

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 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-.....).

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http://www.rns-pdf.londonstockexchange.com/rns/7387A_-2014-2-23.pdf

Operational risk

Overview and objectives

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk'.

Basel II includes a capital requirement for operational risk, utilising three levels of sophistication as described in Appendix II on page 98. We have historically adopted, and currently use, the standardised approach in determining our operational risk capital requirements. We are in the process of developing and implementing an AMA. The table below sets out an analysis of our operational risk capital requirement by region and global business.

Table 46: Operational risk

	At 31 December 2013		At 31 December 2012	
	Capital required	RWAs	Capital required	RWAs
	US\$bn	US\$bn	US\$bn	US\$bn
By Region				
Europe	2.8	35.1	2.7	34.3
Hong Kong	1.3	16.8	1.2	15.4
Rest of Asia-Pacific	2.2	27.3	2.1	26.1
MENA	0.5	6.0	0.5	5.9
North America	1.4	17.2	1.9	23.7
Latin America	1.3	16.8	1.4	16.9
	9.5	119.2	9.8	122.3
By Global Business				
Retail Banking and Wealth Management	3.1	38.8	3.6	44.7
Commercial Banking	2.6	32.9	2.5	31.4
Global Banking and Markets	3.5	43.3	3.3	41.4
Global Private Banking	0.3	3.9	0.3	4.1

Other				
..... -	0.3	0.1	0.7	
	9.5	119.2	9.8	122.3

Operational risk is relevant to every aspect of our business, and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

We have historically experienced operational risk losses in the following major categories:

- fraudulent and other external criminal activities;
- breakdowns in processes/procedures due to human error, misjudgement or malice;
- terrorist attacks;
- system failure or non-availability; and
- in certain parts of the world, vulnerability to natural disasters.

During 2013, our top and emerging risk profile continued to be dominated by compliance and legal risks as referred to in the 'Top and emerging risks' section and Note 43 on the Financial Statements on pages 37 and 554, respectively, of the Annual Report and Accounts 2013. A number of material losses were realised in 2013, which related largely to events that occurred in previous years. However, the level of materiality is lower than seen in 2012. These events included the possible historical mis-selling of payment protection insurance ('PPI') and interest rate protection products in the UK (see Note 31 on page 526 of the Annual Report and Accounts 2013). In line with our ambition to be the world's leading international bank, we have committed to adopt and adhere to industry-leading compliance standards across the Group. One of the ways to achieve this is to ensure that we put in place a robust compliance risk management infrastructure. For further details relating to the mitigating actions being taken, please refer to the Compliance Risk section on page 247 of the Annual Report and Accounts 2013.

We recognise that operational risk losses can be incurred for a wide variety of reasons, including rare but extreme events.

The objective of our operational risk management is to manage and control operational risk in a cost-effective manner and within our risk appetite, as defined by GMB.

Organisation and responsibilities

Responsibility for minimising operational risk management lies primarily with HSBC's management and staff. Each regional, global business, country, business unit and functional head is required to maintain oversight over operational risk and internal control, covering all businesses and operational activities for which they are responsible.

The Group Operational Risk function and the Operational Risk Management Framework ('ORMF') assist business management in discharging their responsibilities.

The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the Group. To implement the ORMF a 'Three lines of defence' model is used for the management of risk. The first line of defence is every employee at HSBC, the second consists of the Global Functions and the third is Internal Audit.

More details on the 'Three lines of defence' model and our ORMF may be found on page 244 of the Annual Report and Accounts 2013.

The Global Operational Risk and Control Committee, which reports to RMM, meets at least quarterly to discuss key risk issues and review the effective implementation of the ORMF.

Operational risk is organised as a specific risk discipline within Global Risk. The Group Operational Risk function reports to the GCRO and supports the Global Operational Risk and Control Committee. It is responsible for establishing and maintaining the ORMF, monitoring the level of operational losses and the effectiveness of the control environment. It is also responsible for operational risk reporting at Group level, including preparation of reports for consideration by RMM and GRC.

Measurement and monitoring

We have codified our ORMF in a high level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling operational risk and give guidance on mitigating actions to be taken when weaknesses are identified.

