

HSBC HOLDINGS PLC
Form 6-K
February 24, 2014

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of February
HSBC Holdings plc

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

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

Form 20-F Form 40-F

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

Yes..... No

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

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2013 CONSOLIDATED RESULTS - HIGHLIGHTS

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- Pre-tax profit up 33% to HK\$144,756m (HK\$108,729m in 2012)
 - Attributable profit up 43% to HK\$119,009m (HK\$83,008m in 2012)
 - Return on average shareholders' equity of 25.9% (21.9% in 2012)
 - Assets up 6% to HK\$6,439bn (HK\$6,065bn at 31 December 2012)
- Common equity tier 1 ratio of 14.1%, Total capital ratio of 15.2% (Core capital ratio of 13.7%, Capital adequacy ratio of 14.3% at 31 December 2012)
 - Cost efficiency ratio of 33.9% (42.4% in 2012)

Reported results include a net gain of HK\$30,747m on the disposal of our shareholding in Ping An Insurance (Group) Company of China, Limited ('Ping An') and an accounting gain on the reclassification of Industrial Bank Co., Limited ('Industrial Bank') of HK\$8,454m before tax (HK\$5,914m attributable profit). Excluding these two gains:

- Return on average shareholders' equity of 17.9% for 2013
 - Cost efficiency ratio of 42.1% for 2013

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

Comment by Stuart Gulliver, Chairman

Asia's economic growth slowed during the early part of 2013, then stabilised during the second half as activity in mainland China picked up. Growth expectations for the region are now more modest than at this time last year. In mainland China, reforms are likely to take priority and GDP is expected to grow by 7.4%, after 7.7% growth in 2013. Hong Kong's economy grew modestly in 2013, as robust domestic demand offset weakness in exports. Growth is expected to improve in 2014 to 3.7% as export volumes recover and trade with mainland China remains resilient. Concerns over the potential effects on countries with current account deficits of eventual tightening in monetary conditions in the West affected a number of currencies around the region during the year, and some countries may experience continued exchange rate volatility, leading to pressure on interest rates. After a period in which the ratio of debt to GDP in the region has risen, growth is sensitive to global interest rate movements and structural reforms are needed to generate gains in productivity.

The Hongkong and Shanghai Banking Corporation Limited delivered a resilient performance in 2013, as we maintained our focus on deepening customer relationships, increasing collaboration between our businesses, leveraging our global connectivity and re-engineering our business. Reported profit before tax was HK\$144,756m, an increase of 33% over 2012. This included the net gain on disposal of our shareholding in Ping An of HK\$30,747m and an accounting gain on the reclassification of Industrial Bank as a financial investment of HK\$8,454m. During the year we completed the sale of our 18% shareholding in Bao Viet Holdings and our insurance businesses in South Korea and Taiwan and in July we announced plans to wind down our remaining Retail Banking and Wealth

Management services in South Korea. In October we announced that we will discontinue retail broking and depository services in India. In November, we acquired the Hong Kong and Singapore branches of HSBC Private Bank (Suisse) SA. In December we announced the sale of our 8% shareholding in Bank of Shanghai. Our priorities going forward in mainland China will emphasise the growth of our own operations and our partnership with Bank of Communications.

Customer loans grew by 14% during the year as we continued to support our customers' financing needs, while deposits increased by 10% and, at the year end, the loans to deposits ratio stood at 62.7%. Lending growth occurred mainly in trade facilities and residential mortgages, with strong increases in mainland China and Singapore. In competitive markets for both loans and deposits, margins reduced. Asset quality continued to be strong and loan impairment charges remained low, broadly unchanged compared with the prior year. We continued to invest in the business in areas such as technology platforms and mobile banking, while absorbing inflation and generating efficiencies and, in total, operating costs were unchanged.

In Commercial Banking ('CMB') we saw strong growth in lending, although this was offset by narrower asset spreads in competitive markets, albeit margin pressures eased in the second half of the year. We continued to generate higher fee income from collaboration between CMB and Global Banking and Markets through both debt and equity capital markets transactions, including the largest ever IPO in Hong Kong for a mainland Chinese consumer company. We remained vigilant over asset quality and loan impairment charges were broadly unchanged at modest levels. Among several awards, we gained 'Best Cash Management House in Asia' from Euromoney and FinanceAsia's 'Best Foreign Commercial Bank in China'. Profit before tax in CMB was 5% lower than in 2012, mainly as gains on the disposals of businesses in 2012 were not repeated and the share of profits from associates was lower.

In Retail Banking and Wealth Management ('RBWM') we grew revenues in Hong Kong due to balance sheet growth and increased fee income from both unit trusts and brokerage income. We also successfully launched our mobile banking application. We continued to invest in our branch network and opened our 150th HSBC outlet in mainland China during the year. By the end of December 2013 we had 162 HSBC outlets, 23 HSBC rural bank outlets and 48 Hang Seng Bank outlets. Revenues were lower in India as we revised our product offerings and also fell in Singapore due to reduced insurance and wealth management income. We maintained our focus on secured lending at low loan to value ratios and loan impairment charges remained low. We were awarded 'Best Regional Retail Business' and 'Best Foreign Retail Bank in China' by The Asian Banker. Profit before tax reduced by 4% largely as disposal gains in 2012 were not repeated.

In Global Banking and Markets ('GB&M') we continued to improve the breadth and balance of our business lines and develop our aim to be the leading international bank. We achieved good results and progress from M&A, Equity Capital Markets, Payments and Cash Management and event business alongside our established leading positions in debt markets. During the year we won several major industry awards, including Euromoney's 'Best Bank in Hong Kong' and 'Best Debt House in Asia', Asiamoney's 'Best provider of offshore renminbi ('RMB') products and services', 'RMB House of the Year' from Asia Risk and FinanceAsia's 'Best Investment Bank in Hong Kong'. Profit before tax was 5% lower as strong growth in Hong Kong was offset by lower results from Rest of Asia-Pacific, due mainly to lower trading income in a number of countries from reduced bond holdings, and a lower share of profits from associates.

We continued to pursue opportunities in the internationalisation of the RMB as regulations developed. We were the first foreign bank in mainland China to implement a customised RMB cross-border centralised settlement solution and were also the first foreign bank to complete a two-way cross-border RMB lending transaction. In Hong Kong we consolidated our position as the leader in offshore RMB bond issuance, including the RMB3bn government bond issue in December by mainland China's Ministry of Finance.

The outlook for Asia's economies is mixed, with potential for uncertainties over some of the weaker regional players. Overall we expect growth to continue, led by mainland China, but at a reduced pace. Our very strong liquidity and capital position, together with sound asset quality, put us in good shape to meet any challenges, continue to serve our

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customers and to grow market share as we continue to invest in our priority growth markets. Our primary focus will remain on supporting our customers through the cycle and helping them to grow their businesses and achieve their personal and corporate ambitions.

Results by geographic region

| Geographical regions | Hong Kong HK\$m | Rest of Asia- Pacific HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
|--|--------------------|-----------------------------------|---------------------------------------|----------------|
| Year ended 31 December 2013 | | | | |
| Net interest income | 45,682 | 41,729 | (46) | 87,365 |
| Net fee income | 28,794 | 15,129 | (77) | 43,846 |
| Net trading income | 11,156 | 5,375 | 46 | 16,577 |
| Net income from financial instruments designated at fair value | 2,008 | 467 | - | 2,475 |
| Gains less losses from financial investments | 323 | 119 | - | 442 |
| Dividend income | 1,165 | 10 | - | 1,175 |
| Net earned insurance premiums | 47,173 | 6,490 | - | 53,663 |
| Net gain on reclassification of associates | - | 8,157 | - | 8,157 |
| Gain on sale of Ping An | - | 34,070 | - | 34,070 |
| Other operating income | 13,803 | 2,186 | (4,571) | 11,418 |
| Total operating income | 150,104 | 113,732 | (4,648) | 259,188 |
| Net insurance claims incurred and movement in liabilities to policyholders | (50,960) | (5,632) | - | (56,592) |
| Net operating income before loan impairment charges and other credit risk provisions | 99,144 | 108,100 | (4,648) | 202,596 |
| Loan impairment charges and other credit risk provisions | (1,032) | (2,500) | - | (3,532) |
| Net operating income | 98,112 | 105,600 | (4,648) | 199,064 |
| Operating expenses | (38,845) | (34,531) | 4,648 | (68,728) |

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| | | | | |
|--|-----------|-----------|---|-----------|
| Operating profit | 59,267 | 71,069 | - | 130,336 |
| Share of profit in associates and joint ventures | 524 | 13,896 | - | 14,420 |
| Profit before tax | 59,791 | 84,965 | - | 144,756 |
| Share of profit before tax | 41.3% | 58.7% | - | 100.0% |
| Cost efficiency ratio | 39.2% | 31.9% | - | 33.9% |
| Net loans and advances to customers | 1,516,192 | 1,153,046 | - | 2,669,238 |
| Customer accounts | 2,837,779 | 1,416,973 | - | 4,254,752 |

| Geographical regions | Hong Kong HK\$m | Rest of Asia- Pacific HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
|---|--------------------|--------------------------------------|---------------------------------------|----------------|
| Year ended 31 December 2012 | | | | |
| Net interest income | 40,155 | 42,271 | (7) | 82,419 |
| Net fee income | 24,670 | 15,220 | - | 39,890 |
| Net trading income | 9,892 | 9,315 | 7 | 19,214 |
| Net income from financial instruments designated at fair value | 3,799 | 814 | - | 4,613 |
| Gains less losses from financial investments | 2,510 | 124 | - | 2,634 |
| Dividend income | 489 | 33 | - | 522 |
| Net earned insurance premiums | 46,304 | 6,317 | - | 52,621 |
| Other operating income | 14,991 | 4,632 | (4,286) | 15,337 |
| Total operating income | 142,810 | 78,726 | (4,286) | 217,250 |
| Net insurance claims incurred and movement in liabilities to policyholders | (49,401) | (5,582) | - | (54,983) |
| Net operating income before loan impairment charges and other credit risk provisions | 93,409 | 73,144 | (4,286) | 162,267 |

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| | | | | |
|--|-----------|-----------|---------|-----------|
| Loan impairment charges and other credit risk provisions | (603) | (2,975) | - | (3,578) |
| Net operating income | 92,806 | 70,169 | (4,286) | 158,689 |
| Operating expenses | (36,947) | (36,109) | 4,286 | (68,770) |
| Operating profit | 55,859 | 34,060 | - | 89,919 |
| Share of profit in associates and joint ventures | 640 | 18,170 | - | 18,810 |
| Profit before tax | 56,499 | 52,230 | - | 108,729 |
| Share of profit before tax | 52.0% | 48.0% | - | 100.0% |
| Cost efficiency ratio | 39.6% | 49.4% | - | 42.4% |
| Net loans and advances to customers | 1,295,479 | 1,053,564 | - | 2,349,043 |
| Customer accounts | 2,531,624 | 1,343,260 | - | 3,874,884 |

