HSBC Holdings plc

FORM 20-F SEC Specific Disclosures 2021

HSBC

For commentary on the performance of our global businesses for the year ended 31 December 2021, see pages 30 to 36. For commentary on the performance of our global businesses for the year ended 31 December 2020, see pages 12 to 14.

2020 compared with 2019

Net interest income ('NII') for 2020 was $27.6bn, a decrease of $2.9bn or 9.5% compared with 2019. This reflected lower average market interest rates across the major currencies compared with 2019. This was partly offset by interest income associated with the increase in average interest-earning assets ('AIEA') of $170.1bn or 8.8%.

Excluding the favourable impact of significant items and the adverse effects of foreign currency translation differences between 2020 and 2019, net interest income decreased by $2.7bn or 9%.

NII for the fourth quarter of 2020 was $6.6bn, down 13.5% year-on-year, and up 2.6% compared with the previous quarter. The year-on-year decrease was driven by the impact of lower market interest rates predominantly in Asia and North America. This was partly offset by higher NII from growth in AIEA, notably short-term funds and financial investments and predominantly in Asia and Europe. The increase compared with the previous quarter was mainly driven by lower rates on customer deposits and issued debt securities, which were partly offset by lower rates on AIEA.

Net interest margin ('NIM') for 2020 of 1.32% was 26 basis points ('bps') lower compared with 2019 as the reduction in the yield on AIEA of 84bps was partly offset by the fall in funding costs of average interest-bearing liabilities of 67bps. The decrease in NIM in 2020 included the favourable impacts of significant items and the adverse effects of foreign currency translation differences. Excluding this, NIM fell by 25bps.

NIM for the fourth quarter of 2020 was 1.22%, down 34bps year-on-year, and up 2bps compared with the previous quarter. The year-on-year decrease was mainly driven by Asia and caused by the impact of lower market interest rates. The increase compared with the previous quarter was driven by a reduction in funding costs of average interest-bearing liabilities of 8bps, which was partly offset by a reduction in the yield on AIEA of 5bps.

Interest income for 2020 of $41.8bn decreased by $12.9bn or 24%, primarily due to the lower average interest rates compared with 2019 as the yield on AIEA fell by 84bps. This was partly offset by income from balance sheet growth, predominantly in Asia and Europe. The balance sheet growth was driven by higher balances in short-term funds and loans and advances to banks and financial investments, which increased by $85.3bn and $45.6bn, respectively. The decrease in interest income included $0.2bn in relation to the favourable impact of significant items and $0.8bn from the adverse effects of foreign currency translation differences. Excluding these, interest income decreased by $12.3bn.

Interest income of $9.3bn in the fourth quarter of 2020 was down $3.9bn year-on-year, and down $0.2bn compared with the previous quarter. The year-on-year decrease was predominantly driven by the impact of lower market interest rates, predominantly in Asia and in North America, although partly offset by growth in AIEA, notably short-term funds and loans and advances to banks and financial investments. The small decrease compared with the previous quarter was mainly driven by reduced rates on financial investments and loans and advances to customers.

Interest expense for 2020 of $14.2bn decreased by $10.1bn or 41% compared with 2019. This reflected the decrease in funding costs of 67bps, mainly arising from lower interest rates paid on interest-bearing liabilities. This was partly offset by higher interest expense from growth in interest-bearing customer accounts, which increased by $104.8bn. The decrease in interest expense included the favourable effects of foreign currency translation differences of $0.5bn. Excluding this, interest expense decreased by $9.6bn.

Interest expense of $2.7bn in the fourth quarter of 2020 was down $2.9bn year-on-year, and down $0.3bn compared with the previous quarter. The year-on-year decrease was predominantly driven by the impact of lower market interest rates, partly offset by growth in interest-bearing customer accounts, which increased by $142.9bn. The small decrease compared with the previous quarter was mainly due to reduced funding costs on customer deposits and debt issuances.

Net fee income of $11.9bn was $0.1bn lower, reflecting reductions in WPB and CMB, partly offset by an increase in GBM.

In WPB, lower fee income reflected a reduction in account services, notably in the UK, due to lower customer activity. Income from credit cards also reduced, as customer spending activity fell across most markets, mainly in Hong Kong, the UK, MENA and the US. Fee income on unit trusts fell, mainly in Hong Kong. These decreases were partly offset by higher income from broking, primarily in Hong Kong, as volatility in the equity markets resulted in increased customer activity. Fee expenses fell as a result of reduced customer activity levels, mainly in cards.

In CMB, trade-related fee income fell, reflecting the reduction in global trade activity, notably in Hong Kong and the UK. Income also fell in remittances due to lower client activity.

In GBM, net fee income was higher, mainly from growth in underwriting fees in the US and the UK. Global custody and broking fees also rose as client activity and turnover of securities increased due to market volatility. These increases were partly offset by a reduction in fee income from credit facilities, notably in the UK, Hong Kong and the US.

Net income from financial instruments held for trading or managed on a fair value basis of $9.6bn was $0.6bn lower and included a loss of $0.3bn from asset disposals relating to our restructuring programme. This was partly offset by favourable fair value movements on non-qualifying hedges of $0.1bn and favourable debit value adjustments of $0.1bn.

The remaining reduction was primarily due to lower trading interest income, reflecting lower market rates. However, other trading income increased in GBM as elevated market volatility and wider spreads supported a strong performance in Global Debt Markets and Global Foreign Exchange.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss was a net income of $2.1bn, compared with a net income of $3.5bn in 2019. This decrease primarily reflected less favourable equity market performance, compared with 2019 in France and Hong Kong, due to the impact of the Covid-19 outbreak on the equity and unit trust assets supporting insurance and investment contracts. After large losses in the first quarter of 2020, there was a partial recovery in the remainder of the year, resulting in higher revenue in these subsequent quarters during 2020 compared with the equivalent quarters in 2019.

This adverse movement resulted in a corresponding movement in liabilities to policyholders and the present value of in-force long-term insurance business ('PVIF') (see 'Other operating income' below). This reflected the extent to which the policyholders and shareholders respectively participate in the investment performance of the associated assets.

Change in fair value of designated debt and related derivatives of $0.2bn was $0.1bn favourable compared with 2019. The movements were driven by the fall in interest rates between the periods, notably in US dollars and pounds sterling. The majority of our financial liabilities designated at fair value are fixed-rate, long-term debt issuances and are managed in conjunction with interest rate swaps as part of our interest rate management strategy.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss of $0.5bn was $0.4bn lower compared with 2019. This primarily reflected adverse movements in equity markets due to the impact of the Covid-19 outbreak.

Gains less losses from financial investments of $0.7bn increased by $0.3bn, reflecting higher gains from the disposal of debt securities in Markets Treasury.

Net insurance premium income of $10.1bn was $0.5bn lower than in 2019, reflecting lower new business volumes, particularly in France and Hong Kong, partly offset by lower reinsurance arrangements in Hong Kong.

Other operating income of $0.5bn decreased by $2.4bn compared with 2019, primarily due to lower favourable changes in PVIF compared with 2019 (down $1.4bn) and also the non recurrence of a $0.8bn dilution gain in 2019 following the merger of The Saudi British Bank ('SABB') with Alawwal bank in Saudi Arabia.

The change in PVIF included a reduction of $0.8bn due to assumption changes and experience variances, mainly in Hong Kong and France due to the effect of interest rate changes on the valuation of liabilities under insurance contracts. In addition, the value of new business written fell by $0.4bn, primarily in Hong Kong, as sales volumes decreased.

The reduction also reflected the non-recurrence of 2019 gains recognised in Argentina and Mexico.

Net insurance claims and benefits paid and movement in liabilities to policyholders was $2.3bn lower, primarily due to lower returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risk. New business volumes were also lower, particularly in Hong Kong and France, partly offset by lower reinsurance arrangements in Hong Kong.

Changes in expected credit losses and other credit impairment charges ('ECL') of $8.8bn were $6.1bn higher compared with 2019 with increases in all global businesses.

The ECL charge in 2020 reflected a significant increase in stage 1 and stage 2 allowances, notably in the first half of the year, to reflect the deterioration in the forward economic outlook globally as a result of the Covid-19 outbreak. The economic outlook stabilised in the second half of 2020 and as a result stage 1 and stage 2 allowances were broadly unchanged at 31 December 2020, compared with 30 June 2020. Stage 3 charges also increased compared with 2019, largely against wholesale exposures, including a significant charge related to a CMB client in Singapore in the first quarter of 2020.

Excluding currency translation differences, and based on the foreign exchange rates during 2020, ECL as a percentage of average gross loans and advances to customers was 0.81%, compared with 0.25% in 2019.

The estimated impact of the Covid-19 outbreak was incorporated in the ECL through additional scenario analysis, which considered differing severity and duration assumptions relating to the global pandemic. These included probability-weighted shocks to annual GDP and consequential impacts on unemployment and other economic variables, with differing economic recovery assumptions. Given the severity of the macroeconomic projections, and the complexities of the government measures, which have never been modelled, additional judgemental adjustments have been made to our provisions.

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 169 to 177 of the HSBC Holdings plc 20-F for the year ended 31 December 2020.

Operating expenses of $34.4bn were $7.9bn lower than in 2019, primarily reflecting the net favourable movements in significant items of $6.6bn, which included:

- the non-recurrence of a $7.3bn impairment of goodwill in 2019, primarily related to lower long-term economic growth assumptions in GBM and CMB, and the planned reshaping of GBM. This compared with a $1.1bn impairment of goodwill and other intangibles in 2020, primarily capitalised software related to the businesses within HSBC Bank plc, and to a lesser extent our businesses in the US. These impairments reflected underperformance and a deterioration in the future forecasts of these businesses, and in the case of HSBC Bank plc substantially relating to prior periods; and
- customer redress programme costs, which were a net release of $0.1bn in 2020, compared with charges of $1.3bn in 2019.

This was partly offset by:

- restructuring and other related costs of $1.9bn in 2020, of which $0.9bn related to severance, $0.2bn related to an impairment of software intangibles and $0.2bn related to the impairment of tangible assets in France and the US. This compared with restructuring and other related costs of $0.8bn in 2019.

The reduction also included favourable currency translation differences between 2020 and 2019 of $0.2bn.

The remaining reduction of $1.1bn reflected a $0.5bn decrease in performance-related pay and lower discretionary expenditure, including marketing (down $0.3bn) and travel costs (down $0.3bn). In addition, our cost-saving initiatives resulted in a reduction of $1.4bn, of which $1.0bn related to our costs to achieve programme, and the UK bank levy was $0.2bn lower than in 2019. These decreases were partly offset by an increase in investments in technology to enhance our digital and automation capabilities to improve how we serve our customers, as well as inflation and volume-related increases. In addition, the 2020 period included impairments of certain real estate assets.

During 2020, we reduced the number of employees expressed in full-time equivalent staff ('FTE') and contractors by 11,011. This included a 9,292 reduction in FTE to 226,059 at 31 December 2020, while the number of contractors reduced by 1,719 to 5,692 at 31 December 2020.

Share of profit in associates and joint ventures of $1.6bn was $0.8bn or 32% lower than in 2019, primarily reflecting our share of an impairment of goodwill by SABB of $0.5bn. This goodwill was recognised by SABB on the completion of its merger with Alawwal bank in 2019. The remaining reduction reflected a lower share of profit recognised from our associates in Asia and MENA due to the impact of the Covid-19 outbreak and the lower interest-rate environment.

At 31 December 2020, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value-in-use ('VIU') calculations. However, the excess of the VIU of BoCom and its carrying value has reduced over the period, increasing the risk of impairment in the future.

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 2020.

Tax expense The effective tax rate for 2020 of 30.5% was lower than the 34.8% effective tax rate for 2019. An impairment of goodwill and non-deductible customer redress charges increased the 2019 effective tax rate. These were not repeated in 2020. Additionally, the non-taxable dilution gain arising on the merger of SABB with Alawwal bank decreased the effective tax rate in 2019. Higher charges in respect of the non-recognition of deferred tax assets, particularly in the UK ($0.4bn) and France ($0.4bn), increased the 202 effective tax rate.

Further details are provided in Note 7 on the financial statements of the HSBC Holdings plc 20-F for the year ended 31 December 2020.

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 geographical region. 'Other operations' 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 'Other operations'.

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

		2021			2020		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield
		$m	**$m**	**%**	$m	$m	%
Summary							
Interest-earning assets measured at amortised cost (itemised below)		**2,209,513**	**36,188**	**1.64**	2,092,900	41,756	2.00
Trading assets and financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**171,232**	**3,342**	**1.95**	188,648	3,328	1.76
Expected credit losses provision		**(12,944)**	**N/A**	**N/A**	(11,709)	N/A	N/A
Non-interest-earning assets		**644,636**	**N/A**	**N/A**	667,100	N/A	N/A
Total assets and interest income		**3,012,437**	**39,530**	**1.31**	2,936,939	45,084	1.54
Average yield on all interest-earning assets				**1.66**			1.98
Short-term funds and loans and advances to banks							
Europe	HSBC Bank plc	**163,708**	**157**	**0.10**	116,521	182	0.16
	HSBC UK Bank plc	**124,627**	**132**	**0.11**	63,190	111	0.18
Asia	The Hongkong and Shanghai Banking Corporation Limited	**86,997**	**502**	**0.58**	76,521	683	0.89
MENA	HSBC Bank Middle East Limited	**5,647**	**34**	**0.60**	4,837	54	1.12
North America	HSBC North America Holdings Inc.	**53,984**	**110**	**0.20**	24,429	89	0.36
	HSBC Bank Canada	**12,388**	**29**	**0.23**	8,953	22	0.25
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**2,143**	**85**	**3.97**	2,084	104	4.99
	HSBC Argentina Holdings S.A.	**72**	**—**	**—**	43	—	—
Other operations and intra-region eliminations		**1,112**	**56**	**5.04**	1,677	19	1.13
At 31 Dec		**450,678**	**1,105**	**0.25**	298,255	1,264	0.42
Loans and advances to customers							
Europe	HSBC Bank plc	**136,373**	**2,226**	**1.63**	149,457	2,685	1.80
	HSBC UK Bank plc	**267,177**	**6,633**	**2.48**	242,013	6,307	2.61
Asia	The Hongkong and Shanghai Banking Corporation Limited	**489,093**	**10,599**	**2.17**	479,165	12,984	2.71
MENA	HSBC Bank Middle East Limited	**20,022**	**614**	**3.07**	21,244	786	3.70
North America	HSBC North America Holdings Inc.	**54,761**	**1,545**	**2.82**	66,642	2,090	3.14
	HSBC Bank Canada	**51,847**	**1,322**	**2.55**	46,432	1,306	2.81
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**18,496**	**1,849**	**10.00**	18,796	1,898	10.10
	HSBC Argentina Holdings S.A.	**1,529**	**452**	**29.56**	1,619	462	28.54
Other operations and intra-region eliminations		**21,360**	**831**	**3.89**	21,427	873	4.07
At 31 Dec		**1,060,658**	**26,071**	**2.46**	1,046,795	29,391	2.81
Reverse repurchase agreements – banks							
Europe	HSBC Bank plc	**41,531**	**137**	**0.33**	36,307	244	0.67
	HSBC UK Bank plc	**845**	**1**	**0.12**	85	—	—
Asia	The Hongkong and Shanghai Banking Corporation Limited	**56,515**	**384**	**0.68**	51,230	462	0.90
MENA	HSBC Bank Middle East Limited	**2,021**	**16**	**0.79**	1,573	22	1.40
North America	HSBC North America Holdings Inc.	**12,820**	**8**	**0.06**	15,048	125	0.83
	HSBC Bank Canada	**1,499**	**4**	**0.27**	277	2	0.72
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**1,214**	**53**	**4.37**	1,755	103	5.87
	HSBC Argentina Holdings S.A.	**589**	**205**	**34.80**	292	69	23.63
Other operations and intra-region eliminations		**(6,956)**	**(63)**	**0.91**	(7,540)	(73)	0.97
At 31 Dec		**110,078**	**745**	**0.68**	99,027	954	0.96