In 2013, we continued to enhance our ORMF policies and procedures, and undertook various activities, such as a global training programme, to further embed the use of the framework in the management of the business. Articulation of risk appetite for material operational risks helps the business to understand the level of risk our organisation is willing to take. Monitoring operational risk exposure against risk appetite on a regular basis, and setting out our risk acceptance process, drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

In addition, an enhanced Risk Scenario Analysis process is being implemented across material legal entities to improve the quantification and management of material risks. This provides a top down, forward-looking view of risks to help determine whether they are being effectively managed within our risk appetite or whether further management action is required.

Furthermore, it is our medium-term aim to move to the advanced measurement approach for our operational risk capital requirement calculation.

In each of our subsidiaries, business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Operational risk and control assessment approach

Operational risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of operational risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage operational risks within acceptable levels. Risk and control assessments are reviewed and updated at least annually.

Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment;
- investigating whether cost-effective insurance cover is available to mitigate the risk; and
- other means of protecting us from loss.

Recording

We use a centralised database to record the results of our operational risk management process. Operational risk and control assessments, as described above, are input and maintained by business units. Business management and Business Risk and Control Managers monitor and follow up the progress of documented action plans.

Operational risk loss reporting

To ensure that operational risk losses are consistently reported and monitored at Group level, all Group companies are required to report individual losses when the net loss is expected to exceed US\$10,000 and to aggregate all other operational risk losses under US\$10,000. Losses are entered into the Operational Risk IT system and are reported to the Group Operational Risk function on a quarterly basis.

Other risks

Pension risk

Pension risk arises from the potential for a deficit in a defined benefit plan to arise from a number of factors, including:

- investments delivering a return below that required to provide the projected plan benefits. This could arise, for example, when there is a fall in the market value of equities, or when increases in long-term interest rates cause a fall in the value of fixed income securities held;
- the prevailing economic environment leading to corporate failures, thus triggering write-downs in asset values (both equity and debt);
- a change in either interest rates or inflation which causes an increase in the value of the scheme liabilities; and
- scheme members living longer than expected (known as longevity risk).

Pension risk is assessed by way of an economic capital model that takes into account potential variations in these factors, using VaR methodology.

We operate a number of pension plans throughout the world. Some of them are defined benefit plans, of which the largest is the HSBC Bank (UK) Pension Scheme. In order to fund the benefits associated with these plans, sponsoring Group companies (and in some instances, employees) make regular contributions in accordance with advice from actuaries and in consultation with the scheme's trustees (where relevant). In situations where a funding deficit emerges, sponsoring Group companies agree to make additional contributions to the plans, to address the deficit over an appropriate repayment period.

The defined benefit plans invest these contributions in a range of investments designed to meet their long-term liabilities.

Non-trading book interest rate risk

Non-trading book interest rate risk, as defined on page 99, arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes.

Asset, Liability & Capital Management ('ALCM') is responsible for measuring and controlling non-trading interest rate risk under the supervision of the RMM. Its primary responsibilities are:

- to define the rules governing the transfer of interest rate risk from the commercial bank to Balance Sheet Management ('BSM');
- to ensure that all market interest rate risk that can be hedged is effectively transferred from the global businesses to BSM; and

- to define the rules and metrics for monitoring the residual interest rate risk in the global businesses.

The different types of non-trading interest rate risk and the controls which the Group uses to quantify and limit its exposure to these risks can be categorised as follows:

- risk which is transferred to BSM and managed by BSM within a defined risk mandate;
- risk which remains outside BSM because it cannot be hedged or which arises due to our behaviouralised transfer pricing assumptions. This risk will be captured by our net interest income or Economic Value of Equity ('EVE') sensitivity, and corresponding limits are part of our global and regional risk appetite statements for non-trading interest rate risk. A typical example would be margin compression created by unusually low rates in key currencies;
- basis risk which is transferred to BSM when it can be hedged. Any residual basis risk remaining in the global businesses is reported to ALCO. A typical example would be a managed rate savings product transfer-priced using a Libor-based interest rate curve; and
- model risks which cannot be captured by net interest income or EVE sensitivity, but are controlled by our stress testing framework. A typical example would be prepayment risk on residential mortgages or pipeline risk.

Details of the Group's monitoring of the sensitivity of projected net interest income under varying interest rate scenarios may be found on page 240 of the Annual Report and Accounts 2013.