Results by geographic global business

Hong Kong

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|--|---|--------------------------------|--|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2013 | | | | | | | |
| Net interest income/(expense) | 24,687 | 13,406 | 10,380 | 116 | (2,690) | (217) | 45,682 |
| Net fee income | 15,749 | 7,473 | 5,405 | 105 | 62 | - | 28,794 |
| Net trading income | 1,045 | 1,417 | 8,334 | 78 | 66 | 216 | 11,156 |
| Net income/(expense) from financial instruments designated at fair | 1,965 | - | 56 | - | (14) | 1 | 2,008 |

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value

| | | | | | | | |
|--|----------|---------|----------|-------|---------|---------|----------|
| Gains less losses from financial investments | - | - | 323 | - | - | - | 323 |
| Dividend income | 1 | 7 | 47 | - | 1,110 | - | 1,165 |
| Net earned insurance premiums | 43,530 | 3,659 | - | - | - | (16) | 47,173 |
| Other operating income | 4,799 | 706 | 591 | - | 9,856 | (2,149) | 13,803 |
| Total operating income | 91,776 | 26,668 | 25,136 | 299 | 8,390 | (2,165) | 150,104 |
| Net insurance claims incurred and movement in liabilities to policyholders | (46,730) | (4,230) | - | - | - | - | (50,960) |
| Net operating income before loan impairment charges and other credit risk provisions | 45,046 | 22,438 | 25,136 | 299 | 8,390 | (2,165) | 99,144 |
| Loan impairment (charges) /releases and other credit risk provisions | (1,065) | (122) | 154 | - | 1 | - | (1,032) |
| Net operating income | 43,981 | 22,316 | 25,290 | 299 | 8,391 | (2,165) | 98,112 |
| Operating expenses | (15,501) | (5,955) | (10,084) | (224) | (9,246) | 2,165 | (38,845) |
| Operating profit/(loss) | 28,480 | 16,361 | 15,206 | 75 | (855) | - | 59,267 |
| Share of profit in associates and joint ventures | 518 | 2 | 4 | - | - | - | 524 |
| Profit/(loss) before tax | 28,998 | 16,363 | 15,210 | 75 | (855) | - | 59,791 |
| | 20.0% | 11.3% | 10.5% | - | (0.5)% | - | 41.3% |

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Share of profit
before tax

Net loans and
advances
to customers

Customer accounts

| | | | | | | |
|-----------|---------|---------|---------|--------|---|-----------|
| 503,921 | 574,747 | 373,086 | 53,679 | 10,759 | - | 1,516,192 |
| 1,655,211 | 753,600 | 276,169 | 150,580 | 2,219 | - | 2,837,779 |

Hong Kong

| Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|--------------------------------|--|----------------|---|----------------|
|---|--------------------------------|--|----------------|---|----------------|

Year ended 31 December 2012

Net interest
income/(expense)

| | | | | | |
|--------|--------|-------|---------|-----|--------|
| 22,194 | 12,636 | 8,436 | (3,744) | 633 | 40,155 |
|--------|--------|-------|---------|-----|--------|

Net fee income

| | | | | | |
|--------|-------|-------|----|---|--------|
| 13,723 | 6,594 | 4,255 | 98 | - | 24,670 |
|--------|-------|-------|----|---|--------|

Net trading income

| | | | | | |
|-------|-------|-------|-----|-------|-------|
| 1,270 | 1,278 | 7,822 | 157 | (635) | 9,892 |
|-------|-------|-------|-----|-------|-------|

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

| | | | | | |
|-------|-------|-----|------|---|-------|
| 4,098 | (412) | 177 | (66) | 2 | 3,799 |
|-------|-------|-----|------|---|-------|

Gains less losses from
financial investments

| | | | | | |
|-----|---|----|-------|---|-------|
| (8) | - | 18 | 2,500 | - | 2,510 |
|-----|---|----|-------|---|-------|

Dividend income

| | | | | | |
|---|---|----|-----|---|-----|
| 1 | 7 | 36 | 445 | - | 489 |
|---|---|----|-----|---|-----|

Net earned insurance
premiums

| | | | | | |
|--------|-------|----|---|---|--------|
| 41,074 | 5,132 | 98 | - | - | 46,304 |
|--------|-------|----|---|---|--------|

Other operating income

| | | | | | |
|-------|-------|-----|-------|---------|--------|
| 5,518 | 1,965 | 738 | 8,853 | (2,083) | 14,991 |
|-------|-------|-----|-------|---------|--------|

Total operating income

| | | | | | |
|--------|--------|--------|-------|---------|---------|
| 87,870 | 27,200 | 21,580 | 8,243 | (2,083) | 142,810 |
|--------|--------|--------|-------|---------|---------|

Net insurance claims
incurred and movement
in liabilities to

| | | | | | |
|----------|---------|------|---|---|----------|
| (44,650) | (4,676) | (75) | - | - | (49,401) |
|----------|---------|------|---|---|----------|

policyholders

Net operating income
before loan impairment
charges and
other credit risk
provisions

| | | | | | |
|--------|--------|--------|-------|---------|--------|
| 43,220 | 22,524 | 21,505 | 8,243 | (2,083) | 93,409 |
|--------|--------|--------|-------|---------|--------|

Loan impairment
(charges)/releases and
other credit risk
provisions

| | | | | | |
|-------|----|-----|---|---|-------|
| (754) | 21 | 129 | 1 | - | (603) |
|-------|----|-----|---|---|-------|

Net operating income

| | | | | | |
|--------|--------|--------|-------|---------|--------|
| 42,466 | 22,545 | 21,634 | 8,244 | (2,083) | 92,806 |
|--------|--------|--------|-------|---------|--------|

Operating expenses

| | | | | | |
|----------|---------|---------|---------|-------|----------|
| (14,127) | (5,621) | (9,952) | (9,330) | 2,083 | (36,947) |
|----------|---------|---------|---------|-------|----------|

Operating profit/(loss)

| | | | | | |
|--------|--------|--------|---------|---|--------|
| 28,339 | 16,924 | 11,682 | (1,086) | - | 55,859 |
|--------|--------|--------|---------|---|--------|

Share of profit in
associates
and joint ventures

| | | | | | |
|-----|----|----|-----|---|-----|
| 347 | 49 | 25 | 219 | - | 640 |
|-----|----|----|-----|---|-----|

Profit/(loss) before tax

| | | | | | |
|--------|--------|--------|-------|---|--------|
| 28,686 | 16,973 | 11,707 | (867) | - | 56,499 |
|--------|--------|--------|-------|---|--------|

Share of profit before
tax

| | | | | | |
|-------|-------|-------|--------|---|-------|
| 26.4% | 15.6% | 10.8% | (0.8)% | - | 52.0% |
|-------|-------|-------|--------|---|-------|

Net loans and advances
to customers

| | | | | | |
|---------|---------|---------|--------|---|-----------|
| 484,662 | 487,842 | 311,743 | 11,232 | - | 1,295,479 |
|---------|---------|---------|--------|---|-----------|

Customer accounts

| | | | | | |
|-----------|---------|---------|-------|---|-----------|
| 1,562,867 | 698,719 | 264,844 | 5,194 | - | 2,531,624 |
|-----------|---------|---------|-------|---|-----------|

Rest of Asia-Pacific

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|--|---|--------------------------------|--|---------------------------------------|----------------|---|----------------|
|--|---|--------------------------------|--|---------------------------------------|----------------|---|----------------|

Year ended 31 December 2013

| | | | | | | | |
|---------------------|--------|--------|--------|-----|-------|-------|--------|
| Net interest income | 13,328 | 10,660 | 14,926 | 159 | 1,606 | 1,050 | 41,729 |
|---------------------|--------|--------|--------|-----|-------|-------|--------|

| | | | | | | | |
|--|-------|-------|-------|-----|-------|---|--------|
| | 5,411 | 4,304 | 5,398 | 143 | (127) | - | 15,129 |
|--|-------|-------|-------|-----|-------|---|--------|

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|--|---------|---------|--------|-----|---------|---------|---------|
| Net fee income/(expense) | | | | | | | |
| Net trading income/(expense) | 617 | 1,467 | 7,811 | 44 | (3,514) | (1,050) | 5,375 |
| Net income from financial instruments designated at fair value | 460 | 2 | - | - | 5 | - | 467 |
| Gains less losses from financial investments | (8) | 4 | 117 | - | 6 | - | 119 |
| Dividend income | 3 | 1 | - | - | 6 | - | 10 |
| Net earned insurance premiums | 5,053 | 1,452 | - | 1 | - | (16) | 6,490 |
| Net gain on reclassification of associates | - | - | - | - | 8,157 | - | 8,157 |
| Gain on sale of Ping An | - | - | - | - | 34,070 | - | 34,070 |
| Other operating income | 1,119 | 44 | 626 | 3 | 923 | (529) | 2,186 |
| Total operating income | 25,983 | 17,934 | 28,878 | 350 | 41,132 | (545) | 113,732 |
| Net insurance claims incurred and movement in liabilities to policyholders | (4,531) | (1,113) | - | (1) | - | 13 | (5,632) |
| Net operating income before loan impairment charges and other credit risk provisions | 21,452 | 16,821 | 28,878 | 349 | 41,132 | (532) | 108,100 |
| Loan impairment (charges)/ releases and other credit risk provisions | (1,635) | (970) | 103 | - | 2 | - | (2,500) |
| Net operating income | 19,817 | 15,851 | 28,981 | 349 | 41,134 | (532) | 105,600 |

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|--|---|-----------------------------|-----------------------------------|---------------------------------|----------------|------------------------------------|----------------|
| Operating expenses | (16,405) | (7,938) | (9,580) | (227) | (913) | 532 | (34,531) |
| Operating profit | 3,412 | 7,913 | 19,401 | 122 | 40,221 | - | 71,069 |
| Share of profit in associates and joint ventures | 1,782 | 10,323 | 1,956 | - | (165) | - | 13,896 |
| Profit before tax | 5,194 | 18,236 | 21,357 | 122 | 40,056 | - | 84,965 |
| Share of profit before tax | 3.6% | 12.6% | 14.8% | 0.1% | 27.6% | - | 58.7% |
| Net loans and advances to customers | 362,938 | 378,115 | 379,355 | 30,828 | 1,810 | - | 1,153,046 |
| Customer accounts | 503,384 | 347,119 | 474,414 | 91,664 | 392 | - | 1,416,973 |
| Rest of Asia-Pacific | | | | | | | |
| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra-segment elimination HK\$m | Total HK\$m |
| Year ended 31 December 2012 | | | | | | | |
| Net interest income | 13,859 | 10,822 | 18,000 | 137 | 911 | (1,458) | 42,271 |
| Net fee income/(expense) | 6,379 | 3,870 | 4,933 | 91 | (53) | - | 15,220 |
| Net trading income/(expense) | 699 | 1,437 | 8,477 | 10 | (2,766) | 1,458 | 9,315 |
| Net income/(expense) from financial instruments designated at fair value | 844 | 7 | (24) | - | (13) | - | 814 |
| Gains less losses from financial investments | (6) | 9 | (74) | (1) | 196 | - | 124 |