Assets (continued)

		2021			2020		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield
		$m	**$m**	**%**	$m	$m	%
Reverse repurchase agreements – customers							
Europe	HSBC Bank plc	**37,735**	**120**	**0.32**	51,652	291	0.56
	HSBC UK Bank plc	**4,103**	**8**	**0.19**	3,004	11	0.37
Asia	The Hongkong and Shanghai Banking Corporation Limited	**26,276**	**64**	**0.24**	20,095	123	0.61
MENA	HSBC Bank Middle East Limited	**210**	**1**	**0.48**	3	—	—
North America	HSBC North America Holdings Inc.	**26,204**	**35**	**0.13**	50,486	397	0.79
	HSBC Bank Canada	**3,994**	**13**	**0.33**	5,370	43	0.80
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**664**	**33**	**4.97**	310	—	—
Other operations and intra-region eliminations		**(3,018)**	**—**	**—**	(8,046)	(54)	0.67
At 31 Dec		**96,168**	**274**	**0.28**	122,874	811	0.66
Financial investments							
Europe	HSBC Bank plc	**62,091**	**693**	**1.12**	65,848	842	1.28
	HSBC UK Bank plc	**20,022**	**180**	**0.90**	32,450	232	0.71
Asia	The Hongkong and Shanghai Banking Corporation Limited	**255,500**	**4,001**	**1.57**	251,760	4,653	1.85
MENA	HSBC Bank Middle East Limited	**10,963**	**61**	**0.56**	9,918	99	1.00
North America	HSBC North America Holdings Inc.	**42,823**	**651**	**1.52**	52,611	888	1.69
	HSBC Bank Canada	**12,315**	**77**	**0.63**	16,522	183	1.11
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**4,219**	**223**	**5.29**	4,791	246	5.13
	HSBC Argentina Holdings S.A.	**898**	**303**	**33.74**	903	312	34.55
Other operations and intra-region eliminations		**30,009**	**540**	**1.80**	28,739	688	2.39
At 31 Dec		**438,840**	**6,729**	**1.53**	463,542	8,143	1.76
Other interest-earning assets							
Europe	HSBC Bank plc	**45,908**	**995**	**2.17**	54,323	994	1.83
	HSBC UK Bank plc	**181**	**21**	**11.60**	317	4	1.26
Asia	The Hongkong and Shanghai Banking Corporation Limited	**8,566**	**63**	**0.74**	8,661	94	1.09
MENA	HSBC Bank Middle East Limited	**1**	**—**	**—**	29	2	6.90
North America	HSBC North America Holdings Inc.	**4,869**	**66**	**1.36**	8,001	46	0.57
	HSBC Bank Canada	**421**	**2**	**0.48**	746	3	0.40
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**731**	**1**	**0.14**	1,062	3	0.28
	HSBC Argentina Holdings S.A.	**18**	**171**	**950.00**	20	135	675.00
Other operations and intra-region eliminations		**(7,604)**	**(55)**	**0.72**	(10,752)	(142)	1.32
At 31 Dec		**53,091**	**1,264**	**2.38**	62,407	1,139	1.83
Total interest-earning assets							
Europe	HSBC Bank plc	**487,346**	**4,328**	**0.89**	474,108	5,238	1.10
	HSBC UK Bank plc	**416,955**	**6,975**	**1.67**	341,059	6,665	1.95
Asia	The Hongkong and Shanghai Banking Corporation Limited	**922,947**	**15,613**	**1.69**	887,432	18,999	2.14
MENA	HSBC Bank Middle East Limited	**38,102**	**728**	**1.91**	37,604	963	2.56
North America	HSBC North America Holdings Inc.	**195,461**	**2,415**	**1.24**	217,217	3,635	1.67
	HSBC Bank Canada	**82,464**	**1,447**	**1.75**	78,300	1,613	2.06
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**27,467**	**2,244**	**8.17**	28,798	2,354	8.17
	HSBC Argentina Holdings S.A.	**3,106**	**1,131**	**36.41**	2,877	978	33.99
Other operations and intra-region eliminations		**35,665**	**1,307**	**3.66**	25,505	1,311	5.14
At 31 Dec		**2,209,513**	**36,188**	**1.64**	2,092,900	41,756	2.00

Equity and liabilities

	2021			2020		
	Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	$m	**$m**	**%**	$m	$m	%
Summary						
Interest-bearing liabilities measured at amortised cost (itemised below)	**1,816,518**	**9,699**	**0.53**	1,741,166	14,178	0.81
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)	**143,258**	**2,602**	**1.82**	137,349	2,356	1.72
Non-interest bearing current accounts	**318,305**	**N/A**	**N/A**	267,944	N/A	N/A
Total equity and other non-interest bearing liabilities	**734,356**	**N/A**	**N/A**	790,480	N/A	N/A
Total equity and liabilities	**3,012,437**	**12,301**	**0.41**	2,936,939	16,534	0.56
Average cost on all interest-bearing liabilities			**0.63**			0.88

Equity and liabilities (continued)

		2021			2020		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
		$m	$m	%	$m	$m	%
Deposits by banks[1]							
Europe	HSBC Bank plc	**45,238**	**61**	**0.13**	36,958	120	0.32
	HSBC UK Bank plc	**3,273**	**4**	**0.12**	91	—	—
Asia	The Hongkong and Shanghai Banking Corporation Limited	**30,568**	**67**	**0.22**	30,929	123	0.40
MENA	HSBC Bank Middle East Limited	**2,738**	**29**	**1.06**	2,998	39	1.30
North America	HSBC North America Holdings Inc.	**8,124**	**4**	**0.05**	7,174	9	0.13
	HSBC Bank Canada	**931**	**—**	**—**	919	1	0.11
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**749**	**50**	**6.68**	949	63	6.64
	HSBC Argentina Holdings S.A.	**19**	**5**	**26.32**	24	5	20.83
Other operations and intra-region eliminations		**(15,969)**	**(22)**	**0.14**	(14,506)	(30)	0.21
At 31 Dec		**75,671**	**198**	**0.26**	65,536	330	0.50
Debt Securities in issue – non trading							
Europe	HSBC Holdings plc	**109,472**	**2,748**	**2.51**	106,742	3,101	2.91
	HSBC Bank plc	**53,265**	**353**	**0.66**	67,703	719	1.06
	HSBC UK Bank plc	**16,904**	**396**	**2.34**	14,900	423	2.84
Asia	The Hongkong and Shanghai Banking Corporation Limited	**39,936**	**652**	**1.63**	40,602	841	2.07
MENA	HSBC Bank Middle East Limited	**3,165**	**38**	**1.20**	3,214	57	1.77
North America	HSBC North America Holdings Inc.	**21,496**	**366**	**1.70**	31,352	730	2.33
	HSBC Bank Canada	**12,846**	**233**	**1.81**	14,592	287	1.97
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**1,983**	**127**	**6.40**	3,451	212	6.14
	HSBC Argentina Holdings S.A.	**101**	**6**	**5.94**	161	28	17.39
Other operations and intra-region eliminations		**(66,031)**	**(1,316)**	**1.99**	(63,107)	(1,454)	2.30
At 31 Dec		**193,137**	**3,603**	**1.87**	219,610	4,944	2.25
Customer accounts[2]							
Europe	HSBC Bank plc	**206,377**	**378**	**0.18**	184,462	603	0.33
	HSBC UK Bank plc	**288,821**	**166**	**0.06**	237,077	378	0.16
Asia	The Hongkong and Shanghai Banking Corporation Limited	**683,482**	**1,934**	**0.28**	651,288	3,300	0.51
MENA	HSBC Bank Middle East Limited	**9,234**	**25**	**0.27**	10,678	84	0.79
North America	HSBC North America Holdings Inc.	**86,228**	**195**	**0.23**	86,470	504	0.58
	HSBC Bank Canada	**50,317**	**170**	**0.34**	47,175	428	0.91
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**17,627**	**411**	**2.33**	16,325	535	3.28
	HSBC Argentina Holdings S.A.	**2,910**	**424**	**14.57**	2,596	307	11.83
Other operations and intra-region eliminations		**17,584**	**396**	**2.25**	18,178	339	1.86
At 31 Dec		**1,362,580**	**4,099**	**0.30**	1,254,249	6,478	0.52
Repurchase agreements – with banks							
Europe	HSBC Bank plc	**20,083**	**27**	**0.13**	20,940	83	0.40
	HSBC UK Bank plc	**256**	**—**	**—**	133	—	—
Asia	The Hongkong and Shanghai Banking Corporation Limited	**21,808**	**141**	**0.65**	16,764	160	0.95
MENA	HSBC Bank Middle East Limited	**777**	**1**	**0.13**	332	1	0.30
North America	HSBC North America Holdings Inc.	**6,611**	**4**	**0.06**	10,933	73	0.67
	HSBC Bank Canada	**357**	**2**	**0.56**	1,336	21	1.57
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**160**	**8**	**5.00**	597	23	3.85
	HSBC Argentina Holdings S.A.	**9**	**1**	**11.11**	24	5	20.83
Other operations and intra-region eliminations		**(9,284)**	**(6)**	**0.06**	(12,096)	(75)	0.62
At 31 Dec		**40,777**	**178**	**0.44**	38,963	291	0.75
Repurchase agreements – with customers							
Europe	HSBC Bank plc	**25,190**	**41**	**0.16**	28,866	177	0.61
	HSBC UK Bank plc	**5,635**	**1**	**0.02**	3,977	2	0.05
Asia	The Hongkong and Shanghai Banking Corporation Limited	**11,641**	**47**	**0.40**	6,701	37	0.55
MENA	HSBC Bank Middle East Limited	**—**	**—**	**—**	—	—	—
North America	HSBC North America Holdings Inc.	**28,917**	**7**	**0.02**	47,314	328	0.69
	HSBC Bank Canada	**3,742**	**8**	**0.21**	2,852	20	0.70
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**1,850**	**80**	**4.32**	1,777	107	6.02
	HSBC Argentina Holdings S.A.	**—**	**—**	**—**	—	—	—
Other operations and intra-region eliminations		**(3,551)**	**1**	**(0.03)**	(5,074)	1	(0.02)
At 31 Dec		**73,424**	**185**	**0.25**	86,413	672	0.78

Equity and liabilities (continued)

		2021			2020		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
		$m	**$m**	**%**	$m	$m	%
Other interest-bearing liabilities							
Europe	HSBC Bank plc	**50,629**	**1,059**	**2.09**	60,780	1,100	1.81
	HSBC UK Bank plc	**399**	**10**	**2.51**	406	22	5.42
Asia	The Hongkong and Shanghai Banking Corporation Limited	**12,616**	**152**	**1.20**	12,950	166	1.28
MENA	HSBC Bank Middle East Limited	**30**	**3**	**10.00**	40	3	7.50
North America	HSBC North America Holdings Inc.	**9,549**	**32**	**0.34**	7,289	71	0.97
	HSBC Bank Canada	**2,149**	**53**	**2.47**	1,960	44	2.24
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**159**	**27**	**16.98**	165	27	16.36
	HSBC Argentina Holdings S.A.	**17**	**77**	**452.94**	23	56	243.48
Other operations and intra-region eliminations		**(4,619)**	**23**	**(0.50)**	(7,218)	(26)	0.36
At 31 Dec		**70,929**	**1,436**	**2.02**	76,395	1,463	1.92
Total interest-bearing liabilities							
Europe	HSBC Holdings plc	**110,981**	**2,749**	**2.48**	108,612	3,104	2.86
	HSBC Bank plc	**400,782**	**1,919**	**0.48**	399,709	2,802	0.70
	HSBC UK Bank plc	**315,288**	**577**	**0.18**	256,584	825	0.32
Asia	The Hongkong and Shanghai Banking Corporation Limited	**800,051**	**2,993**	**0.37**	759,234	4,627	0.61
MENA	HSBC Bank Middle East Limited	**15,944**	**96**	**0.60**	17,262	184	1.07
North America	HSBC North America Holdings Inc.	**160,924**	**608**	**0.38**	190,531	1,715	0.90
	HSBC Bank Canada	**70,342**	**466**	**0.66**	68,834	801	1.16
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**22,528**	**703**	**3.12**	23,264	967	4.16
	HSBC Argentina Holdings S.A.	**3,056**	**513**	**16.79**	2,828	401	14.18
Other operations and intra-region eliminations		**(83,378)**	**(925)**	**1.11**	(85,692)	(1,248)	1.46
At 31 Dec		**1,816,518**	**9,699**	**0.53**	1,741,166	14,178	0.81

1 *This includes interest-bearing bank deposits only. See page 11 for an analysis of all bank deposits.*
2 *This includes interest-bearing customer accounts only. See page 12 for an analysis of all customer accounts.*

Net interest margin[1]

		2021	2020	2019
		%	%	%
Europe	HSBC Bank plc	**0.49**	0.51	0.43
	HSBC UK Bank plc	**1.53**	1.71	2.05
Asia	The Hongkong and Shanghai Banking Corporation Limited	**1.37**	1.62	2.02
MENA	HSBC Bank Middle East Limited	**1.66**	2.07	3.03
North America	HSBC North America Holdings Inc.	**0.93**	0.88	0.98
	HSBC Bank Canada	**1.19**	1.03	1.38
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**5.61**	4.82	4.54
	HSBC Argentina Holdings S.A.	**19.93**	19.99	20.88
At 31 Dec		**1.20**	1.32	1.58

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

Distribution of average total assets

		2021	2020	2019
		%	%	%
Europe	HSBC Bank plc	**30.0**	32.0	32.0
	HSBC UK Bank plc	**14.0**	12.0	12.0
Asia	The Hongkong and Shanghai Banking Corporation Limited	**42.0**	40.0	40.0
MENA	HSBC Bank Middle East Limited	**2.0**	2.0	1.0
North America	HSBC North America Holdings Inc.	**9.0**	11.0	12.0
	HSBC Bank Canada	**3.0**	3.0	3.0
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**1.0**	2.0	2.0
Other operations and intra-region eliminations		**(1.0)**	(2.0)	(2.0)
At 31 Dec		**100.0**	100.0	100.0

Analysis of changes in net interest income and net interest expense

The following tables allocate changes in net interest income and net interest expense between volume and rate for 2021 compared with 2020, and for 2020 compared with 2019. We isolate rate variances and allocate any change arising from both volume and rate/volume to volume.