Non-trading book exposures in equities

Our non-trading equities exposures are reviewed by RMM at least annually. At 31 December 2013, on a regulatory consolidation basis, we had equity investments in the non-trading book of US\$9.1bn (2012: US\$14.0bn). These consist of investments held for the purposes shown in table 47.

Table 47: Non-trading book equity investments

	At 31 December 2013			At 31 December 2012		
	Available for sale	Designated at fair value	Total	Available for sale	Designated at fair value	Total
	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn	US\$bn
Strategic investments					0.1	
.....	5.2	0.1	5.3	10.0		10.1
Private equity investments	2.7	0.1	2.8	2.9	0.1	3.0
Business facilitation ¹	1.2	-	1.2	1.1	-	1.1
					0.2	
	9.1	0.2	9.3	14.0		14.2

¹ Includes holdings in government-sponsored enterprises and local stock exchanges.

We make investments in private equity primarily through managed funds that are subject to limits on the amount of investment. We risk assess potential new commitments to ensure that industry and geographical concentrations remain within acceptable levels for the portfolio as a whole, and perform regular reviews to substantiate the valuation of the

investments within the portfolio.

At 31 December 2013, the AFS strategic investments include the listed investment in Industrial Bank Co., Limited of US\$3.5bn. This was treated as an associate of HSBC until they completed a private placement of additional share capital to a number of third parties in January 2013, which diluted the Group's equity holding. At 31 December 2012, the AFS strategic investments included the investment in Ping An of US\$8.2bn. This was classified as 'held for sale' and measured at fair value in accordance with the measurement rules for AFS securities for accounting purposes.

Exchange traded investments amounted to US\$4.0bn (2012: US\$8.7bn), with the remainder being unlisted. These investments are held at fair value in line with market prices.

On a regulatory consolidation basis, the net gain from disposal of equity securities amounted to US\$0.5bn (2012: US\$0.8bn), while impairment of AFS equities amounted to US\$0.2bn (2012: US\$0.4bn). Unrealised gains on AFS equities included in tier 2 capital equated to US\$1.6bn (2012: US\$2.1bn).

Details of our accounting policy for AFS equity investments and the valuation of financial instruments may be found on pages 439 and 433, respectively, of the Annual Report and Accounts 2013.

A detailed description of the valuation techniques applied to private equity may be found on page 487 of the Annual Report and Accounts 2013.

Remuneration

The following tables show the remuneration awards made by HSBC in respect of 2013, and subsequent paragraphs provide information on decision-making policies for remuneration and links between pay and performance. These disclosures reflect the requirements of the Financial Conduct Authority's Prudential Sourcebook for Banks.

Table 48: Aggregate remuneration expenditure

Aggregate remuneration expenditure (Code Staff)	Retail Banking and Wealth Management US\$m	Global business aligned				Total US\$m
		Commercial Banking US\$m	Global Banking and Markets US\$m	Global Private Banking US\$m	Non-global business aligned US\$m	
1,2						
2013	39.7					
.....		14.6	309.0	44.9	171.2	579.4
2012	41.8					
.....		21.0	293.1	32.2	141.0	529.1

1 Code Staff is defined in the Glossary.

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2 Includes salary and incentives awarded in respect of performance in the years 2012 and 2013 (including deferred component) and any pension or benefits outside of policy.

Table 49: Remuneration - fixed and variable amounts - Groupwide

	Senior manage- ment	2013 Code Staff (non-senior manage- ment)	Total	Senior manage- ment	2012 Code Staff (non-senior manage- ment)	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Number of Code Staff	66	264	330	50	264	314
Fixed Cash based	52.6	101.1	153.7	43.5	101.2	144.7
Total fixed	52.6	101.1	153.7	43.5	101.2	144.7
Variable ¹ Cash	19.0	60.1	79.1	15.1	60.2	75.3
Non-deferred shares ²	18.9	56.5	75.4	14.6	57.0	71.6
Deferred cash	26.6	79.3	105.9	20.9	80.4	101.3
Deferred shares	72.4	92.8	165.2	53.7	82.4	136.1
Total variable pay	136.9	288.7	425.6	104.3	280.0	384.3

¹ Variable pay awarded in respect of performance in the years 2012 and 2013.