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|--|----------|---------|---------|-------|---------|-------|-----------|
| Dividend income | 3 | - | - | - | 30 | - | 33 |
| Net earned insurance premiums | 4,411 | 1,905 | - | 1 | - | - | 6,317 |
| Other operating income | 1,630 | 500 | 580 | 499 | 1,985 | (562) | 4,632 |
| Total operating income | 27,819 | 18,550 | 31,892 | 737 | 290 | (562) | 78,726 |
| Net insurance claims incurred and movement in liabilities to policyholders | (4,057) | (1,524) | - | (1) | - | - | (5,582) |
| Net operating income before loan impairment charges and other credit risk provisions | 23,762 | 17,026 | 31,892 | 736 | 290 | (562) | 73,144 |
| Loan impairment (charges)/ releases and other credit risk provisions | (1,815) | (1,133) | (24) | 1 | (4) | - | (2,975) |
| Net operating income | 21,947 | 15,893 | 31,868 | 737 | 286 | (562) | 70,169 |
| Operating expenses | (17,133) | (7,702) | (9,695) | (256) | (1,885) | 562 | (36,109) |
| Operating profit/(loss) | 4,814 | 8,191 | 22,173 | 481 | (1,599) | - | 34,060 |
| Share of profit in associates and joint ventures | 2,110 | 11,416 | 4,638 | - | 6 | - | 18,170 |
| Profit/(loss) before tax | 6,924 | 19,607 | 26,811 | 481 | (1,593) | - | 52,230 |
| Share of profit before tax | 6.4% | 18.0% | 24.7% | 0.4% | (1.5)% | - | 48.0% |
| Net loans and advances to customers | 356,729 | 340,839 | 351,905 | 2,811 | 1,280 | - | 1,053,564 |

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| | | | | | | | |
|-------------------|---------|---------|---------|-------|-----|---|-----------|
| Customer accounts | 490,059 | 347,729 | 499,705 | 4,905 | 862 | - | 1,343,260 |
|-------------------|---------|---------|---------|-------|-----|---|-----------|

Results by global business

| | Retail Banking and Wealth Management HK\$m | Commercial Banking HK\$m | Global Banking & Markets HK\$m | Global Private Banking HK\$m | Other HK\$m | Intra- segment elimination HK\$m | Total HK\$m |
|---|---|--------------------------------|--|---------------------------------------|----------------|---|----------------|
| Year ended 31 December 2013 | | | | | | | |
| Net interest income/(expense) | 38,015 | 24,066 | 25,278 | 275 | (1,056) | 787 | 87,365 |
| Net fee income/(expense) | 21,160 | 11,777 | 10,807 | 248 | (146) | - | 43,846 |
| Net trading income/(expense) | 1,662 | 2,884 | 16,145 | 122 | (3,448) | (788) | 16,577 |
| Net income/(expense) from financial instruments designated at fair value | 2,425 | 2 | 56 | - | (9) | 1 | 2,475 |
| Gains less losses from financial investments | (8) | 4 | 440 | - | 6 | - | 442 |
| Dividend income | 4 | 8 | 47 | - | 1,116 | - | 1,175 |
| Net earned insurance premiums | 48,583 | 5,111 | - | 1 | - | (32) | 53,663 |
| Net gain on reclassification of associates | - | - | - | - | 8,157 | - | 8,157 |
| Gain on sale of Ping An | - | - | - | - | 34,070 | - | 34,070 |
| Other operating income | 5,918 | 750 | 1,073 | 3 | 10,769 | (7,095) | 11,418 |

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| | | | | | | | |
|--|-----------|-----------|----------|---------|----------|---------|-----------|
| Total operating income | 117,759 | 44,602 | 53,846 | 649 | 49,459 | (7,127) | 259,188 |
| Net insurance claims incurred and movement in liabilities to policyholders | (51,261) | (5,343) | - | (1) | - | 13 | (56,592) |
| Net operating income before loan impairment charges and other credit risk provisions | 66,498 | 39,259 | 53,846 | 648 | 49,459 | (7,114) | 202,596 |
| Loan impairment (charges)/ releases and other credit risk provisions | (2,700) | (1,092) | 257 | - | 3 | - | (3,532) |
| Net operating income | 63,798 | 38,167 | 54,103 | 648 | 49,462 | (7,114) | 199,064 |
| Operating expenses | (31,906) | (13,893) | (19,520) | (451) | (10,072) | 7,114 | (68,728) |
| Operating profit | 31,892 | 24,274 | 34,583 | 197 | 39,390 | - | 130,336 |
| Share of profit in associates and joint ventures | 2,300 | 10,325 | 1,960 | - | (165) | - | 14,420 |
| Profit before tax | 34,192 | 34,599 | 36,543 | 197 | 39,225 | - | 144,756 |
| Share of profit before tax | 23.6% | 23.9% | 25.3% | 0.1% | 27.1% | - | 100.0% |
| Net loans and advances to customers | 866,859 | 952,862 | 752,441 | 84,507 | 12,569 | - | 2,669,238 |
| Customer accounts | 2,158,595 | 1,100,719 | 750,583 | 242,244 | 2,611 | - | 4,254,752 |

| | | | | | | | |
|--|----------------|--------------------|------------------|----------------|-------|---------------|-------|
| | Retail Banking | Commercial Banking | Global Banking & | Global Private | Other | Intra-segment | Total |
|--|----------------|--------------------|------------------|----------------|-------|---------------|-------|

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| | and Wealth Management HK\$m | HK\$m | Markets HK\$m | Banking HK\$m | HK\$m | elimination HK\$m | HK\$m |
|--|--------------------------------------|---------|------------------|------------------|---------|----------------------|----------|
| Year ended 31 December 2012 | | | | | | | |
| Net interest income/(expense) | 36,053 | 23,458 | 26,436 | 137 | (2,833) | (832) | 82,419 |
| Net fee income | 20,102 | 10,464 | 9,188 | 91 | 45 | - | 39,890 |
| Net trading income/(expense) | 1,969 | 2,715 | 16,299 | 10 | (2,609) | 830 | 19,214 |
| Net income/(expense) from financial instruments designated at fair value | 4,942 | (405) | 153 | - | (79) | 2 | 4,613 |
| Gains less losses from financial investments | (14) | 9 | (56) | (1) | 2,696 | - | 2,634 |
| Dividend income | 4 | 7 | 36 | - | 475 | - | 522 |
| Net earned insurance premiums | 45,485 | 7,037 | 98 | 1 | - | - | 52,621 |
| Other operating income | 7,148 | 2,465 | 1,163 | 499 | 10,760 | (6,698) | 15,337 |
| Total operating income | 115,689 | 45,750 | 53,317 | 737 | 8,455 | (6,698) | 217,250 |
| Net insurance claims incurred and movement in liabilities to policyholders | (48,707) | (6,200) | (75) | (1) | - | - | (54,983) |
| Net operating income before loan impairment charges and other credit risk provisions | 66,982 | 39,550 | 53,242 | 736 | 8,455 | (6,698) | 162,267 |
| Loan impairment (charges)/ releases | (2,569) | (1,112) | 105 | 1 | (3) | - | (3,578) |

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and other credit risk provisions

| | | | | | | | |
|--|-----------|-----------|----------|-------|----------|---------|-----------|
| Net operating income | 64,413 | 38,438 | 53,347 | 737 | 8,452 | (6,698) | 158,689 |
| Operating expenses | (31,260) | (13,323) | (19,488) | (256) | (11,141) | 6,698 | (68,770) |
| Operating profit/(loss) | 33,153 | 25,115 | 33,859 | 481 | (2,689) | - | 89,919 |
| Share of profit in associates and joint ventures | 2,457 | 11,465 | 4,663 | - | 225 | - | 18,810 |
| Profit/(loss) before tax | 35,610 | 36,580 | 38,522 | 481 | (2,464) | - | 108,729 |
| Share of profit before tax | 32.8% | 33.6% | 35.5% | 0.4% | (2.3)% | - | 100% |
| Net loans and advances to customers | 841,391 | 828,681 | 663,648 | 2,811 | 12,512 | - | 2,349,043 |
| Customer accounts | 2,052,926 | 1,046,448 | 764,549 | 4,905 | 6,056 | - | 3,874,884 |

Results by geographic region

Hong Kong reported pre-tax profits of HK\$59,791m compared with HK\$56,499m in 2012, an increase of 6%. This reflected higher revenue, driven by balance sheet growth, and increased net fees from unit trusts and debt issuance.

In RBWM, we grew our average mortgage balances by 8% with average loan-to-value ratios of 44% on new mortgage drawdowns and an estimated 32% on the portfolio as a whole. We continued to develop our digital capabilities and launched our mobile banking application. We also developed our wealth management capabilities, growing revenue by more than 10%. In addition, we enhanced our wealth management systems, simplified the product range and implemented the Global Wealth Incentive Plan to better align customer and business interests.

In CMB, we further strengthened the collaboration with GB&M, raising financing for our clients of over US\$14bn from the debt capital markets ('DCM') and nearly US\$4bn from the equity capital markets ('ECM'), including the largest IPO in Hong Kong for a mainland Chinese consumer company. In addition, we were awarded 'Best Trade Finance Bank in Hong Kong' by Global Finance.

In GB&M, we continued to lead the market in Hong Kong dollar bond issuance and are now one of the top five houses for both ECM and mergers and acquisitions. We were voted 'Best Debt House in Hong Kong' in the Euromoney 2013 Awards for Excellence and were involved in seven of the ten largest IPOs in Hong Kong this year.

We led the market in offshore renminbi ('RMB') bond issuance, including the RMB3bn government bond issue in December 2013 by mainland China's Ministry of Finance, and were voted 'Best provider of offshore renminbi products and services' for the second year running by Asiamoney. We also won the award for 'RMB House of the Year' from Asia Risk.

In November 2013, we acquired the Private Banking ('GPB') business of HSBC Private Bank (Suisse) SA, Hong Kong branch. We announced the sale of our shareholding in Bank of Shanghai in 2013, a transaction which is expected to complete in the first half of 2014.

Net interest income rose by HK\$5,527m compared with 2012, led by RBWM and supported by GB&M and CMB. The increase was mainly due to higher average lending and deposit balances, wider spreads on mortgages in RBWM reflecting lower funding costs, and growth in the insurance debt securities portfolio.

There was strong loan growth in both CMB and GB&M, driven by trade-related lending in the first half of 2013 and an increase in commercial real estate and other property-related lending in the second half of the year, though the benefit of this growth was partly offset by spread compression reflecting competition and increased liquidity in the markets. Mortgage lending in RBWM also increased, although the rate of growth began to slow during 2013 as transaction volumes in the property market reduced.

Average deposit balances increased, in part reflecting new Premier customers in RBWM and increased Payments and Cash Management balances in CMB, though the benefit of this growth was more than offset by narrower deposit spreads due to a fall in short-term interbank interest rates.

