

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 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-.....).

Credit risk

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1. Appendix to Risk - risk policies and practices.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There were no material changes to our policies and practices for the management of credit risk in 2013.

A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 266.

Summary of credit risk in 2013
(Unaudited)

Maximum exposure to credit risk

	At 31 December	
	2013	2012
	US\$m	US\$m
Trading assets	239,301	367,177
- other trading assets	229,181	248,496
- reverse repos	10,120	118,681
Financial assets designated at fair value	12,719	12,714
	282,265	357,450

Derivatives		
.....		
Loans and advances to banks	211,521	152,546
- loans and other receivables	120,046	117,085
- reverse repos		
.....	91,475	35,461
Loans and advances to customers	1,080,304	997,623
- loans and other receivables	992,089	962,972
- reverse repos		
.....	88,215	34,651
Financial investments		
.....	416,785	415,312
Assets held for sale	3,306	9,292
.....		
Other assets	231,858	203,561
.....		
Off-balance sheet exposures	633,903	624,462
- financial guarantees and similar contracts		
.....	46,300	44,993
- loan and other credit-related commitments		
.....	587,603	579,469
	3,111,962	3,140,137

Total exposure to credit risk remained broadly unchanged in 2013 with loans and advances remaining the largest element. While the total exposure to credit risk remained broadly stable, there was an increase in the amount of reverse repos classified as 'Loans and advances to banks' and 'Loans and advances to customers', with a corresponding reduction in the amount classified as 'Trading assets'. This followed a change in the way GB&M manages reverse repo activities during the year, as set out on page 220.

For a detailed analysis of our maximum exposure to credit risk, see page 157.

In 2013, we successfully weathered the imposition of capital controls in Cyprus and we continued to monitor events in the eurozone. We also continued to monitor our portfolio in Egypt as the constitutional crisis unfolded.

More details of the specific political and macroeconomic risks associated with these countries, and our management response, are provided on page 148.

Loans and advances excluding held for sale: total exposure, impairment allowances and charges

(Unaudited)

	2013 US\$bn	2012 US\$bn
At 31 December		
Total gross loans and advances (A)	1,307.0	1,166.3
Impairment allowances (a)	15.2	16.2
(a) as a percentage of A	1.16%	1.39%
Loans and advances net of impairment allowances	1,291.8	1,150.2
Year ended 31 December		
Impairment charges	6.0	8.2

After excluding reverse repo balances, (a) as a percentage of A was 1.35% at 31 December 2013 (2012: 1.47%).

Impairment allowances as a percentage of gross loans and advances decreased to 1.16% in 2013 from 1.39% in 2012. This reduction was mainly in North America due to the run-off and loan sales in our CML portfolio.

For further details on our loan impairment allowances, see page 188.

Personal lending (Unaudited)

	Europe US\$m	Hong Kong US\$m	Rest of Asia-Pacific US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
2013							
First lien residential mortgages							
Gross amount (A)	140,474	53,762	38,285	2,451	60,955	3,948	299,875
Impairment allowances	439	-	57	124	2,886	32	3,538
- as a percentage of A	0.3%	-	0.1%	5.1%	4.7%	0.8%	1.2%
Other personal lending ¹							
Gross amount (B)	51,633	19,794	12,688	4,033	11,735	10,970	110,853
Impairment allowances	959	78	144	169	532	1,182	3,064
- as a percentage of B	1.9%	0.4%	1.1%	4.2%	4.5%	10.8%	2.8%
Total personal lending							
Gross amount (C)	192,107	73,556	50,973	6,484	72,690	14,918	410,728

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Impairment allowances	1,398	78	201	293	3,418	1,214	6,602
- as a percentage of C	0.7%	0.1%	0.4%	4.5%	4.7%	8.1%	1.6%

2012

First lien residential mortgages

Gross amount (D)	135,172	52,296	36,906	2,144	70,133	5,211	301,862
Impairment allowances	489	4	66	136	4,163	47	4,905
- as a percentage of D	0.4%	0.0%	0.2%	6.3%	5.9%	0.9%	1.6%

Other personal lending¹

Gross amount (E)	51,102	18,045	12,399	4,088	14,221	13,376	113,231
Impairment allowances	977	57	143	189	684	1,257	3,307
- as a percentage of E	1.9%	0.3%	1.2%	4.6%	4.8%	9.4%	2.9%

Total personal lending

Gross amount (F)	186,274	70,341	49,305	6,232	84,354	18,587	415,093
Impairment allowances	1,466	61	209	325	4,847	1,304	8,212
- as a percentage of F	0.8%	0.1%	0.4%	5.2%	5.7%	7.0%	2.0%

For footnote, see page 263.

The following commentary is on a constant currency basis.

Total personal lending of US\$411bn at 31 December 2013 was broadly in line with 2012. Balances decreased in North America from the continued run-off and loan sales in our CML portfolio, including the disposal of our non-real estate loan portfolio and several tranches of real estate loan balances. In addition, in Latin America, we disposed of our operations in Panama. These reductions were broadly offset by increases in residential mortgage balances in Rest of Asia-Pacific, the UK and Hong Kong.

Impairment allowances declined by 18% to US\$7bn at 31 December 2013 from US\$8bn at the end of 2012, primarily in North America

reflecting the continued run-off and loan sales in our CML portfolio and an improvement in the housing market. In Hong Kong and Rest of Asia-Pacific, impairment allowances remained at low levels throughout 2013. Impairment allowances as a percentage of total personal lending reduced to 1.6% from 2.0% in 2012. This was driven by North America for the reasons noted above. In Europe, they declined as a percentage of gross personal lending balances to 0.7% compared with 0.8% in 2012.

During the year we reviewed the impairment allowance methodology used for retail banking across the Group (see page 72).

