HSBC Holdings plc

The Capital Requirements (Country-by-Country reporting) Regulations 2013

31 December 2020

HSBC

'

This report has been prepared for HSBC Holdings plc and its subsidiaries (the 'HSBC Group') to comply with The Capital Requirements (Country-by-Country Reporting) Regulations 2013, which implement article 89 of the Capital Requirements Directive IV ('CRD IV').

The HSBC Group is one of the largest international banking and financial services organisations in the world. Full details of the nature of our business activities are set out in pages 14 and 30–36 of HSBC Holdings plc's Annual Report and Accounts 2020.

This report shows the turnover, profit before tax, corporation tax paid and average number of employees on a full-time equivalent basis for the entities located in the countries in which we operate.

1 Basis of preparation

(a) Country

Each subsidiary or branch is allocated to the country in which it is resident for tax purposes. The data is aggregated for all the subsidiaries and branches allocated to each country.

(b) Turnover and profit before tax

Turnover and profit before tax are compiled from the HSBC Holdings plc consolidated financial statements for the year ended 31 December 2020, which are prepared in accordance with International Financial Reporting Standards ('IFRSs'). Consolidation adjustments and the elimination of intra-HSBC transactions are shown within the 'Group Accounting Adjustments' section of the report, to bring total turnover and profit before tax in line with that disclosed in the HSBC Holdings plc Annual Report and Accounts 2020. Turnover represents 'Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions' and excludes dividend payments between group companies.

(c) Corporation tax paid

Corporation tax paid represents the net cash taxes paid to, or received from, the tax authority in each country.

Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounts purposes due to two main types of timing difference:

- Differences arising from the due dates for tax payments in each country and the basis on which those payments are calculated. These requirements vary between countries. For example, the local requirement may be to make payments calculated on estimated taxable profit for the current period or, alternatively, on the taxable profit of the prior year. Due dates may be designed so that the full tax liability is paid during the year, after the year end or partly in the current year and partly after the year end.
- Differences between when income and expenses are accounted for under IFRSs and when they become taxable. These timing differences may be due to the application of local tax rules or differences between IFRSs and local accounting rules, on which tax returns are based.

(d) Full-time equivalent employees ('FTEs')

FTEs are allocated to the country in which they are primarily based for the performance of their employment duties. The figures disclosed represent the average number of FTEs in each country during the period.

(e) Public subsidies received

There were no public subsidies received during the period.

2 Country-by-Country Reporting

Country–by–Country Reporting

	Year ended 31 December 2020			
	Turnover US$m	Average FTEs[9]	Profit/(loss) before tax[1] US$m	Corporation tax paid/ (refunded)[8] US$m
Europe				
United Kingdom[2]	18,553	40,017	(7,644)	1
- of which: UK Bank Levy Charge			*(914)*	
- of which: impairment of subsidiaries	*(3,176)*		*(3,176)*	
France	2,005	7,481	(1,191)	26
Germany	1,042	2,777	210	(12)
Switzerland	514	838	(16)	1
Poland	282	3,128	36	5
Jersey	237	717	96	17
Malta	164	1,326	13	19
Luxembourg	139	349	13	12
Ireland	123	351	20	3
Guernsey	104	165	27	6
Spain	91	145	22	6
Netherlands	69	61	49	8
Greece	56	340	(27)	6
Italy	53	118	(7)	6
Russian Federation	49	250	15	5
Czech Republic	34	85	18	6
Armenia	28	323	7	—
Isle of Man	19	158	5	1
Belgium	15	25	3	—
Sweden	2	9	(2)	—
Asia				
Hong Kong[3]	18,956	30,582	8,258	2,276
Mainland China	3,247	27,521	2,617	6
- of which: Bank of Communications Co., Ltd [4]			*1,849*	
India	3,042	39,792	1,024	484
Singapore	1,383	3,364	(371)	46
Australia	859	1,855	315	119
Malaysia	846	6,849	127	65
Indonesia	470	3,584	117	2
Taiwan	391	2,106	129	15
Korea, Republic of	323	573	184	38
Philippines	306	5,881	22	6
Japan	259	378	77	35
Vietnam	187	1,316	82	18
Thailand	179	451	96	19
Bangladesh	173	840	71	50
Sri Lanka	147	3,371	24	16
Macau	90	247	27	6
New Zealand	75	230	26	10
Mauritius	55	332	6	4
Maldives	7	17	4	3

Country–by–Country Reporting (continued)

	Year ended 31 December 2020			
	Turnover	**Average FTEs**[9]	**Profit/(loss) before tax**[1]	**Corporation tax paid/ (refunded)**[8]
	US$m		**US$m**	**US$m**
Middle East and Africa				
United Arab Emirates	1,228	3,012	(152)	65
Egypt	539	2,738	298	94
Turkey	302	2,019	75	18
Oman	182	808	(24)	14
Qatar	169	299	66	9
Saudi Arabia	146	—	(203)	23
- of which: Associates and JV's [4]			*(265)*	
South Africa	109	185	84	18
Bahrain	80	212	5	—
Israel	51	90	28	16
Kuwait	45	74	5	—
Algeria	33	114	15	4
Lebanon	1	3	(2)	—
North America				
United States	6,347	9,003	(650)	(1)
- of which: impairment of goodwill			*(693)*	
Canada	1,633	5,308	310	197
Bermuda[5]	196	438	36	—
Cayman Islands[5]	2	2	(1)	—
British Virgin Islands[5]	2	—	—	—
Latin America				
Mexico	2,291	15,483	(199)	120
- of which: impairment of subsidiaries	*(11)*		*(11)*	
Argentina	742	3,629	145	96
Uruguay	67	255	12	—
Brazil	62	127	19	9
Chile	53	83	27	5
Group Accounting Adjustments[6]				
Intra-HSBC transactions eliminated on consolidation	(21,407)	—	—	—
Reversal of impairments of goodwill		—	656	—
Elimination of impairments of investments in subsidiaries	3,163	—	3,163	—
Other[7]	(181)		582	—
Total	**50,429**	**231,834**	**8,777**	**4,021**

