0.3bn in 2021. The charge in 2022 primarily related to stage 3 charges in Asia, mainly in the commercial real estate sector in mainland China, and higher charges in the UK reflecting heightened levels of uncertainty and inflationary pressures. This compared with a net release in 2021 of Covid-19-related allowances previously built up in 2020.

Operating expenses of \$6.9bn remained broadly stable (up 3%). The continued investment in technology and the impact of higher inflation were mitigated by continued cost discipline on discretionary spend and through hiring efficiencies, as well as from the impact of our cost-saving initiatives.

Global Banking and Markets

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$4.7bn was \$0.6bn or 16% higher than in 2021 on a constant currency basis. Growth in revenue of \$1.5bn or 12% was partly offset by a net ECL charge in 2022 of \$0.6bn, compared with a net release in 2021 of \$0.2bn, and from an increase of \$0.1bn in operating expenses.

Revenue of \$14.6bn was \$1.5bn or 12% higher compared with 2020, on a constant currency basis. The increase reflected growth in GPS net interest income from higher interest rates, and a strong Markets and Securities Services performance driven by increased client activity and disciplined risk management. In MSS, revenue increased by \$1.2bn or 15%.

- In Securities Services, revenue grew by \$0.2bn or 14% from higher net interest income as global interest rates rose, partly offset by reduced fee income from lower market levels.
- In Global Debt Markets, revenue fell by \$0.1bn or 15%, reflecting lower primary issuances and challenging market conditions.
- In Global Foreign Exchange, revenue growth of \$1.0bn or 34% reflected increased client activity due to elevated market volatility and the combined macroeconomic impacts of rising inflation, higher interest rates and a strengthening of the US dollar, as well as a strong trading performance.
- In Equities, revenue fell by \$0.2bn or 13% in the context of a strong prior year and lower client activity in 2022.
- In Securities Financing, revenue increased by \$0.1bn or 11%, driven by client franchise growth and a strong trading performance.
- In Banking, revenue increased by \$0.9bn or 15%.
- In GPS, revenue increased by \$1.3bn or 82%, driven by margin growth as a result of the rising global interest-rate environment and business pricing actions, together with active portfolio management and average balance growth. Fee income grew in all regions from the continued delivery of our strategic initiatives.
- Capital Markets and Advisory revenue decreased \$0.4bn or 38%, primarily from lower fees in line with the reduced global fee pool and adverse valuation movements on leveraged loans, net of hedging.

In GBM Other, Principal Investments revenue declined by \$0.5bn, as 2022 included lower valuation gains compared with 2021. There was also a reduction in revenue from Markets Treasury and the impact of hyperinflationary accounting, which are allocated to the global businesses. GBM Other also included a loss of \$0.1bn from a buy-back of legacy securities

ECL were net charge of \$0.6bn on a constant currency basis. This included stage 3 charges predominantly in the commercial real estate sector in mainland China, and in Europe, which also reflected allowances due to a deterioration in the forward economic outlook given the heightened levels of uncertainty and inflationary pressures. This compared with a net release of \$0.2bn in 2021 of Covid-19-related allowances previously built up in 2020.

Operating expenses of \$9.3bn increased by \$0.1bn or 1% on a constant currency basis, as the impact of higher inflation and strategic investments were in part mitigated by our ongoing cost discipline.

Corporate Centre

2022 compared with 2021

Loss before tax of \$1.2bn was a \$2.3bn reduction compared with a profit of \$1.1bn in 2021 on a constant currency basis due to a reduction in revenue, higher costs and a lower share of profit in associates and joint ventures.

Revenue decreased by \$1.2bn on a constant currency basis. This was primarily due to higher adverse fair value movements on financial instruments, as well as the impacts of the restructuring of our business in Europe in 2022, including losses associated with the planned sale of our branch operations in Greece and losses related to the planned disposal of our operations in Russia. In addition, lower revenue included losses related to our RWA reduction programme.

Operating expenses increased by \$0.9bn or 90% compared with 2021 on a constant currency basis. This reflected an increase in restructuring and other related costs, partly offset by a favourable allocation of the UK bank levy and related prior year credits. Since 2021, the UK bank levy and any related credits have been allocated across our global businesses and Corporate Centre, primarily to GBM

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Share of profit in associates and joint ventures of \$2.6bn decreased by \$0.2bn or 7% on a constant currency basis, primarily as 2021 included a higher share of profit from BGF in the UK, due to a recovery in asset valuations. This was partly offset by an increase in the share of profit from SAB.

Disclosure controls

The Group Chief Executive and Group Chief Financial Officer, with the assistance of other members of management, carried out an evaluation of the effectiveness of the design and operation of HSBC Holdings' disclosure controls and procedures as at 31 December 2023. Based upon that evaluation, the Group Chief Executive and Group Chief Financial Officer concluded that the disclosure controls and procedures at 31 December 2023 were effective to provide reasonable assurance that information required to be disclosed in the reports that the company files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management's assessment of internal controls over financial reporting

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and has completed an assessment of the effectiveness of the Group's internal controls over financial reporting for the year ended 31 December 2023. In making the assessment, management used the framework for internal control evaluation contained in the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014), as well as the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in 'Internal Control-Integrated Framework (2013)'.

There have been no changes in HSBC Holdings' internal control over financial reporting during the year ended 31 December 2023 that have materially affected, or are reasonably likely to materially affect, HSBC Holdings' internal control over financial reporting.

Based on the assessment performed, management concluded that for the year ended 31 December 2023, the Group's internal controls over financial reporting were effective.

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31 December 2023, has also audited the effectiveness of the Group's internal control over financial reporting as stated in their report on page 318.

Regulation and supervision

The ordinary shares of HSBC Holdings are listed in London, Hong Kong, New York and Bermuda. As a result of the listing in London, HSBC Holdings is subject to the Listing Rules of the FCA. As a result of the listing in Hong Kong, HSBC Holdings is subject to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('HKEX'). In the US, where the listing is through an American Depositary Receipt Programme, shares are traded in the form of American Depositary Shares ('ADS'), which are registered with the US Securities and Exchange Commission ('SEC'). As a consequence of its US listing, HSBC Holdings is also subject to the reporting and other requirements of: the US Securities Act of 1933, as amended; the Securities Exchange Act of 1934, as amended; and the New York Stock Exchange's ('NYSE') Listed Company Manual, in each case as applied to foreign private issuers. In Bermuda, HSBC Holdings is subject to the listing rules of the Bermuda Stock Exchange applicable to companies with secondary listings.

A statement of our compliance with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council and with the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on HKEX can be found in the 'Report of the Directors: Statement of Compliance' on page 315.

Our operations throughout the world are regulated and supervised globally by a large number of different regulatory authorities, central

banks and other bodies in those jurisdictions in which we have offices, branches or subsidiaries. These authorities impose a variety of requirements and controls designed to provide financial stability, transparency in financial markets and a contribution to economic growth. The requirements to which our operations must adhere include those relating to capital and liquidity, disclosure standards and restrictions on certain types of products or transaction structures, recovery and resolution, governance standards, conduct of business and financial crime.

The UK Prudential Regulation Authority ('PRA') is the HSBC Group's consolidated lead regulator. HSBC Holdings is approved by, and directly responsible to the PRA for ensuring the HSBC Group meets consolidated prudential requirements. The Group's other lead UK regulator, the FCA, supervises 15 of HSBC's entities in the UK, including seven where the PRA is responsible for those entities' prudential supervision. The FCA maintains global oversight of the Group's management of financial crime risk in the exercise of its wider powers under the Financial Services and Markets Act 2000, and through the exercise of direct supervisory powers over HSBC Holdings. In addition, and as required under relevant local laws, each operating bank, finance company and insurance operation within HSBC is regulated by relevant local regulatory authorities.

UK regulation and supervision

The UK's financial services regulatory structure is comprised of three regulatory bodies: The Financial Policy Committee, a committee of the BoE; the PRA; and the FCA.

The Financial Policy Committee is responsible for macro-prudential supervision, focusing on systemic risks that may affect the UK's financial stability.

The BoE conducts prudential regulation and supervision of financial services firms through the PRA, and in addition to its wider role as the UK's central bank, the BoE is the resolution authority responsible for taking action to manage the failure of financial institutions in the UK, if necessary. The latter involves a set of responsibilities and powers that apply outside of an actual bank failure and relate to general resolution planning, including an assessment of any barriers to the resolution of banks, the exercise of powers to require the removal of impediments to resolvability and the setting of minimum requirements for own funds and eligible liabilities ('MREL'), through the Banking Act and the Bank Recovery and Resolution (No. 2) Order 2014.

These include own funds and liabilities that can be written down or converted into capital resources to absorb losses or recapitalise a bank in the event of its failure. These requirements are based on the resolution strategy for the Group, as agreed by the BoE in consultation with our local regulators. The BoE set end state MREL requirements for the Group, which have applied since 1 January 2022.

The PRA and the FCA are micro-prudential supervisors. The Group's banking subsidiaries in the UK, such as HSBC Bank plc and HSBC UK, are 'dual-regulated' firms, subject to prudential regulation by the PRA and to conduct regulation by the FCA. Other (generally smaller, non-bank) UK-based subsidiaries are 'solo regulated' by the FCA (i.e. the FCA is responsible for both prudential and conduct regulation of those subsidiaries). HSBC Group is subject to consolidated supervision by the PRA.

UK banking and financial services institutions are subject to multiple regulations. The primary UK statute in this context is the Financial Services and Markets Act 2000, as amended by subsequent legislation, in addition to EU financial services legislation that was "onshored" into UK law under the European Union (Withdrawal) Act 2018 ('EUWA').

The PRA and FCA are together responsible for authorising and supervising all our operating businesses in the UK that require authorisation under the Financial Services and Markets Act 2000.

These include deposit-taking, retail banking, consumer credit, life and general insurance, pensions, investments, mortgages, custody and share-dealing businesses, and treasury and capital markets activity.

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The FCA is also responsible for promoting effective competition in the interests of consumers, and an independent subsidiary of the FCA, the Payment Systems Regulator, regulates payment systems in the UK.

The PRA and FCA's rules establish the minimum criteria for the authorisation of banks and other financial sector entities that carry out regulated activities. In the UK, the PRA and FCA have the right to object, on prudential grounds, to persons who hold, or intend to hold, 10% or more of the voting power or shares of a financial institution that they regulate, or of its parent undertaking. In its capacity as our supervisor on a consolidated basis, the PRA receives information on the capital adequacy of, and sets requirements for, the Group as a whole. In addition, it conducts stress tests both on HSBC's UK entities and more widely on the Group. Individual banking subsidiaries in the Group are directly regulated by their local banking supervisors, who set and monitor, inter-alia, their capital adequacy requirements.

The Group is subject to capital requirements as set out in Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as amended or supplemented, as it forms part of domestic law in the UK by virtue of the EUWA (the 'UK CRR'), the PRA Rulebook and the UK law implementing the Capital Requirements Directive (the 'CRD' and together with the UK CRR, and the relevant rules of the PRA Rulebook, the 'Capital Requirements Legislative Package').

The Pillar 1 regulatory capital framework has been, and continues to be, significantly enhanced. The UK implemented the first tranche of changes associated with Basel 3.1 in January 2022. These include the changes in relation to counterparty risk, equity investments in funds and market risk RWAs and the leverage ratio. The second and final tranche of changes include the changes to credit and operational risk and credit valuation adjustment RWAs, further changes to the market risk RWAs and the implementation of an RWA output floor. In September 2023, the PRA announced a delay to the implementation date of the final elements to 1 July 2025. At the same time, it announced that it intends to reduce the transitional period of the output floor to 4.5 years to ensure full implementation by 1 January 2030.

The Group is also subject to liquidity requirements as set out in the UK CRR and as implemented by the PRA, and, in January 2022 became subject to the net stable funding ratio ('NSFR') requirements as part of the first tranche of changes arising as part of Basel 3.1.

On 30 June 2023, the Financial Services and Markets Act ('FSMA') 2023 achieved Royal Assent. FSMA 2023 provides for a number of changes to the regulatory architecture in the UK, including the introduction of a new secondary objective for the FCA and PRA to facilitate growth and international competitiveness in the UK economy. Amongst other things, FSMA 2023 also contains provisions that would allow for specified 'onshored' EU legislation, including the UK CRR, to be revoked and replaced by legislation or rules made by HM Treasury or the regulators and provides for a 'Designated Activities Regime' that would allow HM Treasury to bring certain activities, products or conduct within the scope of the Financial Services and Markets Act 2000.

The PRA and FCA monitor authorised institutions through ongoing supervision and the review of routine and ad hoc reports relating to financial, prudential, conduct of business and financial crime matters. They may also obtain independent reports from a Skilled Person on the adequacy of procedures and systems covering internal control and governing records and accounting. The PRA meets the Group's senior executives regularly to discuss our adherence to its prudential requirements. In addition, both the PRA and FCA regularly discuss with relevant management fundamental matters relating to our business in the UK and internationally, including areas such as strategic and operating plans, risk control, loan portfolio composition, organisational changes, succession planning and recovery and resolution arrangements.

Hong Kong regulation and supervision

The Banking Ordinance provides the legal framework for banking supervision in Hong Kong. Section 7(1) of the Ordinance provides that the principal function of the Hong Kong Monetary Authority ('HKMA') is to 'promote the general stability and effective working of the banking system'. The HKMA seeks to establish a regulatory framework in line with international standards, in particular those issued by the Basel Committee on Banking Supervision ('BCBS') and the Financial Stability Board ('FSB'). The objective is to maintain a prudential supervisory system that underpins the general stability and effective working of the banking system, while at the same time providing sufficient flexibility for authorised institutions to take commercial decisions. Under the Banking Ordinance, the HKMA is the licensing authority responsible for the authorisation, suspension, and revocation of authorised institutions. To provide checks and balances, the HKMA is required under the Ordinance to consult with the Financial Secretary on important authorisation decisions, such as suspension and involuntary revocation.

The Hongkong and Shanghai Banking Corporation Limited and its overseas branches and subsidiaries are licensed under the Banking Ordinance and hence subject to the supervision, regulation, and examination of the HKMA.

The HKMA follows international practices as recommended by the BCBS to supervise authorised institutions. Under the Banking Ordinance, the HKMA imposes capital requirements on authorised institutions through the Banking (Capital) Rules, liquidity requirements through the Banking (Liquidity) Rules and large exposure limits through the Banking (Exposure Limits) Rules. These rules take into account the latest standards set by the BCBS. In November 2023, the HKMA announced that they plan to implement the Basel 3.1 standards for capitalisation in January 2025, with a reporting only requirement for market risk and credit valuation adjustment RWAs starting in July 2024.

As outlined in the HKMA Supervisory Policy Manual SA-1 – Risk based Supervisory Approach, the HKMA adopts a risk-based supervisory approach which consists of a structured methodology designed to establish a forward-looking view on the risk profile of authorised institutions. During the process, the HKMA assesses eight inherent risks, namely, credit, market, interest rate, liquidity, operational, legal, reputation and strategic risks. In the assessment of these risks, the HKMA will also consider any new risk types that may emerge from time to time, for example climate risk. The HKMA also follows a policy of 'continuous supervision' through on-site examinations, off-site reviews, prudential meetings, cooperation with external auditors and sharing information with other supervisors as a part of its risk-based supervisory methodology.

The HKMA aims to ensure that the standards for regulatory disclosure in Hong Kong remain in line with those of other leading financial centres.

The Banking (Disclosure) Rules take into account the latest disclosure standards released by the BCBS, which prescribe quarterly, semi-annual, and annual disclosure of specified items, including in the form of standard templates and tables, in order to promote user-relevance and the consistency and comparability of regulatory disclosure among banks and across jurisdictions.

