HSBC HOLDINGS PLC
Form 6-K
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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 March
HSBC Holdings plc

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

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

Form 20-F X Form 40-F ......

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

Yes....... No X

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

Risk management of insurance operations

(Audited)

1. Appendix to Risk - policies and practices.

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC). Financial risks include market risk, credit risk and liquidity risk.

There were no material changes during 2013 to our policies and practices for the management of risks arising in the insurance operations, including the risks relating to different life and non-life products. The RBWM Risk Management Committee assumed the responsibilities of the Group Insurance Risk Management Committee.

A summary of our policies and practices regarding the risk management of insurance operations, and the main contracts we manufacture, are provided in the Appendix to Risk on page 290 (unaudited).

HSBC's bancassurance model

We operate an integrated bancassurance model which provides insurance products principally for customers with whom we have a banking relationship. Insurance products are sold through all global businesses, but predominantly by RBWM and CMB through our branches and direct channels worldwide.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. By focusing largely on personal and SME lines of business we are able to optimise volumes and diversify individual insurance risks.

Where we have operational scale and risk appetite, mostly in life insurance, these insurance products are manufactured by HSBC subsidiaries. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit, investment income and distribution commission within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits.

We distribute insurance products in all of our geographical regions. We have core life insurance manufacturing entities, the majority of which are direct subsidiaries of legal banking entities, in seven countries (Argentina, Brazil, Mexico, France, UK, Hong Kong and Singapore). There are also manufacturing subsidiaries in mainland China, Malaysia, Malta and Ireland. The majority of our non-life insurance manufacturing entities and portfolios were disposed of between 2011 and 2013.

Risk management of insurance operations in 2013

The risk profile of our life insurance manufacturing businesses did not change materially during 2013 despite the increase in liabilities to policyholders on these contracts to US$74bn (2012: US$68bn). This growth in liabilities largely resulted from new premiums received during 2013 and market value gains on underlying financial assets.

The disposals of the remaining non-core non-life insurance manufacturing businesses were completed during the year. Net written non-life premiums therefore declined to US$84m (2012: US$656m). At the reporting date substantially all remaining manufacturing business was life business.

Balance sheet of insurance manufacturing subsidiaries
(Audited)

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching. In many markets in which we operate it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long-dated non-linked contracts, in particular, this results in a duration mismatch between assets and liabilities. We therefore structure portfolios to support projected liabilities from non-linked contracts.

In the absence of insurable events occurring, unit-linked contracts match assets more directly with liabilities. This results in the policyholder bearing the majority of the financial risk exposure.

The tables below show the composition of assets and liabilities by contract and by geographical region and demonstrate that there were sufficient assets to cover the liabilities to policyholders in each case at the end of 2013.

Balance sheet of insurance manufacturing subsidiaries by type of contract
(Audited)

	Insurance contracts					Investment contracts				
	With DPF	Unit-linked	Annuities	Other long term54	Non-life	With DPF55	Unit-linked	Non-linked	Other assets56	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2013										
Financial assets ...	26,382	13,348	1,651	4,703	25	25,676	9,720	4,375	5,846	91,726
- trading assets	-	-	3	-	-	-	-	-	-	3
- financial assets designated at fair value	3,850	13,131	532	753	8	6,867	9,293	1,706	1,757	37,897
- derivatives	1	3	-	-	-	215	5	-	55	279
- financial investments ...	19,491	-	959	3,769	11	16,556	-	1,853	3,745	46,384
- other financial assets	3,040	214	157	181	6	2,038	422	816	289	7,163
Reinsurance assets	182	291	522	436	3	-	-	-	2	1,436
	-	-	-	-	-	-	-	-	5,335	5,335

PVIF57										
Other assets and investment properties	757	284	23	113	-	791	19	31	546	2,564
Total assets	27,321	13,923	2,196	5,252	28	26,467	9,739	4,406	11,729	101,061
Liabilities under investment contracts:										
- designated at fair value	-	-	-	-	-	-	9,730	3,761	-	13,491
- carried at amortised cost	-	-	-	-	-	-	-	448	-	448
Liabilities under insurance contracts	26,920	13,804	2,158	4,848	24	26,427	-	-	-	74,181
Deferred tax58	12	-	17	-	1	-	-	-	1,163	1,193
Other liabilities ...	-	-	-	-	-	-	-	-	2,048	2,048
Total liabilities ...	26,932	13,804	2,175	4,848	25	26,427	9,730	4,209	3,211	91,361
Total equity	-	-	-	-	-	-	-	-	9,700	9,700
Total equity and liabilities59	26,932	13,804	2,175	4,848	25	26,427	9,730	4,209	12,911	101,061

	Insurance contracts					Investment contracts				
	With DPF	Unit-linked	Annuities	Other long term54	Non-life	With DPF55	Unit-linked	Non-linked	Other assets56	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2012										
Financial assets ...	24,288	12,619	1,785	4,350	356	23,620	8,780	4,315	4,692	84,805