Net fee income rose by HK\$4,124m in 2013, primarily in RBWM. Strong customer demand and favourable market sentiment led to higher fees from unit trusts and increased brokerage income. Fee income increased due to a rise in debt and equity underwriting and corporate finance activity compared with 2012, in part reflecting collaboration between GB&M and CMB. Fee income also rose in CMB as trade and Payments and Cash Management volumes increased.

Net trading income rose by HK\$1,264m in 2013. Rates revenue rose due to greater client activity, increased holdings of debt securities and a net favourable movement in respect of the valuation adjustments on derivatives compared with a net charge in 2012. Equities revenues rose from warrant market making as volumes increased, while Foreign Exchange revenue grew due to improved margins and higher customer trading volumes.

Net income from financial instruments designated at fair value was HK\$2,008m compared with HK\$3,799m in 2012, primarily due to lower net investment returns on assets held by the insurance business reflecting weaker equity markets and falling bond prices. To the extent that these investment returns were attributed to policyholders holding unit-linked insurance policies and insurance contracts with discretionary participation features, there was a corresponding movement in Net insurance claims incurred and movement in liabilities to policyholders.

Gains less losses from financial investments were HK\$323m in 2013 compared with HK\$2,510m in 2012, largely due to the non-recurrence of the gain on sale of our shares in four Indian banks in 2012.

Dividend income was HK\$1,165m compared with HK\$489m in 2012, mainly due to the dividend from Industrial Bank following its reclassification as a financial investment during the year.

Net earned insurance premiums grew by 2% due to increased renewals of deferred annuity and unit-linked insurance contracts, partly offset by the absence of non-life insurance premiums following the disposal of the HSBC and Hang Seng Bank general insurance businesses in 2012 and lower new business premiums. The growth in premiums resulted in a corresponding increase in Net insurance claims incurred and movement in liabilities to policyholders.

Other operating income was HK\$1,188m lower than in 2012 due to the non-recurrence of the gains on sale of Global Payments Asia-Pacific Limited and the non-life insurance businesses in 2012, totalling HK\$2,906m. This more than offset higher revaluation and disposal gains on investment properties, which in part reflected the strong commercial property market, and a larger increase in the PVIF asset. The latter arose in 2013 due to favourable interest rate assumption updates, although this was more than offset in Net insurance claims incurred and movement in liabilities to policyholders.

Loan impairment charges were HK\$429m higher due to a revision to the assumptions used in our collective assessment models in RBWM and a rise in individual impairment charges in CMB, although these remained low. This was partly offset by collective provision releases in CMB from lower historical loss rates and individual impairment releases in GB&M.

Operating expenses rose by HK\$1,898m in 2013, reflecting higher marketing spend, costs relating to the introduction of updated payment cards and information technology platforms, as well as increased property rental and maintenance costs. In addition, staff costs increased from changes to the measurement of pension costs.

Share of profit in associates and joint ventures was HK\$116m lower, primarily due to the effect of the disposal of our interest in Global Payments Asia-Pacific Ltd in 2012.

Rest of Asia-Pacific reported pre-tax profits of HK\$84,965m compared with HK\$52,230m in 2012.

The increase in profits was mainly due to the net gain on disposal of our shareholding in Ping An of HK\$30,747m and an accounting gain of HK\$8,454m on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties.

Excluding these gains, profit before tax reduced from lower revenues and lower income from associates, partly offset by reduced operating expenses and loan impairment charges.

The implementation of our strategy to reduce fragmentation across the region continued, leading to the disposal of non-core insurance businesses in Vietnam, South Korea, Taiwan and Singapore. We announced the closure of a retail brokerage in India and our retail banking operations in South Korea. We also completed the sale of our investment in Ping An. In November 2013, we acquired the GPB business of HSBC Private Bank (Suisse) SA, Singapore branch.

In mainland China, where we continued to expand our branch network, we had 162 HSBC outlets, 23 HSBC rural bank outlets and 48 Hang Seng Bank outlets at the end of the year. We expanded our wealth management capabilities and were one of the first foreign banks to be approved to distribute domestic funds to retail investors. We were the market leader in mainland China's state-owned enterprise bond issuances and we were awarded 'Best Foreign Commercial Bank in China' by FinanceAsia.

We continued to promote the internationalisation of the RMB as regulations developed. We were the first foreign bank in mainland China to implement a customised RMB cross-border centralised settlement solution and were also the first foreign bank to complete a two-way cross-border RMB lending transaction.

In India, we revised our wealth management product offering to ensure customers' needs were being met and to improve customer satisfaction levels. In Payments and Cash Management, we were awarded the 'Best Domestic Cash Management Bank' in 2013 by Euromoney. Our strength in DCM continued, acting as a joint lead manager and bookrunner for the largest US dollar-denominated single tranche bond issuance by an Indian corporate in 2013.

In Singapore, we led the market in foreign currency DCM issuance, continuing to demonstrate our ability to structure DCM transactions. In CMB, we began to offer a RMB settlement service.

We continued to develop our Payments and Cash Management product offering across the region and were awarded the 'Best Cash Management House in Asia' by Euromoney. We also strengthened our Project and Export Finance capabilities and were named the 'Best Project Finance House in Asia' by Euromoney for the third consecutive year. Our strength in DCM continued and we were the No.1 bookrunner in Asia ex-Japan bonds. We were awarded the 'Domestic Bond House of the Year' by IFR Asia.

Net interest income reduced by HK\$542m as balance sheet growth was more than offset by spread compression in many countries from competition and increased liquidity.

Average residential mortgage balances grew, primarily in mainland China and Australia, as we focused on secured lending, and in Singapore reflecting lending growth in 2012. Term and trade-related lending in CMB rose, notably in mainland China, Singapore and Indonesia, from continued client demand. Increased average loan balances were broadly offset by lending spread compression, notably on trade finance lending, reflecting competitive pressures and increased liquidity in the market.

We grew average deposit balances in both Payments and Cash Management and RBWM, though the benefit of this growth was partly offset by narrower liability spreads in many countries following central bank interest rate cuts and increased liquidity.

Net fee income fell by HK\$91m, primarily in RBWM, notably in India, from lower wealth management sales as we revised our product offerings. This was partly offset in GB&M from increased activity in bond sales in Singapore and in CMB from increased credit facilities, notably in mainland China.

Net trading income was HK\$3,940m lower, in part from further adverse fair value movements on the Ping An contingent forward sale contract of HK\$3,323m, compared with HK\$2,694m in 2012. Rates revenues decreased largely from reduced bond holdings in a number of countries and revaluation losses as bond yields rose, notably in mainland China. Foreign Exchange revenues also fell as 2012 market conditions were not repeated.

Net income from financial instruments designated at fair value was HK\$467m compared with HK\$814m in 2012 from lower gains on assets held by the insurance business in Singapore driven by rising bond yields. To the extent that these investment returns were attributed to policyholders holding unit-linked insurance policies and insurance contracts with discretionary participation features, there was a corresponding movement in Net insurance claims incurred and movement in liabilities to policyholders.

We recorded an accounting gain of HK\$8,454m on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties. This was partly offset by a loss of HK\$297m on the reclassification of Yantai Bank as a financial investment.

There was a gross gain of HK\$34,070m on the disposal of our investment in Ping An, which was partly offset by the adverse fair value movement of HK\$3,323m on the contingent forward sale contract included in 'Net trading income' noted above.

Other operating income fell by HK\$2,446m in 2013. There was a gain on the disposal of our investment in Bao Viet Holdings of HK\$810m and losses on the disposal of our Taiwan life insurance business and Singapore group term life and group medical insurance businesses totalling HK\$339m. We recorded a gain on the disposal of Hana HSBC Life Insurance Company Limited of HK\$214m, though this was after a write-down of HK\$558m recorded in 'Operating expenses'. In 2012, we reported gains totalling HK\$2,340m on the sale of our RBWM business in Thailand, our GPB business in Japan and our interest in a property company in the Philippines.

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Loan impairment charges decreased by HK\$475m as a result of the non-recurrence of a large individually assessed impairment of a corporate exposure in Australia in 2012, as well as an impairment release in GB&M in Bahrain in 2013. This was partly offset by an increase in individually assessed impairments in GB&M and CMB in a number of countries across the region.

Operating expenses decreased by HK\$1,578m. There was a partial write back of a litigation provision in Singapore and Australia compared with a charge in 2012. In addition, there were lower restructuring and other related costs, including termination benefits, than in 2012, and the non-recurrence of costs following the sale or closure of operations. These decreases were partly offset by a rise in mainland China from wage inflation, higher staff numbers and branch expansion.

Share of profit in associates and joint ventures reduced by HK\$4,274m following the reclassification of Industrial Bank as a financial investment and an impairment charge of HK\$819m on our banking associate in Vietnam. Excluding these factors, income from associates rose, primarily in Bank of Communications as a result of balance sheet growth and increased fee income, partly offset by higher operating expenses and a rise in loan impairment charges

Consolidated income statement

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|--|--|--|
| Interest income | 117,039 | 115,511 |
| Interest expense | (29,674) | (33,092) |
| Net interest income | 87,365 | 82,419 |
| Fee income | 50,187 | 46,221 |
| Fee expense | (6,341) | (6,331) |
| Net fee income | 43,846 | 39,890 |
| Net trading income | 16,577 | 19,214 |
| Net income from financial instruments designated at fair value | 2,475 | 4,613 |
| Gains less losses from financial investments | 442 | 2,634 |
| Dividend income | 1,175 | 522 |
| Net earned insurance premiums | 53,663 | 52,621 |
| Net gain on reclassification of associates | 8,157 | - |
| Gain on sale of Ping An | 34,070 | - |
| Other operating income | 11,418 | 15,337 |
| Total operating income | 259,188 | 217,250 |
| Net insurance claims incurred and movement in liabilities to policyholders | (56,592) | (54,983) |
| Net operating income before loan impairment charges | | |

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| | | |
|---|----------|----------|
| and other credit risk provisions | 202,596 | 162,267 |
| Loan impairment charges and other credit risk provisions | (3,532) | (3,578) |
| Net operating income | 199,064 | 158,689 |
| Employee compensation and benefits | (36,938) | (37,021) |
| General and administrative expenses | (26,127) | (26,011) |
| Depreciation of property, plant and equipment | (3,988) | (4,014) |
| Amortisation and impairment of intangible assets | (1,675) | (1,724) |
| Total operating expenses | (68,728) | (68,770) |
| Operating profit | 130,336 | 89,919 |
| Share of profit in associates and joint ventures | 14,420 | 18,810 |
| Profit before tax | 144,756 | 108,729 |
| Tax expense | (15,701) | (18,010) |
| Profit for the year | 129,055 | 90,719 |
| Profit attributable to shareholders of the parent company | 119,009 | 83,008 |
| Profit attributable to non-controlling interests | 10,046 | 7,711 |

Consolidated statement of comprehensive income

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---------------------|--|--|
| Profit for the year | 129,055 | 90,719 |

Other comprehensive income/(expense)

Items that will subsequently be reclassified to the income statement when specific conditions are met:

Available-for-sale investments:

| | | |
|--|----------|---------|
| - fair value changes taken to equity | (6,456) | 14,153 |
| - fair value changes transferred to the income statement on disposal | (34,643) | (2,753) |
| - amounts transferred to the income statement on impairment | - | 5 |
| - fair value changes transferred to the income statement on hedged items | 2,179 | (287) |

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| | | |
|---|----------|---------|
| - income taxes | 1,097 | (768) |
| Cash flow hedges: | | |
| - fair value changes taken to equity | 5,778 | 3,858 |
| - fair value changes transferred to the income statement | (5,789) | (3,662) |
| - income taxes | (6) | (33) |
| Share of changes in equity of associates and joint ventures | (698) | 638 |
| Exchange differences | (5,981) | 925 |
| Items that will not subsequently be reclassified to the income statement: | | |
| Property revaluation: | | |
| - fair value changes taken to equity | 5,687 | 7,221 |
| - income taxes | (949) | (1,161) |
| Remeasurement of defined benefit: | | |
| - before income taxes | 2,281 | 1,080 |
| - income taxes | (374) | (198) |
| Other comprehensive income/(expense) for the year, net of tax | (37,874) | 19,018 |
| Total comprehensive income for the year, net of tax | 91,181 | 109,737 |
| Total comprehensive income for the year attributable to: | | |
| - shareholders of the parent company | 81,689 | 100,814 |
| - non-controlling interests | 9,492 | 8,923 |
| | 91,181 | 109,737 |

Consolidated balance sheet

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|--|---------------------------------------|---------------------------------------|
| ASSETS | | |
| Cash and short-term funds | 1,132,719 | 1,111,199 |
| Items in the course of collection from other banks | 16,346 | 23,079 |
| Placings with banks maturing after one month | 216,970 | 184,711 |
| Certificates of deposit | 88,207 | 93,085 |

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| | | |
|--|------------------|------------------|
| Hong Kong Government certificates of indebtedness | 195,554 | 176,264 |
| Trading assets | 311,400 | 419,697 |
| Financial assets designated at fair value | 90,146 | 69,479 |
| Derivatives | 388,727 | 398,956 |
| Loans and advances to customers | 2,669,238 | 2,349,043 |
| Financial investments | 765,866 | 626,042 |
| Amounts due from Group companies | 161,975 | 176,004 |
| Interests in associates and joint ventures | 107,852 | 119,273 |
| Goodwill and intangible assets | 41,882 | 38,634 |
| Property, plant and equipment | 101,240 | 90,179 |
| Deferred tax assets | 2,294 | 2,629 |
| Other assets | 148,939 | 187,053 |
| Total assets | 6,439,355 | 6,065,327 |
| LIABILITIES | | |
| Hong Kong currency notes in circulation | 195,554 | 176,264 |
| Items in the course of transmission to other banks | 34,240 | 35,525 |
| Deposits by banks | 236,616 | 244,135 |
| Customer accounts | 4,254,752 | 3,874,884 |
| Trading liabilities | 195,032 | 183,340 |
| Financial liabilities designated at fair value | 41,715 | 44,270 |
| Derivatives | 365,052 | 397,151 |
| Debt securities in issue | 52,334 | 74,647 |
| Retirement benefit liabilities | 4,856 | 6,725 |
| Amounts due to Group companies | 91,797 | 97,618 |
| Other liabilities and provisions | 88,809 | 94,791 |
| Liabilities under insurance contracts issued | 276,180 | 244,921 |
| Current tax liabilities | 3,722 | 3,842 |
| Deferred tax liabilities | 16,051 | 16,923 |
| Subordinated liabilities | 13,107 | 13,867 |
| Preference shares | 47,314 | 83,346 |
| Total liabilities | 5,917,131 | 5,592,249 |
| EQUITY | | |
| Share capital | 85,319 | 58,969 |
| Other reserves | 89,564 | 133,790 |
| Retained profits | 290,926 | 224,640 |
| Proposed dividend | 15,000 | 20,000 |
| Total shareholders' equity | 480,809 | 437,399 |
| Non-controlling interests | 41,415 | 35,679 |
| Total equity | 522,224 | 473,078 |
| Total equity and liabilities | 6,439,355 | 6,065,327 |

Consolidated statement of changes in equity

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| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|---|---------------------------------------|---------------------------------------|
| Share capital | | |
| At beginning of year | 58,969 | 30,190 |
| Issued during the year | 26,350 | 28,779 |
| | 85,319 | 58,969 |
| Retained profits and proposed dividend | | |
| At beginning of year | 244,640 | 198,416 |
| Dividends paid | (47,000) | (32,500) |
| Movement in respect of share-based payment arrangements | (355) | (246) |
| Other movements | 7 | (3) |
| Transfers | (11,826) | (4,554) |
| Comprehensive income for the year | 120,460 | 83,527 |
| | 305,926 | 244,640 |
| Other reserves | | |
| Property revaluation reserve | | |
| At beginning of year | 43,451 | 38,939 |
| Transfers | (1,387) | (1,010) |
| Comprehensive income for the year | 4,272 | 5,522 |
| | 46,336 | 43,451 |
| Available-for-sale investment reserve | | |
| At beginning of year | 40,580 | 29,786 |
| Other movements | (7) | 8 |
| Transfers | - | (2) |
| Comprehensive income/(expense) for the year | (37,293) | 10,788 |
| | 3,280 | 40,580 |
| Cash flow hedging reserve | | |
| At beginning of year | 210 | 51 |
| Comprehensive income/(expense) for the year | (13) | 159 |
| | 197 | 210 |
| Foreign exchange reserve | | |
| At beginning of year | 15,193 | 14,265 |
| Comprehensive income/(expense) for the year | (5,574) | 928 |
| | 9,619 | 15,193 |
| Other reserves | | |

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| | | |
|---|----------|--------|
| At beginning of year | 34,356 | 29,177 |
| Movement in respect of share-based payment arrangements | 240 | (277) |
| Other movements | (17,514) | - |
| Transfers | 13,213 | 5,566 |
| Comprehensive expense for the year | (163) | (110) |
| | 30,132 | 34,356 |

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|---|---------------------------------------|---------------------------------------|
| Total shareholders' equity | | |
| At beginning of year | 437,399 | 340,824 |
| Issue of ordinary shares | 26,350 | 28,779 |
| Dividends paid | (47,000) | (32,500) |
| Movement in respect of share-based payment arrangements | (115) | (523) |
| Other movements | (17,514) | 5 |
| Comprehensive income for the year | 81,689 | 100,814 |
| | 480,809 | 437,399 |
| Non-controlling interests | | |
| At beginning of year | 35,679 | 30,519 |
| Dividends paid | (3,836) | (3,766) |
| Movement in respect of share-based payment arrangements | 11 | 14 |
| Other movements | 69 | (11) |
| Comprehensive income for the year | 9,492 | 8,923 |
| | 41,415 | 35,679 |
| Total equity | | |
| At beginning of year | 473,078 | 371,343 |
| Issue of ordinary shares | 26,350 | 28,779 |
| Dividends paid | (50,836) | (36,266) |
| Movement in respect of share-based payment arrangements | (104) | (509) |
| Other movements | (17,445) | (6) |
| Total comprehensive income for the year | 91,181 | 109,737 |
| | 522,224 | 473,078 |

The movement in the available-for-sale investment reserve during the year arises primarily from the sale of our shares in Ping An in February 2013.

In November 2013 we acquired the Hong Kong and Singapore branches of HSBC Private Bank (Suisse) SA. The purchase premium paid in excess of the net assets acquired was charged to reserves within the line item 'Other movements'.

Average shareholders' equity increased from retained profits and the conversion of preference share capital to equity share capital in both 2012 and 2013 to assist in meeting the Basel III capital requirements (see note 21). This impacted return on average shareholders' equity, which fell from 21.9% in 2012 to 17.9% in 2013 excluding the gain on disposal of Ping An and the accounting gain on the reclassification of Industrial Bank.

Consolidated cash flow statement

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---|---|---|
| Operating activities | | |
| Cash generated from/(used in) operations | 158,886 | (20,651) |
| Interest received on financial investments | 13,222 | 14,349 |
| Dividends received on financial investments | 1,087 | 464 |
| Dividends received from associates | 4,468 | 2,297 |
| Taxation paid | (16,182) | (17,423) |
| Net cash inflow/(outflow) from operating activities | 161,481 | (20,964) |
| Investing activities | | |
| Purchase of financial investments | (350,187) | (262,280) |
| Proceeds from sale or redemption of financial investments | 267,382 | 350,945 |
| Purchase of property, plant and equipment | (8,419) | (1,990) |
| Proceeds from sale of property, plant and equipment and assets held for sale | 1,003 | 35 |
| Purchase of other intangible assets | (1,502) | (1,303) |
| Net cash inflow in respect of the sale of subsidiaries | - | 1,416 |
| Net cash outflow in respect of the purchase of interests in business portfolios | (1,792) | - |
| Net cash outflow in respect of the purchase of interests in associates and joint ventures | - | (13,521) |
| Net cash outflow in respect of the sale of interests in business portfolios | (2,670) | (12,242) |
| Proceeds from the sale of interests in associates | 2,840 | 3,970 |
| Net cash (outflow)/ inflow from investing activities | (93,345) | 65,030 |
| Net cash inflow before financing | 68,136 | 44,066 |
| Financing | | |
| Issue of ordinary share capital | 26,350 | 28,779 |
| Issue of preference shares | - | 29 |
| Redemption of preference shares | (36,042) | (13,566) |
| Repayment of subordinated liabilities | (338) | (2,326) |
| Issue of subordinated liabilities | - | 2,328 |
| Ordinary dividends paid | (47,000) | (32,500) |

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| | | |
|---|----------|----------|
| Dividends paid to non-controlling interests | (3,836) | (3,766) |
| Interest paid on preference shares | (2,294) | (2,301) |
| Interest paid on subordinated liabilities | (829) | (884) |
| Net cash outflow from financing | (63,989) | (24,207) |
| Increase in cash and cash equivalents | 4,147 | 19,859 |

Additional information

1. Net interest income

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---------------------------------|---|---|
| Net interest income | 87,365 | 82,419 |
| Average interest-earning assets | 4,512,319 | 4,199,329 |
| Net interest margin | 1.94% | 1.96% |
| Net interest spread | 1.81% | 1.85% |

Net interest income increased as a result of loan and deposit growth, notably in Hong Kong, partly offset by a reduction in the net interest margin.

Average interest-earning assets increased by HK\$312,990m or 7.5% compared with 2012. Average customer lending increased 11%, with notable growth in both mortgages and trade-related lending, while financial investments increased by 7%.

Net interest margin fell by two basis points to 1.94% compared with 2012. Central bank rate cuts and liquidity easing measures reduced deposit spreads, while competitive pressures reduced asset spreads, notably on trade-related lending. Net interest spread decreased by four basis points to 1.81%, whilst the contribution from net free funds increased by two basis point to 13 basis points.

In Hong Kong, the Bank recorded a decrease in net interest margin of 12 basis points to 1.34%. Asset spreads on customer loans reduced, notably on trade-related lending, though remained broadly stable on mortgages and term lending, while deposit spreads were lower as short-term interest rates reduced. The net interest margin was also reduced by an increase in the commercial surplus following the purchase of the GPB business from HSBC Private Bank (Suisse) SA.