The Banking Ordinance empowers the HKMA to collect prudential data from authorised institutions on a routine or ad hoc basis and to require any holding company or subsidiary or sister company of an authorised institution to submit such information as may be required for the exercise of the HKMA's functions under the Ordinance. The HKMA has the power to serve a notice of objection on persons if they are no longer deemed to be fit and proper to be controllers of the authorised institution, if they may otherwise threaten the interests of depositors or potential depositors, or if they have contravened any conditions specified by the HKMA. The HKMA may revoke authorisation in the event of an institution's non-compliance with the provisions of the Banking Ordinance. These provisions require, among other things, the furnishing of accurate reports.

The HKMA is the relevant authority under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance for supervising authorised institutions' compliance with the legal and supervisory requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorised Institutions). The HKMA requires authorised institutions in Hong Kong and its overseas branches and subsidiaries to establish effective systems and controls to prevent and detect money laundering and terrorist financing. It works closely with other stakeholders within both the government and the industry to ensure that the banking sector is able to play its gatekeeper role in Hong Kong's anti-money laundering and counter-financing of terrorism regime.

To enhance the exchange of supervisory information and cooperation, the HKMA has entered into Memoranda of Understanding ('MoU') or other formal arrangements with a number of banking supervisory authorities within and outside Hong Kong.

The marketing of, dealing in and provision of advice and asset management services in relation to securities and futures in Hong Kong are subject to the provisions of the Securities and Futures Ordinance of Hong Kong. Entities engaging in activities regulated by the Ordinance (including The Hongkong and Shanghai Banking Corporation Limited) are required to be licensed or registered with the Securities and Futures Commission ('SFC'). The HKMA is the front-line regulator for banks involved in the securities and futures business.

The HKMA and the SFC work very closely to ensure that there is an open market with a level playing field for all intermediaries in the securities industry of Hong Kong.

Among other functions, the Securities and Futures Ordinance vests the SFC with powers to set and enforce market regulations, including investigating breaches of rules and market misconduct and taking appropriate enforcement action.

The SFC is responsible for licensing and supervising intermediaries conducting SFC-regulated activities, such as investment advisers, fund managers, brokers, trustees, and custodians. Additionally, the SFC sets standards for the authorisation and regulation of investment products, and it reviews and authorises offering documents of retail investment products to be marketed to the public.

To promote proper conduct and increase awareness of individual responsibility and accountability, the SFC introduced and implemented the Manager-In-Charge ('MIC') regime in Hong Kong. The MIC regime applies to senior individuals of licensed corporations responsible for managing core functions within financial services businesses supervised by the SFC. The regime required SFC licensed corporations to review their organisational structure and the roles of senior management and their responsible officers in light of the SFC's classification of core functions within licensed corporations and its guidelines on identifying Managers-In-Charge of Core Functions. The regime also imposes reporting requirements on SFC licensed corporations.

Similar to the SFC, the HKMA launched its Management Accountability Initiative which aimed at increasing the accountability of the senior management of Hong Kong registered institutions ('RIs') i.e. Hong Kong banks registered to carry on one or more regulated activities under the SFO. The Management Accountability Initiative clarified the HKMA's expectations on the responsibility and accountability of RIs' senior management and enhanced its information gathering on RIs' regulated activities, while requiring RIs to better identify lines of responsibility and accountability for their regulated activities.

In order to support capacity building and talent development, the HKMA has been working with the banking industry and relevant professional bodies to implement an industry-wide enhanced competency framework for banking practitioners. Currently, the enhanced competency framework for banking practitioners covers ten professional work streams: anti-money laundering and counter-financing of terrorism; cybersecurity; treasury management; retail wealth management; credit risk management; operational risk management; Fintech; private wealth management; green and sustainable finance; and compliance.

Relevant to the Group's insurance business in Hong Kong, the HKMA and the Hong Kong Insurance Authority ('IA') have signed an 'MoU' to enhance the cooperation, exchange of information and mutual assistance between the two authorities. This MoU sets out the framework between the HKMA and the IA for strengthening co-operation in respect of regulation and supervision of entities or financial groups in which the two authorities have a common regulatory interest. Pursuant to the statutory regulatory regime for insurance intermediaries under the Insurance Ordinance, the IA has delegated its inspection and investigation powers to the HKMA in relation to insurance related businesses of authorised institutions in Hong Kong, which aims to improve efficiency and minimise possible regulatory overlap.

Under the statutory regime for the regulation of Mandatory Provident Fund ('MPF') intermediaries, the Mandatory Provident Fund Schemes Authority is the lead regulator in respect of regulation of MPF intermediaries whereas the HKMA, the IA and the SFC are the front-line regulators of the MPF intermediaries.

The Financial Institutions (Resolution) Ordinance established the legal basis for a cross-sector resolution regime in Hong Kong under which the HKMA is the resolution authority for banking sector entities, including all authorised institutions. The HKMA is also designated as the lead resolution authority for the cross-sectoral groups in Hong Kong that include banking sector entities within the scope of the Financial Institutions (Resolution) Ordinance ('FIRO'). The HKMA's function as a resolution authority is supported by the Resolution Office within the HKMA. The Resolution Office is operationally independent and has a direct reporting line to the chief executive of the HKMA.

The Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') were made by the HKMA under section 19(1) of the FIRO. The LAC Rules enable the HKMA to designate entities within Hong Kong as resolution entities or material subsidiaries and require them to issue Loss Absorbing Capacity ('LAC') instruments, in accordance with the FSB's standard 'Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution – Total Loss-absorbing Capacity ('TLAC') Term Sheet'. The LAC Rules also incorporate the BCBS's disclosure standards on TLAC.

The HKMA finalised the Operational Continuity in Resolution ('OCIR') Chapter within their Financial Institution (Resolution) Ordinance ('FIRO'), publishing a Code of Practice ('CoP') that provides further guidance on OCIR. These are compliant with international resolution standards defined by the FSB Key Attributes. The HKMA expects an Authorised Institution ('AI') to be able to demonstrate that it has assessed the risks to OCIR and that appropriate arrangements are in place to support the preferred resolution strategy.

The HKMA has also recently issued LFI-1 'Resolution Planning – Liquidity and Funding in Resolution', a new chapter of the code of practice pursuant to section 196 of the FIRO. The chapter sets out the HKMA's expectations as to the capabilities and arrangements that an AI should have in place, in business as usual, in order to address the potential impediment to orderly resolution that would arise if an AI were unable to assess its liquidity and funding needs and access funding in resolution.

US regulation and supervision

The Group is subject to federal and state supervision and regulation in the US. Banking laws and regulations of the Federal Reserve Board (the 'FRB'), the Office of the Comptroller of the Currency (the 'OCC') and the Federal Deposit Insurance Corporation (the 'FDIC') (collectively, the 'US banking regulators') govern all aspects of our US business. HSBC Bank USA, N.A. ('HSBC Bank USA') is subject to direct supervision and regulation by the Consumer Financial Protection Bureau ('CFPB'), which has the authority to examine and take enforcement action related to compliance with US federal consumer financial laws and regulations. The Group's US securities broker/dealer and investment banking operations are also subject to ongoing supervision and regulation by the Securities and Exchange Commission ('SEC'), the Financial Industry Regulatory Authority and other government agencies and self-regulatory organisations under US federal and state securities laws. Similarly, the Group's US

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commodity futures, commodity options and swaps-related and client clearing operations are subject to ongoing supervision and regulation by the Commodity Futures Trading Commission ('CFTC'), the National Futures Association and other self-regulatory organisations under US federal commodities laws. Furthermore, since we have substantial operations outside the US that conduct many of their day-to-day transactions with the US, HSBC entities' operations outside the US are also subject to the extraterritorial effects of US regulation in many respects.

HSBC Holdings and its US operations are subject to supervision, regulation and examination by the FRB because HSBC Holdings is a 'bank holding company' ('BHC') under the US Bank Holding Company Act of 1956, as a result of its control of HSBC Bank USA and HSBC Trust Company (Delaware), N.A., Wilmington, Delaware ('HTCD'). HSBC North America Holdings ('HNAH') and HSBC USA Inc., are each a 'bank holding company' and HNAH is also an intermediate holding company ('IHC') regulated by the FRB. HSBC Holdings, HNAH and HSBC USA Inc. have elected to be financial holding companies pursuant to the provisions of the Gramm-Leach-Bliley Act and, accordingly, may affiliate with securities firms and insurance companies, and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature.

Under regulations implemented by the FRB, if any financial holding company, or any depository institution controlled by a financial holding company, ceases to meet certain capital or management standards, the FRB may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the FRB may require divestiture of the holding company's depository institutions or its affiliates engaged in broader financial activities in reliance on the Gramm-Leach-Bliley Act if the deficiencies persist.

The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act of 1977, the FRB must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies.

The two US banks, HSBC Bank USA and HTCD, are subject to regulation and examination primarily by the OCC. HSBC Bank USA and HTCD are subject to additional regulation and supervision by the FDIC, the Consumer Financial Protection Bureau and the FRB. Banking laws and regulations restrict many aspects of their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, payment of dividends and numerous other matters.

In 2019, the FRB and the other US banking regulators jointly finalised rules that tailor the application of the enhanced prudential standards for large US banking organisations and the US operations of certain foreign banking organisations (the 'Tailoring Rules'). The Tailoring Rules assign each BHC and US IHC with \$50bn or more in total US assets to one of five buckets (Categories I, II, III, IV, and 'Other Firms') based on their relative size and complexity and assessed on asset size, cross-jurisdictional activity, reliance on short-term wholesale funding, non-bank asset size, and off-balance sheet exposures. As of 1 January 2024, HNAH continues to be classified as a Category IV firm per the criteria set forth in the Tailoring Rules. As a Category IV banking organization, HNAH will continue to be subject to specific enhanced prudential standards applicable to banking organisations assigned to Category IV. As the depository institution subsidiary of HNAH, HSBC Bank USA is also subject to the regulatory capital requirements applicable to Category IV firms.

HNAH, HSBC USA Inc. and HSBC Bank USA are required to maintain minimum capital ratios (exclusive of any capital buffers), including a minimum Tier 1 leverage ratio of 4%, and a minimum total risk-based capital ratio of at least 8%. HNAH, HSBC USA Inc. and HSBC Bank USA each calculate their risk-based capital requirements as Non-Advanced Approaches banks in accordance with the Basel III rule as adopted by US banking regulators. Over and above the minimum risk-based requirements, HNAH is subject to a Stress Capital Buffer

('SCB'), which is floored at 2.5% and is recalibrated every other year unless HNAH opts to be subject to supervisory stress testing by the FRB during an "off year". HSBC USA Inc. and HSBC Bank USA continue to be subject to the static 2.5% capital conservation buffer ('CCB'). Compliance with the SCB/CCB does not represent minimum requirements per se, but rather a necessary condition to allow capital distributions and discretionary bonus payments.

In July 2023, the US banking regulators proposed changes to the regulatory capital rules applicable to US banks, BHCs and IHCs, including HNAH, HSBC USA Inc. and HSBC Bank USA. These changes are intended to be broadly consistent with the Basel III standards issued by the Basel Committee on Banking Supervision ('BCBS') in 2017. The US proposal would end the use of internal models for credit risk, credit valuation adjustments, and operational risk, create an expanded risk-based credit capital approach in addition to retaining a modified version of the current standardised approach and make changes to the market risk framework. If finalised as proposed, these changes would not be effective until 1 July 2025, and certain elements would be subject to a three-year phase-in period. In August 2023, US banking regulators also released a proposal that would require certain US banks, BHCs and IHCs to issue and maintain long-term debt ('LTD') to improve resolvability. If adopted as proposed, HSBC Bank USA and HTCD would be required to issue minimum levels of internal LTD to either HSBC USA Inc. or HNAH, phased-in over a three-year period. HNAH is already subject to LTD and TLAC requirements as an IHC of a non-US G-SIB.

Under FRB regulations, HNAH is subject to supervisory stress testing requirements (on an every other year basis, with the next FRB supervisory stress test expected to take place in 2024) that are designed to evaluate whether a BHC has sufficient capital on a total consolidated basis to absorb losses and support operations under severely adverse economic conditions. As part of the Comprehensive Capital Analysis and Review ('CCAR'), the FRB uses pro-forma capital positions and ratios under such stress scenarios to determine the size of the SCB for each CCAR participating firm.

As part of CCAR, HNAH is required to submit an annual capital plan to the FRB on or before 5 April of each year. Category IV firms may opt into CCAR supervisory stress testing in an "off year" in order to recalibrate their SCB based on their most recent supervisory stress test. The SCB equals (i) a firm's projected decline in common equity tier 1 under the supervisory severely adverse stress testing scenario plus (ii) one year of planned common stock dividends. In July 2023, the FRB announced a new SCB for each CCAR firm based on its most recent CCAR stress tests and planned common stock distributions, which took effect on 1 October 2023. HNAH's SCB requirement remained the same in 2023 as in 2022, as HNAH did not opt into the 2023 stress test.

HNAH already utilises an internal capital assessment approach that is analogous to the SCB and continues to review the composition of its capital structures and capital buffers in light of these developments.

Under the Tailoring Rules, certain US banking organisations are subject to heightened liquidity and risk management requirements, including the US LCR and NSFR. Category IV firms, including HNAH, are subject to a less stringent US LCR and NSFR modified regulatory requirement so long as HNAH's weighted short-term wholesale funding equals or exceeds \$50 billion. As a result, under the modified US LCR rule, a LCR of 100 percent or higher reflects an unencumbered HQLA balance that is equal to or exceeds 70 percent of the firm's liquidity needs for a 30 calendar day liquidity stress scenario.

Under the modified US NSFR rule as applied to HNAH, a NSFR of 100 percent or more reflects an available stable funding balance from liabilities and capital over the next 12 months that is equal to or exceeds 70 percent of the firm's required stable funding amount for assets and off-balance sheet exposures. As a Category IV firm, HNAH is also subject to liquidity risk management and liquidity buffer requirements as well as liquidity stress testing on a quarterly basis.

Under the FRB and FDIC rule implementing the resolution planning requirements for depository institution holding companies (the "SIFI Plan") in the Dodd-Frank Act, HSBC Holdings is required to file a SIFI Plan every three years. HSBC Holdings' last SIFI Plan was a targeted resolution plan submitted in December 2021. The FRB and FDIC

provided feedback on this targeted plan in December 2022. The FRB and FDIC did not identify any shortcomings or deficiencies as a result of this review in HSBC Holdings' 2021 targeted plan but noted areas where further progress will help improve HSBC Holdings' preparation for a rapid and orderly resolution of its US subsidiaries and operations that may be addressed in HSBC Holdings' next plan submission. As the combined US operations of HSBC Holdings moved from Category III to Category IV shortly after its last submission, it is now a triennial reduced filer, which requires the submission of reduced plans every three years. The next SIFI Plan submission is due on 1 July 2025. Under the FDIC's separate resolution plan requirements for insured depository institutions (the 'IDI Plan') banks with \$100 billion or more in total consolidated assets, including HSBC Bank USA, are required to submit an IDI Plan every three years. HSBC Bank USA submitted its latest IDI plan in December 2022. In August 2023, the FDIC issued a proposal that would increase the frequency of, and substantive requirements applicable to, IDI Plans. If finalised as proposed, HSBC Bank USA would be required to submit an IDI Plan every two years (with an informational supplement in the off years) and would become subject to increased content requirements and an emphasis on capabilities testing and engagement with the FDIC. The FRB has separately established a framework for recovery plans, although HSBC is not currently required to submit a recovery plan to US regulators unless specifically requested to do so.

The FRB limits credit exposures to single counterparties for large BHCs and IHCs. As a Category IV firm, HNAH is not directly subject to these single counterparty credit limits. Independent of HNAH's classification as a Category IV firm, HNAH, together with its subsidiaries, could become subject to limits on its exposures to unaffiliated counterparties if its parent, HSBC, cannot certify its compliance with a large exposure regime in the UK that is consistent with the Basel large exposure framework.

Pursuant to Title VII of the Dodd-Frank Act ('Title VII'), the SEC and CFTC have adopted extensive requirements to regulate over-the-counter ('OTC') derivatives, including, among other requirements, registration for swap dealers, major swap participants, security-based swap ('SBS') dealer and major SBS participants, mandatory clearing and trade execution of certain OTC derivatives, position limits for certain physical positions and economically equivalent swaps, real-time public and regulatory trade reporting, business conduct, enhanced documentation, supervision, recordkeeping, and financial reporting requirements.