Interest income

		2021	Increase/(decrease) in 2021 compared with 2020		2020	Increase/(decrease) in 2020 compared with 2019		2019
			Volume	Rate		Volume	Rate	
		$m	$m	$m	$m	$m	$m	$m
Short-term funds and loans and advances to banks								
Europe	HSBC Bank plc	**157**	**45**	**(70)**	182	50	(244)	376
	HSBC UK Bank plc	**132**	**65**	**(44)**	111	40	(206)	277
Asia	The Hongkong and Shanghai Banking Corporation Limited	**502**	**56**	**(237)**	683	94	(558)	1,147
MENA	HSBC Bank Middle East Limited	**34**	**5**	**(25)**	54	18	(35)	71
North America	HSBC North America Holdings Inc.	**110**	**60**	**(39)**	89	32	(250)	307
	HSBC Bank Canada	**29**	**9**	**(2)**	22	20	(2)	4
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**85**	**2**	**(21)**	104	(21)	(55)	180
Other operations and intra-region eliminations		**56**	**(29)**	**66**	19	7	(37)	49
At 31 Dec		**1,105**	**348**	**(507)**	1,264	365	(1,512)	2,411
Loans and advances to customers								
Europe	HSBC Bank plc	**2,226**	**(205)**	**(254)**	2,685	(18)	(495)	3,198
	HSBC UK Bank plc	**6,633**	**641**	**(315)**	6,307	281	(624)	6,650
Asia	The Hongkong and Shanghai Banking Corporation Limited	**10,599**	**202**	**(2,587)**	12,984	281	(3,560)	16,263
MENA	HSBC Bank Middle East Limited	**614**	**(38)**	**(134)**	786	24	(238)	1,000
North America	HSBC North America Holdings Inc.	**1,545**	**(332)**	**(213)**	2,090	18	(641)	2,713
	HSBC Bank Canada	**1,322**	**137**	**(121)**	1,306	99	(378)	1,585
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**1,849**	**(30)**	**(19)**	1,898	(161)	(289)	2,348
	HSBC Argentina Holdings S.A.	**452**	**(27)**	**17**	462	(132)	(58)	652
Other operations and intra-region eliminations		**831**	**(3)**	**(39)**	873	57	(353)	1,169
At 31 Dec		**26,071**	**344**	**(3,664)**	29,391	657	(6,844)	35,578
Reverse repurchase agreements – with banks								
Europe	HSBC Bank plc	**137**	**16**	**(123)**	244	1	(282)	525
	HSBC UK Bank plc	**1**	**1**	**—**	—	—	—	—
Asia	The Hongkong and Shanghai Banking Corporation Limited	**384**	**35**	**(113)**	462	108	(454)	808
MENA	HSBC Bank Middle East Limited	**16**	**4**	**(10)**	22	10	(20)	32
North America	HSBC North America Holdings Inc.	**8**	**(1)**	**(116)**	125	(50)	(524)	699
	HSBC Bank Canada	**4**	**3**	**(1)**	2	1	(7)	8
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**53**	**(24)**	**(26)**	103	38	(10)	75
	HSBC Argentina Holdings S.A.	**205**	**103**	**33**	69	61	(8)	16
Other operations and intra-region eliminations		**(63)**	**5**	**5**	(73)	(26)	315	(362)
At 31 Dec		**745**	**68**	**(277)**	954	54	(901)	1,801
Reverse repurchase agreements – with customers								
Europe	HSBC Bank plc	**120**	**(47)**	**(124)**	291	(58)	(317)	666
	HSBC UK Bank plc	**8**	**2**	**(5)**	11	(5)	(20)	36
Asia	The Hongkong and Shanghai Banking Corporation Limited	**64**	**15**	**(74)**	123	20	(119)	222
MENA	HSBC Bank Middle East Limited	**1**	**1**	**—**	—	—	—	—
North America	HSBC North America Holdings Inc.	**35**	**(29)**	**(333)**	397	(31)	(1,433)	1,861
	HSBC Bank Canada	**13**	**(5)**	**(25)**	43	(3)	(67)	113
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**33**	**18**	**15**	—	—	—	—
Other operations and intra-region eliminations		**—**	**—**	**54**	(54)	28	(73)	(9)
At 31 Dec		**274**	**(70)**	**(467)**	811	(59)	(2,019)	2,889

Interest income (continued)

		2021	Increase/(decrease) in 2021 compared with 2020		2020	Increase/(decrease) in 2020 compared with 2019		2019
			Volume	Rate		Volume	Rate	
		$m	$m	$m	$m	$m	$m	$m
Financial investments								
Europe	HSBC Bank plc	**693**	**(44)**	**(105)**	842	25	(378)	1,195
	HSBC UK Bank plc	**180**	**(114)**	**62**	232	84	(154)	302
Asia	The Hongkong and Shanghai Banking Corporation Limited	**4,001**	**53**	**(705)**	4,653	423	(1,601)	5,831
MENA	HSBC Bank Middle East Limited	**61**	**6**	**(44)**	99	22	(96)	173
North America	HSBC North America Holdings Inc.	**651**	**(148)**	**(89)**	888	38	(352)	1,202
	HSBC Bank Canada	**77**	**(27)**	**(79)**	183	(29)	(159)	371
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**223**	**(31)**	**8**	246	(117)	(103)	466
	HSBC Argentina Holdings S.A.	**303**	**(2)**	**(7)**	312	(20)	(194)	526
Other operations and intra-region eliminations		**540**	**22**	**(170)**	688	231	(182)	639
At 31 Dec		**6,729**	**(348)**	**(1,066)**	8,143	782	(3,344)	10,705

Interest expense

		2021	Increase/(decrease) in 2021 compared with 2020		2020	Increase/(decrease) in 2020 compared with 2019		2019
			Volume	Rate		Volume	Rate	
		$m	$m	$m	$m	$m	$m	$m
Deposits by banks								
Europe	HSBC Bank plc	**61**	**11**	**(70)**	120	26	(152)	246
	HSBC UK Bank plc	**4**	**4**	**—**	—	—	(25)	25
Asia	The Hongkong and Shanghai Banking Corporation Limited	**67**	**—**	**(56)**	123	22	(189)	290
MENA	HSBC Bank Middle East Limited	**29**	**(3)**	**(7)**	39	14	(28)	53
North America	HSBC North America Holdings Inc.	**4**	**1**	**(6)**	9	1	(37)	45
	HSBC Bank Canada	**—**	**—**	**(1)**	1	—	(1)	2
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**50**	**(13)**	**—**	63	(34)	4	93
	HSBC Argentina Holdings S.A.	**5**	**(1)**	**1**	5	(8)	(5)	18
Other operations and intra-region eliminations		**(22)**	**(2)**	**10**	(30)	(3)	43	(70)
At 31 Dec		**198**	**25**	**(157)**	330	69	(441)	702
Customer accounts								
Europe	HSBC Bank plc	**378**	**52**	**(277)**	603	28	(853)	1,428
	HSBC UK Bank plc	**166**	**25**	**(237)**	378	43	(471)	806
Asia	The Hongkong and Shanghai Banking Corporation Limited	**1,934**	**132**	**(1,498)**	3,300	170	(2,390)	5,520
MENA	HSBC Bank Middle East Limited	**25**	**(3)**	**(56)**	84	11	(61)	134
North America	HSBC North America Holdings Inc.	**195**	**(6)**	**(303)**	504	120	(488)	872
	HSBC Bank Canada	**170**	**11**	**(269)**	428	51	(265)	642
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**411**	**31**	**(155)**	535	(12)	(285)	832
	HSBC Argentina Holdings S.A.	**424**	**46**	**71**	307	(29)	(218)	554
Other operations and intra-region eliminations		**396**	**(14)**	**71**	339	106	(217)	450
At 31 Dec		**4,099**	**380**	**(2,759)**	6,478	528	(5,288)	11,238

Interest expense (continued)

		2021	Increase/(decrease) in 2021 compared with 2020 Volume	Rate	2020	Increase/(decrease) in 2020 compared with 2019 Volume	Rate	2019
		$m	$m	$m	$m	$m	$m	$m
Repurchase agreements – with banks								
Europe	HSBC Bank plc	**27**	**1**	**(57)**	83	(13)	(212)	308
	HSBC UK Bank plc	**—**	**—**	**—**	—	—	(4)	4
Asia	The Hongkong and Shanghai Banking Corporation Limited	**141**	**31**	**(50)**	160	16	(244)	388
MENA	HSBC Bank Middle East Limited	**1**	**1**	**(1)**	1	1	(2)	2
North America	HSBC North America Holdings Inc.	**4**	**(2)**	**(67)**	73	(31)	(363)	467
	HSBC Bank Canada	**2**	**(6)**	**(13)**	21	(10)	(40)	71
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**8**	**(22)**	**7**	23	(119)	(129)	271
	HSBC Argentina Holdings S.A.	**1**	**(2)**	**(2)**	5	(1)	(7)	13
Other operations and intra-region eliminations		**(6)**	**1**	**68**	(75)	(10)	459	(524)
At 31 Dec		**178**	**8**	**(121)**	291	(83)	(626)	1,000
Repurchase agreements – with customers								
Europe	HSBC Bank plc	**41**	**(6)**	**(130)**	177	(66)	(385)	628
	HSBC UK Bank plc	**1**	**—**	**(1)**	2	2	(4)	4
Asia	The Hongkong and Shanghai Banking Corporation Limited	**47**	**20**	**(10)**	37	(8)	(38)	83
MENA	HSBC Bank Middle East Limited	**—**	**—**	**—**	—	—	—	—
North America	HSBC North America Holdings Inc.	**7**	**(4)**	**(317)**	328	(113)	(1,602)	2,043
	HSBC Bank Canada	**8**	**2**	**(14)**	20	(15)	(43)	78
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**80**	**3**	**(30)**	107	(2)	(78)	187
	HSBC Argentina Holdings S.A.	**—**	**—**	**—**	—	—	—	—
Other operations and intra-region eliminations		**1**	**(1)**	**1**	1	(1)	2	—
At 31 Dec		**185**	**(29)**	**(458)**	672	(191)	(2,160)	3,023
Debt securities in issue – non trading								
Europe	HSBC Holdings	**2,748**	**74**	**(427)**	3,101	208	(904)	3,797
	HSBC Bank plc	**353**	**(95)**	**(271)**	719	(17)	(402)	1,138
	HSBC UK Bank plc	**396**	**48**	**(75)**	423	63	6	354
Asia	The Hongkong and Shanghai Banking Corporation Limited	**652**	**(10)**	**(179)**	841	68	(429)	1,202
MENA	HSBC Bank Middle East Limited	**38**	**(1)**	**(18)**	57	3	(57)	111
North America	HSBC North America Holdings Inc.	**366**	**(166)**	**(198)**	730	(38)	(488)	1,256
	HSBC Bank Canada	**233**	**(31)**	**(23)**	287	60	(84)	311
Latin America	Grupo Financiero HSBC, S.A. de C.V.	**127**	**(94)**	**9**	212	35	(35)	212
	HSBC Argentina Holdings S.A.	**6**	**(4)**	**(18)**	28	(21)	(45)	94
Other operations and intra-region eliminations		**(1,316)**	**(58)**	**196**	(1,454)	(118)	617	(1,953)
At 31 Dec		**3,603**	**(506)**	**(835)**	4,944	196	(1,774)	6,522

Loan maturity and interest sensitivity analysis

At 31 December 2021, the analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis was as follows.

	Total $m
Maturity of 1 year or less	
Loans and advances to banks	**74,533**
Loans and advances to customers	**404,010**
	478,543
Maturity after 1 year but within 5 years	
Loans and advances to banks	**8,459**
Loans and advances to customers	**331,901**
	340,360
Interest rate sensitivity of loans and advances to banks	
Fixed interest rate	**5,710**
Variable interest rate	**2,749**
	8,459
Interest rate sensitivity of loans and advances to customers	
Fixed interest rate	**94,792**
Variable interest rate	**237,109**
	331,901
Maturity after 5 years but within 15 years	
Loans and advances to banks	**161**
Loans and advances to customers	**176,310**
	176,471
Interest rate sensitivity of loans and advances to banks	
Fixed interest rate	**161**
Variable interest rate	**–**
	161
Interest rate sensitivity of loans and advances to customers	
Fixed interest rate	**77,000**
Variable interest rate	**99,310**
	176,310
Maturity after 15 years	
Loans and advances to banks	**–**
Loans and advances to customers	**145,010**
	145,010
Interest rate sensitivity of loans and advances to banks	
Fixed interest rate	**–**
Variable interest rate	**–**
	–
Interest rate sensitivity of loans and advances to customers	
Fixed interest rate	**64,016**
Variable interest rate	**80,994**
	145,010

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 geographical analysis of average deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies.

Deposits by banks

	2021		2020	
	Average balance	**Average rate**	Average balance	Average rate
	$m	**%**	$m	%
Europe	**49,069**		38,299	
– demand and other – non-interest bearing	**5,443**	**—**	5,100	—
– demand – interest bearing	**18,044**	**0.2**	14,492	0.2
– time	**25,577**	**0.1**	18,701	0.5
– other	**5**	**—**	6	—
Asia	**29,785**		29,791	
– demand and other – non-interest bearing	**4,390**	**—**	3,787	—
– demand – interest bearing	**19,623**	**0.2**	19,381	0.3
– time	**5,770**	**0.5**	6,623	0.7
– other	**2**	**—**	—	—
Middle East and North Africa	**1,631**		1,528	
– demand and other – non-interest bearing	**235**	**—**	220	—
– demand – interest bearing	**426**	**0.2**	280	0.4
– time	**948**	**1.3**	969	1.7
– other	**22**	**—**	59	—
North America	**6,337**		5,493	
– demand and other – non-interest bearing	**1,872**	**—**	1,471	—
– demand – interest bearing	**4,391**	**0.1**	3,617	0.2
– time	**74**	**—**	405	0.7
– other	**—**	**—**	—	—
Latin America	**790**		1,005	
– demand and other – non-interest bearing	**1**	**—**	2	—
– demand – interest bearing	**66**	**10.6**	71	9.9
– time	**723**	**6.8**	932	6.7
– other	**—**	**—**	—	—
Total	**87,612**		76,116	
– demand and other – non-interest bearing	**11,941**	**—**	10,580	—
– demand – interest bearing	**42,550**	**0.2**	37,841	0.3
– time	**33,092**	**0.4**	27,630	0.8
– other	**29**	**—**	65	—

Customer accounts

	2021		2020	
	Average balance	Average rate	Average balance	Average rate
	$m	%	$m	%
Europe	**665,553**		568,003	
– demand and other – non-interest bearing	**171,066**	**—**	145,363	—
– demand – interest bearing	**414,592**	**0.1**	343,374	0.2
– savings	**54,670**	**0.2**	52,584	0.5
– time	**24,519**	**0.3**	25,755	0.6
– other	**706**	**0.1**	927	0.2
Asia	**769,581**		722,371	
– demand and other – non-interest bearing	**86,691**	**—**	71,629	—
– demand – interest bearing	**564,962**	**0.1**	486,903	0.2
– savings	**101,749**	**1.3**	138,508	1.6
– time	**16,173**	**0.4**	25,324	1.1
– other	**6**	**—**	7	14.0
Middle East and North Africa	**41,704**		40,559	
– demand and other – non-interest bearing	**23,407**	**—**	21,238	—
– demand – interest bearing	**8,868**	**0.3**	7,837	0.4
– savings	**9,425**	**4.0**	11,478	3.0
– time	**4**	**—**	6	—
North America	**180,828**		169,636	
– demand and other – non-interest bearing	**36,003**	**—**	28,486	—
– demand – interest bearing	**55,460**	**0.2**	49,422	0.3
– savings	**86,277**	**0.3**	84,882	0.8
– time	**3,088**	**0.3**	6,846	1.3
Latin America	**27,916**		25,681	
– demand and other – non-interest bearing	**5,835**	**—**	5,285	—
– demand – interest bearing	**12,301**	**2.9**	10,739	3.1
– savings	**2,884**	**10.3**	2,746	8.9
– time	**6,896**	**2.8**	6,911	4.0
Total	**1,685,582**		1,526,250	
– demand and other – non-interest bearing	**323,002**	**—**	272,001	—
– demand – interest bearing	**1,056,183**	**0.1**	898,275	0.2
– savings	**255,005**	**0.9**	290,198	1.3
– time	**50,680**	**0.7**	64,842	1.2
– other	**712**	**0.1**	934	0.3

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 2021, the amount of uninsured deposit was $1.4tn (31 December 2020: $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.