At Hang Seng Bank, the net interest margin increased by three basis points to 2.13% and the net interest spread increased by three basis points to 2.03%. The spread on customer lending improved, notably on mortgages, as the cost of funds reduced. This was partly offset by lower deposit spreads as short-term interest rates reduced.

In the Rest of Asia-Pacific, the net interest margin was 2.06%, eight basis points lower than 2012. Central bank rate cuts and liquidity easing measures reduced deposit spreads, while competitive pressures and our focus on secured

lending reduced asset spreads.

2. Net fee income

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|------------------------|---|---|
| Brokerage | 7,344 | 6,824 |
| Cards | 7,146 | 6,858 |
| Unit trusts | 5,672 | 4,523 |
| Import/export | 4,986 | 5,115 |
| Funds under management | 4,114 | 4,089 |
| Remittances | 3,364 | 3,066 |
| Credit facilities | 3,176 | 2,797 |
| Account services | 2,782 | 2,772 |
| Underwriting | 1,908 | 1,689 |
| Insurance | 1,401 | 1,042 |
| Other | 8,294 | 7,446 |
| Fee income | 50,187 | 46,221 |
| Fee expense | (6,341) | (6,331) |
| | 43,846 | 39,890 |

Net fee income increased by HK\$3,956m, or 10% compared with 2012.

Fees from unit trusts and brokerage rose due to strong customer demand and favourable investment sentiment, notably in Hong Kong. This was partly offset by lower wealth management sales in India as we revised our product offerings.

Card fees also rose from higher spending in Hong Kong, partly offset by Thailand following the sale of the business in 2012 and balance reductions in the Philippines, India and Indonesia.

Fee income from remittances was higher from increased business volumes in Hong Kong.

Credit facility fees increased in 2013 from more mandates arranged during the year, notably in Hong Kong and Singapore.

Underwriting fees increased due to our participation in many debt and equity market transactions, primarily in Hong Kong.

Fees from insurance increased from distribution agreements following the sale of our general insurance business, though this corresponds with a reduction in net earned general insurance premiums.

Other fee income rose compared with 2012, in part due to growth in the mandatory provident funds business in Hong Kong, as well as increased participation in corporate and project finance advisory activity in Hong Kong.

3. Net trading income

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---|---|---|
| Dealing profits | 15,104 | 16,633 |
| Net loss from hedging activities | (37) | (31) |
| Net interest income on trading assets and liabilities | 3,859 | 4,520 |
| Dividend income from trading securities | 974 | 786 |
| Ping An contingent forward sale contract | (3,323) | (2,694) |
| | 16,577 | 19,214 |

Net trading income decreased by HK\$2,637m, or 14% compared with 2012.

Included within trading income were further adverse fair value movements on the Ping An contingent forward sale contract of HK\$3,323m, compared with HK\$2,694m in 2012.

Dealing profits were lower in a number of countries in Asia Pacific, with a decline in Rates revenues from revaluation losses on trading bonds as yields rose. Foreign Exchange revenues also decreased as market conditions in 2012 were not repeated. Dealing profits in Hong Kong rose from higher Equities revenues as volumes increased from market making in warrants, as well as higher Foreign Exchange income due to improved margins and higher customer trading volumes. Rates trading income also benefited from more volume and a net favourable movement in respect of the valuation adjustments on derivatives compared with a net charge in 2012.

Net interest income on trading assets and liabilities decreased in 2013 from reduced bond holdings in a number of countries, partly offset by an increase in Hong Kong.

4. Gains less losses from financial investments

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---|---|---|
| Gain on sale of Ping An | 34,070 | - |
| Gains on disposal of available-for-sale securities | 470 | 2,809 |
| Impairment of available-for-sale equity investments | (28) | (175) |
| | 442 | 2,634 |

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We recorded a gross gain on the sale of our shareholding in Ping An of HK\$34,070m, which was partly offset by the adverse fair value movement of HK\$3,323m on the contingent forward sale contract included in 'Net trading income', leading to a net gain of HK\$30,747m.

Gains on disposal of financial investments in 2012 included the gain of HK\$2,441m on the sale of our shares in four Indian banks.

5. Other operating income

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|---|---|---|
| Gain on reclassification of Industrial Bank | 8,454 | - |
| Loss on reclassification of Yantai Bank | (297) | - |
| Net gain on reclassification of associates | 8,157 | - |
| Movement in present value of in-force insurance business | 4,735 | 4,432 |
| Gains on investment properties | 1,389 | 834 |
| Gain on disposal of property, plant and equipment, and assets held for sale | 299 | 30 |
| Gain on disposal of subsidiaries, associates and business portfolios | 758 | 5,246 |
| Rental income from investment properties | 312 | 216 |
| Other | 3,925 | 4,579 |
| | 11,418 | 15,337 |

We recorded an accounting gain of HK\$8,454m on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties.

We recorded an accounting loss of HK\$297m on the reclassification of Yantai Bank as a financial investment following an increase in its registered share capital to enable a private placement of additional share capital to a third party.

Other operating income decreased by HK\$3,919m in 2013. There was a gain on the disposal of our investment in Bao Viet Holdings of HK\$810m and losses on the sale of our Taiwan life insurance business and Singapore group term life and group medical insurance businesses totalling HK\$339m. We also recorded a gain on the disposal of Hana HSBC Life Insurance Company Limited of HK\$214m, though this was after write-downs of HK\$558m earlier in the year and HK\$395m in 2012, recorded in operating expenses.

In 2012 we reported gains totalling HK\$5,246m on the disposals of our RBWM business in Thailand, our GPB business in Japan, the general insurance businesses in Hong Kong, Global Payments Asia-Pacific Ltd and our interest in a property company in the Philippines.

There was a larger increase in the present value of in-force ('PVIF') asset in 2013 due to favourable interest rate assumption updates, though this was more than offset in 'Net insurance claims incurred and movement in liabilities to policyholders'.

Gains on investment properties rose by HK\$555m following revaluations, in part reflecting the strong commercial property market.

6. Insurance income

Included in the consolidated income statement are the following revenues earned by the insurance business:

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|--|---|---|
| Net interest income | 8,702 | 7,864 |
| Net fee income | 1,864 | 1,216 |
| Net trading income/(loss) | (349) | 56 |
| Net income from financial instruments designated at fair value | 2,426 | 4,538 |
| Net earned insurance premiums | 53,663 | 52,621 |
| Movement in present value of in-force business | 4,735 | 4,432 |
| Other operating income | 1,052 | 1,308 |
| | 72,093 | 72,035 |
| Net insurance claims incurred and movement in liabilities to policyholders | (56,592) | (54,983) |
| Net operating income | 15,501 | 17,052 |

Net interest income increased by 11% as funds under management grew, reflecting net inflows from new and renewal insurance business.

Net income from financial instruments designated at fair value was HK\$2,426m compared with HK\$4,538m in 2012, reflecting weaker equity markets and falling bond prices. To the extent that revaluation is attributed to policyholders, there is an offsetting movement reported under 'Net insurance claims incurred and movement in liabilities to policyholders'.

Net insurance premiums rose by 2% as a result of increased renewals of existing deferred annuity and unit-linked policies, partly offset by the absence of general insurance premiums following the disposal of these businesses in 2012 and lower new business premiums. The growth in premiums resulted in a corresponding increase in 'Net insurance claims incurred and movement in liabilities to policyholders'.

The movement in PVIF increased by HK\$303m, largely due to favourable interest rate assumption updates in Hong Kong, though this was more than offset in 'Net insurance claims incurred and movement in liabilities to policyholders'. The PVIF increase was partly offset by a lower value of new business compared with 2012, reflecting

lower new business premiums.

Other operating income includes the gains on sale of our interests in Bao Viet Holdings and Hana HSBC Life Insurance Company Limited of HK\$810m and HK\$214m respectively, offset by losses on the sale of our Taiwan life insurance business and Singapore group term life and group medical insurance businesses totalling HK\$339m.

7. Loan impairment charges and other credit risk provisions

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|--|---|---|
| Individually assessed impairment charges: | | |
| New charges | 2,433 | 2,201 |
| Releases | (1,426) | (1,230) |
| Recoveries | (198) | (237) |
| | 809 | 734 |
| Collectively assessed impairment charges | 2,602 | 2,596 |
| Other credit risk provisions | 121 | 248 |
| Loan impairment charges and other credit risk provisions | 3,532 | 3,578 |

Loan impairment charges and other credit risk provisions decreased by HK\$46m in 2013.

The charge for individually assessed impairments rose due to charges against a number of CMB customers in Hong Kong and a number of countries across Asia Pacific. These were partly offset by the non-recurrence of an impairment charge on a corporate exposure in Australia, as well as individually assessed impairment charges in India, both in 2012. There were higher releases in 2013, notably in Hong Kong and Bahrain.

The charge for collectively assessed impairments was broadly unchanged compared with 2012, with an increase in RBWM reflecting a revision to the assumptions used in our collective assessment model, largely offset by higher collective provision releases in CMB from lower historical loss rates.

The charge for other credit risk provisions decreased by HK\$127m due to the non-recurrence of a charge in 2012 against a corporate exposure in Australia as noted above.

8. Employee compensation and benefits

| Year ended | Year ended |
|------------|------------|
|------------|------------|

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| | 31 December 2013 HK\$m | 31 December 2012 HK\$m |
|---|---------------------------------|---------------------------------|
| Wages and salaries | 33,761 | 34,233 |
| Social security costs | 970 | 935 |
| Retirement benefit costs | 2,207 | 1,853 |
| | 36,938 | 37,021 |
| Staff numbers by region - year end full-time equivalent | | |
| Hong Kong | 28,134 | 26,712 |
| Rest of Asia-Pacific | 38,887 | 38,881 |
| Total | 67,021 | 65,593 |

Employee compensation and benefits were broadly unchanged compared with 2012.

Wages and salaries decreased by HK\$472m in 2013, in part due to lower termination benefits than 2012 in a number of countries.

Excluding termination benefits, wages and salaries were lower from reduced average staff numbers, partly offset by wage inflation across a number of countries and the acquisition of the GPB businesses in Hong Kong and Singapore in November 2013. The decrease also reflected lower performance-related pay, primarily from share-based payment expenses as fewer shares were granted during the year.

Retirement benefit costs increased from changes to the measurement of defined benefit pension costs in 2013 following the adoption of Amendments to HKAS 19 'Employee Benefits'.

9. General and administrative expenses

| | Year ended 31 December 2013 HK\$m | Year ended 31 December 2012 HK\$m |
|--|---|---|
| Premises and equipment | | |
| - Rental expenses | 3,428 | 3,292 |
| - Amortisation of prepaid operating lease payments | 18 | 18 |
| - Other premises and equipment | 3,953 | 3,941 |
| | 7,399 | 7,251 |
| Marketing and advertising expenses | 3,565 | 3,578 |

| | | |
|-------------------------------|--------|--------|
| Other administrative expenses | 15,163 | 15,182 |
| | 26,127 | 26,011 |

General and administrative expenses increased by HK\$116m in 2013.