HSBC Bank USA and HSBC Bank plc are registered as swap dealers with the CFTC and registered as SBS dealers with the SEC. Because it is a non-US dealer, HSBC Bank plc is only subject to certain of CFTC's requirements in respect of swap transactions with US persons and certain persons guaranteed by or affiliated with US persons, and only subject to certain of the SEC's requirements in respect of SBS transactions with US persons or which are arranged, negotiated, or executed by US personnel. HSBC Bank plc is also permitted to satisfy certain CFTC requirements and SEC requirements through 'substituted compliance' pursuant to relevant determinations and related relief issued by the SEC and the CFTC.

Pursuant to Title VII, the US prudential regulators adopted margin requirements for non-cleared swaps and SBS for prudentially regulated swap dealers and SBS dealers such as HSBC Bank USA and HSBC Bank plc. Subject to certain exceptions, the margin rules require HSBC Bank USA and HSBC Bank plc to collect and post initial and variation margin for non-cleared swaps and SBS entered into with other swap dealers and certain financial end-users. The prudential regulators' margin requirements, the parallel margin rules adopted by the CFTC and the SEC and certain non-US regulators, as well as other regulations of OTC derivatives under Title VII, have increased the costs associated with trading OTC derivatives and may adversely affect our business in such products.

Dodd-Frank also expands the extra-territorial jurisdiction of US courts over actions brought by the SEC or the US with respect to violations of the anti-fraud provisions in the Securities Act, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

In addition, regulations which the FSOC, the CFPB or other regulators may adopt could affect the nature of the activities that our FDIC-insured depository institution subsidiaries may conduct, and may impose restrictions and limitations on the conduct of such activities. The implementation of the remaining Dodd-Frank provisions could result in additional costs or limit or restrict the way we conduct our business in the US.

In September 2017, HSBC Holdings and HNAH entered into a consent order with the FRB in connection with its investigation into HSBC's historical foreign exchange activities ('FX/DMA Order'), which required HSBC Holdings and HNAH to undertake certain remedial steps. On 18 August 2023, the FX/DMA Order was terminated by the FRB after it was determined by the Federal Reserve Bank of Chicago that HSBC was in full compliance with the order.

EU Regulation and supervision

EU law applies to HSBC's EU subsidiaries.

EU Directive 2019/878 (CRD V) introduced an obligation to appoint an Intermediate Parent Undertaking ('IPU') for third-country (i.e. non-EU headquartered) groups that consist of two or more banks in the EU (Article 21b). HSBC Continental Europe ('HBCE'), headquartered in Paris, France, has been designated as the IPU for HSBC's European subgroup. As a result of these changes: (i) HBCE will be the main contact point with regulators of the EU and the Banking Union, and will centralise all coordination and requests to the unique Joint Supervisory Team ('JST') and the unique Internal Resolution Team ('IRT'), made up respectively of the European Central Bank ('ECB') and the EU member states' national supervisory authorities on one hand, and the European Single Resolution Board ('SRB') and the EU member states' national resolution authorities on the other; and (ii) reporting to the relevant authorities will consecutively be simplified. In particular, HBCE will have to submit consolidated reports for the European subgroup directly onto the portal of the French resolution authority (ACPR), as the host authority of HBCE.

At the end of 2023, HBCE operated 10 branches in the following jurisdictions: Belgium, Czech Republic, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden. In 2022, HBCE went through further transformation to support its role as the Group's EU IPU by completing the acquisitions of HSBC Bank Malta plc ('HBMT'), and HSBC Trinkaus & Burkhart GmbH ('HTDE') in Germany in November 2022. HTDE's operations were transferred into a new German branch of HBCE in Q2 2023 and the final stage of HBCE's conversion into the Group's EU IPU was completed in November 2023 with the acquisition of HSBC Private Bank (Luxembourg) SA ('PBLU').

Under the EU's Single Supervisory Mechanism ('SSM') and the CRD V requirement on IPUs, the ECB has direct supervisory responsibility for HBCE as a 'significant supervised entity' at the EU consolidated level. An ECB JST supervises HBCE, including its branches, and its subsidiaries, including HBMT and PBLU, for the purposes of the EU's SSM Regulation. Under the SSM, the ECB increasingly engages with the relevant 'national competent authorities' in relation to HSBC's businesses in eurozone countries and more widely with HSBC's other regulators.

The SRB and the EU member states' national resolution authorities have developed their views and standards on resolution, culminating in the creation of the Expectations for Banks ('EFB'), published in March 2020. The overarching aim of the EFB is to ensure that European banks demonstrate that they could be resolved in an orderly way and are accountable for ensuring they are prepared for resolution. The EFB brought together new and existing rules and policies regarding resolution planning into seven dimensions to apply for both home and host banks by the end of 2023.

The UK and the EU have entered into a Trade and Cooperation Agreement and have made certain declarations relating to financial services. For further details, see 'The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results'.

Global and regional prudential and other regulatory developments

The Group is subject to regulation and supervision by a large number of regulatory bodies and other agencies. In addition to regulatory changes being introduced at a country level, changes are often driven by global bodies such as the G20, the FSB and the Basel Committee on Banking Supervision, which are then implemented at country level or (in the case of the EU), regionally, sometimes with modifications and with separate additional measures.

Of principal importance from a prudential perspective are the changes that relate to Basel 3.1.

The PRA is responsible for implementing Basel 3.1 in the UK under powers granted in the Financial Services Act 2021 ('Financial Services Act'). The Financial Services Act enables the PRA to introduce reforms to update the UK's prudential regime. At present, the UK CRR, which is retained EU legislation that takes the status of primary legislation in the UK, contains many of the existing prudential rules. The Financial Services Act enables HM Treasury to delegate responsibility to the PRA for making the firm-facing rules required to implement Basel's standards. The Act ensures that public policy considerations including sustainable growth, the relative standing of the UK, and Basel's standards themselves, are considered by the PRA when making these rules. This does not require that the PRA implement rules that replicate Basel 3.1; instead, the PRA has been given the discretion to decide the substance of the rules, having regards to the likely effect of the rules on the relative standing of the UK as a place for internationally active banks to be based or to carry on activities.

The UK implemented the first tranche of Basel 3.1 in January 2022. These include the changes in relation to counterparty risk, equity investments in funds and market risk RWAs and the leverage ratio. The remainder of Basel 3.1, including the changes to credit risk, operational risk, market risk and credit valuation adjustment RWAs, and the implementation of an RWA output floor, is currently scheduled for implementation in the UK in July 2025. The PRA issued a consultation on the implementation of the remainder of Basel 3.1 in November 2022.

The PRA subsequently published a policy statement in December 2023 setting out certain near-final rules implementing Basel 3.1, including those relating to operational risk, market risk, credit valuation adjustment RWAs. A second policy statement is expected to be published in Q2 2024, which is due to set out the remaining near-final rules including those relating to credit risk and the output floor.

We are also subject to regulatory stress testing in many jurisdictions. These have increased both in frequency and in the granularity of information required by supervisors. They include the programmes of the BoE, the FRB (as explained in the 'US regulation and supervision' section), the OCC, the EBA, the ECB, the HKMA and other regulators. For further details, see 'Stress testing' on page 138. On prudential changes, further details can be found in the 'Regulatory developments' section on page 6 of the Pillar 3 Disclosures as at 31 December 2023.

Recovery and resolution

The HSBC Group is subject to recovery and resolution requirements in many of the jurisdictions in which it operates. Some of these requirements have been described above. In Europe, the Bank Recovery and Resolution Directive (BRRD) establishes a framework for the recovery and resolution of EU credit institutions and investment firms. This framework applies to HSBC's operating banks in the European region, including France and Malta. In Hong Kong, the Banking Ordinance and Financial Institutions (Resolution) Ordinance sets out requirements for recovery and resolution planning. In general, each respective part of the HSBC Group is responsible for ensuring that it meets local recovery and resolution requirements where they exist, which are mainly applicable only to those regulated entities in a particular jurisdiction. The PRA and BoE, however, are the lead "home" regulators from a recovery and resolution perspective for the consolidated HSBC Group.

HSBC maintains recovery plans designed to outline credible management actions that the HSBC Group could implement in the event of severe stress in order to restore its business to a stable and sustainable condition. The HSBC Group submits a Group recovery plan on a biennial basis to the PRA. In addition, certain HSBC entities also submit local recovery plans to host regulators, where local recovery planning requirements are in place. HSBC's recovery plans are frequently re-appraised to reflect HSBC's Group structure as well as meet regulatory and internal feedback, including through regular stress testing and 'fire drill' simulations.

In general terms, resolution refers to the exercise of statutory powers where a financial institution and/or its parent or other group company is deemed by its regulators to be failing, or likely to fail and it is not reasonably likely that any action taken would result in the institution recovering.

In view of the HSBC Group's corporate structure, which comprises a group of locally regulated operating banks, the preferred resolution strategy for the HSBC Group, as confirmed by its regulators, is a multiple point of entry ('MPE') bail-in strategy. This provides flexibility for HSBC to be resolved either (i) through a bail-in at the HSBC Holdings level, which enables the recapitalisation of operating bank subsidiaries in the HSBC Group (as required) while restructuring actions are undertaken, with the HSBC Group remaining together; or (ii) at a local subsidiary level pursuant to the application of statutory resolution powers by local resolution authorities.

In the event of a resolution of the HSBC Group, it is anticipated that the MREL issued externally by HSBC Holdings plc would be written down or converted to equity by the BoE using its statutory powers. This would enable subsidiaries of the HSBC Group to be recapitalised, as needed, to support the resolution objectives and maintain the provision of critical functions locally. Recapitalisation of operating bank subsidiaries could be achieved through the write-down, or conversion to equity, of internally issued MREL, Total Loss Absorbing Capacity ('TLAC') or Loss Absorbing Capacity ('LAC'). It is anticipated that this approach to recapitalising the HSBC Group's operating bank subsidiaries would allow the Group to stay together in order to ensure an effective stabilisation of the whole Group whilst also facilitating an orderly restructuring process post resolution. Any resolution of HSBC as a group would be coordinated by the BoE.

Given the geographical footprint of the HSBC Group, resolution authorities have determined that HSBC has three resolution groups that together account for 93% of total HSBC Group RWAs: The Asia resolution group, the European resolution group and the US resolution group. As a result, HSBC is overseen by various regulators and resolution authorities including its lead global regulators and resolution authority, the BoE and the PRA and a number of host regulators and resolution authorities. Examples include the European SRB, the HKMA, FRB, FDIC and OCC. These host resolution authorities have statutory resolution group powers which could be applied to subsidiaries of the HSBC Group in their jurisdictions. The application of these local statutory resolution powers may result in one or more individual resolution authorities leading to a local resolution of the subsidiaries within their jurisdiction.

This may or may not result in such subsidiaries ceasing to be part of the HSBC Group, depending on the drivers of failure and the resolution powers exercised by the relevant resolution authority.

HSBC considers that a bail-in at the HSBC Holdings plc level that enables subsidiaries in the HSBC Group to be recapitalised, (as required), and the subsequent implementation of restructuring actions while the HSBC Group remains together, is the strategy most likely to deliver the optimal resolution outcome for all of HSBC's stakeholders.

In July 2019, the BoE and PRA published final policies on the Resolvability Assessment Framework ('RAF'), which places the onus on firms to demonstrate their own resolvability and is designed to increase transparency and accountability for resolution planning. In order to be considered resolvable, HSBC must meet three outcomes: (i) have adequate resources in resolution; (ii) be able to continue business through resolution and restructuring; and (iii) be able to co-ordinate its resolution and communicate effectively with stakeholders.

The RAF requires HSBC to prepare a report on the HSBC Group's assessment of its resolvability, which must be submitted to the BoE

on a biennial basis. HSBC submitted its first report to the BoE in October 2021. HSBC Group's June 2022 public disclosure on its resolvability summarised the key findings from the first RAF Self-assessment report. HSBC Group submitted its second report to the BoE in October 2023. In June 2024, HSBC will make its second public disclosure on its resolvability, which will summarise the key findings from the second RAF Self-assessment. In line with the previous BoE RAF cycle, alongside HSBC's disclosure, the BoE will be disclosing its own assessment of UK banks' resolvability, including HSBC, against expectations set out in the RAF.

Regular engagement with the BoE and PRA continues as HSBC prepares for the public disclosure of the second RAF cycle.

HSBC continues to engage with the BoE, PRA and its global regulators in other jurisdictions to help ensure that it meets current and future recovery and resolution requirements.

Financial crime regulation

HSBC has built a financial crime risk management framework that is applicable across all global businesses and functions, and all countries and territories in which it operates. We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We remain committed to conducting our activities in accordance with all applicable financial crime laws and regulations and applying a consistently high financial crime standard globally.

HSBC has an established global financial crime programme designed to enable the bank to detect, prevent and manage the fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing risks that we may face.

HSBC continues to develop its anti-money laundering programme in light of emerging risks and new legislation. Technical and digital innovation in the financial sector continues at pace and we are actively monitoring developments, defining risk appetite and developing appropriate controls to manage the risks associated with the increasing use of alternate (including digitised) payment methods and digital assets and currencies. HSBC has enhanced its control framework to detect, deter and disrupt terrorist financing and proliferation financing more effectively and has expanded the use of intelligence-led technologies to monitor customer activities. HSBC has continued to embed procedures designed to prevent tax evasion and tax evasion facilitation risks, as well as bribery and corruption risks associated with the activities of its customers, third parties and staff, which may expose HSBC to corporate criminal liability. HSBC seeks to comply with all applicable anti-bribery and corruption laws in every market and jurisdiction in which it operates whilst focussing on the spirit of relevant laws and regulations to demonstrate HSBC's commitment to ethical behaviours and conduct as part of our environmental, social and corporate governance. HSBC provides annual mandatory training on the prevention of money laundering, bribery and corruption and tax evasion to all staff and carries out regular risk assessments, monitoring and testing of its programmes incorporating applicable findings within the annual policy refresh. HSBC also maintains clear whistleblowing policies and processes, to ensure that individuals can confidentially report concerns.

HSBC continues to develop its fraud controls in conjunction with areas such as cyber risk, to protect the bank and our customers; investing in capabilities to fight financial crime through the application of new technologies such as behavioural biometrics, advanced analytics and artificial intelligence. HSBC strengthened its fraud framework, reviewed and published an updated policy and streamlined the associated control library. Investment has been sustained to develop fraud prevention and detection tooling with leading vendors. Enhanced metrics have been introduced to assist with control performance monitoring and support ongoing optimisation of fraud defences.

HSBC's sanctions programme seeks to apply a globally consistent standard to manage sanctions compliance and export control risk effectively across all HSBC legal entities in all jurisdictions in which HSBC operates. The external sanctions environment remains dynamic, and sanctions regimes are increasingly complex and less

predictable as geopolitical tensions continue to rise. Russia has continued to be the target of various trade and financial sanctions in 2023, with greater focus on enforcing sanctions and limiting methods of sanctions evasion. The US-China relationship remains complex, with both sides imposing sanctions and export restrictions. The US continues to enhance semiconductor restrictions and issued an Executive Order signalling an intent to curb US person investment in China related to certain national security technologies and products.

China has retaliated by imposing export restrictions on germanium, gallium, and graphite - key elements in electric vehicle battery production and other "green" technologies - which the US requires to fulfil its environmental objectives. Other material sanctions regulatory developments include the US providing conditional sanctions relief related to the Venezuela sanctions programme. HSBC continues to monitor regulatory developments and their impact on HSBC's global financial crime policy and risk appetite. HSBC does not consider that its business activities with counterparties with whom transactions are restricted under applicable sanctions are material to its business for the year ended 31 December 2023.