Maturity analysis of uninsured time deposits

	At 31 Dec 2021				
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
	$m	$m	$m	$m	$m
Uninsured time deposits	**149,939**	**8,989**	**8,042**	**18,872**	**185,842**

Wealth and Personal Banking

2020 compared with 2019

Financial performance

Adjusted profit before tax of $4.1bn was $4.9bn or 54% lower than in 2019. Despite this, we achieved a RoTE of 9.1%. The reduction in adjusted profit before tax reflected a fall in adjusted revenue and an increase in adjusted ECL from the impact of the Covid-19 outbreak. The reduction in revenue was mainly as a result of lower global interest rates, which particularly affected deposit margins, as well as from lower spending and reduced customer demand for borrowing.

Adjusted revenue of $22.6bn was $3.6bn or 14% lower, which included the non-recurrence of 2019 disposal gains in Argentina and Mexico of $133m.

In Personal Banking, revenue of $13.3bn was up $2.7bn or 17%.

– Net interest income was $2.3bn lower due to narrower margins from lower global interest rates. This reduction was partly offset by deposit balance growth of $67bn or 9%, particularly in Hong Kong and the UK, and higher mortgage lending of $22bn or 6%, mainly in the UK and Hong Kong.

– Non-interest income fell by $0.4bn, driven by lower fee income earned on unsecured lending products primarily due to lower customer activity as a result of the Covid-19 outbreak.

In Wealth, revenue of $8.0bn was down $0.9bn or 10%.

– In life insurance manufacturing revenue fell by $0.7bn or 28%, mainly as the value of new business written reduced by $0.4bn or 37% due to lower volumes following the Covid-19 outbreak, in part mitigated by continued actions to support customers by improving our digital channels. The reduction also included lower favourable movements in market impacts of $92m (2020: $70m favourable, 2019 $162m favourable), as the sharp movement we saw in the first quarter reversed over subsequent quarters.

– In Global Private Banking, revenue was $0.1bn or 7% lower, as net interest income fell as a result of lower global interest rates, although investment revenue increased, reflecting market volatility and higher fees from advisory and discretionary mandates.

– In investment distribution, revenue was $0.1bn or 2% lower, reflecting adverse market conditions, which resulted in lower mutual fund sales and a reduction in wealth insurance distribution. This was partly offset by higher brokerage fees from increased transaction volumes.

Adjusted ECL of $3.0bn were $1.6bn higher than in 2019, reflecting the global impact of the Covid-19 outbreak on the forward economic outlook across all regions, notably in the UK.

Adjusted operating expenses of $15.4bn were $0.4bn or 2% lower, as a decrease in performance-related pay and reduced discretionary expenditure more than offset the impact of inflation and our continued investment in digital.

Commercial Banking

2020 compared with 2019

Adjusted profit before tax of $1.8bn was $5.5bn or 75% lower than in 2019. Adjusted ECL were higher, reflecting the impact of the Covid-19 outbreak, and adjusted revenue fell, which was primarily due to the impact of lower global interest rates.

Adjusted revenue of $13.7bn was $1.9bn or 12% lower.

– In GLCM, revenue decreased by $1.8bn or 30% due to the impact of the lower global interest rates, mainly in Hong Kong and the UK. This was partly offset by a 16% increase in average deposit balances, with growth across all regions, particularly in the UK and the US.

– In GTRF, revenue decreased by $0.1bn or 5% from lower lending balances and fees, notably in Hong Kong and the UK, reflecting a reduction in global trade volumes as a result of the Covid-19 outbreak. This was partly offset by wider margins in the UK and Latin America.

– In 'Markets products, Insurance and Investments and Other', revenue was $0.4bn lower, reflecting the impact of lower interest rates on income earned on capital held in the business, a fall in revenue from Insurance, Investments and Markets products, as well as a reduction in revaluation gains on shares. In addition, 2019 included a disposal gain of $24m in Latin America.

This was partly offset by:

– In C&L, revenue increased by $0.2bn or 4%, reflecting growth in average balances driven by the uptake of government-backed lending schemes and from wider margins.

Adjusted ECL of $5.0bn were $3.8bn higher than in 2019. The increase reflected the global impact of the Covid-19 outbreak on the forward economic outlook, mainly in the UK and Asia. There were also higher charges against specific customers in 2020, particularly in the oil and gas and wholesale trade sectors, including a significant charge related to a corporate exposure in Singapore in the first quarter of 2020.

Adjusted operating expenses of $6.9bn were $0.1bn or 2% lower, reflecting a decrease in performance-related pay and reduced discretionary expenditure, while we continued to invest in our digital and transaction banking capabilities to improve customer experience.

In 2020, we delivered around $13bn of RWA reductions as part of our transformation programme, which mitigated an increase from asset quality deterioration.

Global Banking and Markets

2020 compared with 2019

Adjusted profit before tax of $4.8bn was $0.4bn or 8% lower than in 2019, mainly due to higher adjusted ECL, which reflected the global impact of the Covid-19 outbreak and included charges relating to specific exposures, partly offset by higher adjusted revenue and lower adjusted operating expenses.

Adjusted revenue of $15.8bn increased by $0.5bn compared with 2019. We grew adjusted revenue, which included adverse movements in credit and funding valuation adjustments of $0.3bn, while reducing net reported RWAs by $8bn, compared with 31 December 2019.

In Markets and Securities Services, revenue increased by $1.0bn or 13%, as higher volatility levels and increased client activity, together with wider spreads, supported an improved performance in Global Debt Markets and Global Foreign Exchange. These increases were partly offset by a reduction of $0.2bn or 12% in Securities Services due to lower global interest rates, mainly affecting Asia and Europe, although fees increased.

In Banking, revenue decreased $0.8bn or 11%.

– In GLCM, revenue fell by $0.7bn or 26% due to the impact of lower global interest rates and a fall in transaction volumes that reduced fee income, notably in the US and the UK, partly offset by a 21% growth in average balances, across all regions, particularly in the US, Asia and the UK.

– In GTRF revenue was broadly in line with 2019, reflecting repricing initiatives in Asia and Latin America, offset by lower fees in Europe due to management actions taken to reduce RWAs.

Revenue fell in Principal Investments by $0.2bn, reflecting revaluation losses incurred in the first quarter of 2020, mainly in Europe, as a result of the Covid-19 outbreak, which partly reversed in the remainder of the period.

Adjusted ECL were $1.3bn, up $1.1bn compared with 2019 from charges relating to the impact of the Covid-19 outbreak on the forward economic outlook, particularly in Europe, MENA and North and Latin America.

Adjusted operating expenses of $9.6bn were $0.3bn or 3% lower, reflecting management's cost reduction initiatives and from lower performance-related pay, which more than offset growth in regulatory programme costs and investments in technology.

In 2020, net reported RWAs fell by $8bn. We delivered around $37bn of RWA reductions in 2020, taking our cumulative reduction, including accelerated saves relating to our transformation programme, to $47bn. This mitigated RWA growth from asset quality deterioration, elevated market volatility and from regulatory changes.

Corporate Centre

2020 compared with 2019

Adjusted profit before tax of $1.5bn was $0.4bn higher than in 2019.

Adjusted revenue increased by $0.3bn, which included inter-segment eliminations, largely related to movements in own shares held by the global businesses, which offset an equivalent adverse movement in these businesses. In addition, certain funding costs that were retained in Corporate Centre during 2019 were allocated to global businesses with effect from 1 January 2020. Revenue in our legacy portfolios rose by $0.1bn due to the non-recurrence of portfolio losses in 2019.

Adjusted operating expenses, which are stated after recovery of costs from our global businesses, decreased by $0.4bn due to a lower UK bank levy charge and a reduction in discretionary expenditure.

Adjusted share of profit in associates and joint ventures decreased by $0.3bn, primarily due to the impact of falling interest rates and the Covid-19 outbreak.

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 2021. Based upon that evaluation, the Group Chief Executive and Group Chief Financial Officer concluded that the disclosure controls and procedures at 31 December 2021 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.

There have been no changes in HSBC Holdings' internal control over financial reporting during the year ended 31 December 2021 that have materially affected, or are reasonably likely to materially affect, HSBC Holdings' internal control over financial reporting.

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 2021. 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)'.

Based on the assessment performed, management concluded that for the year ended 31 December 2021, 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 2021, has also audited the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States) as stated in their report on page 298.

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 Financial Conduct Authority ('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 ('HKE'). 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 The Stock Exchange of Hong Kong Limited can be found in the 'Report of the Directors: Statement of Compliance' on page 295.

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 now approved by, and directly responsible to the PRA for ensuring the HSBC group meets consolidated prudential requirements. The other lead UK regulator, the FCA, supervises 15 HSBC entities in the UK, including eight where the PRA is responsible for prudential supervision.The FCA maintains global oversight of the Group's management of financial crime risk both generally, in the exercise of its wider powers under the Financial Services and Markets Act 2000, and more specifically through the exercise of direct supervisory powers over HSBC Holdings and the 2020 Direction, as described in the Financial crime section on page 208. 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.

The Group's primary regulatory authorities include those in the UK, Hong Kong and the US and our other principal jurisdictions of operation. However, and in addition, with the implementation of the European Union's ('EU') Single Supervisory Mechanism ('SSM') in 2014, the European Central Bank ('ECB') assumed direct supervisory responsibility for HSBC Continental Europe and HSBC Malta as 'significant supervised entities' within the eurozone 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 other eurozone countries and more widely with HSBC's other regulators. It is therefore expected that we will continue to see changes in how the Group is regulated and supervised on a day-to-day basis in the eurozone and, more generally, as the ECB and other of our regulators develop their powers having regard to some of the developments highlighted in this report including those that follow the UK's exit from the EU.

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 prudentially regulates and supervises 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.

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. As a result of a referendum in 2016, the UK left the EU on 31 January 2020 and agreed a transition period which ended at 11pm on 31 December 2020. At the end of the transition period, HSBC Holdings and its subsidiaries in the UK ceased to be subject to EU law. However, at that time, the EU's financial services legislation was "onshored" into UK law under the European Union (Withdrawal) Act 2018 ('EUWA'). EU law continues to apply to HSBC's subsidiaries in the EU. The UK and the EU have entered into a Trade and Cooperation Agreement, and have made certain declarations relating to financial services. See the European Regulation section for more information.

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. 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 the Capital Requirements Regulation (the 'CRR'), the PRA Rulebook and the UK law implementing the Capital Requirements Directive (the 'CRD' and together with the CRR, and the relevant rules of the PRA rulebook, the 'Capital Requirements Legislative Package'). Broadly, the changes to the framework that resulted from onshoring the legislation under EUWA will be delayed until 31 March 2022 under transitional powers exercised by the PRA.

The Pillar 1 regulatory capital framework has been, and continues to be, significantly enhanced. The UK implemented the first tranche of changes associated with the Basel III Reforms 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 other elements of the Basel III Reforms, including the changes to credit and operational risk RWAs and the implementation of an RWA output floor, are currently scheduled by the Basel Committee for implementation in January 2023. Given the PRA is currently not expected to consult on these other elements until mid-2022, implementation in the UK is likely to be delayed. UK law implementing the Bank Recovery and Resolution Directive (the 'BRRD') requires the UK's resolution authority to set a minimum requirement for own funds and eligible liabilities ('MREL') for banks in the UK. These include own funds and liabilities that can be written down or converted into capital resources in order 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 UK has implemented the MREL requirements through the Banking Act, and the Bank Recovery and Resolution (No 2) Order 2014. The BoE separately updated its statement of policy on its approach to setting MREL in December 2021. The BoE has set interim MREL requirements for the Group and to some of the Group's UK subsidiaries,which were applicable from 1 January 2019; end state MREL requirements are applicable from 1 January 2022.

The UK MREL framework has been designed to be broadly compatible with the term sheet published by the Financial Stability Board (the 'FSB') on total loss absorbing capacity ('TLAC') requirements for global systemically important banks ('G-SIBs'). Additional TLAC requirements were implemented in 2019 through amendments to the CRR in line with the FSB's TLAC standards and these also apply to HSBC as a G-SIB.

The Group is also subject to liquidity requirements as set out in the Capital Requirements Legislative Package and implemented by the PRA, and became subject to the net stable funding ratio ('NSFR') requirements prescribed under the Basel III Reforms in January 2022.

The PRA and FCA monitor authorised institutions through ongoing supervision and the review of routine and ad hoc reports relating to financial, prudential and conduct of business 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 regularly with the Group's senior executives 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 ('Basel Committee') 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 Basel Committee 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 Basel Committee.

The HKMA adopts a risk-based supervisory approach based on a policy of 'continuous supervision' through on-site examinations, off-site reviews, prudential meetings, cooperation with external auditors and sharing information with other supervisors.

The HKMA requires all authorised institutions to have adequate systems of internal control and requires the institutions' external auditors, upon request, to report on those systems and other matters, such as the accuracy of information provided to the HKMA.

In addition, the HKMA may from time to time conduct tripartite discussions with authorised institutions and their external auditors.

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 Basel Committee, 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 HKMA's powers to collect prudential data from authorised institutions on a routine or ad hoc basis are provided by Section 63 of the Banking Ordinance. The same section of the Ordinance also empowers the HKMA 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 a Memorandum of Understanding 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. The HKMA has entered into a Memorandum of Understanding with the SFC, which elaborates on the legal framework and sets out the operational details relating to the respective roles and responsibilities of the two regulators regarding the securities-related activities of authorised institutions. The HKMA and the SFC hold regular meetings under the Memorandum of Understanding to discuss matters of mutual interest.

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 and brokers. Additionally, the SFC sets standards for the authorisation and regulation of investment products, and 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 in October 2017. 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 new reporting requirements on SFC licensed corporations.