Rental expenses rose in 2013, primarily in Hong Kong from higher property rental prices and in mainland China from branch expansion.

Other premises and equipment expenses rose marginally, reflecting higher property maintenance charges in Hong Kong. This was partly offset by the non-recurrence of restructuring costs in 2012 relating to the sale of our RBWM business in Thailand and our GPB business in Japan.

Marketing and advertising expenses decreased, from reduced activity in a few countries across Rest of Asia-Pacific, partly offset by higher card awards and increased promotions in Hong Kong.

Other administrative expenses were broadly unchanged. Expenses reduced from the partial write back of a litigation provision in Singapore and Australia compared with a charge in 2012 and lower restructuring and other related costs, as well as the non-recurrence of costs following the sale or closure of operations.

These reductions were offset by increases in Hong Kong, reflecting growth in professional, legal and data processing costs and costs relating to the introduction of updated payment cards and information technology platforms. In addition, we recorded a write-down of Hana HSBC Life Insurance Company Limited of HK\$558m in 2013 compared with HK\$395m in 2012.

10. Associates and joint ventures

Share of profit in associates and joint ventures reduced by HK\$4,390m following the reclassification of Industrial Bank as a financial investment and an impairment charge of HK\$819m on our banking associate in Vietnam. Excluding these factors, income from associates rose, principally in Bank of Communications ('BoCom') as a result of balance sheet growth and increased fee income, partly offset by higher operating expenses and a rise in loan impairment charges.

At 31 December 2013, we performed an impairment review of our investment in BoCom and concluded that it was not impaired at the year end, based on our value in use calculation (see note 24 in the Annual Report and Accounts 2013 for further details). In future years, the value in use will remain relatively stable if the current calculation assumptions remain broadly unchanged. However, it is expected that the carrying amount will increase in 2014 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, the carrying amount would be reduced to equal value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

11. Tax expense

The tax expense in the consolidated income statement comprises:

| Year ended | Year ended |
|------------|------------|
|------------|------------|

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| | 31 December 2013 HK\$m | 31 December 2012 HK\$m |
|-------------------------|---------------------------------|---------------------------------|
| Current income tax | | |
| - Hong Kong profits tax | 8,479 | 7,790 |
| - Overseas taxation | 8,158 | 10,428 |
| Deferred taxation | (936) | (208) |
| | 15,701 | 18,010 |

The effective rate of tax for 2013 was 10.8% compared with 16.6% in 2012, reflecting the non-taxable gains on the reclassification of Industrial Bank as a financial investment and the Ping An disposal.

12. Dividends

| | Year ended 31 December 2013 | | Year ended 31 December 2012 | |
|--|--------------------------------|--------|--------------------------------|--------|
| | HK\$ per share | HK\$m | HK\$ per share | HK\$m |
| Ordinary dividends paid | | | | |
| - fourth interim dividend in respect of the previous financial year, approved and paid during the year | 0.85 | 20,000 | 0.83 | 10,000 |
| - first interim dividend paid | 0.38 | 9,000 | 0.58 | 7,500 |
| - second interim dividend paid | 0.38 | 9,000 | 0.41 | 7,500 |
| - third interim dividend paid | 0.38 | 9,000 | 0.40 | 7,500 |
| | 1.99 | 47,000 | 2.22 | 32,500 |

The Directors have declared a fourth interim dividend in respect of the financial year ended 31 December 2013 of HK\$15,000m (HK\$0.44 per ordinary share).

13. Loans and advances to customers

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Gross loans and advances to customers | 2,678,739 | 2,358,814 |
| Impairment allowances: | | |

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| | | |
|--|-----------|-----------|
| - Individually assessed | (5,007) | (5,245) |
| - Collectively assessed | (4,494) | (4,526) |
| | (9,501) | (9,771) |
| Net loans and advances to customers | 2,669,238 | 2,349,043 |
| Allowances as a percentage of gross loans and advances to customers: | | |
| - Individually assessed | 0.19% | 0.22% |
| - Collectively assessed | 0.17% | 0.19% |
| Total allowances | 0.36% | 0.41% |

14. Impairment allowances against loans and advances to customers

| | Individually assessed allowances HK\$m | Collectively assessed allowances HK\$m | Total HK\$m |
|--|---|---|----------------|
| At 1 January 2013 | 5,245 | 4,526 | 9,771 |
| Amounts written off | (856) | (3,495) | (4,351) |
| Recoveries of loans and advances written off in previous years | 198 | 1,089 | 1,287 |
| Net charge to income statement | 809 | 2,602 | 3,411 |
| Unwinding of discount of loan impairment | (51) | (77) | (128) |
| Exchange and other adjustments | (338) | (151) | (489) |
| At 31 December 2013 | 5,007 | 4,494 | 9,501 |

15. Overdue and rescheduled loans and advances to customers

The geographical information shown below has been classified by the location of the principal operations of the subsidiary or, in the case of the Bank, by the location of the branch responsible for advancing the funds.

| | Hong Kong HK\$m | %1 | Rest of Asia-Pacific HK\$m | %1 | Total HK\$m | %1 |
|---|--------------------|-----|-------------------------------|-----|----------------|-----|
| At 31 December 2013 | | | | | | |
| Gross amounts which have been overdue with respect to either principal or interest for periods of | | | | | | |
| - more than three months but | 402 | 0.0 | 1,836 | 0.2 | 2,238 | 0.1 |

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| | | | | | | |
|---|---------|-----|---------|-----|---------|-----|
| less than six months | | | | | | |
| - more than six months but less than one year | 223 | 0.0 | 1,300 | 0.1 | 1,523 | 0.1 |
| - more than one year | 1,956 | 0.1 | 2,449 | 0.3 | 4,405 | 0.2 |
| | 2,581 | 0.1 | 5,585 | 0.6 | 8,166 | 0.4 |
| Individually assessed impairment allowances made in respect of amounts overdue | (1,132) | | (2,698) | | (3,830) | |
| Rescheduled loans and advances to customers | 464 | 0.0 | 1,928 | 0.2 | 2,392 | 0.1 |
| At 31 December 2012 | | | | | | |
| Gross amounts which have been overdue with respect to either principal or interest for periods of | | | | | | |
| - more than three months but less than six months | 288 | 0.0 | 1,733 | 0.2 | 2,021 | 0.1 |
| - more than six months but less than one year | 166 | 0.0 | 1,283 | 0.1 | 1,449 | 0.1 |
| - more than one year | 1,856 | 0.1 | 2,828 | 0.3 | 4,684 | 0.2 |
| | 2,310 | 0.1 | 5,844 | 0.6 | 8,154 | 0.4 |
| Individually assessed impairment allowances made in respect of amounts overdue | (895) | | (3,008) | | (3,903) | |
| Rescheduled loans and advances to customers | 565 | 0.0 | 2,781 | 0.3 | 3,346 | 0.1 |

1. Percentages shown as a proportion of gross loans and advances to customers

16. Analysis of loans and advances to customers based on categories used by the HSBC Group

The following analysis of loans and advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries, to manage associated risks.

| | Hong Kong HK\$m | Rest of Asia-Pacific HK\$m | Total HK\$m |
|-----------------------|--------------------|----------------------------------|----------------|
| At 31 December 2013 | | | |
| Residential mortgages | 416,857 | 296,860 | 713,717 |
| Credit card advances | 49,843 | 29,824 | 79,667 |
| Other personal | 103,593 | 68,558 | 172,151 |
| Total personal | 570,293 | 395,242 | 965,535 |

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| | | | |
|--|-----------|-----------|-----------|
| Commercial, industrial and international trade | 423,536 | 432,984 | 856,520 |
| Commercial real estate | 196,621 | 71,348 | 267,969 |
| Other property-related lending | 151,554 | 58,937 | 210,491 |
| Government | 5,728 | 2,190 | 7,918 |
| Other commercial | 112,939 | 131,812 | 244,751 |
| Total corporate and commercial | 890,378 | 697,271 | 1,587,649 |
| Non-bank financial institutions | 57,012 | 65,995 | 123,007 |
| Settlement accounts | 1,989 | 559 | 2,548 |
| Total financial | 59,001 | 66,554 | 125,555 |
| Gross loans and advances to customers | 1,519,672 | 1,159,067 | 2,678,739 |
| Individually assessed impairment allowances | (1,349) | (3,658) | (5,007) |
| Collectively assessed impairment allowances | (2,131) | (2,363) | (4,494) |
| Net loans and advances to customers | 1,516,192 | 1,153,046 | 2,669,238 |
| At 31 December 2012 | | | |
| Residential mortgages | 401,855 | 284,317 | 686,172 |
| Credit card advances | 45,961 | 33,489 | 79,450 |
| Other personal | 51,721 | 42,337 | 94,058 |
| Total personal | 499,537 | 360,143 | 859,680 |
| Commercial, industrial and international trade | 342,463 | 402,735 | 745,198 |
| Commercial real estate | 177,339 | 71,925 | 249,264 |
| Other property-related lending | 127,099 | 51,448 | 178,547 |
| Government | 21,995 | 8,804 | 30,799 |
| Other commercial | 96,055 | 133,921 | 229,976 |
| Total corporate and commercial | 764,951 | 668,833 | 1,433,784 |
| Non-bank financial institutions | 31,545 | 30,263 | 61,808 |
| Settlement accounts | 3,031 | 511 | 3,542 |
| Total financial | 34,576 | 30,774 | 65,350 |
| Gross loans and advances to customers | 1,299,064 | 1,059,750 | 2,358,814 |
| Individually assessed impairment allowances | (1,418) | (3,827) | (5,245) |
| Collectively assessed impairment allowances | (2,167) | (2,359) | (4,526) |
| Net loans and advances to customers | 1,295,479 | 1,053,564 | 2,349,043 |

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In November 2013 we acquired the Hong Kong and Singapore branches of HSBC Private Bank (Suisse) SA, including customer loans of HK\$54bn and HK\$28bn respectively, largely in other personal lending. Excluding this, loans and advances to customers in Hong Kong and Rest of Asia-Pacific increased by HK\$167bn, or 13%, and HK\$71bn, or 7%, respectively.

The increase in Hong Kong was largely attributable to growth in corporate and commercial lending of HK\$122bn, reflecting higher demand primarily in international trade and other property-related lending.

In the Rest of Asia-Pacific, growth was offset by foreign exchange translation effects of HK\$52bn. The underlying increase of HK\$123bn was mainly from growth in corporate and commercial lending of HK\$57bn, notably in Singapore and mainland China. Residential mortgage lending increased by HK\$27bn, notably in mainland China and Australia. Total financial lending increased by HK\$38bn following a change in the way GB&M manages repo and reverse repo activities, which were previously being managed in a trading environment. During the year, these activities were organised into trading and non-trading portfolios, which resulted in an increase in the amount of reverse repos classified as 'Loans and advances to customers' and a decline in the amount classified as 'Trading assets' at 31 December 2013, compared with previous reporting periods.