Disclosures pursuant to Section 13(r) of the Securities Exchange Act

Section 13(r) of the Securities Exchange Act requires each issuer registered with the SEC to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions with persons or entities targeted by U.S. sanctions programs relating to Iran, terrorism, or the proliferation of weapons of mass destruction, even if those activities are not prohibited by U.S. law and are conducted outside the U.S. by non-U.S. affiliates in compliance with local laws and regulations.

To comply with this requirement, HSBC Holdings plc (together with its affiliates, "HSBC") has requested relevant information from its affiliates globally. The following activities conducted by HSBC are disclosed in response to Section 13(r):

Legacy contractual obligations related to guarantees

Between 1996 and 2007, we provided guarantees to a number of our non-Iranian customers in Europe and the Middle East for various business activities in Iran. In a number of cases, we issued counter indemnities involving Iranian banks as the Iranian beneficiaries of the guarantees required that they be backed directly by Iranian banks. The Iranian banks to which we provided counter indemnities included Bank Tejarat, Bank Melli, and the Bank of Industry and Mine.

There was no measurable gross revenue in 2023 under those guarantees and counter indemnities. We do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure. We are seeking to cancel all relevant guarantees and counter indemnities, and do not currently intend to provide any new guarantees or counter indemnities involving Iran. No guarantees were cancelled in 2023, and approximately 14 remain outstanding.

Other relationships with Iranian banks

Activity related to U.S.-sanctioned Iranian banks not covered elsewhere in this disclosure includes the following:

- We act as the trustee and administrator for a pension scheme involving eight employees of a U.S.-sanctioned Iranian bank in Asia. Under the rules of this scheme, we accept contributions from the Iranian bank each month and allocate the funds into the pension accounts of the Iranian bank's employees. We run and operate this pension scheme in accordance with applicable laws and regulations. Estimated gross revenue, which includes fees and/or commissions, generated by this pension scheme during 2023, was approximately \$2,012.

For the Iranian bank-related activity discussed above, we do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure.

20F Specific Disclosures

We have been holding a safe custody box for the Central Bank of Iran. For a number of years, the box has not been accessed by the Central Bank of Iran, and no fees have been charged to the Central Bank of Iran.

We currently intend to continue to wind down the above activities, to the extent legally permissible, and not enter into any new such activity.

Activity related to U.S. Executive Order 13224

During 2023, four individual customers in the Middle East received bonus shares pursuant to legacy holdings in an entity designated under Executive Order 13224 in 2022. We processed these corporate actions on its customers' investment accounts.

For these activities, there was no measurable gross revenue or net profit to HSBC during 2023.

Activity related to U.S. Executive Order 13382

Two corporate customers in Asia became designated under Executive Order 13382 in 2023. These customers' accounts are restricted and the relationships are being exited. Immediately following their designations, and prior to the accounts being restricted, we processed a low value credit of interest to a local currency account held by one of the corporate customers and two domestic transactions through a local payment system for the other corporate customer.

For this activity, there was no measurable gross revenue or net profit to HSBC during 2023.

Other activity

We have a non-Iranian insurance company customer in the Middle East that, during 2023, made local currency domestic payments for the reimbursement of medical treatment to a hospital located outside Iran that is owned by the Government of Iran. We processed these payments from our customer to the hospital.

We have one corporate customer in the Middle East that, during 2023, received a local currency cheque from a hospital located outside Iran that is owned by the Government of Iran. We processed the cheque from the hospital to our customer.

We have six customers in the Middle East that, during 2023, received local currency cheques from an insurance company located outside Iran that is owned by the Government of Iran. We processed these cheques from the insurance company to our customers.

We have individual and corporate customers in Asia and Europe that, during 2023, made small local currency domestic payments to, or received such payments from, Iranian embassies. These customers are engaged in activities that require consular services provided by the embassies or provide goods and services that support the conduct of the official business of the embassies. We processed these payments between our customers and the Iranian embassies.

We have four corporate customers in Europe that, during 2023, received local currency payments from a bank owned by the Government of Iran in relation to management charges for property owned by the bank, service charges, and training fees for staff at the bank. We processed these payments to our customers.

We have individual customers in Europe that are employed by a bank located outside Iran that is owned by the Government of Iran. During 2023, we processed local currency salary payments received via banks that are not owned by the Government of Iran to our customers.

For these activities, there was no measurable gross revenue or net profit to HSBC during 2023.

Frozen accounts and transactions

We maintain several accounts that are frozen as a result of relevant sanctions programs, and safekeeping boxes and other similar custodial relationships, for which no activity, except as licensed, authorised, or otherwise related to the maintenance of such accounts as consistent with applicable law, took place during 2023. There was no measurable gross revenue or net profit to HSBC during 2023 relating to these frozen accounts.

Risk factors

We have identified a suite of risk factors that cover a broad range of risks to which our businesses are exposed. These risks have the potential to have a material adverse effect on our business, financial condition, results of operations, prospects, capital position, strategy, reputation and/or customers.

They may not necessarily be deemed as top or emerging risks; however, they inform the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

The risk factors are set out below.

Macroeconomic and geopolitical risk

Current economic and market conditions may adversely affect our results

Our earnings are affected by global and local economic and market conditions. Uncertain economic conditions and volatile markets can create a challenging operating environment for financial institutions such as HSBC.

In particular, we have faced and may continue to face the following challenges to our operations and operating model:

- Economic uncertainty: Current economic forecasts suggest growth will be weaker in 2024, relative to 2023. Consumer and business confidence remains low and major economies continue to face the risk of a more severe downturn, or recession. Interest rates are forecast to fall throughout 2024, but forecasts still assume that they remain materially higher than in recent years. Economic weaknesses and higher interest rates could (among other things) cause asset prices and payment patterns to be

adversely affected, leading to greater than expected increases in delinquencies, default rates and expected credit losses and other credit impairment charges ('ECL').

- Mainland China commercial real estate: Mainland China commercial real estate conditions remain distressed as offshore financing conditions and buyer demand remain subdued. Signs of a material or sustained recovery are yet to emerge, with market data still reflecting reduced investment and weak sentiment. The Chinese government is expected to expand fiscal and monetary support to the economy to boost growth and lending in 2024, including specific measures to support developers and stimulate housing demand. However, the risk of a slow and protracted recovery remains significant. The business and financial performance of corporates operating in this market has been weak, and refinancing risks are likely to continue in 2024. State-owned enterprises continue to outperform privately-owned enterprises in general, with above market average sales performance, market share gains and greater access to funding. The challenges in this sector could create further pressure on our customers.
- Geopolitical risks: Geopolitical risks remain elevated. Economic forecasts are assumed to reflect the impact from the Russia-Ukraine and Israel-Hamas wars, but there is significant uncertainty around the duration and possible escalation of these wars. Additionally, recent attacks on shipping in the Red Sea and the resulting countermeasures taken have begun to disrupt supply chains. The escalation or a broadening of the Russia-Ukraine war, or the Israel-Hamas war could aggravate supply chain disruptions and drive inflation higher and may pose challenges for our customers and our business (see 'The macroeconomic and market

impact of major geopolitical developments may affect our financial condition and results' for further discussion);

- Credit demand: The demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- Market conditions: Our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and
- Other economic factors: High inflation, higher interest rates and the impact of geopolitical risks have significantly changed the operating environment for many companies and sectors. While impairment estimates attempt to capture the effects of these in the aggregate, credit losses on specific exposures, with specific idiosyncratic features may not be fully captured in ECL estimates.

The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results

Significant geopolitical developments, such as the Russia-Ukraine and Israel-Hamas wars, continue to affect the global economy and have the potential to further influence the global macroeconomic outlook.

Global commodity markets were impacted by heightened geopolitical risks in 2023 – including the Russia-Ukraine and Israel-Hamas wars – which sustained concerns about supply chain disruptions.

A fall in global energy and food prices from the highs of 2022 facilitated a process of disinflation across key economies during 2023. Following the reduction in global inflation rates, central banks in most developed markets are expected to have concluded monetary policy tightening in the second half of 2023.

Disinflationary trends are now visible across most major economies. Markets expect a reduction in monetary policy rates over the next year if conditions in labour markets ease further and inflation returns closer to central banks' target rates. However, the possibility of further supply shocks led by geopolitical risks could cause an increase in prices of commodities and manufactured goods and lead to inflation effects on wages. Higher inflation could prompt central banks to raise interest rates further.

The effects of higher inflation and interest rates in many countries may have material impacts on capital and liquidity. In particular, the pressure of sustained higher inflation and higher interest rates may affect the credit rating of our customers and their ability to repay debt. In turn, this could negatively impact the Group's risk-weighted assets ('RWAs') and capital position, increase ECL and lead to potential liquidity stress due to, among other factors, increased customer drawdowns. There could be further adverse impacts on the Group's income due to lower lending volumes and lower wealth and insurance revenue, due to market volatility.

Our Central scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' ('IFRS 9') calculations of ECL, assumes that GDP growth in many of our main markets will slow down in 2024 followed by a moderate recovery in 2025. It is anticipated that inflation will converge towards central banks' target rates by early 2025. Similarly, interest rates are expected to decline but remain materially higher than in recent years. However, forecasts remain uncertain, and changing economic conditions and the materialisation of key risks could reduce the accuracy of the Central scenario forecast. In particular, forecasts in recent years have been sensitive to commodity price changes, changing supply chain conditions, monetary policy adjustments and inflation expectations. Uncertainty remains with respect to the relationship between economic factors and historical loss experience, which has required adjustments to modelled ECLs in cases where we determined that the model was unable to capture the material underlying risks.

There could also be adverse impacts on other assets, goodwill and other intangible assets.

Fiscal deficits are expected to remain large in both developed and emerging markets as public spending on items including social welfare, defence and climate transition initiatives is expected to remain high. In many countries, the fiscal response to the Covid-19 pandemic has also left a very high public debt burden. Against a backdrop of slower economic growth and high interest rates, a rise in borrowing costs could increase the financial strains on highly indebted sovereigns.

While the average maturity of sovereign debt in developed markets has lengthened, higher borrowing costs than in recent years could reduce the affordability of debt and may in some countries eventually bring its sustainability into question. Among emerging markets and some developed markets, those that need to refinance maturing US dollar-denominated debt, in the context of a historically strong US dollar, may face increasing difficulties. Where HSBC has exposures to such sovereigns and/or related parties, it could incur losses.

Political changes may also have implications for policy. Many countries are expected to hold elections in 2024. This may result in continuity in some markets, but significant political and policy change in others. Political change could bring uncertainty to the political and legal frameworks in markets where the Group operates.

Our financial models have been impacted by the effects of higher inflation and significant increases in interest rates in many countries. These include retail and wholesale credit models such as IFRS loss models, as well as capital models, traded risk models and models used in the asset/liability management process. This continues to require enhanced monitoring of model outputs and the use of model overlays, including management judgmental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of higher rates on critical model inputs. See 'We could incur losses or be required to hold additional capital as a result of model limitations or failure'.

The Russia-Ukraine war has continued to elevate geopolitical instability which could have continued ramifications for the Group and its customers. See also 'We are subject to political, social and other risks in the countries in which we operate'. HSBC continues to monitor and respond to financial sanctions and trade restrictions that have been adopted in response. These sanctions and trade restrictions are complex, novel and evolving. In particular, the US, the UK and the EU, as well as other countries, have imposed significant sanctions and trade restrictions against Russia. Such sanctions and restrictions target certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions and other major Russian companies and sanctions evasion networks. These countries have also enacted more generally applicable investment, export, and import bans and restrictions. In December 2023, the US established a new secondary sanctions regime, providing itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. This creates challenges associated with the detection or prevention of third-party activities beyond HSBC's control. The imposition of such sanctions against any non-US HSBC entity could result in significant adverse commercial, operational, and reputational consequences for HSBC, including the restriction or termination of the non-US HSBC entity's ability to access the US financial system and the freezing of the entity's assets that are subject to US jurisdiction. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures, including the expropriation of foreign assets. These sanctions, restrictions and Russian countermeasures may adversely affect the Group, its customers and the markets in which the Group operates by creating regulatory, reputational and market risks.

Significant uncertainties remain in assessing the duration and impact of the Russia-Ukraine and Israel-Hamas wars. There is a risk that the resulting impact on economic activity may last for a prolonged period and this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

We are subject to political, social and other risks in the countries in which we operate

We operate through an international network of subsidiaries and affiliates across countries and territories around the world. Our global operations are subject to potentially unfavourable political, social, environmental and economic developments in such jurisdictions, which may include:

- coups, armed conflicts or acts of terrorism;
- political and/or social instability;
- geopolitical tensions;
- epidemics and pandemics (such as Covid-19);
- climate change, acts of God and natural disasters (such as floods and hurricanes); and
- infrastructure issues, such as transportation and power failures.

Each of the above could impact RWAs, and the financial losses caused by any of these risk events or developments could impair asset values and the creditworthiness of customers.

These risk events or developments may also give rise to disruption to the Group's services and some may result in physical damage to our operations and/or risks to the safety of our personnel and customers.

Geopolitical tensions could have significant ramifications for the Group and its customers. In particular:

- Uncertainty about the scope, duration and potential for further escalation of the Israel and Hamas war presents global economic and political implications. (For further details, see 'Current economic and market conditions may adversely affect our results' and 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results');
- The Russia-Ukraine war along with related financial sanctions, trade restrictions and Russian countermeasures, has had global economic and political implications. For further details, see 'Current economic and market conditions may adversely affect our results' and 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results';
- Global tensions over trade, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses;
- Diplomatic tensions between China and the US, which may extend to and involve the UK, the EU, India and other countries, and developments in Hong Kong, Taiwan and the surrounding maritime region, may affect the Group, creating regulatory, reputational and market risks;
- To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies, and the countries' respective approaches to strategic competition with China continue to develop;
- Although sanctions and trade restrictions are difficult to predict, increases in diplomatic tensions between China and the US and other countries could result in further sanctions and trade restrictions that could negatively impact the Group, its customers and the markets in which the Group operates. For example, there is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology and other issues with China, and this could create a more complex operating environment for the Group and its customers.
- China, in turn, imposed a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies as well as certain goods such as rare earth minerals and metals, and technology and services. These, as well as certain law enforcement measures, have been imposed against certain countries, Western consulting and data intelligence firms, defence companies and public officials associated with the implementation of foreign sanctions against China; and

- Further sanctions, counter-sanctions and trade restrictions may adversely affect the Group, its customers and the markets in which the Group operates by creating regulatory, reputational and market risks.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. The financial impact on the Group of geopolitical risks in Asia is heightened due to the region's relative high contribution to the Group's profitability, particularly in Hong Kong.

While it is the Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical tensions, and potential ambiguities in the Group's compliance obligations, will continue to present challenges and risks for the Group and could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, strategy and reputation, as well as on the Group's customers.

We are likely to be affected by global geopolitical trends, including the risk of government intervention

While economic globalisation appears to remain deeply embedded in the international system, it is increasingly challenged by nationalism and protectionism. Consequently, international institutions may be less capable of adapting to this trend. A dispersion of global economic power from the US and the EU towards China and emerging markets appears to be occurring, providing a backdrop for greater US-China competition.

A rise in nationalism and protectionism, including trade barriers, may be driven by populist sentiment and structural challenges facing developed and developing economies. Similarly, if capital flows are disrupted, some emerging markets may impose protectionist measures that could affect financial institutions and their clients, and other emerging, as well as developed, markets, may be tempted to follow suit. This rise could contribute to weaker global trade, potentially affecting HSBC's business.

The broad geographic footprint and coverage of HSBC may make us and our customers susceptible to protectionist measures taken by national governments and authorities, including imposition of trade tariffs, restrictions on market access, restrictions on the ability to transact on a cross-border basis, expropriation, restrictions on international ownership, interest rate caps, limits on dividend flows and increases in taxation.