² Vested shares, subject to a six-month retention period.

Table 50: Remuneration - fixed and variable amounts - UK based

	Senior manage- ment	2013 Code Staff (non-senior manage- ment)	Total	Senior manage- ment	2012 Code Staff (non-senior manage- ment)	Total
Number of Code Staff	35	157	192	23	168	191

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	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Total fixed		53.7			57.2	
.....	30.4		84.1	23.5		80.7
Total variable pay ¹		120.3			123.9	
.....	86.0		206.3	58.7		182.6

¹ Variable pay awarded in respect of performance in the years 2012 and 2013.

Table 51: Deferred remuneration¹

	Senior manage- ment	2013 Code Staff (non-senior manage- ment) US\$m	Total	Senior manage- ment	2012 Code Staff (non-senior manage- ment)	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Deferred remuneration at 31 December						
Outstanding, unvested ²		331.7				
.....	213.4		545.1	199.8	402.0	601.8
Awarded during the year ³		159.6				
.....	87.0		246.6	98.0	173.4	271.4
Paid out ⁴		269.9				
.....	110.7		380.6	155.2	393.6	548.8
Reduced through malus						
.....	0.4	-	0.4	0.7	-	0.7

¹ This table provides details of actions taken during the performance years 2012 and 2013. For details of variable pay awards granted for the performance years 2012 and 2013, please refer to tables 49 and 50.

² Value of deferred cash and shares unvested at 31 December 2012 and 31 December 2013.

³ Value of deferred cash and shares awarded during 2012 and 2013 with share price taken at 31 December of the respective year.

⁴ Value of vested shares and cash during 2012 and 2013. Share price taken at day of vesting.

Table 52: Sign-on and severance payments

	Senior manage- ment	2013 Code Staff (non-senior manage- ment)	Total	Senior manage- ment	2012 Code Staff (non-senior manage- ment)	Total
Sign-on payments						

Made during year (US\$m)		3.7			-	
.....	-		3.7	3.0		3.0
Number of beneficiaries		3			-	
.....	-		3	1		1
Severance payments						
Made during year (US\$m)		1.6			2.1	
.....	1.1		2.7	-		2.1
Number of beneficiaries		5			2	
.....	3		8	-		2
Highest such award to single person (US\$m) .	0.6	0.6			2.0	2.0

Table 53: Code staff remuneration by band1

	Number of Code Staff 2013			Number of Code Staff 2012		
	Senior management	Code Staff (non-senior management)	Total	Senior management	Code Staff (non-senior management)	Total
€0 - €1,000,000	11	139	150	6	145	151
.....						
€1,000,001 - €1,500,000	19	44	63	16	40	56
.....						
€1,500,001 - €2,000,000	9	33	42	6	27	33
.....						
€2,000,001 - €2,500,000	6	19	25	3	18	21
.....						
€2,500,001 - €3,000,000	7	16	23	8	19	27
.....						
€3,000,001 - €3,500,000	4	10	14	4	9	13
.....						
€3,500,001 - €4,000,000	2	1	3	1	3	4
.....						
€4,000,001 - €4,500,000	3	1	4	3	2	5
.....						
€4,500,001 - €5,000,000	3	-	3	1	-	1
.....						
€5,000,001 - €6,000,000	-	1	1	-	1	1
.....						
€6,000,001 - €7,000,000	-	-	-	-	-	-
.....						
€7,000,001 - €8,000,000	1	-	1	1	-	1
.....						
€8,000,001 - €9,000,000	1	-	1	1	-	1
.....						

1 Table prepared in euros in accordance with Article 450 of the Regulation under CRD IV, at an exchange rate to the US dollar of US\$1: euro € 0.753095.

HSBC Group Remuneration Committee

Role

Within the authority delegated by the Board, the Group Remuneration Committee ('the Committee') is responsible for approving the Group's remuneration policy. The Committee also determines the remuneration of executive Directors, senior employees, employees in positions of significant influence and employees whose activities have or could have an impact on our risk profile and, in doing so, takes into account the pay and conditions across the Group. No Directors are involved in deciding their own remuneration.

Membership

The members of the Group Remuneration Committee during 2013 were Sir Simon Robertson (Chairman, appointed 24 May 2013), John Thornton (retired as a director on 24 May 2013), John Coombe, Renato Fassbind (appointed 1 March 2013) and Sam Laidlaw.