- trading assets	-	-	4	-	-	-	-	-	-	4
- financial assets designated at fair value........	2,333	12,440	571	756	196	6,043	8,206	1,486	987	33,018
- derivatives	40	4	-	6	-	117	13	86	69	335
- financial investments ...	18,283	-	932	3,315	73	16,022	-	1,853	2,928	43,406
- other financial assets	3,632	175	278	273	87	1,438	561	890	708	8,042
Reinsurance assets	124	593	494	320	14	-	-	-	22	1,567
PVIF57	-	-	-	-	-	-	-	-	4,847	4,847
Other assets and investment properties	448	7	34	110	11	754	24	28	2,420	3,836
Total assets	24,860	13,219	2,313	4,780	381	24,374	8,804	4,343	11,981	95,055
Liabilities under investment contracts:										
- designated at fair value	-	-	-	-	-	-	8,691	3,765	-	12,456
- carried at amortised cost	-	-	-	-	-	-	-	455	-	455
Liabilities under insurance contracts	24,477	13,056	2,287	3,920	81	24,374	-	-	-	68,195
Deferred tax58	13	-	13	12	1	-	-	-	1,161	1,200
Other liabilities ...	-	-	-	-	-	-	-	-	2,760	2,760
Total liabilities ...	24,490	13,056	2,300	3,932	82	24,374	8,691	4,220	3,921	85,066
Total equity	-	-	-	-	-	-	-	-	9,989	9,989
Total equity and liabilities59	24,490	13,056	2,300	3,932	82	24,374	8,691	4,220	13,910	95,055

For footnotes, see page 265.

Our exposure to financial risks arising in the above balance sheet varies depending on the type of contract issued. For unit-linked contracts, the policyholder bears the majority of the exposure to financial risks whereas, for non-linked contracts, the majority of financial risks are borne by the shareholder (HSBC). For contracts with DPF, the shareholder is exposed to financial risks to the extent that the exposure cannot be managed by utilising any discretionary participation (or bonus) features within the policy contracts issued.

Balance sheet of insurance manufacturing subsidiaries by geographical region60
(Audited)

	Europe	Hong Kong	Rest of Asia-Pacific	North America61	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2013						
Financial assets	41,557	39,338	3,014	-	7,817	91,726
- trading assets	-	-	-	-	3	3
- financial assets designated at fair value ..	20,742	9,824	1,596	-	5,735	37,897
- derivatives	272	7	-	-	-	279
- financial investments	18,080	25,247	1,258	-	1,799	46,384
- other financial assets	2,463	4,260	160	-	280	7,163
Reinsurance assets	823	586	10	-	17	1,436
PVIF57	1,156	3,455	275	-	449	5,335
Other assets and investment properties	868	1,058	43	-	595	2,564
Total assets	44,404	44,437	3,342	-	8,878	101,061

Liabilities under investment contracts:						
- designated at fair value	8,760	4,731	-	-	-	13,491
- carried at amortised cost	-	-	-	-	448	448
Liabilities under insurance contracts	31,786	32,941	2,678	-	6,776	74,181
Deferred tax58	407	581	64	-	141	1,193
Other liabilities	1,474	282	89	-	203	2,048
Total liabilities	42,427	38,535	2,831	-	7,568	91,361
Total equity	1,977	5,902	511	-	1,310	9,700
Total equity and liabilities59	44,404	44,437	3,342	-	8,878	101,061
At 31 December 2012						
Financial assets	37,325	35,632	2,594	-	9,254	84,805
- trading assets	-	-	-	-	4	4
- financial assets designated at fair value ..	17,590	7,356	1,370	-	6,702	33,018
- derivatives	203	126	6	-	-	335
- financial investments	17,139	23,275	994	-	1,998	43,406
- other financial assets	2,393	4,875	224	-	550	8,042
Reinsurance assets	809	715	8	-	35	1,567
PVIF57	1,140	2,846	304	-	557	4,847
Other assets and investment properties	849	983	230	1,573	201	3,836
Total assets	40,123	40,176	3,136	1,573	10,047	95,055
Liabilities under investment contracts:						
- designated at fair value	7,783	4,673	-	-	-	12,456
	-	-	-	-	455	455

- carried at amortised cost						
Liabilities under insurance contracts	28,954	29,402	2,200	-	7,639	68,195
Deferred tax58	403	532	88	-	177	1,200
Other liabilities	782	347	267	1,037	327	2,760
Total liabilities	37,922	34,954	2,555	1,037	8,598	85,066
Total equity	2,201	5,222	581	536	1,449	9,989
Total equity and liabilities59	40,123	40,176	3,136	1,573	10,047	95,055

For footnotes, see page 265.

Movement in total equity of insurance operations
(Audited)

	Total equity	
	2013	2012
	US$m	US$m
At 1 January	9,989	10,629
Change in PVIF of long-term insurance business57	525	737
Return on net assets	848	1,232
Capital transactions	(590)	(1,525)
Disposals of subsidiaries/portfolios	(675)	(382)
Exchange differences and other	(397)	(702)
At 31 December	9,700	9,989

For footnote, see page 265.