1 *A geographical analysis of profit before tax is provided on page 100 of the HSBC Holdings plc Annual Report and Accounts 2020. That geographical analysis is different from the table above, which is based on country of tax residence.*
2 *The UK profit/(loss) before tax includes $246m for HSBC UK Bank plc, $(1,740)m for HSBC Bank plc and $(3,907)m for HSBC Holdings plc. These amounts include impairments of investments in subsidiaries of $27m, $nil and $435m, respectively, the reversals of which are included in the Group Accounting Adjustments section of this report. As a result of timing differences, some impairments of investments in subsidiaries are recorded in entities' solus financial statements in a different period from that in which they are reflected for Country-by-Country Reporting.*
3 *Hong Kong Special Administrative Region of the People's Republic of China. Tax paid is high in comparison to prior years because the Hong Kong Inland Revenue Department did not issue HSBC's tax assessments for 2019 until January 2020, at which time the tax assessments were paid.*
4 *Share of profit from associates and JVs. The Saudi British Bank, HSBC Saudi Arabia and Bank of Communications Co., Ltd are reported after tax.*
5 *Local statutory tax rate is 0%.*
6 *Accounting adjustments arising on group consolidation and not included in the results of any jurisdiction.*
7 *This mainly relates to differences in hedging designations between consolidated and subsidiary level and elimination of fair value gains on holdings of intra-group securities.*
8 *The cash flow statement contained within the HSBC Holdings plc Annual Report and Accounts 2020 shows tax paid of $4,259m. That figure also includes withholding taxes suffered.*
9 *FTEs as at 31 December 2020 as reported on page 29 of the HSBC Holdings plc Annual Report and Accounts 2020 was 226,059. The FTEs figure above was the average for the year.*

The main subsidiaries of HSBC Holdings plc, their main business activities and their country of operation as at 31 December 2020 are as follows:

Main subsidiary	Country	Nature of activities[1]
Europe		
HSBC Bank plc	United Kingdom	GB&M
HSBC UK Bank plc	United Kingdom	WPB, CMB
HSBC France	France	WPB, CMB, GB&M
HSBC Trinkaus & Burkhardt AG	Germany	WPB,CMB, GB&M
Asia		
Hang Seng Bank Limited	Hong Kong	WPB, CMB, GB&M
HSBC Bank (China) Company Limited	China	WPB, CMB, GB&M
HSBC Bank Malaysia Berhad	Malaysia	WPB, CMB, GB&M
HSBC Life (International) Limited	Hong Kong[2]	WPB, CMB
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	WPB, CMB, GB&M
Middle East and North Africa		
HSBC Bank Middle East Limited	United Arab Emirates	WPB, CMB, GB&M
North America		
HSBC Bank Canada	Canada	WPB, CMB, GB&M
HSBC Bank USA, N.A.	USA	WPB, CMB, GB&M
Latin America		
HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	Mexico	WPB, CMB, GB&M

1 *HSBC's three principal global businesses are Wealth Management and Private Banking ('WPB'), Commercial Banking ('CMB') and Global Banking and Markets ('GB&M'). Refer to pages 30-35 of the HSBC Holdings plc Annual Report and Accounts 2020 for descriptions of the global businesses.*
2 *HSBC Life (International) Limited is resident in Hong Kong for tax purposes. Bermuda is the company's place of incorporation.*

Details of all HSBC subsidiaries, as required under Section 409 of the Companies Act 2006, are set out on pages 362–370 of the HSBC Holdings plc Annual Report and Accounts 2020.

Independent auditors' report to the directors of HSBC Holdings plc

Report on the audit of the country-by-country information

Opinion

In our opinion, HSBC Holding plc's (the 'Group') country-by-country information for the year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2020 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 1 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of Covid-19 and geopolitical risks.
- Understanding and evaluating the group's financial forecasts and the group's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of financial crime laws & regulations and regulatory compliance, including conduct of business, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious trades to hide losses or to improve financial performance, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors as part of our audit of the group financial statements so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with and reports to the regulators, including the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA');
- Reviewed reporting to the Group Audit Committee ('GAC') and Group Risk Committee ('GRC') in respect of compliance and legal matters;
- Review a sample of legal correspondence with legal advisors;
- Enquiries of management and review of internal audit reports in so far as they related to the financial statements;
- Obtain legal confirmations from legal advisors relating to material litigation and compliance matters;
- Assessment of matters reported on the group's whistleblowing and 'Speak up' programmes and the results of management's investigation of such matters; in so far as they related to the financial statements;
- Challenging assumptions and judgements made by management in its significant accounting estimates, in particular in relation to the determination of expected credit losses, and the impairment assessments of goodwill, intangible assets, the investment in BoCom, valuation of financial instruments, valuation of defined benefit pensions obligations and investment in subsidiaries;
- Obtaining confirmations from third parties to confirm the existence of a sample of transactions; and
- Identifying and testing journal entries, including those posted with certain descriptions, posted and approved by the same individual, backdated journals or posted by infrequent and unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the group's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Lawrence Wilkinson.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2021

HSBC Holdings plc

8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
www.hsbc.com
Incorporated in England with limited liability
Registered number 617987