Similar to the SFC, the HKMA launched its Management Accountability Initiative in October 2017 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 is also working with the banking industry and relevant professional bodies to implement an industry-wide enhanced competency framework for banking practitioners. The availability of a set of common and transparent competency standards enables more effective training for new entrants and professional development for existing practitioners. Authorised institutions are encouraged to adopt it as the benchmark for enhancing the level of core competence and ongoing professional development of banking practitioners.

Currently, the enhanced competency framework for banking practitioners covers five professional work streams: anti-money laundering and counter-financing of terrorism; cybersecurity; treasury management; retail and wealth management, with Fintech, risk management and compliance to be launched in due course.

Relevant to the Group's insurance business in Hong Kong, the HKMA and the Hong Kong Insurance Authority ('IA') have also signed a Memorandum of Understanding to enhance the cooperation, exchange of information and mutual assistance between the two authorities. This Memorandum of Understanding 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.

A Memorandum of Understanding Concerning the Regulation of Regulated Persons with Respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance has been signed by the four regulators. It sets out certain administrative and operational arrangements among the four regulators regarding the exercise of their respective functions under the Mandatory Provident Fund Schemes Ordinance concerning regulation of 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 Financial Stability Board'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 Basel Committee's disclosure standards on TLAC.

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 ('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 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'). 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 would tailor the application of the enhanced prudential standards for large US banking organisations and 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 categories based on their relative size and complexity and assessed on asset size, cross-jurisdictional activity, reliance on short-term wholesale funding, nonbank asset size, and off-balance sheet exposures. As of 31 December, 2021, HNAH and HSBC Bank USA were subject to Category III standards. As of 1 January 2022, HNAH met the criteria to be re-classified as a Category IV firm and the enhanced prudential standards applicable to HNAH and HSBC Bank USA are expected to change commensurate with their risk profile.

Following implementation of the Basel III capital framework by the US banking regulators, 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%. Through 31 December 2021, HNAH and HSBC Bank USA were subject to a minimum supplementary leverage ratio ('SLR') of 3%. 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. As a result of HNAH's re-classification as a Category IV firm, HNAH and HSBC Bank USA expect to no longer be subject to the SLR or the countercyclical capital buffer, but continue to review the composition of their capital structure and capital buffers in light of these developments. Over and above the minimum risk-based requirements, HNAH is subject to a Stress Capital Buffer ('SCB'), which has replaced the static 2.5% Capital Conservation Buffer ('CCB') and is floored at 2.5%. HSBC USA Inc. and HSBC Bank USA continue to be subject to the static 2.5% 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 addition to stress testing requirements imposed under the FRB's Comprehensive Capital Analysis and Review ('CCAR'), the Dodd-Frank Act Stress Test ('DFAST') requires that HNAH undergo supervisory stress tests conducted by the FRB.

Under CCAR, the FRB assesses whether the largest US banking organisations have sufficient capital to continue operations throughout times of economic and financial stress and whether they have robust, forward-looking capital-planning processes that account for their unique risks. As part of the CCAR process, the FRB undertakes a supervisory assessment of the capital adequacy of bank holding companies, including HNAH, based on a review of a comprehensive capital plan submitted by each participating bank holding company to the FRB that describes the company's planned capital actions, such as plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programmes, or redeem preferred stock or other regulatory capital instruments, during the nine-quarter review period, as well as the results of stress tests conducted under different hypothetical macroeconomic scenarios, including a severely adverse scenario provided by the FRB.

HNAH submitted its CCAR capital plan and company-run DFAST results in April 2021. The company-run stress tests are forward-looking exercises to assess the impact of hypothetical macroeconomic baseline and severely adverse scenarios provided by the FRB, and internally developed scenarios for both the periodic exercises, on the financial condition and capital adequacy of a bank holding company over a nine-quarter planning horizon.

As a result of re-classification as a Category IV firm, HNAH expects to no longer be subject to company-run stress testing and related disclosure requirements. Category IV firms are subject to supervisory stress testing on an every-other-year basis, although they may opt into such testing in an "off year" in order to recalibrate their SCB based on their most recent supervisory stress test. The SCB equals (i) a CCAR firm's projected decline in common equity tier 1 under the CCAR supervisory severely adverse stress testing scenario plus (ii) one year of planned common stock dividends. In response to the Covid-19 pandemic, during the first six months of 2021, the FRB imposed additional restrictions on certain capital distributions for CCAR firms separate from the SCB. These additional capital distribution restrictions were lifted on 1 July 2021. In August 2021, the FRB announced a new SCB for participating CCAR firms based on 2021 CCAR stress tests, which took effect 1 October 2021. The FRB continues to supervise Category IV firms on an ongoing basis, including evaluation of the capital adequacy and capital planning processes during off-cycle years.

HNAH already utilizes 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 organizations are subject to the US LCR rule and are required to report their LCRs to US regulators on a daily basis. An 85 percent LCR requirement applies to Category III firms with weighted short-term wholesale funding under $75 billion and their depository institution subsidiaries. As a result, under the US LCR rule, a LCR of 100 percent or higher reflects an unencumbered HQLA balance that is equal to or exceeds 85 percent of a Category III firm's liquidity needs for a 30 calendar day liquidity stress scenario. In 2020, US regulators issued a final rule to implement the NSFR in the US, applicable to certain large banking organizations, including HNAH and HSBC Bank USA, which took effect on 1 July 2021. Consistent with the Tailoring Rules, an 85 percent NSFR requirement applies to Category III firms with weighted short-term wholesale funding under $75 billion and their depository institution subsidiaries. As a result, under the US NSFR rule, 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 85 percent of a Category III firm's required amount of funding for assets and off-balance sheet exposures. As a result of HNAH re-classification as a Category IV firm, HNAH and HSBC Bank USA expect to be subject to a further reduced US LCR and NSFR requirement of 70 percent so long as HNAH's weighted short-term wholesale funding equals or exceeds $50 billion. As a Category III firm, HNAH was subject to liquidity stress testing on a monthly basis and related liquidity buffer and liquidity risk management requirements. As a Category IV firm, HNAH remains subject to liquidity risk management and liquidity buffer requirements, but would be subject to liquidity stress testing on a quarterly, rather than monthly basis.

Simultaneous with the Tailoring Rules, the FRB and FDIC jointly adopted revisions to the regulations implementing the SIFI Plan requirements in the Dodd-Frank Act (the 'SIFI Plan Rule').

Under the SIFI Plan Rule, HSBC Holdings is required to file a resolution plan every three years, alternating between a full resolution plan and a targeted resolution plan, which would generally be limited to core areas such as capital and liquidity, as well as material changes in other areas. HSBC submitted its latest SIFI Plan, which was a targeted plan, in December 2021. As a result of HNAH's re-classification as a Category IV firm, HSBC would be required to submit a reduced SIFI Plan every three years. Reduced plans generally include only changes to the firm's plan since its previous filing. The SIFI Plan Rule did not revise the resolution plan requirements applicable to HSBC Bank USA, which are administered solely by the FDIC. In April 2019, the FDIC requested comment on an advance notice of proposed rulemaking that would alter the FDIC's separate resolution plan requirements for insured depository institutions (the 'IDI Plan') with total consolidated assets of at least $50bn ('Covered IDIs'), including HSBC Bank USA. The proposal delayed the requirement for HSBC Bank USA (as well as other Covered IDIs) to file a resolution plan under the FDIC's current rules until a future date to be specified by the FDIC. Consequently, HSBC Bank USA has not been required to file an IDI Plan since 2018. In January 2021, the FDIC announced it will resume requiring IDI Plan submission for banks with $100 billion or more in assets ('Large IDIs') and will provide at least 12 months advance notice to firms required to submit IDI Plans. 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, including HNAH. As a Category III firm, HNAH, together with its subsidiaries, is prohibited from having net credit exposure to a single unaffiliated counterparty in excess of 25% of HNAH's Tier 1 capital. As a result of re-classification as a Category IV firm, HNAH expects to no longer be directly subject to these single counterparty credit limits. Independent of HNAH's re-classification to a Category IV firm, HNAH, together with its subsidiaries, could become subject to a separate limit on its exposures to certain unaffiliated systemically important 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.

In 2018, the FRB adopted final rules implementing the FSB's TLAC standard. The rules require that IHCs of non-US G-SIBs, including HNAH, maintain minimum amounts of TLAC that may include minimum levels of tier 1 capital and long-term debt satisfying certain eligibility criteria, and a related TLAC buffer commencing 1 January 2019 without the benefit of a phase-in period. In October 2020, the FRB finalised a proposal to align the calculation of TLAC buffer for US IHCs of non-US G-SIBs with the calculation methodology used by US G-SIBs which took effect on 1 April 2021. The TLAC rules also include 'clean holding company requirements' that impose limitations on the types of financial transactions HSBC's US IHC, HNAH, may engage in. HNAH maintains TLAC and long-term debt to support compliance with the TLAC rules and will continue to assess if additional long-term debt is needed to remain compliant in future periods.

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, which requires HSBC Holdings and HNAH to undertake certain remedial steps.

The US government response to the Covid-19 pandemic included enactment of the Coronavirus Aid, Relief, and Economic Security Act ('CARES Act') and a number of emergency lending and liquidity facilities established by the FRB. The CARES Act provides financial institutions with the option to temporarily suspend certain requirements under US GAAP for loan modifications related to Covid-19 and any determination that a loan modified as a result of Covid-19 is a troubled debt restructuring (including impairment for accounting purposes). The CARES Act also created the Paycheck Protection Program (the 'PPP'), a programme designed to aid small- and medium-sized businesses through federally guaranteed loans distributed through banks. In December 2020, additional federal stimulus legislation was enacted, which included additional funding for the PPP. HSBC Bank USA participated in the PPP program. Throughout 2020, the US banking regulators issued a number of regulatory rule changes in response to the Covid-19 pandemic, including the following key rules:

In March 2020, the US banking regulators issued an interim final rule allowing US banks the option to delay, over a five-year transition period, the regulatory capital impacts of implementing the Current Expected Credit Loss accounting standard. In May 2020, the US banking regulators issued an interim final rule allowing banks that are subject to the SLR to temporarily exclude on-balance sheet US Treasury securities and deposits held at the Federal Reserve from the SLR denominator until 31 March 2021.

Title VII of the Dodd-Frank Act provides for an extensive framework for the regulation of over-the-counter ('OTC') derivatives by the CFTC and the SEC, including mandatory clearing, exchange trading, and public and regulatory transaction reporting of certain OTC derivatives, as well as rules regarding the registration of swap dealers, major swap participants, security-based swap ('SBS') dealers, and major SBS participants and related capital, margin, business conduct, record keeping and other requirements applicable to such entities.

The CFTC has adopted rules implementing the most significant provisions of Title VII. In particular, HSBC Bank USA and HSBC Bank plc are provisionally registered as swap dealers with the CFTC. Because HSBC Bank plc is a non-US swap dealer, application of certain CFTC requirements is limited to HSBC Bank plc's swap transactions with US persons and certain affiliates of US persons. In July 2020, the CFTC finalised rules that largely codified existing cross-border guidance and existing no action relief issued to date for transactions between non-US persons.

The cross-border application of CFTC requirements that were not addressed in the final rule, including mandatory clearing, exchange trading and public transaction reporting requirements, remain subject to prior CFTC guidance and, where applicable, exemptive relief until the CFTC addresses each in further rulemakings. In addition, the CFTC has continued to permit UK-based swap dealers (e.g., HSBC Bank plc) to temporarily rely on existing substituted compliance orders for comparable EU regulations to satisfy certain CFTC requirements. The ability of HSBC Bank plc to transact with non-US persons and compete with other non-UK swap dealers could be negatively affected were existing CFTC exemptive relief to expire or additional CFTC requirements to apply.

In October 2020, the CFTC finalised rules that applied position limits to certain futures contracts as of 1 January 2021 and will apply position limits to certain swaps as of 1 January 2023 The expansion of position limits requirements for swaps will significantly increase the burden and cost of executing certain commodity swaps and may adversely affect HSBC to a greater extent than some of our competitors.

Also, HSBC Bank plc and HSBC Bank USA engage in equity and credit derivatives businesses that are subject to the SEC's jurisdiction to regulate security-based swaps ('SBS') under Title VII of the Dodd-Frank Act. The SEC has finalised the key rules governing the application of Title VII requirements to SBS dealers and major SBS participants. The registration requirements and other rules applicable to SBS dealers and major SBS participants generally came into effect on 1 November 2021. Both HSBC Bank plc and HSBC Bank USA registered with the SEC as SBS dealers prior to that date.

While the SEC's rules have largely paralleled many of the CFTC's rules, key differences between the final CFTC and SEC rules could materially increase the compliance costs associated with, and hinder the efficiency of, our equity and credit derivatives businesses with US persons.

The SEC has issued final orders for substituted compliance for non-US, SEC-registered SBS dealers that are subject to certain UK regulations, which would allow such SBS dealers to comply with certain SBS requirements via compliance with corresponding requirements of the UK.

HSBC Bank plc expects to avail itself of such substituted compliance, which reduces the extent of its burden of having to reconcile compliance with conflicting SEC and UK requirements. However, the order includes extensive conditions and limitations, especially with respect to certain counterparty protection and financial reporting requirements, which will limit the extent to which HSBC Bank plc may avail itself of substituted compliance and subject HSBC Bank plc to additional costs and burdens.

In 2015, the US banking regulators, adopted final rules establishing margin requirements for non-cleared swaps and SBS. Subject to certain exceptions, the final 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 financial end-users that exceed a minimum threshold of transactional activity and for financial end-users that do not meet the minimum transactional activity threshold, to collect and post variation margin (but not initial margin).

The margin rules also limit the types of assets that are eligible to satisfy initial and variation margin requirements, require initial margin to be segregated at a third-party custodian, impose requirements on internal models used to calculate initial margin requirements and contain specific provisions for cross-border and inter-affiliate transactions. The margin rules follow a phased implementation schedule with additional counterparties becoming subject to initial margin requirements in September 2021 and September 2022, depending on the transactional volume of the parties and their affiliates. These final rules, as well as parallel non-cleared swaps and SBS margin rules from the CFTC, the SEC and certain non-US regulators increase the costs and liquidity burden associated with trading non-cleared swaps and SBS, and may adversely affect our business in such products.

In June 2020, the US banking regulators finalized a rule that makes significant amendments to the margin rules, including (i) mostly exempting swap entities from needing to collect initial margin for swaps with affiliates; (ii) preserving legacy status for swaps that are amended to replace certain interest rate provisions or due to technical amendments, notional reductions, or portfolio compression exercises; (iii) clarifying the time at which initial margin trading documentation must be in place; and (iv) adding a new compliance phase for initial margin requirements. The amendments in the final rule took effect 31 August 2020, which reduced the amount of initial margin HSBC Bank USA and HSBC Bank plc need to collect from many of their affiliates.

Dodd-Frank grants the SEC discretionary rule-making authority to modify the standard of care that applies to brokers, dealers and investment advisers when providing personalised investment advice to retail customers and to harmonise other rules applying to these regulated entities. In June 2019, pursuant to this authority, the SEC finalised a rule that requires broker-dealers to act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities. This rule impacts the manner in which business is conducted with customers seeking investment advice and may affect certain investment product offerings.

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 Consumer Financial Protection Bureau 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.