There were 12 meetings of the Committee during 2013.

Advisers

In 2013, the Committee decided not to use external advisers, and in future will only seek external support on remuneration policy as and when necessary.

During the year, the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Group Head of Human Resources and Corporate Sustainability, Ann Almeida, the Head of Group Performance and Reward, Alexander Lowen, (and his predecessor Tristram Roberts), the Group Chief Risk Officer, Marc Moses, and the Global Head of Financial Crime Compliance and Group Money Laundering Reporting Officer, Robert Werner, all of whom provided advice as part of their executive role as employees of HSBC. The Committee also received advice and feedback from the Group Risk Committee on risk and compliance-related matters relevant to remuneration and the alignment of remuneration with risk appetite.

HSBC reward strategy

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a long-term career with the Group, and who will perform their role in the long-term interests of the shareholders.

HSBC's reward package comprises four key elements:

1. fixed pay;
2. benefits;
3. annual incentive; and
4. the Group Performance Share Plan ('GPSP')

These elements support the achievement of our objectives through balancing reward for both short-term and long-term sustainable performance. Our strategy is designed to reward only success, and aligns employees' remuneration with our risk framework and risk outcomes. For our most senior employees the greater part of their reward is deferred and thereby subject to malus, that is, it can be cancelled if warranted by events.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in performance scorecards. This assessment also takes into account adherence to the HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is therefore judged not only on what is achieved over the short and long term but also importantly on how it is achieved, as we believe the latter contributes to the long-term sustainability of the business.

Group variable pay pool determination

The Committee considers many factors in determining the Group's variable pay pool funding.

Performance and Risk Appetite Statement

The variable pay pool takes into account the performance of the Group considered within the context of our Risk Appetite Statement. This ensures that the variable pay pool is shaped by risk considerations and any Group-wide notable events. The Risk Appetite Statement describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. It shapes the integrated approach to business, risk and capital management and supports achievement of the Group's objectives. The Group Chief Risk Officer regularly updates the Committee on the Group's performance against the Risk Appetite Statement.

The Committee uses these updates when considering remuneration to ensure that return, risk and remuneration are aligned.

Counter-cyclical funding methodology

We use a counter-cyclical funding methodology which is categorised by both a floor and a ceiling and the payout ratio reduces as performance increases to avoid pro-cyclicality risk. The floor recognises that competitive protection is typically required irrespective of performance levels. The ceiling recognises that at higher levels of performance it is possible to limit reward as it is not necessary to continue to increase the variable pay pool and thereby limit the risk of inappropriate behaviour to drive financial performance.

Commerciality and affordability

Finally, the commercial requirements to remain competitive in the market and overall affordability are considered. Both the Annual Incentive and GPSP are funded from a single annual variable pay pool from which individual awards are considered. Funding of the Group's annual variable pay pool is determined in the context of Group profitability, capital strength, and shareholder returns. This approach ensures that performance related awards for any global business, global function, geographical regions and level of staff are considered in a holistic fashion.

Distribution of profits

In addition, our funding methodology considers the relationship between capital, dividends and variable pay to ensure that the distribution of post-tax profits between these three elements is considered appropriate.

On a pro forma basis, attributable post-tax profits for 2013 (excluding movements in the fair value of own debt and before pay distributions) were allocated in the proportions shown in the chart below (retained earnings / capital: 53%, dividends: 35% and variable pay: 12%).

2013 pro forma post-tax profits allocation

1 Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2013 were US\$0.49, an increase of 9% compared with 2012.

2 Total variable pay pool for 2013 net of tax and portion to be delivered by the award of HSBC Shares.

Governance

All variable pay and incentive schemes are required to adhere to a set of policy principles and approval standards (as defined in the Global Standards Manual), which require the approval of the Finance, Risk, Legal, and HR functions. The Finance function validates the achievement of relevant financial metrics (e.g. the definition of profitability from which incentive funding is derived). The performance and hence remuneration of control function staff is assessed according to a performance scorecard of objectives specific to the functional role they undertake which is independent of the businesses they oversee. Remuneration is carefully benchmarked against the market and internally to ensure that it is set at an appropriate level.