For a more detailed analysis of our personal lending, see page 160.

Wholesale lending
(Unaudited)

Europe	Hong	Rest of	MENA	Total
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	Kong	Asia-		North	Latin		
	US\$m	US\$m	Pacific	America	America	US\$m	US\$m
			US\$m	US\$m	US\$m	US\$m	US\$m
2013							
Corporate and commercial							
Gross amount (A)	242,107	114,832	89,066	19,760	50,585	30,188	546,538
Impairment allowances	3,821	361	557	1,212	769	1,339	8,059
- as a percentage of A	1.58%	0.31%	0.63%	6.13%	1.52%	4.44%	1.47%
Financial2							
Gross amount (B)	149,454	42,760	59,159	8,975	72,755	16,657	349,760
Impairment allowances	379	10	7	78	55	11	540
- as a percentage of B	0.25%	0.02%	0.01%	0.87%	0.08%	0.07%	0.15%
2012							
Corporate and commercial							
Gross amount (C)	226,755	99,199	85,305	22,452	48,083	35,590	517,384
Impairment allowances	3,537	383	526	1,312	732	856	7,346
- as a percentage of C	1.56%	0.39%	0.62%	5.84%	1.52%	2.41%	1.42%
Financial2							
Gross amount (D)	101,052	28,046	48,847	10,394	27,400	18,122	233,861
Impairment allowances	358	29	11	174	37	2	611
- as a percentage of D	0.35%	0.10%	0.02%	1.67%	0.14%	0.01%	0.26%

For footnote, see page 263.

Total wholesale lending increased to US\$896bn at 31 December 2013 from US\$747bn at the end of 2012 due to increased reverse repo loans to banks and customers resulting from the change in the way GB&M manages these activities (see page 220). Total reverse repos to customers increased by US\$53bn and to banks by US\$56bn.

Excluding reverse repos, total balances rose due to higher international trade and services lending, mainly in Hong Kong and, to a lesser extent, in Rest of Asia-Pacific as we capitalised on trade and capital flows. Commercial real estate and other property related balances increased, mainly in Hong Kong as a result of demand for financing in the property investment and development sectors. Other commercial balances increased, notably in GB&M in the UK, on corporate overdraft balances which did not meet the netting criteria. In addition, loans and advances to banks rose as a result of increased trade re-finance and central bank lending in Hong Kong.

This was partly offset by a decline in Latin America following the disposal of our operations in Panama.

Impairment allowances increased to US\$9bn at 31 December 2013 from US\$8bn at the end of 2012. In Latin America, they rose as a proportion of gross corporate and commercial lending to 4.44% (2012: 2.33%). This was principally in Mexico from higher individually assessed impairments in CMB relating to homebuilders resulting from a change in public housing policy. In Brazil, there were increases in CMB due to model changes and assumption revisions on restructured loan account portfolios, which were partly offset by an improvement in the quality of the portfolio. In addition there were higher specific impairments across a number of corporate exposures. In the Middle East and North Africa, impairment allowances as a proportion of gross financial lending fell from 1.70% to 0.87%, mainly due to a release on an individually assessed impairment in 2013.

For a more detailed analysis of our wholesale lending, see page 165.

Credit quality of gross loans and advances
(Unaudited)

	Europe US\$m	Hong Kong US\$m	Rest of Asia- Pacific US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
2013							
Neither past due nor impaired				32,194			
.....	568,040	229,202	195,299		174,455	55,862	1,255,052
- of which renegotiated				1,021			
.....	2,534	248	172		4,882	543	9,400
Past due but not impaired							
.....	2,399	1,499	2,723	757	6,453	1,640	15,471
- of which renegotiated				146			
.....	748	9	31		3,002	11	3,947
Impaired							
.....	13,228	445	1,178	2,285	15,123	4,244	36,503
- of which renegotiated				927			
.....	6,474	86	221		10,905	2,215	20,828
2012							
Neither past due nor impaired				35,628			
.....	500,599	200,110	179,337		127,457	65,520	1,108,651
- of which renegotiated				1,300			
.....	3,871	275	199		6,061	1,109	12,815
Past due but not impaired				975			
.....	2,339	1,311	2,974		7,721	3,591	18,911
- of which renegotiated				168			
.....	371	8	35		3,104	133	3,819
Impaired				2,474			
.....	11,145	477	1,147		20,345	3,188	38,776
- of which renegotiated				921			
.....	5,732	109	318		16,997	1,516	25,593

On a reported basis at 31 December 2013, US\$1,255bn of gross loans and advances were classified as neither past due nor impaired, an increase of 13% on the end of 2012, mainly in Europe and North America, resulting from higher reverse repo balances due to the change in the way GB&M manages these activities (see page 220).

At 31 December 2013, US\$15bn of gross loans and advances were classified as past due but not impaired compared with US\$19bn at the end of 2012, a reduction of 18%. The largest concentration of these balances was in HSBC Finance. The decrease was mainly in Latin America where we repositioned our portfolio in Brazil and disposed of our

operations in Panama, and in North America, due to the continued run-off and loan sales in the CML portfolio.

Gross loans and advances classified as impaired decreased by 6% to US\$37bn, mainly in North America due to the continued run-off and loan sales in the CML portfolio.

Renegotiated loans totalled US\$34bn at 31 December 2013 compared with US\$42bn at the end of 2012. The reduction was primarily due to the continued run-off and loan sales in the CML portfolio. North America accounted for the largest

volume of renegotiated loans, at US\$19bn or 55% of the total at 31 December 2013 (2012: US\$26bn or 62%), most of which were first lien residential mortgages held by HSBC Finance. US\$11bn of the renegotiated loans in North America were impaired at 31 December 2013 (2012: US\$17bn).

For a more detailed analysis of t