There may be uncertainty as to the conflicting nature of such measures, their duration, the potential for escalation, and their potential impact on global economies. Whether these emerging trends are cyclical or permanent is hard to determine, and their causes are likely to be difficult to address. The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to financial and non-financial risks associated with Environmental, Social and Governance ('ESG') related matters, such as climate change, nature-related and human rights issues

ESG related matters such as climate change, society's impact on nature and human rights issues bring risks to our business, our customers and wider society. If we fail to meet evolving regulatory expectations or requirements relating to these matters, this could have regulatory compliance and reputational impacts.

Climate change could have both financial and non-financial impacts on HSBC either directly or indirectly through our customers. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can

arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding and chronic shifts in weather patterns, which could affect our ability to conduct our day-to-day operations.

We currently expect that the following are the most likely ways in which climate risk may materialise for the Group:

- credit risk for our corporate customers may increase if climate-related regulatory, legislative or technological developments impact customers' business models or if extreme weather events disrupt customers' operations, resulting in financial difficulty for customers and/or stranded assets. Our customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather;
- trading losses if climate change results in changes to macroeconomic and financial variables which negatively impact our trading book exposures;
- residential real estate may be affected by changes to the climate, the increase in the frequency and severity of extreme weather events and chronic shifts in weather patterns, which could impact both property values and the ability of borrowers to afford their mortgage payments;
- HSBC may see an increase in operational risk if extreme weather events impact critical operations and premises;
- regulatory compliance risk may result from the increasing pace, breadth and depth of climate-related regulatory expectations, including on the management of climate risk, and variations in climate-related reporting standards, requiring implementation in short timeframes across multiple jurisdictions;
- conduct risks could develop in association with the increasing demand for 'green' products where there are differing and developing standards or taxonomies; and
- reputational risks may arise from how we decide to support our customers in high-emitting sectors in their transition to net zero, and if we make insufficient progress in achieving our climate-related ambitions, targets and commitments.

We also face increased reputational, legal and regulatory risks as we make progress towards our net zero ambition and other ESG-related ambitions, targets and commitments, with stakeholders likely to place greater focus on our actions, such as the development of climate and broader ESG-related policies, our disclosures and financing and investment decisions relating to our net zero ambition and other ESG-related ambitions, targets and commitments. We will face additional risks if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to our stakeholders.

Climate risk may also have an impact on model risk, as the uncertain and evolving impacts of climate change as well as data and methodology limitations present challenges to creating reliable and accurate model outputs.

We may be exposed to climate and broader ESG-related litigation and regulatory enforcement risks, either directly if stakeholders think that we are not adequately managing climate and broader ESG risks or indirectly if our clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client assets.

Requirements, policy objectives, expectations or views may vary by jurisdiction and stakeholder in relation to ESG related matters. We may be subject to potentially conflicting approaches to ESG matters in certain jurisdictions, which may impact our ability to conduct certain business within those jurisdictions or result in additional regulatory compliance, reputational, political or litigation risks. These risks may also arise from divergence in the implementation of ESG, climate policy and financial regulation in the many regions in which we operate, including initiatives to apply and enforce policy and regulation with extraterritorial effect.

In addition, there is increasing evidence that nature-related risks beyond climate change - which include risks that can be represented more broadly by impact and dependency on nature – can and will have significant economic impact. These risks arise when the

provision of ecosystem services, such as water availability, air quality, and soil quality is compromised by overpopulation, urban development, natural habitat and ecosystem loss, ecosystem degradation arising from the economic activity and other environmental stresses beyond climate change. They can manifest themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC and its customers.

In 2022, we identified human rights issues that are salient for HSBC, which are the human rights at risk of the most severe negative impact through our business activities and relationships. These issues include the right to decent work, including freedom from slavery and forced labour and the right to equality and freedom from discrimination, amongst others. Our analysis focused on the risk to people, while recognising that where this risk is at its highest, it often converges with material risk to our business, specifically, in HSBC's role as employer, buyer, investor, and provider of products and services to personal and business clients. Failure to manage this risk may negatively impact people and communities, which in turn may have reputational, legal, regulatory and financial consequences for HSBC.

In respect of all ESG-related risks, we also need to ensure that our strategy and business model, including the products and services we provide to customers and risk management processes (including processes to measure and manage the various financial and non-financial risks the Group faces as a result of ESG-related matters) adapt to meet regulatory requirements and stakeholder and market expectations, which continue to evolve significantly and at pace. Achieving our strategy with respect to ESG matters, including any ESG-related ambitions, commitments and targets that we may set, will depend on a number of different factors outside of the Group's control, such as advancements in technologies and supportive public policies in the markets where we operate. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group may fail to achieve its ESG-related ambitions, commitments and targets.

In order to track and report on our progress against our ESG-related ambitions, targets and commitments, we rely on internal and, where appropriate and available, external data sources, guided by certain industry standards and our own ability to collect and process such data. While ESG-related reporting has improved over time, data remains of limited quality and consistency exposing us to the risk of using incomplete and inaccurate data and models which could result in sub-optimal decision making. Methodologies, data, scenarios and industry standards that we have used may develop over time in line with market practice, regulation and developments in science, where applicable. Any such developments in methodologies and scenarios, and changes in the availability, accuracy and verifiability of data over time and our ability to collect and process such data, exposes us to financial reporting risk in relation to our climate-related and broader ESG disclosures and could result in revisions to our internal measurement frameworks as well as reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year.

This could also result in the Group having to re-evaluate its progress towards its ESG-related ambitions, commitments and targets in the future and this could result in reputational, legal and regulatory risks.

If any of the above risks materialise, this could have financial and non-financial impacts for HSBC which could, in turn, have a material adverse effect on our business, financial condition, results of operations, reputation, prospects and strategy.

The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results

The EU and the UK agreed a Trade and Cooperation Agreement on 31 December 2020, following the UK's withdrawal from the EU. The agreement mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fisheries, transport, data and security. A Memorandum of Understanding ('MoU') was signed on 27 June 2023, setting out a

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framework for voluntary regulatory cooperation in financial services between the UK and the EU, including through the establishment of a Joint UK-EU Financial Regulatory Forum. This is expected to provide a platform on which both parties will be able to discuss financial services-related issues, including future equivalence determinations.

Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol concluded in February 2023, and in January 2024, the UK Government published further details of how the Protocol would operate in practice in a document titled "Safeguarding the Union". These provide a greater degree of certainty over the regulatory arrangements governing the movement of goods between Great Britain, Northern Ireland and the EU which should facilitate trade flows and support the activity of commercial clients. As the financial passporting arrangement that existed prior to, and during, the transition period expired, we put in place new arrangements for the provision of cross-border banking and investment services to customers and counterparties in the European Economic Area ('EEA').

Notwithstanding the progress made in ensuring that we were prepared for the end of the transition period, there remain risks, many of them linked to the uncertain outcome of ongoing negotiations relating to potential developments in the financial services trading relationship between the UK and EU, including the rules under which financial services may be provided on a cross-border basis into the EU and its member states.

The EU law making bodies are understood to have reached agreement on a new requirement ('the EU branch requirement') under which non-EU banks and significant investment firms would have to establish a branch in each EU member state in which they carry out 'core banking activities', defined as deposit taking, lending and guarantees, and commitments. The EU branch requirement, which will be subject to certain exclusions and exemptions, is being introduced through revisions to the EU Capital Requirements Directive ('CRDVI'). CRDVI is expected to be published in the EU Official Journal in 2024, and the compliance date for the EU branch requirement is currently expected to be 12 months after the date of the transposition into the law of the relevant member state, with such transposition expected by late 2025. However, grandfathering of existing contracts will be available.

The Financial Services and Markets Act ('FSMA') 2023 became law in June 2023 and provides for a number of changes to the regulatory architecture in the UK. It contains provisions that would allow for specified 'on shored' EU legislation, also known as 'retained EU law' or 'REUL' (and known as "assimilated law" after 1 January 2024), to be revoked and replaced by legislation or rules made by HM Treasury or the regulators. FSMA 2023 allows for the eventual repeal of assimilated law related to financial services and enables the government and regulators to replace it in line with the FSMA model. Each piece of assimilated law related to financial services is now within a "transitional period," lasting until its repeal is individually commenced by HM Treasury in a phased and sequenced manner. Furthermore, as of 1 January 2024, certain legal effects previously associated with REUL (now referred to as assimilated law) no longer apply, including the supremacy of REUL over other types of conflicting domestic UK law, general principles of EU law (which informed REUL's interpretation and application) and directly effective EU rights.

Uncertainty remains as to the extent to which EU and UK laws will diverge in the future, as a result of the future repeal of assimilated law under FSMA 2023 or further development of the EU's own regulatory regime. Any changes to the current rules in this respect, the EU branch requirement and any further divergences in the legal regimes could require modifications to our UK and EU operating models, with resulting impacts to our clients and employees. The precise impacts on our clients will depend on the nature of any developments and their individual circumstances and could include disruption to the provision of products and services, and this could in turn increase operational complexity and/or costs for the Group.

More generally, over the medium to long term, the UK's withdrawal from the EU and the operation of the Trade and Cooperation Agreement (and any complexities that may result therefrom), may lead to increased market volatility and economic risk, particularly in

the UK, which could adversely impact our profitability and prospects for growth in this market.

In addition, the UK's future trading relationship with the EU and the rest of the world will likely take a number of years to fully stabilise. This may result in a prolonged period of uncertainty, unstable economic conditions and market volatility. This could include reduced international trade flows and loss of export market shares, as well as currency fluctuations.

We operate in markets that are highly competitive

We compete with other financial institutions in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reform, as well as increased public scrutiny and a continued challenging macroeconomic environment.

We target internationally mobile clients who need sophisticated global financial solutions. We generally compete on the basis of the quality of our customer service, the wide variety of products and services that we can offer our customers, the ability of our products and services to satisfy our customers' needs, the extensive distribution channels available for our customers, our innovation, and our reputation. Continued and increased competition in any one or all of these areas may negatively affect our market share and/or cause us to increase our capital investment in our businesses in order to remain competitive. Additionally, our products and services may not be accepted by our targeted clients.

In many markets, there is increased competitive pressure to provide products and services at current or lower prices.

Consequently, our ability to reposition or reprice our products and services from time to time may be limited, and could be influenced significantly by the actions of our competitors who may or may not charge similar fees for their products and services. Any changes in the types of products and services that we offer our customers, and/or the pricing for those products and services, could result in a loss of customers and market share.

Developments in technology and changes to regulations are enabling new entrants to the industry. This challenges HSBC to continue innovating and taking advantage of new digital capabilities so that we improve how we serve our customers, drive efficiency and adapt our products to attract and retain customers. As a result, we may need to increase our investment in our business to adapt or develop products and services to respond to our customers' evolving needs. We also need to ensure that new digital capabilities do not weaken our resilience. If HSBC fails to develop and adapt its products and services to take advantage of new digital capabilities this could have an adverse impact on our business.

The digitisation of financial services continues to have an impact on the payment services ecosystem, including new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as financial institutions. This presents ongoing challenges in terms of maintaining required levels of payment transparency, notably where financial institutions serve as intermediaries. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus.

Any of these factors could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Changes in foreign currency exchange rates may affect our results

We prepare our accounts in US dollars because the US dollar and currencies linked to it form the major currency bloc in which we transact and fund our business. However, a substantial portion of our assets, liabilities, assets under management, revenues and expenses are denominated in other currencies. Changes in foreign exchange rates, including those that may result from a currency becoming de-pegged from the US dollar, may have an effect on our accounting standards, reported income, cash flows and shareholders' equity.

Unfavourable changes in foreign exchange rates could have a material adverse effect on our business, financial condition, results of operations, capital position and prospects.

Market fluctuations may reduce our income or the value of our portfolios

Our businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that our customers act in a manner inconsistent with our business, pricing and hedging assumptions.

Market pricing can be volatile and ongoing market movements could significantly affect us in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. The potential for future volatility and margin changes remains. See 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results' above regarding the impact of these on the interest rate environment.

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our pension scheme assets include equity and debt securities, the cash flows of which change as equity prices and interest rates vary.

Our insurance businesses are exposed to the risk that market fluctuations may cause mismatches to occur between product liabilities and the investment assets that back them. Market risks can affect our insurance products in a number of ways depending upon the product and the associated contract. For example, mismatches between assets and liability yields and maturities give rise to interest rate risk. Some of these risks are borne directly by the customer and some are borne by the insurance businesses, with their excess capital invested in the markets. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance businesses could bear some of the cost of such guarantees and options. The performance of the investment markets could thus have a direct effect upon the value embedded in the insurance and investment contracts and our operating results, financial condition and prospects.

It is difficult to predict with any degree of accuracy changes in market conditions, and such changes could have a material adverse effect on our business, financial condition, results of operations, capital position and prospects.

Liquidity, or ready access to funds, is essential to our businesses

Our ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the Group or the banking sector, including our perceived or actual creditworthiness.

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing.

We also access wholesale markets in order to provide funding for entities that do not accept deposits, to align asset and liability maturities and currencies, and to maintain a presence in local markets. In 2023, we issued the equivalent of \$23bn of senior debt securities in the public capital markets in a range of currencies and maturities from a number of Group entities, including \$17.2bn of senior securities issued by HSBC Holdings.

An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have a material adverse effect on our liquidity.

Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge our ability to raise funds to support or expand our businesses.

If we are unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses.

We may need to liquidate unencumbered assets to meet our liabilities. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, financial condition, results of operations, capital position and prospects.

Macro-prudential, regulatory and legal risks to our business model

We are subject to numerous new and existing legislative and regulatory requirements, and to the risk of failure to comply with applicable regulations

Our businesses are subject to ongoing regulation, policies, voluntary codes of practice and interpretations in the various markets in which we operate. A number of regulatory changes affecting our business have effects beyond the country in which they are enacted.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. The measures taken include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes and changes in compensation practices. With regard to conduct, there is a focus on customers and markets, payments and e-money, ESG including governance, and operational resilience. This is all set against increased geopolitical tensions which may limit the development of consistent regulatory requirements, and the evolving regulatory response to the 'banking turmoil' in 2023.

Specific areas where regulatory changes and increased supervisory expectations could have a material effect on our business, financial condition, results of operations, prospects, capital position, reputation and strategy include, but are not limited to those listed below.

Prudential and related issues

- the implementation of the Basel Committee on Banking Supervision's reforms to the prudential framework, known in the UK as Basel 3.1, which include changes to the RWA approaches to credit risk, market risk, operational risk, counterparty risk and credit valuation adjustments and the application of RWA floors;
- the increased supervisory expectations arising from expanding and increasingly complex regulatory reporting obligations, including expectations on data integrity and associated governance and controls;
- the possible impacts on some of our regulatory ratios, such as the CET1 ratio, LCR and NSFR, arising from the programme initiated to strengthen our global processes, improve consistency (through data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process) and enhance controls across regulatory reports;
- any changes to the prudential framework following the bank failures in 2023, for example in relation to liquidity or interest rate risk in the banking book or rules concerning depositor protection (such as those related to the operation of the Financial Services Compensation Scheme in the UK);

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- HM Treasury's work on improving the operation of the UK's ring-fencing regime, which includes proposals that may affect HSBC's operations;
 - requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities that may have different effects in different countries;
 - the financial effects of climate risk and other ESG-related changes being incorporated within the global prudential framework, including physical risks from climate change and the transition risks resulting from a shift to a low carbon economy;
 - the increasing regulatory expectations and requirements (for example, the EU's Digital Operational Resilience Act) relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
 - reviews of regulatory frameworks applicable to the wholesale financial markets, in particular the reforms and other changes to the securitisation requirements.
- changes in national or supra-national requirements regarding the ability to outsource the provision of services and resources offshore or to transfer material risk to financial institutions located in other countries, which may impact our ability to implement globally consistent and efficient operating models;
 - increasing regulatory expectations of firms in relation to ESG-related governance, risk management and disclosure frameworks (for example the UK Sustainability Disclosure Requirements and the EU Corporate Sustainability Reporting Directive), particularly relating to climate change, transition plans, greenwashing and supply chain due diligence; and
 - the regulatory focus on policies and controls related to the unauthorised use by employees of electronic communications on non-business platforms.