In considering individual awards, a comparison of the pay and employment conditions of our employees, Directors and senior executives is considered by the Committee.

Adjustments, malus and clawback

In order solely to reward genuine performance, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. In light of this, the Committee has discretion to reduce an employee's current year variable pay to reflect detrimental conduct or involvement in Group-wide notable events.

Further, the Committee can, in appropriate circumstances, reduce or cancel all or part of any unvested awards under the applicable malus provision. Appropriate circumstances include (but are not limited to) conduct detrimental to the business; past performance being materially worse than originally understood; restatement, correction or amendment of any financial statements; or improper or inadequate risk management.

The Committee can also suspend the vesting of unvested deferred awards granted in prior years where the awards are scheduled to vest before the outcome of a review of a Group-wide notable event is known.

Since 2013, following advice from Freshfields Bruckhaus Deringer, the Committee's legal adviser on the malus framework, the Committee has implemented a formal policy, with supporting procedures, which will be continuously updated.

The Committee may also determine to introduce and operate clawback, in appropriate circumstances and subject to compliance with applicable local laws and regulations, in respect of incentive awards (whether paid in cash or shares) that have vested and been paid out.

Risk

Risk (including in particular, compliance) is a critical part of the assessment process in determining the performance of senior executives and risk-takers (defined as HSBC Code Staff, which includes executive Directors) and in ensuring that their individual remuneration has been appropriately assessed with regard to risk.

The Global Risk function carry out annual reviews for HSBC Code Staff, which determine whether there are any instances of non-compliance with Risk procedures and expected behaviour. Instances of non-compliance are escalated to senior management and the Committee for consideration in variable pay decisions. Consideration is given to whether adjustments, malus and/or clawback should apply and in certain circumstances, whether employment should be continued.

Group-wide thematic reviews of risk are also carried out to determine if there are any transgressions which could affect the amount of current year variable pay or any instances where malus of previously awarded variable pay is required.

Code Staff criteria

The following groups of staff have been identified as meeting the PRA's criteria for Code Staff:

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- Senior Management whose roles are judged as falling within the PRA Code Staff definition (including executive board Directors, Group Managing Directors and Group General Managers);
- Staff performing a Significant Influence Function within HSBC Bank plc (including non-executive Directors ('NEDs'));
- Executive, Management and Operating Committee members (excluding specific roles that do not have a significant risk impact) of GPB, GB&M, Global Banking, Global Markets (including regional committees), CMB and RBWM.
- High earners who have a material impact on the risk profile of the Group.

The categories above cover all senior level management across the Group as well as those responsible for the operational management of the GB&M businesses and GPB. All heads of major GB&M businesses are included as well as the heads of all significant Global Markets products.

Structure of remuneration

Description	Purpose and relevant features	Eligibility		NEDs
		Senior Management	Other Code Staff excluding NEDs	
Fixed Pay	<ul style="list-style-type: none"> · Fixed pay reflects the individual's role, experience and responsibility. Changes are made within the context of local requirements and market practice. · Base salaries are benchmarked on an annual basis against relevant comparator groups as disclosed in the Directors' Remuneration Report on page 388 of the Annual Report and Accounts 2013 	X	X	
Fees	<ul style="list-style-type: none"> · The fee levels payable reflect the time commitment and responsibilities required of a non-executive Director of HSBC Holdings plc. · Fees are determined by benchmark against other UK companies and banks in the FTSE 30, and with reference to the fees paid by other non-UK international banks. 			X
Variable Pay Annual Incentive	<ul style="list-style-type: none"> · Drives and rewards performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy and aligns to shareholder interests. Deferral structure provides retention value and the ability to apply malus. · Maximum award can be three times fixed pay for executive Directors. 	X	X	

40% to 60% of the annual incentive is deferred over a period of three years, in line with the PRA requirements. 50% of both the deferred and non-deferred components will be in the form of restricted shares with the remaining 50% in cash. Vesting of deferred awards, both cash and shares, will be annually over a three-year period with 33% vesting on the first anniversary of grant, 33% on the second anniversary and 34% on the third anniversary. Deferred and non-deferred share awards (net of shares sold to cover any income tax and social security)

will be subject to a six-month retention period following vesting. Any Code Staff employee with total remuneration of no more than £500,000 (or local currency equivalent) and variable pay which is no more than 33% of total remuneration will not be subject to the Code Staff deferral policy but will be subject to the Group minimum deferral policy. During the vesting period, the Committee has the power to apply malus to part or all of the award.