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 changes being introduced at a country level, changes are often driven by global bodies such as the G20, the FSB and the Basel Committee, which are then implemented at country level or regionally, sometimes with modifications and with separate additional measures.

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 109. 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 2021.

Recovery and resolution

As outlined above, the HSBC Group is subject to recovery and resolution requirements in many of the jurisdictions in which it operates. In the UK, the Banking Act implemented the BRRD to create the SRR. Under the SRR, the Authorities are granted substantial powers to resolve and stabilise UK-incorporated institutions. In Europe, the BRRD establishes a framework for the recovery and resolution of EU credit institutions and investment firms. This framework applies where HSBC has 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, respectively. In the US, the Board of Governors of the Federal Reserve System ('FRB') and Federal Deposit Insurance Corporation ('FDIC') have jointly implemented Dodd-Frank Act resolution planning requirements for depository institution holding companies that are at or above certain thresholds. The FDIC has a separate resolution planning requirement for insured depository institutions (the 'IDI Plan'). 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. 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, represent the lead regulators from a prudential and resolution perspective for the consolidated HSBC Group.

Recovery

HSBC maintains recovery plans that are designed to outline credible 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. HSBC typically submits recovery plans on an annual basis both to the PRA and to other regulators that have implemented recovery planning requirements. HSBC's recovery plans are frequently re-appraised, and this involves stress testing and 'fire drill' tests at the Group and material entity levels.

Resolution

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 action could be taken that 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 (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 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. Recapitalisation of operating bank subsidiaries could be achieved through the write-down, or conversion to equity, of internally issued MREL, TLAC or LAC. It is anticipated that this approach to recapitalising the HSBC Group's operating bank subsidiaries would allow the HSBC Group to stay together in order to ensure an effective stabilisation of the HSBC Group, as a whole, whilst also facilitating an orderly restructuring process, as needed, to remediate the cause of resolution. Any resolution of HSBC as a group would be coordinated by the BoE.

Given the HSBC Group's corporate structure, HSBC is overseen by various regulators and resolution authorities, such as its lead global regulators and resolution authority, the BoE and the PRA and a number of host regulators and resolution authorities, such as the ECB, the European Banking Union's Single Resolution Board, the HKMA, and, in the US, the FRB, FDIC and OCC. Many of these host resolution authorities have statutory resolution 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 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 resolution strategy adopted by the relevant resolution authority.

HSBC considers that a bail-in at the HSBC Holdings 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 most effective resolution outcome for the HSBC Group'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 PRA on a biennial basis. HSBC submitted its first such report to the PRA in October 2021 and will publish a public summary of the report in June 2022. The BoE will similarly publish a statement concerning the resolvability of HSBC at the same time.

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

UK's withdrawal from the EU

Through the UK's membership of the EU, HSBC was both directly and indirectly subject to EU financial services regulation. The UK left the EU on 31 January 2020 but was subject to EU law during a transition period, which ended on 31 December 2020. At the end of the transition period, the HSBC Group and its subsidiaries in the UK ceased to be subject to EU law. However, EU law continues to apply to HSBC's EU subsidiaries.

On 30 December 2020, the UK and the EU signed a Trade and Cooperation Agreement ('TCA') setting out their future relationship. The UK Parliament ratified the TCA the same day and the EU completed its ratification process in April 2021. The financial services provisions of the agreement are limited. In particular, the TCA provided no new arrangements to replace the "passporting" arrangements which previously allowed UK and EU firms access to the others markets. The agreement preserves the respective rights of both the UK and EU to put in place measures for prudential reasons. In a declaration accompanying the TCA, the UK and EU have agreed to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship. The declaration states that these arrangements will allow for 'transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions' and 'enhanced cooperation and coordination'. On 26 March 2021, the EU and UK announced the completion of negotiations for a Memorandum of Understanding establishing a Joint UK-EU Financial Regulatory Forum to serve as a platform for dialogue on financial services issues

During the transition period, the UK implemented EU legislative changes that were scheduled to enter into force before the end of the transition period. Certain changes that were scheduled to enter into force after 31 December 2020 have been implemented separately by the UK under the Financial Services Act (the 'Act') which gave powers to HMT to revoke rules within the CRR where they were superseded by new rules published by the Basel

Committee. The Act contains a specified list of publications by the Basel Committee that may be used as a basis to revoke the CRR. This includes all of the papers that form the basis of the Basel III Reforms, including those that have been enacted by the EU as part of its amendments to the CRR ('CRR2').

The PRA is responsible for designing and writing the new rules. The Act does not require that the PRA implement rules that replicate the Basel III Reforms in the UK; 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.

In the EU, the principal changes arising from the CRR2 entered into force in June 2021. In order to give firms a reasonable time to implement following the finalisation of the rules, the UK's implementation of equivalent rules was delayed until 1 January 2022. This includes the changes to the RWA rules on counterparty risk, equity investments in funds and market risk, NSFR and the leverage ratio.

Financial crime regulation

HSBC has built a strong financial crime risk management framework across its global business and functions. We are committed to acting with integrity, and conducting our activities in each of the countries and territories in which we operate around the world in accordance with all applicable laws and regulations relating to financial crime; money laundering, terrorist financing and proliferation financing, tax evasion, bribery and corruption, sanctions and fraud.

HSBC has established a global anti-money laundering ('AML') programme which is designed to enable the bank to mitigate the money laundering, terrorist financing and proliferation financing risks that we may face. HSBC's Global AML Policy is informed by applicable laws, regulations and regulatory guidance of the United Kingdom, Hong Kong Special Administrative Region, the European Union and the United States of America, although where country requirements are more stringent, the HSBC business or entity will apply local standards. The AML programme is designed to enable our employees to detect, prevent and manage money laundering risks, and we continue to evolve our AML programme in light of emerging risks and new regulations.

Technical and digital innovation in the financial sector continues apace and we are actively monitoring developments, defining risk appetite and appropriate controls to manage the risks of digital assets and currencies and, more generally, the effects of accelerated digitisation as a result of the Covid-19 pandemic, which has seen changes in customer behaviour and required enhancements to our transaction monitoring capabilities.

We have also spent time and attention on the detection, deterrence and disruption of terrorist financing and proliferation financing, as well as on our commitment to act with integrity and conduct our global activities in accordance with all applicable laws and regulations relating to tax evasion and tax evasion facilitation risks. These include the UK Corporate Criminal Offence for failing to prevent the criminal facilitation of tax evasion which has extra-territorial reach.

HSBC's Global Sanctions Policy is derived from the sanctions resolutions, laws, regulations and regulatory guidance of the United Nations, the United Kingdom, the Hong Kong Special Administrative Region, the European Union and the United States of America and takes into account broader financial crime concerns. The Policy seeks, subject to the primacy of local law, to establish a globally consistent standard to effectively manage sanctions compliance risk 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, particularly between the US and China but increasingly extending to the UK, the EU, India and other countries, and more recently as between Russia and the US, the UK and the EU in response to an escalation of hostilities relating to Ukraine. Other material sanctions regulatory developments in 2021 include, but are not limited to: new EU, UK and US debt, equity and insurance restrictions involving the Government of Belarus as well as certain EU and UK trade restrictions involving Belarus. Further, the new autonomous UK sanctions regulations, which became effective following expiry of the Brexit transition period, with notable divergences from the EU in relation to Libya and Russia. HSBC continues to monitor regulatory developments and their impact to HSBC's Global Sanctions Policy and risk appetite. We do not consider that our business activities with counterparties with whom transactions are restricted under applicable sanctions are material to our business for the year ended 31 December 2021.

HSBC requires compliance with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which we operate. These include the UK Bribery Act, the US Foreign Corrupt Practices Act, the Hong Kong Prevention of Bribery Ordinance and France's "Sapin II" law. We have a global anti-bribery and corruption policy, which gives practical effect to these laws and regulations, but also requires compliance with the spirit of 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 AB&C training to all staff and carries out regular risk assessments, monitoring and testing of its AB&C programme, with any applicable findings included within the annual AB&C Policy refresh. HSBC also maintains clear whistleblowing policies and processes, to ensure that individuals can confidentially report concerns.

In December 2012, Holdings entered into a cease-and-desist order with the Federal Reserve Board (the "2012 Order") and agreed to an undertaking with the Financial Services Authority (replaced with a Direction from the UK Financial Conduct Authority in 2013 and again in 2020 (the "FCA Direction")), both of which contained certain forward-looking obligations in relation to HSBC's AML and sanctions compliance programme. The 2012 Order and the FCA Direction remain in effect as of year-end 2021.

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 programmes 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 2021 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 we do not currently intend to provide any new guarantees or counter indemnities involving Iran. Three guarantees were cancelled in 2021, 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 Hong Kong. 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 Hong Kong laws and regulations. Estimated gross revenue, which includes fees and/or commissions, generated by this pension scheme during 2021, was approximately $3,011.

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.

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 2021, we processed a small number of low-value domestic local currency payments on behalf of UK customers to a UK-registered charity that is designated under Executive Order 13224, but that is not sanctioned by the UK, EU, or the United Nations Security Council.

HSBC maintained accounts for two individual customers in the Middle East who were designated under Executive Order 13224 in 2021. The accounts were closed and exited during 2021. HSBC engaged in three local currency domestic transactions as part of the exit processes for the two customers.

There was no measurable gross revenue or net profit to HSBC during 2021 relating to these transactions.

Other activity

HSBC has an insurance company customer in the United Arab Emirates that, during 2021, made local currency payments for the reimbursement of medical treatment to a hospital located in the United Arab Emirates and owned by the Government of Iran. HSBC processed these payments from its customer to the hospital.

HSBC has four individual customers in the United Arab Emirates that, during 2021, made local currency payments for medical treatment to a hospital located in the United Arab Emirates and owned by the Government of Iran. HSBC processed these payments from its customers to the hospital.

HSBC has customers in the United Arab Emirates that, during 2021, received local currency checks from an insurance company owned by the Government of Iran. HSBC processed these checks from the insurance company to its customers.

HSBC has three customers in France that, during 2021, received local currency payments from a bank owned by the Government of Iran in relation to management charges and office supplies for property owned by the bank. HSBC processed these payments to its customers.

HSBC has an individual customer in Hong Kong that, during 2021, received local currency salary payments from a bank owned by the Government of Iran. HSBC processed these payments to its customer.

HSBC has a customer in Hong Kong that, during 2021, received local currency payments, for rental income and management fees, from a bank owned by the Government of Iran. HSBC processed these payments to its customer.

HSBC has an individual customer in Malta that, during 2021, made a Euro-denominated payment to the Iranian Consulate in Rome for passport renewal fees. HSBC processed this payment.

The HSBC Group has an individual customer in the UK that, during 2021, was identified as a director of a bank owned by the Government of Iran. The HSBC Group processed a number of local currency domestic payments for its customer.

HSBC has an international organisation as a customer in France that, during 2021, received a local currency payment from the Iranian Embassy in Austria for membership fees. HSBC processed this payment.

HSBC has individual customers in the Middle East that, during 2021, made local currency credit card payments to an Iranian Consulate for visa, birth certificate, passport, dual citizenship, and marriage license application fees. HSBC processed these payments.

For these activities, there was no measurable gross revenue or net profit to HSBC during 2021.

Frozen accounts and transactions

We maintain several accounts that are frozen as a result of relevant sanctions programmes, and safekeeping boxes and other similar custodial relationships, for which no activity, except as licensed or otherwise authorised, took place during 2021. There was no measurable gross revenue or net profit to HSBC during 2021 relating to these frozen accounts.

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

	2021	2020
	%	%
Loans and advances to banks	**0.00**	0.00
Loans and advances to customers	**0.21**	0.25

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 142.

Risk factors

We have identified a suite of risk factors that cover a broad range of risks our businesses are exposed to. 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 and at times volatile economic conditions can create a challenging operating environment for financial services companies such as HSBC.

In particular, we have faced and may continue to face the following challenges to our operations and operating model in connection with these factors:

- the Covid-19 pandemic and its impact on global economies could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial services companies such as HSBC (see 'Risks relating to the impact of Covid-19');

- the demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- low or negative interest rates could impact bank profitability due to reductions in banks' net interest income. This deterioration in bank profits might affect financial stability or cause credit supply to subsequently tighten;
- our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and
- market developments may depress consumer and business confidence beyond expected levels. If economic growth is subdued, for example, asset prices and payment patterns may be adversely affected, leading to greater than expected increases in delinquencies, default rates and ECLs. However, if growth is too rapid, new asset valuation bubbles could appear, particularly in the real estate sector, with potentially negative consequences for banks.

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.

Risks relating to the impact of Covid-19

The Covid-19 pandemic and its effect on the global economy have continued to impact our customers and organisation, and the future effects of the pandemic remain uncertain. Covid-19 necessitated governments to respond at unprecedented levels to protect public health, and to support local economies and livelihoods. It has affected regions at different times and to varying degrees as it has developed. The resulting government support measures and restrictions have created additional challenges given the rapid pace of change and significant operational demands. Renewed outbreaks, particularly those resulting from the emergence of new variants of the virus, emphasise the ongoing threat of Covid-19 and could result in further tightening of government restrictions.

Over the course of 2021, government restrictions across many countries were gradually unwound, allowing the global economy to stage a robust recovery up until the fourth quarter, when the highly transmissible Omicron variant began to emerge. While government restrictions were re-imposed in many countries in response to this variant, they have in certain countries been less restrictive than those that were imposed during previous waves of the pandemic.

The global vaccination roll-out in 2021 helped reduce the social and economic impact of the Covid-19 pandemic, although there has been significant divergence in the speed at which vaccines have been deployed around the world. Most developed countries have now vaccinated a large proportion of their populations, but many less developed countries have struggled to secure supplies and are at an earlier stage of their roll-out. By the end of 2021, high vaccination rates had ensured that many Covid-19-related restrictions on activity in developed markets had been lifted and travel constraints were easing. However, the emergence of the Omicron variant, which proved to be more contagious and able, to a certain extent, to evade vaccine immunity, demonstrated the risk that new variants pose and led to government restrictions being reintroduced. A full return to pre-pandemic levels of social interaction across all our key markets is therefore, unlikely in the short to medium term. There remains a divergence in approach taken by countries with regards to the level of restrictions on activity and travel imposed in response to the pandemic. Such diverging approach to future pandemic waves could prolong or worsen supply chain and international travel disruptions. The evolving Covid-19 restrictions in Hong Kong, including travel, public gathering and social distancing restrictions are impacting the Hong Kong economy, and may affect the ability to attract and retain staff.

Mismatches between the supply and demand of goods and services contributed to a rise in inflation in 2021. Central banks in major markets are expected to raise interest rates, but such increases are expected to be gradual and monetary policy is expected to remain accommodative overall. Policy tightening in major emerging markets has already begun in order to counteract rising inflation and the risk of capital outflows. Governments are also expected to reduce the level of fiscal support they offer households and businesses as the appetite for broad lockdowns and public health restrictions decreases. Government debt has risen in most advanced economies, and is expected to remain high into the medium term. High government debt burdens have raised fiscal vulnerabilities, increasing the sensitivity of debt service costs to interest rate increases and potentially reducing the fiscal space available to address any future economic downturns.