Non-prudential and related issues

- the increasing focus by regulators, international bodies and other policy makers, heightened by cost-of-living pressures, on how we conduct business, particularly around the delivery of fair outcomes for customers (for example, the UK Consumer Duty), promoting effective competition and ensuring the orderly and transparent operation of global financial markets;
 - the supervisory and regulatory change focus globally on technology adoption and digital delivery, underpinned by customer protection, including the use of digital assets and currencies and wider financial technology risks, for example, the EU's Markets in Crypto-Assets Regulation, which introduces a framework for regulating crypto-assets, will begin to apply in 2024, and Hong Kong, Singapore, and the UK are each introducing new regulations aimed at cryptocurrency related activities;
 - increasing regulatory expectations and requirements around the use of artificial intelligence ('AI') for example, the EU's proposed AI law;
 - continuing supervisory and regulatory change focus globally on payment services and related infrastructure, including 'Open Banking' and 'Open Finance' initiatives in the UK and the EU and changes concerning operational resilience and cybersecurity;
 - ongoing expectations with respect to managing emerging financial crime risks, specifically as they relate to digital assets, an evolving payments infrastructure, national data privacy requirements, and fraud, and managing conflicting laws and approaches to legal and regulatory regimes and implementing increasingly complex and less predictable sanctions and trade restrictions;
 - the demise of certain interbank offered rate ('Ibor') reference rates and the transition to new replacement rates (as discussed further under 'We may not manage risks associated with the replacement of benchmark rates and indices effectively');
 - the continued evolution of the UK's regulatory framework following the UK's withdrawal from the EU, including changes introduced through the FSMA 2023, the review of EU retained legislation, government proposals known in the UK as the 'Edinburgh Reforms/Smarter Regulatory Framework', and changes regarding the access of UK and other non-EU financial institutions to EU markets. For further details, see 'The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results';
 - the implementation of conduct and other measures as a result of regulators' focus on organisational culture, employee behaviour, whistleblowing and diversity and inclusion;
 - requirements regarding remuneration arrangements and senior management accountability more generally within the Group (for example, the requirements of the Senior Managers and Certification Regime in the UK and similar regimes in Hong Kong, Singapore, Australia, Ireland, and elsewhere that are either in effect or under consideration/implementation);
- lbors were previously used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking.
- Key benchmark rates and indices, including lbors such as the London interbank offered rate ('Libor'), have been the subject of both national and international regulatory scrutiny and reform for many years. This resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of replacement near risk free rates ('RFRs') and the proposed discontinuation of certain reference rates (including Libor). From the end of December 2021, the European Money Markets Institute ('EMMI') ceased publication of the Euro Overnight Index average ('Eonia') and ICE Benchmark Administration Limited ('IBA') ceased publication of all sterling, Euro, Swiss franc and Japanese yen settings, and the one-week and two-month US dollar Libor settings, RFRs have been adopted in their place. All remaining US dollar Libor settings ceased to be published on 30 June 2023. Following the demise of the one- and six- month sterling Libor settings on 31 March 2023, the only remaining synthetic rates available are the three- month sterling setting, which is expected to cease to be published at the end of March 2024, and the one-, three- and six- month US dollar Libor settings, which will cease to be published on 30 September 2024.
- The continued existence of a small number of legacy contracts in benchmark rates that have demised (so called 'tough legacy contracts') and contracts referencing other lbors that are expected to demise at a later date, results in several risks for HSBC, its clients and the financial services industry more widely. These include but are not limited to:
- Regulatory compliance, legal and conduct risks, which arise from the transition of legacy contracts to RFRs or alternative rates and from the sales of products referencing RFRs, could lead to unintended or unfavourable outcomes for clients and market participants. These risks could be heightened if HSBC's sales processes and procedures are not appropriately adapted or executed to detail the risks and complexity of the RFR market conventions;
 - Legal risks are associated with legacy contracts that HSBC is unable to transition, including those contracts that rely on the use of legislative solutions and/or 'synthetic' Libor. If HSBC is unable to transition legacy contracts, this could lead to reliance on fallback provisions which do not contemplate the permanent cessation of the relevant lbor, and there is a risk that these fallback provisions will not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. While legislative solutions have in some circumstances assisted market participants and investors with transitioning legacy contracts and mitigating risks associated with 'tough legacy' contracts, there remains some uncertainty around the operation, application and enforceability of such solutions. For legacy contracts that utilise 'synthetic' Libor there is a risk that we are unable to transition such contracts to a new RFR or alternative rate before the relevant 'synthetic' Libor is discontinued. This could lead to reliance on the above-mentioned fallback provisions. Each of these issues could

We may not manage risks associated with the replacement of benchmark rates and indices effectively

result in unintended or unfavourable outcomes for clients and market participants and this could potentially increase the risk of disputes;

- Resilience and operational risks, resulting from changes to manual and automated processes, made in support of new RFR methodologies, and the transition of large volumes of Ibor contracts may lead to operational issues. In particular, there is a risk that our systems, processes and controls have not been appropriately adapted to account for new RFR methodology changes or fallback provisions, which may lead to complaints and disputes; and
- Model risk resulting from changes to our models, to replace Ibor-related data, which could adversely affect the accuracy of model outputs

If any of these risks materialise, this could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

We are subject to the risk of current and future legal, regulatory or administrative actions and investigations, the outcomes of which are inherently difficult to predict

We face significant risks in our business relating to legal, regulatory or administrative actions and investigations. The amount of damages claimed in litigation, regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions are increasing for many reasons. These include a substantial increase in the number of regulatory changes taking place globally, increasing focus from regulators, investors and other stakeholders on ESG disclosures, including in relation to the measurement and reporting of such matters as both local and international standards in this area continue to significantly evolve and develop, increased media attention and higher expectations from regulators and the public. In addition, criminal prosecutions of financial institutions for, among other things, alleged conduct breaches, breaches of anti-money laundering, anti-bribery and corruption and sanctions regulations, antitrust violations, market manipulation, aiding and abetting tax evasion, and providing unlicensed cross-border banking services, have become more commonplace and may increase in frequency due to increased media attention and higher expectations from regulators and the public.

Any such legal, regulatory or administrative action or investigation against HSBC Holdings or one or more of our subsidiaries could result in, among other things, substantial fines, civil penalties, criminal penalties, cease and desist orders, forfeitures, the suspension or revocation of key licences, requirements to exit certain businesses, other disciplinary actions and/or withdrawal of funding from depositors and other stakeholders. Any threatened or actual litigation, regulatory proceeding, administrative action, investigation, or other adversarial proceedings against HSBC Holdings or one or more of our subsidiaries could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation. Additionally, the Group's financial statements reflect provisioning for legal proceedings, regulatory and customer remediation matters. Provisions for legal proceedings, regulatory and customer remediation matters, typically require a higher degree of judgement than other types of provisions, and the actual costs resulting from such proceedings and matters may exceed existing provisioning.

Additionally, as described in Note 36 on the Financial Statements, we continue to be subject to a number of material legal proceedings, regulatory actions and investigations, the outcomes of which are inherently difficult to predict, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. Moreover, we may face additional legal proceedings, investigations, or regulatory actions in the future, including in other jurisdictions and/or with respect to matters similar to, or broader than, the existing legal proceedings, investigations or regulatory actions. An unfavourable result in one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We may fail to meet the requirements of regulatory stress tests

We are subject to supervisory stress tests in many jurisdictions, which are described on page 204. These exercises are designed to assess the resilience of banks to potential adverse economic developments or operational failure to inform mitigation actions and ensure that they have robust, forward looking capital planning processes that account for the risks associated with their business profile. Assessment by supervisors is both on a quantitative and qualitative basis, the latter focusing on our data provision, stress testing capability and internal management processes and controls.

Failure to meet quantitative or qualitative requirements of regulatory stress tests, or the failure by supervisors to approve our stress test results and capital plans, could result in the Group being required to enhance its capital position, and this could, in turn, have a material adverse effect on our business, financial returns, capital position, operational capabilities and reputation.

HSBC and its UK subsidiaries may become subject to stabilisation provisions under the Banking Act, in certain significant stress situations

Under the Banking Act's special resolution regime (the 'SRR'), HM Treasury, the BoE/PRA and the FCA (together, the 'Authorities') are granted substantial powers to implement the following stabilisation options: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly owned by the BoE; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities (the so-called "bail-in power"); and (v) temporary public ownership of the relevant entity.

The SRR also provides for modified insolvency and administration procedures for relevant entities, and confers ancillary powers on the Authorities, including the power to modify or override certain contractual arrangements in certain circumstances.

The Banking Act gives power to HM Treasury to make further amendments to the law for the purpose of enabling it to use the SRR powers effectively, potentially with retrospective effect.

These stabilisation options and powers may also be applied to a UK bank or investment firm or to certain of their affiliates (which, in respect of HSBC, could include HSBC Holdings) where certain conditions are met.

In view of the HSBC Group's corporate structure, which comprises a group of locally regulated operating banks, the preferred resolution strategy for the HSBC Group, as confirmed by its regulators, is a multiple point of entry ('MPE') bail-in strategy. This provides flexibility for HSBC to be resolved either (i) through a bail-in at the HSBC Holdings level (using the above-mentioned bail-in power), which enables the recapitalisation of operating bank subsidiaries in the HSBC Group (as required) while restructuring actions are undertaken, with the HSBC Group remaining together; or (ii) at a local subsidiary level pursuant to the application of statutory resolution powers by local resolution authorities. Further details on HSBC's resolution strategy can be found in the section entitled 'Recovery and resolution' on page 20.

In addition to the stabilisation options, the relevant Authority may, in certain circumstances, require the permanent write-down or conversion into equity of any outstanding tier 1 capital instruments and tier 2 capital instruments prior to the exercise of any stabilisation option (including the bail-in power), which may lead to the cancellation, transfer or dilution of HSBC Holdings' ordinary share capital.

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In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. The Banking Act includes, in certain circumstances, and with respect to the exercise of certain powers provided for by the Banking Act, provisions related to compensation in respect of transfer instruments and orders made under it. This includes a 'no creditor worse off' safeguard, which requires that no shareholder or creditor must be left worse off from the use of resolution powers than they would have been had the entity entered insolvency rather than resolution.

However, if we are at or approaching the point where we may be deemed by our regulators to be failing, or likely to fail, such as to require regulatory intervention, any exercise of the above mentioned powers by the Authorities may result in holders of our ordinary shares, or other instruments that may fall within the scope of the 'bail in' or other write-down and conversion powers granted under the Banking Act, being materially adversely affected, including by the cancellation of shares, the write-down or conversion into shares of other instruments, the transfer of shares to a third party appointed by the BoE, the loss of rights associated with shares or other instruments (including rights to dividends or interest payments), the dilution of their percentage ownership of our share capital, and any corresponding material adverse effect on the market price of our ordinary shares and other instruments.

We are subject to tax-related risks in the countries in which we operate

We are subject to the substance and interpretation of tax laws in all countries in which we operate and are subject to routine review and audit by tax authorities in relation thereto. Our interpretation or application of these tax laws may differ from those of the relevant tax authorities and we provide for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

In addition, potential changes to tax legislation, the approach taken by tax authorities in audits, and tax rates in the countries and territories in which we operate, in particular, those arising as a consequence of the OECD's Base Erosion and Profit Shifting project, could increase our effective tax rate in the future and have a material adverse effect on our business, financial condition, results of operations, prospects and capital position.

Risks related to our operations

Our operations are highly dependent on our information technology systems

We operate in an extensive and complex technology landscape, which must remain resilient in order to support customers, the Group and markets globally. Risks arise where technology is not understood, maintained, or developed appropriately.

The reliability and security of the HSBC Group's information technology infrastructure is crucial to HSBC Group's provision of financial services to our customers and protecting the HSBC brand.

The effective functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are important to our operations.

Critical system failure, prolonged service unavailability or a material breach of data security, particularly of confidential customer data, could compromise HSBC Group's ability to serve its customers. This could breach regulations and could cause long-term damage to HSBC Group's business and brand that could have a material adverse effect on our financial condition, results of operations, prospects and reputation.

We remain susceptible to a wide range of cyber risks that impact and/or are facilitated by technology

The threat of cyber-attacks remains a concern for HSBC, as it does across the entire financial sector. As cyber-attacks continue to evolve, failure to protect our operations may result in disruption for customers, manipulation of data or financial loss. This could adversely impact both us and our customers.

Adversaries attempt to achieve their objectives by compromising HSBC or related third party systems. They use techniques that include malware (such as ransomware), exploitation of both known and unpublished (zero-day) vulnerabilities in software, phishing emails, distributed denial of service, as well as potentially physical compromise of premises, or coercion of staff. Our customers may also be subject to these constantly evolving cyber-attack techniques. The Group, like other financial institutions, experiences numerous attempts to compromise its cybersecurity. We expect to continue to be the target of such attacks in the future.

Cybersecurity risks will continue to increase, due to continued increase of services delivered over the internet; increasing reliance on internet-based products, applications and data storage; and an increased use of hybrid working models by HSBC's employees, contractors, third party service providers and their sub-contractors.

To date, we have not been materially affected by cybersecurity threats. However, our business strategy, results of operations and financial condition could be materially affected by cybersecurity risks and any future material incidents.

A failure to adhere to HSBC's cybersecurity policies, procedures or controls, employee wrongdoing, or human, governance or technological error could also compromise HSBC's ability to defend against cyber-attacks. Should any of these cybersecurity risks materialise, they could have a material adverse effect on our customers, business, financial condition, results of operations, prospects and reputation.

We could incur losses or be required to hold additional capital as a result of model limitations or failure

HSBC uses models for a range of purposes in managing its business, including regulatory capital calculations, stress testing, credit approvals, calculation of ECLs on an IFRS 9 basis, financial crime and fraud risk management and financial reporting.

HSBC could face adverse consequences as a result of decisions that may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood, or the use of modelled information for purposes which it was not designed for, or by inherent limitations arising from the uncertainty inherent in predicting or estimating future outcomes. Regulatory scrutiny and supervisory concerns over banks' use of models are considerable, particularly the internal models and assumptions used by banks in the calculation of regulatory capital. If regulatory approval for key capital models is not achieved in a timely manner or if those models are subject to negative feedback from regulators HSBC could be required to hold additional capital. Evolving regulatory requirements have resulted in changes to HSBC's approach to model risk management, which poses execution challenges. The adoption of more sophisticated modelling approaches including artificial intelligence related risks and technology by both HSBC and the financial services industry could also lead to increased model risk. HSBC's commitment to changes to business activities due to climate and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate-related risks. Challenges such as uncertainty of the long dated impacts of climate change and lack of robust and high quality climate related data present challenges to creating reliable and accurate model outputs for these models.

Model risk remains a key area of focus given the regulatory scrutiny in this area with local regulatory examinations taking place in many jurisdictions and revised principles on model risk published by the PRA which come into force in 2024 and further developments in policy expected from other regulators.

Risks arising from the use of models could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Our operations use third-party suppliers and service providers

HSBC relies on third-party suppliers and service providers to supply goods and services. The use of third-party suppliers and service providers by financial institutions is of particular focus to global regulators. This includes how outsourcing decisions are made, how key relationships are managed and our understanding of third-party dependencies and their impact on service provision.

The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and customer expectations.

This may lead to a range of impacts, including regulatory censure, penalties or damage both to shareholder value and to our reputation. This could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Risks related to our governance and internal controls

Our data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations

As the HSBC Group becomes more data-driven and our business processes move to digital channels, the volume of data that we rely on has increased. As a result, management of data (including data retention and deletion, data quality, data privacy and data architecture) from creation to destruction must be robust and designed to identify quality and availability issues. Inadequate data management could result in negative impacts to customer service, business processes, or require manual intervention to reduce the risk of errors in reporting to senior management, executives or regulators.

Expanding data privacy, national security and cybersecurity laws in a number of markets could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, which may affect our ability to manage financial crime risks across markets.