17. Other assets

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|--------------------------------|------------------------------------|---------------------------------------|
| Current taxation recoverable | 2,034 | 1,029 |
| Assets held for sale | 4,476 | 48,280 |
| Prepayments and accrued income | 3,578 | 3,823 |
| Accrued interest receivable | 15,898 | 14,992 |
| Acceptances and endorsements | 34,239 | 31,965 |
| Other | 88,714 | 86,964 |
| | 148,939 | 187,053 |

Assets held for sale at 31 December 2012 included our investment in Ping An of HK\$39,813m.

18. Customer accounts

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|------------------------|---------------------------------------|---------------------------------------|
| Current accounts | 862,138 | 831,256 |
| Savings accounts | 2,246,618 | 2,063,565 |
| Other deposit accounts | 1,145,996 | 980,063 |
| | 4,254,752 | 3,874,884 |

Customer accounts increased by HK\$380bn, or 10%, during 2013, of which HK\$151bn and HK\$77bn respectively were attributable to the acquisition of the Hong Kong and Singapore branches of HSBC Private Bank (Suisse) SA. Excluding this, customer accounts in Hong Kong increased by HK\$155bn, or 6%. In the Rest of Asia-Pacific, customer accounts decreased by HK\$3bn due to the depreciation of many Asian currencies against the Hong Kong dollar, offset by growth notably in mainland China, Australia and India.

The group's advances-to-deposits ratio increased to 62.7% at 31 December 2013, from 60.6% at 31 December 2012, as more of the commercial surplus was deployed to customer lending.

19. Other liabilities and provisions

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|--|---------------------------------------|---------------------------------------|
| Accruals and deferred income | 26,021 | 24,705 |
| Liabilities held for sale | - | 4,811 |
| Provisions for liabilities and charges | 1,723 | 2,144 |
| Acceptances and endorsements | 34,239 | 31,965 |
| Share-based payment liability to HSBC Holdings plc | 2,303 | 2,560 |
| Other liabilities | 24,523 | 28,606 |
| | 88,809 | 94,791 |

20. Contingent liabilities and commitments

| | At 31 December 2013 HK\$m | At 31 December 2012 HK\$m |
|------------------------|---------------------------------------|---------------------------------------|
| Contract amount: | | |
| Contingent liabilities | 254,799 | 225,828 |
| Commitments | 1,701,733 | 1,604,179 |
| | 1,956,532 | 1,830,007 |

21. Capital adequacy

The following tables show the capital ratios, risk weighted assets and capital base as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the HKMA under the

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requirements of section 3C(1) of the Banking (Capital) Rules. On 1 January 2013, the HKMA implemented the first phase of the Basel III capital framework in Hong Kong. The capital disclosures for December 2013 under Basel III are, therefore, not directly comparable with the disclosures for December 2012 prepared under the Basel II basis.

The Bank and its banking subsidiaries maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2013, the effect of this requirement is to restrict the amount of reserves which can be distributed to shareholders by HK\$22,563m (31 December 2012: HK\$19,426m). There are no relevant capital shortfalls in any of the group's subsidiaries at 31 December 2013 (31 December 2012: Nil) which are not included in its consolidation group for regulatory purposes.

| | 2013 | 2012 |
|-----------------------------------|-----------|-----------|
| | % | % |
| Capital ratios | | |
| Common Equity Tier 1 (CET1) ratio | 14.1 | - |
| Tier 1 ratio | 14.1 | - |
| Total ratio | 15.2 | - |
| Core ratio | - | 13.7 |
| Capital adequacy ratio | - | 14.3 |
| | | |
| Risk weighted assets by risk type | HK\$m | HK\$m |
| Credit risk | 1,978,266 | 1,455,675 |
| Counterparty credit risk | 95,603 | 81,409 |
| Market risk | 134,035 | 116,911 |
| Operational risk | 274,450 | 250,139 |
| | 2,482,354 | 1,904,134 |

Risk-weighted assets for credit risk increased during 2013, mainly from changes introduced by Basel III, including the risk weighting of a portion of certain exposures that were previously deducted in full from capital. Risk-weighted assets also increased from loan growth, adverse internal rating changes for both corporate and sovereign exposures and external methodology changes on sovereign exposures.

The following table sets out the composition of the group's capital base under Basel III at 31 December 2013. The position at 31 December 2013 benefits from transitional arrangements which will be phased out. The table also shows the pro-forma Basel III end point basis position once all transitional arrangements have been phased out based on the Transition Disclosures Template. It should be noted that the pro-forma Basel III end point basis position takes no account of, for example, any future profits or management actions. In addition, the current regulations or their application may change before full implementation. Given this, the final impact on the group's capital ratios may differ from the pro-forma position, which is a mechanical application of the current rules to the balance sheet at 31 December 2013; it is not a projection. On this pro-forma basis, the group's CET1 ratio is 10.4%, which is above the Basel III minimum requirement, including the capital conservation buffer.

| | At 31 December 2013 | Basel III end point basis |
|--|---------------------------|------------------------------|
|--|---------------------------|------------------------------|

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| | HK\$m | HK\$m |
|---|-----------|-----------|
| Common Equity Tier 1 ('CET1') capital | | |
| Shareholders' equity | 436,529 | 436,529 |
| Shareholders' equity per balance sheet | 480,809 | 480,809 |
| Revaluation reserve capitalisation issue | (1,454) | (1,454) |
| Unconsolidated subsidiaries | (42,826) | (42,826) |
| Non-controlling interests | 24,464 | 24,464 |
| Non-controlling interests per balance sheet | 41,415 | 41,415 |
| Non-controlling interests in unconsolidated subsidiaries | (4,237) | (4,237) |
| Portion not eligible for inclusion in CET1 capital | (12,714) | (12,714) |
| Regulatory deductions to CET1 capital | (109,888) | (201,807) |
| Valuation adjustments | (2,473) | (2,473) |
| Goodwill and intangible assets | (15,943) | (15,943) |
| Deferred tax assets net of deferred tax liabilities | (2,350) | (2,350) |
| Cash flow hedging reserve | (197) | (197) |
| Changes in own credit risk on fair valued liabilities | (1,117) | (1,117) |
| Defined benefit pension fund assets | (110) | (110) |
| Significant capital investments in unconsolidated financial sector entities | (875) | (106,981) |
| Property revaluation reserves | (50,073) | (50,073) |
| Regulatory reserve | (22,563) | (22,563) |
| Excess AT1 deductions | (14,187) | - |
| Total CET1 capital | 351,105 | 259,186 |
| Additional Tier 1 ('AT1') capital | | |
| Total AT1 capital before regulatory deductions | 38,866 | 2,331 |
| Perpetual non-cumulative preference shares | 30,651 | - |
| Non-controlling interests eligible for inclusion in AT1 capital | 8,215 | 2,331 |
| Regulatory deductions to AT1 capital | (38,866) | - |
| Significant capital investments in unconsolidated financial sector entities | (53,053) | - |
| Excess AT1 deductions | 14,187 | - |
| Total AT1 capital | - | 2,331 |
| Total Tier 1 capital | 351,105 | 261,517 |
| Tier 2 capital | | |
| Total Tier 2 capital before regulatory deductions | 82,915 | 43,755 |
| Perpetual cumulative preference shares | 8,413 | - |
| Cumulative term preferences shares | 8,141 | - |
| Perpetual subordinated debt | 9,346 | - |
| Term subordinated debt | 19,463 | 6,203 |
| Property revaluation reserves | 23,187 | 23,187 |
| Impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital | 13,519 | 13,519 |
| | 846 | 846 |

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Non-controlling interests eligible for inclusion in Tier 2 capital

| | | |
|---|----------|---------|
| Regulatory deductions to Tier 2 capital | (55,910) | (2,857) |
| Significant capital investments in unconsolidated financial sector entities | (55,910) | (2,857) |
| Total Tier 2 capital | 27,005 | 40,898 |
| Total capital | 378,110 | 302,415 |

A more detailed breakdown of the capital position on these bases will be available in the Regulatory Disclosures section of our website www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

| | At 31 December 2012 HK\$m | |
|---|---------------------------------------|----------|
| Core capital: | | |
| Share capital per balance sheet | | 58,969 |
| Revaluation reserve capitalisation issue | | (1,454) |
| Paid-up ordinary share capital | | 57,515 |
| Paid-up irredeemable non-cumulative preference shares | | 51,570 |
| Reserves per balance sheet | | 378,430 |
| Proposed dividend | | (20,000) |
| Unconsolidated subsidiaries | | (40,088) |
| Cash flow hedging reserve | | (210) |
| Regulatory reserve | | (19,426) |
| Reserves arising from revaluation of property and unrealised gains on available-for-sale equities and debt securities | | (86,111) |
| Unrealised gains on equities and debt securities designated at fair value | | (20) |
| Own credit spread | | (218) |
| Total reserves included in core capital | | 212,357 |
| Non-controlling interests per balance sheet | | 35,679 |
| Non-controlling interests in unconsolidated subsidiaries | | (3,478) |
| Regulatory adjustments to non-controlling interests | | (3,291) |
| Non-controlling interests | | 28,910 |
| Goodwill, intangible assets and valuation adjustments | | (21,191) |
| 50% of unconsolidated investments | | (67,692) |
| 50% of securitisation positions and other deductions | | (16) |

| | |
|---|----------|
| Deductions | (88,899) |
| Total core capital | 261,453 |
| Supplementary capital: | |
| Paid-up irredeemable cumulative preference shares | 16,510 |
| Perpetual subordinated debt | 9,355 |
| Paid-up term preference shares | 15,115 |
| Term subordinated debt | 16,418 |
| Property revaluation reserves | 7,977 |
| Unrealised gains on available-for-sale equities and debt securities | 2,534 |
| Unrealised gains on equities and debt securities designated at fair value | 9 |
| Regulatory reserve | 2,333 |
| Collective impairment allowances | 496 |
| Excess impairment allowances over expected losses | 8,400 |
| Supplementary capital before deductions | 79,147 |
| 50% of unconsolidated investments | (67,692) |
| 50% of securitisation positions and other deductions | (16) |
| Deductions | (67,708) |
| Total supplementary capital | 11,439 |
| Capital base | 272,892 |

22. Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those described on pages 45 to 62 of the 2012 Annual Report and Accounts. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2013. None has a material impact on the group.

23. Events after the balance sheet date

There have been no events after the balance sheet date that would require disclosure in this document.

24. Statutory accounts

The information in this document is not audited and does not constitute statutory accounts.

Certain financial information in this document is extracted from the financial statements for the year ended 31 December 2013, which were approved by the Board of Directors on 24 February 2014 and will be delivered to the Registrar of Companies and the HKMA. The Auditors expressed an unqualified opinion on those financial statements in their report dated 24 February 2014. The Annual Report and Accounts for the year ended 31 December 2013, which

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include the financial statements, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and will be made available on our website: www.hsbc.com.hk . A press release will be issued to announce the availability of this information.

25. Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: Ben J S Mathews

Title: Group Company Secretary

Date: 24 February 2014