Financial risks
(Audited)

Details on the nature of financial risks and how they are managed are provided in the Appendix to Risk on page 290.

Financial risks can be categorised into:

- market risk - risk arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- credit risk - the risk of financial loss following the failure of third parties to meet their obligations; and
- liquidity risk- the risk of not being able to make payments to policyholders as they fall due as there are insufficient assets that can be realised as cash.

The following table analyses the assets held in our insurance manufacturing subsidiaries at 31 December 2013 by type of contract, and provides a view of the exposure to financial risk. For unit-linked contracts, which pay benefits to policyholders determined by reference to the value of the investments supporting the policies, we typically designate assets at fair value; for non-linked contracts, the classification of the assets is driven by the nature of the underlying contract.

Financial assets held by insurance manufacturing subsidiaries
(Audited)

	Unit-linked contracts62	Non-linked contracts63	Other assets56	Total
	US$m	US$m	US$m	US$m
At 31 December 2013				
Trading assets				
Debt securities	-	3	-	3
Financial assets designated at fair value	22,424	13,716	1,757	37,897
Treasury bills	-	-	50	50
Debt securities	7,809	3,910	546	12,265
Equity securities	14,615	9,806	1,161	25,582

Financial investments				
Held-to-maturity: debt securities	-	21,784	2,142	23,926
Available-for-sale:	-	20,855	1,603	22,458
- debt securities	-	20,855	1,594	22,449
- equity securities	-	-	9	9
Derivatives	8	216	55	279
Other financial assets64	636	6,238	289	7,163
Total financial assets59	23,068	62,812	5,846	91,726

Financial assets held by insurance manufacturing subsidiaries (continued)
(Audited)

	Unit-linked contracts62	Non-linked contracts63	Other assets56	Total
	US$m	US$m	US$m	US$m
At 31 December 2012				
Trading assets				
Debt securities	-	4	-	4
		-		
Financial assets designated at fair value	20,646	11,385	987	33,018
Treasury bills	-	39	-	39
Debt securities	8,028	3,803	408	12,239
Equity securities	12,618	7,543	579	20,740
Financial investments				
Held-to-maturity: debt securities	-	20,245	1,548	21,793
Available-for-sale:	-	20,233	1,380	21,613
- debt securities	-	20,226	1,354	21,580
	-	7	26	33

- equity securities				
Derivatives	17	249	69	335
Other financial assets64	736	6,598	708	8,042
Total financial assets59	21,399	58,714	4,692	84,805

For footnotes, see page 265.

Approximately 64% of financial assets were invested in debt securities at 31 December 2013 (2012: 66%) with 28% (2012: 25%) invested in equity securities.

Under unit-linked contracts, premium income less charges levied is invested in a portfolio of assets. We manage the financial risks of this product on behalf of the policyholders by holding appropriate assets in segregated funds or portfolios to which the liabilities are linked. These assets represented 25% (2012: 25%) of the total financial assets of our insurance manufacturing subsidiaries at the end of 2013.

The remaining financial risks are managed either solely on behalf of the shareholder, or jointly on behalf of the shareholder and policyholders where DPF exist.

Market risk
(Audited)

Market risk arises when mismatches occur between product liabilities and the investment assets which back them. For example, mismatches between asset and liability yields and maturities give rise to interest rate risk.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Fixed

guaranteed benefits, for example for annuities in payment, are reserved for as part of the calculation of liabilities under insurance contracts.

In the case of products that offer guaranteed financial returns, if mismatches exist as a result of current yields falling below guaranteed levels for a prolonged period, the risk that shareholder capital is required to meet liabilities to policyholders increases. The table below shows the total reserve held for the stochastically modelled cost of guarantees under products manufactured by our insurance subsidiaries that offer a guaranteed level of financial return. The cost of guarantees is reserved for through policyholder liabilities to the extent that local reserving requirements require liabilities to be held, with the remainder accounted for as a deduction to PVIF on the relevant product. The table also shows the range of investment returns on the assets supporting these products and the implied investment returns that would enable the business to meet the guarantees.

The only portfolios of contracts where current investment returns are below guaranteed rates are reported in the nominal annual return 4.1-5.0% category in the table below. These relate to closed portfolios in Hong Kong (guaranteed rate 5.0%, current yield 4.1%) and France (guaranteed rate 4.5%, current yield 4.4%).

Financial return guarantees59,65
(Audited)

	2013			2012		
	Investment returns implied by guarantee	Current yields	Cost of guarantees	Investment returns implied by guarantee	Current yields	Cost of guarantees
	%	%	US$m	%	%	US$m
Capital	0.0	0.0 - 4.4	57	0.0	0.0 - 3.3	83
Nominal annual return	0.1 - 2.0	4.1 - 4.1	9	0.1 - 2.0	3.1 - 3.1	10
Nominal annual return	2.1 - 4.0	4.2 - 4.4	471	2.1 - 4.0	3.3 - 4.3	503
Nominal annual return	4.1 - 5.0	4.1 - 4.4	25	4.1 - 5.0		