In addition, failure to comply with data privacy laws and other legislation in the jurisdictions in which we operate may result in regulatory sanctions. Any of these failures could have a material adverse effect on our business, financial condition, results of operations, prospects, and reputation.

Third parties may use us as a conduit for illegal activities without our knowledge

We are required to comply with applicable financial crime laws and regulations, and have adopted various policies, procedures and controls aimed at preventing the exploitation of HSBC's products and services for criminal activity. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing (see 'Regulation and supervision - Financial crime regulation'). There are instances, as permitted by regulation, where we may rely upon counterparties to undertake certain financial crime risk management activities on our behalf. While permitted by regulation, such reliance or other controls may not prevent third parties from using us (and our relevant counterparties) as a conduit for financial crime, without our knowledge (and that of those counterparties).

Becoming a party to, associated with, or even accused of being associated with, financial crime could damage our reputation and could make us subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We are subject to the risk of financial crime

We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity (see also 'Third parties may use us as a conduit for illegal activities without our knowledge') and, as such, we face increasing regulatory expectations. In 2023, financial crime risk was exacerbated by increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud, scams and other criminal activities. Our ability to manage financial crime risk is dependent on the use and effectiveness of our financial crime risk assessments, systems and controls. Weak or ineffective financial crime processes and controls may risk HSBC inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and reputational damage.

In addition, HSBC Bank USA, as the primary US dollar correspondent bank for the Group, is subject to heightened financial crime risk arising from business conducted on behalf of its non-US HSBC affiliates.

HSBC Bank USA has implemented policies, procedures and controls reasonably designed to comply with financial crime legal and regulatory requirements and mitigate financial crime risk from its affiliates. Nevertheless, in the event that these controls are ineffective, this could lead to a breach of these requirements resulting in a potential enforcement action by the US Department of the Treasury or other US agencies that may include substantial fines or penalties. Any such action against HSBC Bank USA could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We may suffer losses due to employee misconduct

Our businesses are exposed to risk from potential non-compliance with Group policies, including the HSBC Values, and related behaviours and employee misconduct such as fraud, negligence or non-financial misconduct, all of which could result in regulatory sanctions and/or reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of rogue employees. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective.

Misconduct risks could be increased if our prevent-and-detect measures are less effective because of remote and home working.

Employee misconduct or regulatory sanctions if a regulator deems HSBC's actions to deter such activity to be insufficient, could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

The delivery of our strategic actions is subject to execution risk and we may not achieve all of the expected benefits for strategic initiatives

Effective management of transformation projects is required to effectively deliver the Group's strategic priorities, involving delivering both on externally driven programmes and key business initiatives to deliver growth, operational resilience and efficiency outcomes. The scale, complexity and, at times, concurrent demands of the projects required to meet these can result in heightened execution risk.

The Group's strategy (see pages 11 to 13) set out in February 2022, and refined subsequently, was supported by global trends – the continued economic development in Emerging Markets, growth of

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international trade and capital flows, and wealth creation, particularly in faster-growing markets. We took into consideration global trends along with our strategic advantages to help us better deploy capital. The development and implementation of our strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in various parts of the world. We may fail to correctly identify the relevant factors in making decisions as to capital deployment and cost reduction. We may also encounter unpredictable changes in the external environment that are unfavourable to our strategy.

Our ability to execute strategic change may be limited by our operational capacity, effectiveness of our change management controls, challenges in integrating any newly acquired businesses into the Group's business and instituting and maintaining appropriate transitional arrangements and the potential for unforeseen changes in the market and/or regulatory environment in which we operate. The global economic outlook continues to remain uncertain, particularly with regard to the impact of economic recession, heightened inflation, changes in legislation and geopolitical tensions. Therefore, there remains a risk that, in the absence of an improvement in economic conditions, our cost and investment actions may not be sufficient to achieve the expected benefits.

The failure to successfully deliver or achieve the expected benefits of the Group's key strategic initiatives could have a material adverse effect on our customers, business, financial condition, results of operations, prospects, operational resilience and reputation.

Our risk management measures may not be successful

The management of risk is an integral part of all our activities. Risk constitutes our exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including retail and wholesale credit risk, market risk, non-traded market risk, operational risk, insurance risk, concentration risk, capital risk, liquidity and funding risk, litigation risk, conduct risk, reputational risk, strategic risk, pension risk and regulatory risk.

While we employ a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position, strategy and reputation.

Risks related to our business

Our business has inherent reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. Stakeholder expectations constantly evolve, and so reputational risk is dynamic and varies between geographical regions, groups and individuals. In addition, our business faces increasing scrutiny in respect of ESG-related matters. If we fail to act responsibly, or to achieve our announced targets, commitments, goals or ambitions, in a number of areas, such as diversity and inclusion, climate, sustainability, workplace conduct, human rights, and support for local communities, our reputation and the value of our brand may be negatively affected.

Social media and other broadcasting channels that facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the distribution and effect of damaging information and allegations. Reputational risk could also arise from negative public opinion about the actual, or perceived, manner in which we conduct our business activities, or our financial performance, as well as actual or perceived practices in banking and the financial services industry generally.

Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and to retain and motivate staff, and could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Non-Financial risks are inherent in our business

We are exposed to many types of non-financial risks that are inherent in our operations. Non-financial risk can be defined as the risk to HSBC of achieving its strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. It includes: breakdowns in processes or procedures, breaches of regulations or law, financial crime, financial reporting and tax errors, external events and systems failure or non-availability. These risks are also present when we rely on outside suppliers or vendors to provide services to us and our customers.

These non-financial risks may result in financial losses to the Group and our customers, an adverse customer experience, reputational damage and potential litigation, regulatory proceeding, administrative action or other adversarial proceeding in any jurisdiction in which we operate, depending on the circumstances of the event.

They could have a material adverse effect on our business, financial condition, results of operations, prospects, strategy and reputation.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel

Meeting the demand to recruit, retain and develop appropriate senior management and skilled personnel remains subject to a number of challenges. These include rapidly changing skill requirements and ways of working, the evolving regulatory landscape plus increased requirements and expectations regarding nationalisation and diversity in some jurisdictions.

Ongoing talent shortages in key markets and capabilities, particularly where those with the scarce capabilities are globally mobile, add to the complexity of our supply challenge.

Our continued success and implementation of our growth strategy depend in part on the retention of key members of our management team and wider employee base, the availability of skilled management in each of our global businesses and global functions, and the ability to continue to attract, train, motivate and retain highly qualified professionals, each of which may depend on factors beyond our control, including economic, market and regulatory conditions. In addition, the Group announced ambitions in relation to increasing the representation of women and Black heritage employees in senior leadership roles by 2025. If the Group fails to achieve these goals, its ability to attract and retain qualified professionals may be negatively affected.

When we acquire or dispose of a Group operation, we need to ensure that we comply with any employment requirements, provide support to affected employees, and integrate new employees into HSBC's Values, culture and ways of working.

If global businesses or global functions fail to staff their operations appropriately or lose one or more of their key senior executives and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the Group's strategy, our business, financial condition, results of operations, prospects and reputation, including control and operational risks, could be materially adversely affected.

We have significant exposure to counterparty risk

We are exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including brokers and dealers, central clearing counterparties, commercial banks, investment banks, mutual and hedge funds, and other institutional clients.

Many of these transactions expose us to credit risk in the event of default by our counterparty or client.

Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.

Mandatory central clearing of OTC derivatives poses risks to the Group. As a clearing member, we are required to underwrite losses incurred at a central counterparty by the default of other clearing members and their clients. Increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to central counterparties, and it is unclear at present how, at a time of stress, regulators and resolution authorities will intervene.

Where bilateral counterparty risk has been mitigated by taking collateral, our credit risk may remain high if the collateral we hold cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of our loan or derivative exposure.

There is a risk that collateral cannot be realised, including situations where this arises by change of law, or the imposition of sanctions that may influence our ability to foreclose on collateral or otherwise enforce contractual rights.

The Group also has credit exposure arising from mitigants, such as credit default swaps, and other credit derivatives, each of which is carried at fair value. The risk of default by counterparties to credit default swaps and other credit derivatives used as mitigants affects the fair value of these instruments depending on the valuation and the perceived credit risk of the underlying instrument against which protection has been purchased. Any such adjustments or fair value changes could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Any reduction in the credit rating assigned to HSBC Holdings, any subsidiaries of HSBC Holdings or any of their respective debt securities could increase the cost or decrease the availability of our funding and materially adversely affect our liquidity position and/or net interest margin

Credit ratings affect the cost and other terms upon which we are able to obtain market funding. Rating agencies regularly evaluate HSBC Holdings and certain of its subsidiaries, as well as their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of the Group or of the relevant subsidiary, as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain HSBC Holdings' or the relevant subsidiary's current ratings or outlook, particularly given the rating agencies' current review of their bank rating methodologies and the potential impact on HSBC Holdings' or its subsidiaries' ratings.

Any reductions in these current ratings or the outlook could increase the cost of our funding, limit access to capital markets and require additional collateral to be placed and, consequently, materially adversely affect our interest margins and our liquidity position.

Risks concerning borrower credit quality are inherent in our businesses

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties (for example, reinsurers and counterparties in derivative transactions) are inherent in a wide range of our businesses. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems, including uncertainties caused by the Russia-Ukraine and Israel-Hamas wars could reduce the recoverability and value of our assets, and require an increase in our ECLs. Additionally, recent attacks on shipping in the Red Sea and the resulting countermeasures taken have begun to disrupt supply chains (see 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results').

We estimate and recognise ECLs in our credit exposure. This process, which is critical to our results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how the economic and geopolitical conditions, including the impact of sanctions, and sector specific risks, might impair the ability of our borrowers to repay their loans and the ability of other counterparties to meet their obligations. This assessment considers multiple alternative forward-looking economic conditions (including GDP estimates) and incorporates this into the ECL estimates to meet the measurement objective of IFRS 9. As is the case with any such assessments, we may fail to estimate accurately the effect of factors that we identify or fail to identify relevant factors. Further, the information we use to assess the creditworthiness of our counterparties may be inaccurate or incorrect. Any failure by us to accurately estimate the ability of our counterparties to meet their obligations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our insurance businesses are subject to risks relating to insurance claim rates and changes in insurance customer behaviour

We provide various insurance products for customers, including several types of life insurance products. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity rates, lapse and surrender rates and, if the policy has a savings element, the performance of assets to support the liabilities. Adverse developments in any of these factors could materially adversely affect our business, financial condition, results of operations capital position, prospects and reputation.

HSBC Holdings is a holding company and, as a result, is dependent on loan/instrument payments and dividends from its subsidiaries to meet its obligations, including obligations with respect to its debt securities, and to provide profits for payment of future dividends to shareholders

HSBC Holdings is a non-operating holding company and, as such, its principal source of income is from operating subsidiaries that hold the principal assets of the Group. As a separate legal entity, HSBC Holdings relies on remittance of its subsidiaries' loan/instrument interest payments and dividends in order to be able to pay obligations to debt holders as they fall due, and to pay dividends to its shareholders. The ability of HSBC Holdings' subsidiaries and affiliates to pay remittances and dividends to HSBC Holdings is subject to such subsidiaries' and affiliates' financial performance and could also be restricted by applicable laws, regulations, exchange controls and other requirements.

We may be required to make substantial contributions to our pension plans

We operate a number of pension plans throughout the world for our personnel, including defined benefit pension plans. Pension scheme obligations fluctuate with changes in long-term interest rates, inflation, salary levels and the longevity of scheme members. They can also be affected by operational and legal risks. The level of contributions we make to our pension plans has a direct effect on our cash flow. To the extent plan assets are insufficient to cover existing liabilities, higher levels of contributions may be required. As a result, deficits in those pension plans could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Risk related to our financial statements and accounts

Our financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty

The preparation of financial information requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods could differ from those on which management's estimates are based. Judgements, estimates, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. The impacts of revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Accounting policies deemed critical to our results and financial position are those that involve a high degree of uncertainty and have a material impact on the financial statements. In 2023 these include ECLs for amortised cost financial assets and financial assets measured at FVOCI, impairment of goodwill and non-financial assets, valuation of financial instruments, deferred tax assets, provisions, impairment of interests in associates, post-employment benefit plans, impairment in investments in subsidiaries, and non-current assets and disposal groups held for sale, which are discussed in detail in 'Critical estimates and judgements' on page 101.

The measurement of ECLs requires the selection and calibration of complex models and the use of estimates and assumptions to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Additionally, significant judgement is involved in determining what is considered to be significant increases in credit risk and what the point of initial recognition is for revolving facilities.

The assessment of whether goodwill and non-financial assets are impaired, and the measurement of any impairment, involves the application of judgement in determining key assumptions, including discount rates, estimated cash flows for the periods for which detailed cash flows are available and projecting the long-term pattern of sustainable cash flows thereafter. The recognition and measurement of deferred tax assets involves significant judgement regarding the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

The recognition and measurement of provisions involve significant judgements due to the high degree of uncertainty in determining whether a present obligation exists, and in estimating the probability and amount of any outflows that may arise. The valuation of financial

instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs.

The assessment of interests in associates for impairment involves significant judgements in determining the value in use, in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions.

At 31 December 2023, we performed an impairment review of our investment in BoCom and concluded on an impairment charge taken in the fourth quarter of 2023. The impairment review included consideration of the potential impact of BoCom's designation as a globally systemically important bank in November 2023. The impairment reviews are complex and require significant judgments, such as the appropriateness of projected future cash flows, discount rate and regulatory capital assumptions.

The calculation of the defined benefit pension obligation involves the determination of key assumptions, including discount rate, inflation rate, pension payments and deferred pension and pay and mortality. Given the uncertainty and subjectivity associated with the above critical accounting judgements and estimates, future outcomes may differ materially from those assumed using information available at the reporting date.

The assessment of interests in subsidiaries for impairment involves significant judgements in determining the value in use, in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions.

The assessment of the held for sale criteria involves significant judgements with regards to classifying a sale as highly probable and the anticipated timing for the sale to complete.

The calculation of the fair value less cost to sell involves valuations techniques with observable and unobservable market data, and the calculation of any related impairment loss is subject to accounting estimates.

These judgements and estimates could have a material adverse effect on the future financial position of the Group, results of operations, capital position, prospects and reputation. For further details, see 'Critical estimates and judgements' on page 101.

Changes in accounting standards may have a material impact on how we report our financial results and financial condition

We prepare our consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB') ('IFRS Accounting Standards'), including interpretations ('IFRICs') issued by the IFRS Interpretations Committee.

From time to time, the IASB or the IFRS Interpretations Committee may issue new accounting standards or interpretations that could materially impact how we calculate, report and disclose our financial results and financial condition, and which may affect our capital ratios, including the CET1 ratio. For example, on 1 January 2023, the Group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. IFRS 17 sets the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Upon transition to IFRS 17, the Group's total equity reduced by \$10,459m. We could also be required to apply new or revised standards retrospectively, resulting in our restating prior period financial statements in material amounts. This could have a material adverse effect on our business, financial condition, results of operations and capital position.

Payments on loss of office

The table below sets out the basis on which payments on loss of office may be made. Other than as set out in the table, there are no further obligations which could give rise to remuneration payments or payments for loss of office.