Economic growth in the Group's major markets is expected to slow in 2022 to more sustainable rates, contingent on the successful further containment of the virus, the continued roll-out of vaccination programmes, and the evolution of other top risks.

There remains a material risk of a renewed drop in economic activity, particularly in countries with low vaccination rates. The economic fallout from Covid-19 risks increasing inequality across markets, which may leave the burden on governments and central banks to continue providing fiscal and monetary stimulus, possibly in a more targeted fashion than seen during 2020 and 2021. After financial markets suffered a sharp fall in the early phases of the spread of Covid-19, they rebounded but still remain volatile. Depending on the long-term impact on global economic growth, financial asset prices may suffer a further sharp fall.

Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Group's income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue due to equity market volatility and weakness. Lower or negative interest rates globally increase the cost of guarantees for insurance manufacturing, and there could also be adverse impacts on other assets, such as the Group's investment in Bank of Communications Co., Limited, goodwill and other intangible assets.

The Covid-19 pandemic may also have material impacts on capital and liquidity. This may include downward customer credit rating migration, which could negatively impact the Group's risk-weighted assets ('RWAs') and capital position, and potential liquidity stress due, among other factors, to increased customer drawdowns, notwithstanding the significant initiatives that governments and central banks have put in place to support funding and liquidity. Central banks in some markets also initiated a series of capital measures, including the reduction of certain regulatory capital buffers, to support the ability of banks to supply credit to businesses and households through periods of economic disruption.

The Group continues to support its personal and business customers through market-specific measures initiated during the Covid-19 pandemic and by supporting the remaining national government schemes that focus on the parts of the economy most impacted by the pandemic.

Central bank and government actions and support measures taken in response to the Covid-19 pandemic, and the Group's responses to those, have created, and may in the future create, restrictions in relation to capital. This has limited and may in the future limit management's flexibility in managing the business and taking action in relation to capital distribution and capital allocation.

Should central banks or regulatory authorities introduce new or further restrictions in relation to our capital distributions, our ability to declare, or to pay, dividends or to carry out share buybacks may be negatively impacted.

The rapid introduction and varying nature of the government support schemes introduced throughout the Covid-19 pandemic led to increased operational risks, including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as and when those remaining government support schemes are unwound. These events have also led to increased litigation risk.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the economy – such as retail, hospitality and commercial real estate – remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses.

Our financial models continue to be impacted by the pandemic. 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 judgemental 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 Covid-19 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 operational support functions on which the Group relies are based in a number of countries worldwide, some of which were particularly affected by the Covid-19 pandemic during 2021. We continue to monitor the situation, in particular in those countries and regions where Covid-19 infections are most prevalent and/or where travel restrictions are in place.

Despite the ongoing economic recovery, significant uncertainties remain in assessing the duration and impact of the Covid-19 pandemic, including where government restrictions are re-imposed as a result of further outbreaks of the virus, in particular those outbreaks which result from the emergence of new variants. There is a risk that economic activity remains below pre-pandemic levels for a prolonged period and this could have a material adverse effect on the Group's 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, civil wars or acts of terrorism;
- political and/or social instability;
- geopolitical tensions;
- climate change, acts of God, including epidemics and pandemics (such as Covid-19, further details on which can be found in 'Risks relating to the impact of Covid-19') and natural disasters (such as floods and hurricanes); and
- infrastructure issues, such as transportation or power failures.

Each of the above could impact credit 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:

- Diplomatic tensions between China and the US, and extending to the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, may affect the Group, creating regulatory, reputational and market risks.
- In particular, the US-China relationship remains complex, with tensions over a number of critical issues. The US, the UK, the EU, Canada and other countries have imposed various sanctions and trade restrictions on Chinese individuals or companies, and the US continues to develop its approach to perceived strategic competition with China. Among these, the US Hong Kong Autonomy Act authorises the imposition of secondary sanctions against non-US financial institutions found to be knowingly engaged in significant transactions with individuals and entities subject to US sanctions for engaging in certain activities that undermine Hong Kong's autonomy. In addition, the US has imposed restrictions on US persons' ability to buy or sell certain publicly traded securities linked to a number of prominent Chinese companies.
- There is also a risk of increased sanctions 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. Notably, alongside the EU, UK, and Canada, the US has increasingly imposed sanctions and other measures in response to allegations of human rights abuses in Xinjiang.
- China, in turn, has announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies. These have been imposed mainly against certain public officials associated with the implementation of foreign sanctions against China. China has also promulgated new laws that provide a legal framework for imposing further sanctions and export restrictions, including laws prohibiting implementation of – or compliance with – foreign sanctions against China and creating a private rights of action in Chinese courts for damages caused by third parties implementing foreign sanctions or other discriminatory measures.
- These and any future measures and countermeasures that may be taken by the US, China and other countries may affect the Group, its customers and the markets in which the Group operates. The financial impact to the Group of geopolitical risks in Asia is heightened due to the importance and profitability of the region, and Hong Kong in particular.
- Political disagreements between the UK and the EU, notably over the future operation of the Northern Ireland Protocol ('the protocol'), has meant work on the creation of a framework for voluntary regulatory cooperation in financial services following the UK's withdrawal from the EU has stalled. While negotiations are continuing, it is unclear whether or when an agreement will be reached, and this has led to speculation that the UK may trigger Article 16 of the Protocol, which could suspend the operation of the Protocol in certain respects. Any decision to do so could be met with retaliatory action by the EU, complicating the terms of trade between the UK and the EU and potentially preventing progress in other areas such as financial services. 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"
- Tensions between Russia and the US and a number of European states have heightened significantly following the increasing risk of hostilities between Russia and Ukraine. While negotiations are ongoing to seek a resolution, a continuation of or any further deterioration to the situation could have significant geopolitical implications, including economic, social and political repercussions on a number of regions that may impact HSBC and its customers. In addition, the US, the UK and the EU have threatened a significant expansion of sanctions and trade restrictions against Russia in the event of a Russian incursion into Ukraine, and Russian countermeasures are also possible.

As the geopolitical landscape evolves, the 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.

While it is the Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical risks and 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 and strategy, 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 and international institutions may be less capable of arresting this trend. A dispersion of global economic power from the US and Europe 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 traditional lines of business.

The broad geographic footprint and coverage of HSBC will 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 violations brings risks to our business, our customers and wider society.

Climate change, through transitional and physical channels, 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.

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

- transition and physical risk may impact our corporate customers, for example if regulatory, legislative or technological developments impact customers' business models resulting in financial difficulty for customers and/or stranded assets;
- residential real estate may be affected by changes to the climate and extreme weather events which could impact both property values and the ability of borrowers to afford their mortgage payments;
- physical risk may impact HSBC's operations, for example if flooding or extreme weather events impacted our critical operations;
- regulatory compliance risk may result from the increasing pace, breadth and depth of regulatory expectations requiring implementation in short timeframes across multiple jurisdictions;
- conduct risks could develop associated with the increasing demand for 'green' products where there are differing and developing standards or taxonomies; and
- reputational risks may result from our decisions on how we support our customers in high-emitting sectors, including our ability to reach 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, with stakeholders likely to place greater focus on our actions, such as the development of climate-related policies, our disclosures and financing and investment decisions relating to our ambition. We will face additional risks if we are perceived to mislead stakeholders in respect of our climate strategy, the climate impact of a product or service, or the commitments of our customers.

In addition, there is increasing evidence that a number of nature-related risks beyond climate change - which include risks that can be represented more broadly by economic dependency on nature – can and will have significant economic impact. These risks arise when the provision of natural services such as water availability, air quality, and soil quality is compromised by overpopulation, urban development, natural habitat and ecosystem loss, and other environmental stresses beyond climate change. They can show themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC and its customers.
The key human rights risks that currently impact HSBC include discrimination, in particular with respect to our employees and our customers, and modern slavery in our supply chains and those of our customers. Failure to manage these risks may result in negative impacts on our people (both in terms of hiring and retention), our business and our reputation. Such failure could also lead to breaches of rapidly evolving legal and regulatory requirements and expectations in certain markets and this could have reputational, legal and financial consequences for HSBC. Human rights issues have recently become a focus for geopolitical tensions, notably between the US and China, and these issues are further heightened for HSBC due to its extensive geographic footprint and presence in a number of markets.

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 non-financial 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, commitments and targets, we rely on internal and, where appropriate and available, external data sources, guided by certain industry standards. While ESG related reporting has improved over time, data remains of limited quality and consistency. Methodologies we have used may develop over time in line with market practice, regulation and/or developments in science, where applicable. Any such developments in methodologies, and changes in the availability and quality of data over time could result in revisions to 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. While the agreement only addressed financial services in a limited manner, bilateral discussions have now concluded at a technical level to create a framework for voluntary regulatory cooperation in financial services between the UK and EU through the establishment of a Joint UK-EU Financial Regulatory Forum. This is expected to provide a platform within which both parties will be able to discuss financial services-related issues, including future equivalence determinations.

Broader political disagreements, notably over the future operation of the Northern Ireland Protocol, have, however, increased tensions in the UK-EU relationship. While negotiations relating to the Protocol between the UK and the EU are continuing, it remains uncertain whether an agreement will be reached. If the failure to reach an agreement were to lead to the UK triggering Article 16 of the Protocol, this could suspend the Protocol's operation in certain respects, which may further complicate the terms of trade between the UK and the EU and prevent progress in other areas such as financial services.

As the financial passporting arrangement that existed prior to, and during, the transition period expired, we put in place new arrangements in the provision of cross-border banking and investment services to customers and counterparties in the EEA. Notwithstanding the progress made in ensuring 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. Significant uncertainty also remains as to the extent to which EU laws will diverge from UK law (including bank regulation) in the future. Any changes to the current rules in this respect and any further divergences in the legal regimes could require modifications to our UK and European operating models, with resulting impacts to our clients and employees. The exact impacts on our clients will depend on the nature of any developments and their individual circumstances and, in a worst case scenario, 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 there from), 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 resolve. 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, including Open Banking in the UK, as well as increased public scrutiny and a continued challenging macro-economic environment.

We target internationally mobile clients who need sophisticated global 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.

Further, new entrants to the market or new technologies challenge HSBC to continue to innovate and optimise to take advantage of new digital capabilities to best serve our customers, and adapt our products to attract and retain customers. We may not respond effectively to these competitive threats from existing and new competitors, and as a result may need to increase our investment in our business to modify or adapt our existing products and services or develop new products and services to respond to our customers' needs.

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, 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 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 'Risks relating to the impact of Covid-19' above regarding the impact of Covid-19 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 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 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. Although deposits have been a stable source of funding historically, this may not continue.

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 2021 we issued the equivalent of $24.3bn of debt securities in the public capital markets in a range of currencies and maturities from a number of Group entities, including $19bn 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 and prospects.

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

We are subject to numerous legislative or regulatory requirements and developments and changes in the policy of regulators or governments and we may fail to comply with applicable regulations, particularly any changes thereto

Our businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the US, Hong Kong, the EU, China and the other markets in which we operate. Many regulatory changes relevant to our business may have an effect beyond the country in which they are enacted, either because our regulators deliberately enact regulation with extra-territorial impact or our global operations mean that the Group is obliged to give effect to 'local' laws and regulations on a wider basis.

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. 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, changes in compensation practices and more detailed requirements on how business is conducted. The governments and regulators in the UK, the US, Hong Kong, the EU or elsewhere may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect us.

Specific areas where regulatory changes could have a material effect on our business, financial condition, results of operations, prospects, capital position, and reputation and current and anticipated areas of particular focus for HSBC's regulators, include, but are not limited to:

- the ongoing regulatory response to the Covid-19 pandemic and its implications for banks credit risk management and provisioning processes, capital adequacy and liquidity, and a renewed focus on vulnerable customers including the treatment of customers, including consideration of longer-term initiatives to support borrowers in financial difficulty and measures designed to maximise access to cash for consumers;
- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets, including the proposed introduction in the UK of a new Consumer Duty and measures resulting from ongoing thematic reviews into the workings of the retail, SME and wholesale banking sectors and the provision of financial advice to consumers;
- the implementation of any conduct measures as a result of regulators' focus on organisational culture, employee behaviour and whistleblowing;
- the demise of certain 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');
- reviews of regulatory frameworks applicable to the wholesale financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus globally on technology adoption and digital delivery, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and global stablecoins) and cybersecurity. This also includes the

introduction of new and/or enhanced regulatory standards in these areas;

- the increased supervisory expectations arising from expanding and increasingly complex regulatory reporting obligations, including expectations on data integrity and associated governance and controls, as evidenced in regulatory fines imposed against other financial institutions. HSBC has commissioned a number of independent external reviews of its regulatory reporting processes and controls, some at the request of its regulators, including one of its credit risk RWA reporting process which is currently ongoing;
- increasing regulatory expectations of firms around governance and risk management frameworks, particularly for management of climate change, diversity and inclusion and other ESG risks and enhanced ESG disclosure and reporting obligations;
- the continued evolution of the UK's regulatory framework following the UK's withdrawal from the EU, and similarly regarding the access of UK and other non-EU financial institutions to EU markets, for example, in the light of proposals within the EU Commission's CRDVI package which could restrict cross border activity by non-EU firms without a branch, except on a reverse solicitation basis. 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 recommendations of an independent panel appointed by HM Treasury which undertook a statutory review of the UK regime for ring-fencing and proprietary trading during 2021 are expected during the first quarter of 2022. This may result in proposed legislative amendments to the regime in due course;
- the implementation of the reforms to the Basel III package, which includes changes to the RWA approaches to credit risk, market risk, counterparty risk, operational risk, and credit valuation adjustments and the application of RWA floors and the leverage ratio (as discussed further under the 'Risks to Capital' section on page 189;
- the implementation of more stringent capital, liquidity and funding requirements, including changes to IRB modelling;
- the financial effects of climate changes being incorporated within the global prudential framework, including the transition risks resulting from a shift to a low carbon economy;
- restrictions on the structure of remuneration and increasing requirements to detail management accountability 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 and elsewhere that are either in effect or under consideration/implementation);
- changes in national or supra-national requirements regarding the ability to offshore or outsource the provision of services and resources or transfer material risk to financial services companies located in other countries, which impact our ability to implement globally consistent and efficient operating models;
- financial crime, fraud and market abuse standards and increasing expectations for related control frameworks, to ensure firms are adapting to new threats such as those arising from the Covid-19 pandemic, and are protecting customers from cyber-enabled crime;
- the application and enforcement of economic sanctions including those with extra-territorial effect and those arising from geopolitical tensions (see 'We are subject to political, social and other risks in the countries in which we operate');
- 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 increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
- continuing regulatory focus on the effectiveness of internal controls and risk management frameworks, as evidenced in regulatory fines and other measures imposed against other financial institutions.

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

Key benchmark rates and indices, including interbank offered rates ("Ibors") such as the London interbank offered rate ('Libor'), have been the subject of national, international and other regulatory scrutiny and reform for a number of years. This has 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). In May 2019, the European Money Markets Institute ('EMMI') announced the cessation of the Euro Overnight Index average (Eonia) from the end of 2021 and, in March 2021, ICE Benchmark Administration Limited ('IBA') announced that it would cease publication of (i) all sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month U.S. dollar Libor settings immediately after 31 December 2021 and (ii) the remaining U.S. dollar Libor settings immediately after 30 June 2023. The FCA subsequently used its regulatory powers to compel IBA to publish a number of sterling and Japanese Yen Libor settings on an alternative methodology basis (so-called "synthetic Libor") from 1 January 2022 for an undetermined period of time.

The discontinuation of sterling, Swiss franc, Euro and Japanese Yen Libor interest rates, and Eonia has occurred with the adoption of respective replacement near risk free rates ('RFR').

The continued existence of legacy contracts in benchmark rates that demised from the end of 2021, so called 'tough legacy,' and legacy contracts referencing other Ibors that are expected to demise at a later date, notably a number of US dollar Libor settings, results in a number of 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, that 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 appropriately transition and legacy contracts that rely on the use of legislative solutions, such as 'synthetic' Libor. If HSBC is unable to appropriately transition legacy contracts this could lead to reliance on fallback provisions which do not contemplate the permanent cessation of the relevant Ibor, and there is a risk that these fallback provisions do not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. While legislative solutions are (in some circumstances) expected to assist market participants with transitioning contracts or mitigating risks associated with 'tough legacy' contracts, there remains some uncertainty around the operation and implementation of such solutions as well as their longevity. 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, which do not contemplate permanent cessation of Libor. Each of these issues could result in unintended or unfavourable outcomes for clients and market participants and this could potentially increase the risk of disputes;

- Financial risks result from the discontinuation of US dollar Libor and the development of liquidity in its replacement RFR, Secured Overnight Funding rate ('SOFR'). Differences in US dollar Libor and SOFR interest rate levels create a basis risk in the trading book and banking book due to asymmetric adoption of SOFR across assets, liabilities and products that we need to actively manage through appropriate financial hedging. In addition, this may limit the ability to hedge effectively; and
- Resilience and operational risks, resulting from 'tough legacy' and other legacy Ibor contracts that are expected to be transitioned to RFRs and alternative rates. 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, leading to complaints and disputes. The operational and resilience risks may be further heightened if there is a slow take-up of the use of the SOFR benchmark for new financing and hedging activities in 2022, as this could compress the timelines for transition of legacy contracts referencing US dollar Libor settings that are demising in 2023.

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 volume and amount of damages claimed in litigation, regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions are increasing for many reasons, including 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 AML, anti-bribery/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 prosecutors 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 proceeding 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, such as, for example, the customer redress programme related to and any legal claims resulting from the mis-selling of payment protection insurance policies, 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 34 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 regulatory stress testing in many jurisdictions, which are described on page 210. These exercises are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. Assessment by regulators is on both 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 test programmes, or the failure by regulators to approve our stress results and capital plans, could result in the Group being required to enhance its capital position and/or position additional capital in specific subsidiaries, and this could, in turn, have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

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

The Banking Act implemented the BRRD in the UK and creates a special resolution regime (the 'SRR'). Under the SRR, HM Treasury, the BoE and the PRA and FCA (together, the 'Authorities') are granted substantial powers to implement resolution measures and stabilisation options with respect to UK banks or certain investment firms in circumstances in which the relevant Authority is satisfied that the resolution conditions are met. The SRR presently consists of five 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, conversation, 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. These tools may also be applied to a parent company or affiliate of a UK bank or relevant investment firm (which, in respect of HSBC, could include HSBC Holdings) where certain conditions are met. In addition, the SRR provides for modified insolvency and administration procedures for relevant entities. It also confers ancillary powers on the Authorities, including the power to modify or override certain contractual arrangements in certain circumstances.

The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. Such orders may promulgate provisions with retrospective applicability.

In addition to the stabilisation options, the relevant Authority may, in certain circumstances, in accordance with the Banking Act, 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.

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 December 2021, the OECD published model rules that provided a template for countries to implement a new global minimum tax rate of 15% from 2023. In January 2022, the UK government opened a consultation on how the UK implements the rules. The impact on HSBC will depend on exactly how the UK implements the model rules, as well as the profitability and local tax liabilities of HSBC's operations in each tax jurisdiction from 2023. Separately, potential changes to tax legislation and tax rates in the countries in which we operate could increase our effective tax rate in future as governments seek revenue to pay for Covid-19 support packages.

Risks related to our operations

Our operations are highly dependent on our information technology systems

The reliability and security of the HSBC Group's information technology infrastructure is crucial to HSBC Group's provision of banking services 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 service its clients, could breach regulations and could cause long-term damage to our business and brand that could have a material adverse effect on the HSBC Group's business, 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 our organisation, as it does across the entire financial sector. Failure to protect our operations from cyber-attacks may result in financial loss, disruption for customers or a loss of data. This could negatively affect our reputation and ability to attract and retain customers, and as we continue to grow and digitise at scale, we may be exposed to new cyber threats.

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

Cybersecurity risks will continue to increase, due to factors such as the increasing demand across the industry and customers' expectations for the continued expansion of services delivered over the internet; increasing reliance on internet-based products, applications and data storage; and changes in ways of working by HSBC's employees, contractors, third party service providers and suppliers and their sub-contractors in response to the Covid-19 pandemic.

A failure in HSBC's adherence to its cyber security policies, procedures or controls, employee malfeasance, or human, governance or technological error could also compromise HSBC's ability to successfully defend against cyber-attacks. Should any of the aforementioned 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 IFRS9, Financial Instruments ('IFRS9') 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 such information for purposes for which it was not designed 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 is 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 review and challenge, 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.

The economic consequences of the Covid-19 pandemic have impacted the reliability of model outputs beyond how IFRS 9 models have been built and calibrated to operate. Moreover, complexities of current governmental support programmes and regulatory guidance on the treatment of customer impacts, such as forbearance and payment holidays, and the unpredictable pathways of the pandemic, cannot realistically be factored into the modelling. Consequently, IFRS 9 models under the current economic conditions are generating outputs that do not accurately assess the actual level of credit quality in all cases. In order to calculate more realistic valuation of assets, compensating controls, such as post model management adjustments based on expert judgement are required. Such compensating controls require a significant degree of management judgment and assumptions. There is a risk that future actual results/performance may differ from such judgments and assumptions.

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 utilise third-party suppliers and service providers

HSBC relies on third parties to supply goods and services. The use of third-party 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 client expectations.

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

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 HSBC Group becomes more data-driven and our business processes move to digital channels, the volume of data that we rely on has grown. As a result, management of data (including data retention and deletion, data quality, data privacy and data architecture policies and procedures) 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 process, or require manual intervention and reconciliation to reduce the risk of errors in reporting to senior management, regulators, or executives.

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 AML and sanctions laws and regulations, and have adopted various policies and procedures, including internal control and 'know your customer' procedures, aimed at preventing use of HSBC products and services for the purpose of committing or concealing financial crime. Moreover, in relevant situations, and where permitted by regulation, we may rely upon certain counterparties to maintain and properly apply their own appropriate AML procedures. While permitted by regulation, such reliance may not prevent third parties from using us (and our relevant counterparties) as a conduit for money laundering, without our knowledge (and that of our relevant counterparties). Further, a major focus of US and UK government policy relating to financial institutions in recent years has been combating money laundering and enforcing compliance with US and EU sanctions.

HSBC Bank USA has taken a number of remedial actions as a result of the matters to which the AML DPA related, which are intended to better protect the Group's businesses in respect of these risks. However, there can be no assurance that these will be completely effective.

Becoming a party to, associated with, or even accusations of being associated with, money laundering, or violations of sanctions laws or regulations 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.

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, it could lead to a breach of these requirements resulting in a potential enforcement action by OFAC 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 traders' or other 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 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 any of the expected benefits of our strategic initiatives

Effective management of transformation projects is required to effectively deliver the Group's strategic priorities, involving delivering both on externally driven programmes for example, Ibor transition, as well as key business initiatives to deliver revenue growth, product enhancement and operational efficiency outcomes. The magnitude, 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 12 to 13) set out in February 2021 was supported by global trends – the continued economic development in Emerging Markets, growth of 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 our strategy may be limited by our operational capacity and the increasing complexity of the regulatory environment in which we operate. We continue to pursue our cost management initiatives, though they may not be as effective as expected, and we may be unable to meet our cost saving targets.

The global economic outlook continues to remain uncertain, particularly with regard to the effects of the Covid-19 pandemic, interest rate volatility, changes in tax legislation, heightened geopolitical tensions and the UK relationship with the EU. 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 any of the expected benefits of these key strategic initiatives could have a material adverse effect on our business, financial condition, results of operations, prospects 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, liquidity and funding risk, litigation 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, 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 to 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 change, sustainability, workplace conduct, human rights, and support for local communities, our reputation and the value of our brand may be negatively affected.

Modern technologies, in particular online social media channels and other broadcast tools 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, and prospects.

Non-Financial risks are inherent in our business, including the risk of fraudulent activity

We are exposed to many types of non-financial risks that are inherent in banking 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; fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures, breaches of regulations or law, 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.

In particular, fraudsters may target any of our products, services and delivery channels, including lending, internet banking, payments, bank accounts and cards. This may result in financial loss to the Group and/or 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.

These non-financial risks 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, and the impact of the Covid-19 pandemic on health and well-being. In addition, the Group announced goals in relation to increasing the representation of women and Black 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.

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 and prospects, 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 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 and prospects.

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 adversely affect our liquidity position and 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.

At the date hereof, HSBC Holdings' long-term debt was rated 'A+' by Fitch, 'A-' by Standard and Poor's ('S&P') and 'A3' by Moody's.

The ratings outlook by both S&P and Moody's were stable and the ratings outlook by Fitch was negative. Any reductions in these ratings and 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.

Under the terms of our current collateral obligations under derivative contracts, we could be required to post additional collateral as a result of a downgrade in HSBC Holdings' credit rating.

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 (e.g. 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 from the impact of the ongoing Covid-19 pandemic (see 'Risks relating to the impact of Covid-19') could reduce the recoverability and value of our assets, and require an increase in our ECLs.

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 conditions 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 with whom we have a banking relationship, 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 and prospects.

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 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, operations and prospects.

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. Estimates, judgements, 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 2021 these include impairment of amortised cost financial assets and assets measured at fair value through other comprehensive income, impairment of goodwill and non-financial assets, valuation of financial instruments, deferred tax assets, provisions, impairment of interests in associates and post-employment benefit plans, which are discussed in detail in 'Critical accounting estimates and judgements' on page 90.

The measurement of impairment of amortised cost financial assets and financial assets measured at fair value through other comprehensive income 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 2021, we performed an impairment review of our investment in BoCom and concluded it was not impaired based on our value in use calculation.

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 effect of these changes on the future results of operations and the future financial position of the Group may be material, and could have a material adverse effect on our business, financial condition, results of operations and prospects. For further details, see 'Critical accounting estimates and judgements' on page 90.

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 ('IFRS') as issued by the International Accounting Standards Board ('IASB'), 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, IFRS 17 'Insurance Contracts' sets the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023 and could have a significant adverse impact on the profitability of our insurance business. We could also be required to apply new or revised standards retrospectively, resulting in our restating prior period financial statements in material amounts.

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	Executive Directors may be entitled to payments in lieu of: • 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. 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.
Annual incentive and LTI	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.
Unvested awards	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: • 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. 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. In the event of death, unvested awards will vest and will be released to the executive Director's estate as soon as practicable. 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.
Post-departure benefits	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. 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.
Other	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. Except in the case of gross misconduct or resignation, an executive Director may also receive retirement gifts.
Legal claims	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.
Change of control	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.

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 124 of the Annual Report and Accounts), the Directors considered a wide range of information including:

- details of the Group's business and operating models, and strategy;
- details of the Group's approach to managing risk and allocating capital;
- a summary of the Group's financial performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirement for own funds and eligible liabilities over the period of 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 121 of the *Annual Report and Accounts 2021*) and top and emerging risks (see page 124 of the *Annual Report and Accounts 2021*);
- the impact on the Group due to the Covid-19 pandemic, including the emergence of the Delta and Omicron variants; recent instability in China's commercial real estate sector; and strained economic and diplomatic tensions between China and the US, the UK, the EU and other countries;
- reports and updates regarding regulatory and internal stress testing. During 2021, the Bank of England ('BoE') mandated an industry wide solvency stress test exercise which incorporated a 'double dip' scenario and represented an intensification of the macroeconomic shocks seen in 2020. The outcomes of the stress test showed that taking account of strategic management actions, the Group would remain adequately capitalised;
- the results of our 2021 climate stress testing and scenario analysis exercise. No issues were identified around the going concern status of the Group. Further details of the insights from the 2021 climate stress test are explained on page 125 of the *Annual Report and Accounts 2021*;
- 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 34 of the financial statements in the *Annual Report and Accounts 2021;* 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 2021 or 2020. 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 2020 have been delivered to the Registrar of Companies and those for 2021 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[1]	Third interim	Fourth interim	Total[2]
2021	$	**0.070**	**0.180**	**–**	**–**	**0.250**
	£	**0.051**	**0.133**	**–**	**–**	**0.184**
	HK$	**0.545**	**1.404**	**–**	**–**	**1.949**
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
2018	$	0.100	0.100	0.100	0.210	0.510
	£	0.076	0.076	0.078	0.159	0.389
	HK$	0.785	0.785	0.783	1.648	4.000
2017	$	0.100	0.100	0.100	0.210	0.510
	£	0.079	0.076	0.076	0.148	0.379
	HK$	0.780	0.781	0.780	1.647	3.988

1 *The second interim dividend for 2021 of $0.18 per ordinary share will be paid on 28 April 2022. The second interim dividend for 2021 has been translated into pounds sterling and Hong Kong dollars at the closing rate on 31 December 2021.*
2 *The above dividends approved are accounted for as disclosed in Note 8 on the Financial Statements.*

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 depositary.

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 depositary 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 depositary or its agents for servicing shares or other securities deposited	As applicable

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

The depositary 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 depositary will reimburse us. During the year ended 31 December 2021, the depositary reimbursed, paid and/or waived fees and expenses totalling $2,939,452 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 2021, there were a total of 187,002 holders of record of HSBC Holdings ordinary shares on the share register.

As at 31 December 2021, a total of 19,321,366 of the HSBC Holdings ordinary shares were registered in the HSBC Holdings' share register in the name of 14,178 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 2021, there were 5,087 holders of record of ADSs holding approximately 88.02m ADSs, representing approximately 440.1m HSBC Holdings ordinary shares, 4,993 of these holders had addresses in the US, holding approximately 87.99m ADSs, representing approximately 439.97m HSBC Holdings ordinary shares. As at 31 December 2021, approximately 2.13% 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 and 2018 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. As stated above, HSBC Holdings complied throughout 2021 with the applicable code provisions of The UK Corporate Governance Code. The UK Corporate Governance Code does not require HSBC Holdings to disclose the full range of corporate governance 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 Committee during 2021 were independent non-executive Directors, as determined in accordance with the UK Corporate Governance Code. The terms of reference of our Nomination 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 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 2021 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 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 295) and provides extensive information regarding Directors' compensation in the Directors' remuneration report (on page 254). The terms of reference of HSBC Holdings' Group Audit, Group Nomination, 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 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 2021, 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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