Payments on loss of office

Component of remuneration	Approach taken
Fixed pay and benefits	<p>Executive Directors may be entitled to payments in lieu of:</p> <ul style="list-style-type: none"> – notice, which may consist of base salary, FPA, pension entitlements and other contractual benefits, or an amount in lieu of; and/or – accrued but untaken holiday entitlement. <p>Payments may be made in instalments or a lump sum, and may be subject to mitigation, and subject to applicable tax and social security deductions.</p>
Annual incentive and LTI	<p>In exceptional circumstances, as determined by the Committee, an executive Director may be eligible for the grant of annual and/or long-term incentives under the HSBC Share Plan based on the time worked in the performance year and on the individual's contribution.</p>
Unvested awards	<p>All unvested awards will be forfeited when an executive Director ceases employment voluntarily and is not deemed a good leaver. An executive Director may be considered a good leaver, under the HSBC Share Plan, if their employment ceases in specified circumstances which includes:</p> <ul style="list-style-type: none"> – ill health, injury or disability, as established to the satisfaction of the Committee; – retirement with the agreement and approval of the Committee; – the employee's employer ceasing to be a member of the Group; – redundancy with the agreement and approval of the Committee; or – any other reason at the discretion of the Committee. <p>If an executive Director is considered a good leaver, unvested awards will normally continue to vest in line with the applicable vesting dates, subject to performance conditions, the share plan rules, and malus and clawback provisions.</p> <p>In the event of death, unvested awards will vest and will be released to the executive Director's estate as soon as practicable.</p> <p>In respect of outstanding unvested awards, the Committee may determine that good leaver status is contingent upon the Committee being satisfied that the executive has no current or future intention at the date of leaving HSBC of being employed by any competitor financial services firm. The Committee determines the list of competitor firms from time to time, and the length of time for which this restriction applies. If the Committee becomes aware of any evidence to the contrary before vesting, the award will lapse.</p>
Post-departure benefits	<p>Executive Directors can be provided certain benefits for up to a maximum of seven years from date of departure for those who depart under good leaver provisions under the HSBC Share Plan, in accordance with the terms of the policy. Benefits may include, but are not limited to, medical coverage, tax return preparation assistance and legal expenses.</p> <p>The Committee also has the discretion to extend the post-departure benefit of medical coverage to former executive Directors, up to a maximum of seven years from their date of departure.</p>
Other	<p>Where an executive Director has been relocated as part of their employment, the Committee retains the discretion to pay the repatriation costs. This may include, but is not restricted to, airfare, accommodation, shipment, storage, utilities, and any tax and social security that may be due in respect of such benefits.</p> <p>Except in the case of gross misconduct or resignation, an executive Director may also receive retirement gifts.</p>
Legal claims	<p>The Committee retains the discretion to make payments (including professional and outplacement fees) to mitigate against legal claims, subject to any such payments being made in accordance with the terms of an appropriate settlement agreement waiving all claims against the Group.</p>
Change of control	<p>In the event of a change of control, outstanding awards will be treated in line with the provisions set out in the respective plan rules.</p>

Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis.

In making the going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements and capital resources.

In carrying out their assessment of the principal risks (as detailed on page 140 of this *annual report on Form 20-F*), the Directors considered a wide range of information including:

- details of the Group’s business and operating models, and strategy (see page 11 in this *annual report on Form 20-F*);
- details of the Group’s approach to managing risk and allocating capital;
- the continued validity of our existing risk management practices, liquidity monitoring process and metric assumptions, in light of the high-profile US and Swiss banking failures in the first quarter of 2023;
- a summary of the Group’s financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group’s future results or operations to adversely impact any of the above;
- enterprise risk reports, including the Group’s risk appetite profile (see page 136 of this *annual report on Form 20-F*) and top and emerging risks (see page 140 of this *annual report on Form 20-F*);
- the impact on the Group due to the Russia-Ukraine and Israel-Hamas wars; instability in China’s commercial real estate sector and strained economic and diplomatic relations between China and the US, the UK, the EU and other countries;
- reports and updates regarding regulatory and internal stress testing. The 2022–2023 Bank of England annual cyclical scenario stress test results were published on 12 July 2023. The stress scenario explored the potential impacts of a global economic contraction, persistently higher inflation and interest rates in advanced economies with materially increased unemployment, and a sharp fall in asset prices. Additionally during the second half of 2023, the Group-wide internal stress test was completed, which explores a prolonged global stress, depicting macroeconomic conditions that are generally more severe than that of the 2022–2023 annual cyclical scenario. The results of both these exercises indicated the Group is sufficiently capitalised to withstand a severe but plausible adverse stress;
- the results of our 2023 internal climate scenario analysis exercise. The results of this exercise further demonstrate the Group is sufficiently capitalised to withstand a severe stress. Further details of the insights from the 2023 climate scenario analysis are explained from page 66 of this *annual report on Form 20-F*;
- reports and updates from management on risk-related issues selected for in-depth consideration;
- reports and updates on regulatory developments;
- legal proceedings and regulatory matters set out in Note 36 of the financial statements in this *annual report on Form 20-F*; and
- reports and updates from management on the operational resilience of the Group.

39 Non-statutory accounts

The information set out in these accounts does not constitute the Company’s statutory accounts for the years ended 31 December 2023 or 2022. Those accounts have been reported on by the Company’s auditors: their reports were unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered in due course.

Information about the enforceability of judgments made in the US

HSBC Holdings is a public limited company incorporated in England and Wales.

Most of the Directors and executive officers live outside the US. As a result, it may not be possible to serve process on such persons or HSBC Holdings in the US or to enforce judgments obtained in US courts against them or HSBC Holdings based on civil liability provisions of the securities laws of the US.

There is doubt as to whether English courts would enforce:

- civil liabilities under US securities laws in original actions; or
- judgments of US courts based upon these civil liability provisions.

In addition, awards of punitive damages in actions brought in the US or elsewhere may be unenforceable in the UK.

The enforceability of any judgment in the UK will depend on the particular facts of the case as well as the laws and treaties in effect at the time.

Exchange controls and other limitations affecting equity security holders

Other than certain economic sanctions that may be in force from time to time, there are currently no UK laws, decrees or regulations that would prevent the import or export of capital or remittance of distributable profits by way of dividends and other payments to holders of HSBC Holdings’ equity securities who are not residents of the UK. There are also no restrictions under the laws of the UK or the terms of the Memorandum and Articles of Association concerning the right of non-resident or foreign owners to hold HSBC Holdings’ equity securities or, when entitled to vote, to do so.

Dividends on the ordinary shares of HSBC Holdings

The HSBC Holdings dividends approved, per ordinary share, in respect of each of the last five years were:

		First interim	Second interim	Third interim	Fourth interim ¹	Total ²
2023	\$	0.100	0.100	0.100	0.310	0.610
	£	0.079	0.080	0.080	0.243	0.482
	HK\$	0.783	0.783	0.780	2.422	4.768
2022	\$	0.090	0.230			0.320
	£	0.079	0.185			0.264
	HK\$	0.706	1.804			2.510
2021	\$	0.070	0.180	–	–	0.250
	£	0.051	0.138	–	–	0.189
	HK\$	0.545	1.412	–	–	1.957
2020	\$	–	–	–	0.150	0.150
	£	–	–	–	0.108	0.108
	HK\$	–	–	–	1.165	1.165
2019	\$	0.100	0.100	0.100	–	0.300
	£	0.078	0.080	0.078	–	0.236
	HK\$	0.781	0.782	0.783	–	2.346

1 The fourth interim dividend for 2023 of \$0.31 per ordinary share will be paid on 25 April 2024. The fourth interim dividend for 2023 has been translated into pounds sterling and Hong Kong dollars at the closing rate on 31 December 2023.

2 The above dividends approved are accounted for as disclosed in Note 8 on the Financial Statements.

3 The above dividend amounts for pounds sterling and Hong Kong dollars have been rounded.

American Depositary Shares

A holder of HSBC Holdings' American Depositary Shares ('ADSs') may have to pay, either directly or indirectly (via the intermediary through whom their ADSs are held) fees to the Bank of New York Mellon as depository.

Fees may be paid or recovered in several ways: by deduction from amounts distributed; by selling a portion of distributable property; by deduction from dividend distributions; by directly invoicing the holder; or by charging the intermediaries who act for them.

Fees for the holders of the HSBC ADSs include:

For:	HSBC ADS holders must pay:
Each issuance of HSBC ADSs, including as a result of a distribution of shares (including through a stock dividend, stock split or distribution of rights or other property)	\$5.00 (or less) per 100 HSBC ADSs or portion thereof
Each cancellation of HSBC ADSs, including if the deposit agreement terminates	\$5.00 (or less) per 100 HSBC ADSs or portion thereof
Transfer and registration of shares on our share register to/from the holder's name to/from the name of The Bank of New York Mellon or its agent when the holder deposits or withdraws shares	Registration or transfer fees (of which there currently are none)
Conversion of non-US currency to US dollars	Charges and expenses incurred by The Bank of New York Mellon with respect to the conversion
Each cash distribution to HSBC ADS holders	\$0.02 or less per ADS
Transfers of HSBC ordinary shares to the depository in exchange for HSBC ADSs	Any applicable taxes and/or other governmental charges
Distribution of securities by the depository to HSBC ADS holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and those shares had been deposited for issuance of ADSs
Any other charges incurred by the depository or its agents for servicing shares or other securities deposited	As applicable

The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

The depository has agreed to reimburse us for expenses we incur, and to pay certain out-of-pocket expenses and waive certain fees, in connection with the administration, servicing and maintenance of our ADS programme. There are limits on the amount of expenses for which the depository will reimburse us. During the year ended 31 December 2023, the depository reimbursed, paid and/or waived fees and expenses totalling \$1,516,730.03 in connection with the administration, servicing and maintenance of the programme.

Nature of trading market

HSBC Holdings ordinary shares are listed or admitted to trading on the London Stock Exchange ('LSE'), the Hong Kong Stock Exchange ('HKSE'), the Bermuda Stock Exchange and on the New York Stock Exchange ('NYSE') in the form of ADSs. HSBC Holdings maintains its principal share register in England and overseas branch share registers in Hong Kong and Bermuda (collectively, the 'share register').

As at 31 December 2023, there were a total of 172,243 holders of record of HSBC Holdings ordinary shares on the share register.

As at 31 December 2023, a total of 16,561,194 of the HSBC Holdings ordinary shares were registered in the HSBC Holdings' share register in the name of 13,917 holders of record with addresses in the US. These shares represented 0.09% of the total HSBC Holdings ordinary shares in issue.

As at 31 December 2023, there were 4,679 holders of record of ADSs holding approximately 82.33m ADSs, representing approximately 411.65m HSBC Holdings ordinary shares, 4,599 of these holders had addresses in the US, holding approximately 82.30m ADSs, representing approximately 411.52m HSBC Holdings ordinary shares. As at 31 December 2023, approximately 2.14% of the HSBC Holdings ordinary shares were represented by ADSs held by holders of record with addresses in the US.

Memorandum and Articles of Association

The disclosure under the caption 'Memorandum and Articles of Association' contained in Form 20-F for the years ended 31 December 2000, 2001, 2014, 2018 and 2022 is incorporated by reference herein.

Differences in HSBC Holdings/New York Stock Exchange corporate governance practices

Under the NYSE's corporate governance rules for listed companies and the applicable rules of the SEC, as a NYSE-listed foreign private issuer, HSBC Holdings must disclose any significant ways in which its corporate governance practices differ from those followed by US companies subject to NYSE listing standards. HSBC Holdings believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies.

US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. The Listing Rules of the FCA require each listed company incorporated in the UK to include in its annual report and accounts a statement of how it has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council and a statement as to whether or not it has complied with the code provisions of The UK Corporate Governance Code throughout the accounting period covered by the annual report and accounts. A company that has not complied with the code provisions, or complied with only some of the code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period covered by the report, must specify the code provisions with which it has not complied, and (where relevant) for which part of the reporting period such non-compliance continued, and give reasons for any non-compliance. During 2023, HSBC complied with the applicable code provisions of the UK Corporate Governance Code, but it does not require HSBC Holdings to disclose the full guidelines with which it complies.

Under NYSE standards, companies are required to have a nominating/corporate governance committee composed entirely of directors determined to be independent in accordance with the NYSE's corporate governance rules. All of the members of the Nomination & Corporate Governance Committee (excluding the Group Chairman) during 2023 were independent non-executive Directors, as determined in accordance with the UK Corporate Governance Code. The terms of reference of our Nomination & Corporate Governance Committee, which comply with the UK Corporate Governance Code, require a majority of members to be independent non-executive Directors. In addition to identifying individuals qualified to become Board members, a nominating/corporate governance committee must develop and recommend to the Board a set of corporate governance principles.

The Nomination & Corporate Governance Committee's terms of reference do not require it to develop and recommend corporate governance principles for HSBC Holdings, as HSBC Holdings is subject to the corporate governance principles of the UK Corporate Governance Code.

The Board of Directors is responsible under its terms of reference for the development and review of Group policies and practices on corporate governance.

Under the NYSE standards, companies are required to have a compensation committee composed entirely of directors determined to be independent in accordance with the NYSE's corporate governance rules. All of the members of the Group Remuneration Committee during 2023 were independent non-executive Directors, as determined in accordance with the UK Corporate Governance Code. The terms of reference of our Group Remuneration Committee, which comply with the UK Corporate Governance Code, require at least three members to be independent non-executive Directors. A compensation committee must review and approve corporate goals and objectives relevant to chief executive officer compensation and

evaluate a chief executive officer's performance in light of these goals and objectives. The Group Remuneration Committee's terms of reference require it to review and approve performance-based remuneration of the executive Directors by reference to corporate goals and objectives that are set by the Board of Directors.

Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year.

The Group Chairman meets with the independent non-executive Directors without the executive Directors in attendance after each scheduled Board meeting and otherwise, as necessary. HSBC Holdings' practice, in this regard, complies with the UK Corporate Governance Code.

In accordance with the requirements of the UK Corporate Governance Code, HSBC Holdings discloses in its Annual Report and Accounts how the Board, its committees and the Directors are evaluated (on page 315) and provides extensive information regarding Directors' compensation in the Directors' remuneration report (on page 279).

The terms of reference of HSBC Holdings' Group Audit, Nomination & Corporate Governance, Group Remuneration and Group Risk Committees are available at www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

In 2021, the Board endorsed the Statement of Business Principles and Code of Conduct, which, pursuant to the requirements of the Sarbanes-Oxley Act, incorporates the Sarbanes-Oxley code of ethics (the "Sarbanes-Oxley Principles") applicable to the Group Chief Executive, as the principal executive officer, and to the Group Chief Financial Officer and Global Financial Controller. The Statement of Business Principles and Code of Conduct remains in force and applies to the employees of all our companies. The Statement of Business Principles and Code of Conduct is available on www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct or from the Group Company Secretary and Chief Governance Officer at 8 Canada Square, London E14 5HQ. During 2023, HSBC Holdings granted no waivers from its code of ethics.

Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors. Currently, more than three-quarters of HSBC Holdings' Directors are independent.

Under the UK Corporate Governance Code, the HSBC Holdings Board determines whether a Director is independent in character and judgement and whether there are relationships or circumstances that are likely to affect, or could appear to affect, the Director's judgement.

Under the NYSE rules, a director cannot qualify as independent unless the board affirmatively determines that the director has no material relationship with the listed company; in addition, the NYSE rules prescribe a list of circumstances in which a director cannot be independent. The UK Corporate Governance Code requires a company's board to assess director independence by affirmatively concluding that the director is independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgement. Lastly, a chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE listing rules applicable to foreign private issuers, HSBC Holdings' Group Chief Executive is not required to provide the NYSE with this annual compliance certification. However, in accordance with rules applicable to both US companies and foreign private issuers, the Group Chief Executive is required promptly to notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards applicable to HSBC Holdings. HSBC Holdings is required to submit annual and interim written affirmations of compliance with applicable NYSE corporate governance standards, similar to the affirmations required of NYSE-listed US companies.

Glossary of accounting terms and US equivalents

Accounting term	US equivalent or brief description
Accounts	Financial Statements
Articles of Association	Articles of incorporation
Called up share capital	Shares issued and fully paid
Creditors	Payables
Debtors	Receivables
Deferred tax	Deferred income tax
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interests in associates and joint ventures	Interests in entities over which we have significant influence or joint control, which are accounted for using the equity method
Loans and advances	Loans
Loan capital	Long-term debt
Nominal value	Par value
One-off	Non-recurring
Ordinary shares	Common stock
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term has been agreed, established through a customer's current account
Preference shares	Preferred stock
Premises	Property
Provisions	Liabilities of uncertain timing or amount
Share premium account	Additional paid-in capital
Shares in issue	Shares outstanding
Write-offs	Charge-offs

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