The award is non-pensionable.

X

GPSP

To incentivise sustainable long-term performance through the use of pre-grant performance measures and aligns with shareholder interests by requiring shares to be held for the duration of employment. Five-year vesting period provides retention value and the ability to apply malus.

Maximum award can be six times fixed pay.

Award levels are determined by considering performance up to the end of the financial year against enduring performance measures set out in the long-term performance scorecard.

The award is subject to a five-year vesting period during which the Committee has the authority to apply malus to part or all of the award.

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On vesting the shares (net of shares sold to cover any income tax and social security) must be retained for the duration of the participant's employment.

The award is non-pensionable.

Group Performance Share Plan
Performance measurement/assessment

Awards to be granted in 2014 in respect of 2013 were assessed against the 2013 long-term scorecard detailed below:
Table 54: 2013 GPSP scorecard and performance outcome

Measure	Weighting	Long-term target range	Actual 2013 performance	Assessment	Outcome
Return on equity (%) ¹	15%	12-15	9.8	0%	0%
Cost efficiency ratio (%) ¹	15%	48-52	58.5	0%	0%
Capital strength (%) ²	15%	>10	13.6	100%	15%
Progressive dividend payout (%) ³	15%	40-60	57.1	100%	15%
Financial	60%				30%
Strategy execution	20%	Judgement	n/a	80%	16%
Compliance and reputation	10%	Judgement	n/a	50%	5%
Brand equity ³	5%	Top 3 rating and improved US\$ value	n/a	100%	5%
People	5%	Judgement	n/a	80%	4%
Non-financial	40%				30%
Total performance outcome	100%				60%

1 Return on equity and cost efficiency ratio excludes from the return the impact of fair value movements on own debt designated at fair value resulting from changes in credit spreads.

2 Capital strength is defined as core tier 1 capital.

3 Based on results from The Brand Finance ® Banking 500 2014 survey.

The performance assessment under the 2013 long-term scorecard took into account achievements under both financial and non-financial objectives both of which were set within the context of the risk appetite and strategic direction agreed by the Board.

Notwithstanding the detail or extent of performance delivery against the objectives, an individual's eligibility for a GPSP award requires confirmation of adherence to HSBC Values which acts in effect as a gating mechanism to GPSP participation.

Financial (60% weighting - achieved 30%)

The opportunity of 60% was equally split in 2013 between capital strength, progressive dividend payout, return on equity and cost efficiency ratio.

While the annual assessment also looked at achievement of the same performance elements in 2013, consideration under the long-term plan looked at the sustainability of short-term performance and reflected on whether to recognise progress made towards stated targets where these had not been met in the current year.

The Committee considered favourably the strengthened capital position shown both by the improvement in the year-end core tier 1 ratio as well as the increase in the estimated end-point position under CRD IV. Having reviewed these factors the Committee awarded the full opportunity (15%).

The Committee noted favourably the projected capacity to maintain a progressive dividend policy which was underpinned by the Group's strong capital position, its distributable reserves, its cash position and its planning assumptions around future performance. The Committee also reflected upon independent research which included forecasts of dividend paying capacity and discussed with management regulatory interactions around the Group's capital position. Having considered these factors, it awarded the full opportunity (15%).

Noting that the Group has not yet reached its target return on equity of 12-15%, the Committee deliberated whether to recognise in the GPSP the cumulative progress that has been made in restructuring and reshaping the Group and the achievement of sustainable cost savings ahead of target. The Committee further considered the on-going redeployment of capital from under-performing and exit portfolios to targeted areas of investment which will enhance future returns. There was also debate around the extent to which account should be taken at this stage of the more sustainable revenue streams that are projected to arise through enhanced controls around compliance and financial crime risk. The Committee concluded that while good progress had been made there was still a great deal to do to embed the improvements underway. The Committee also took into account that shareholders still faced continuing uncertainties from an incomplete regulatory reform agenda, from contingent legal risks from on-going matters of note and from continuing significant customer redress costs. As a consequence, the Committee decided not to make any award under this opportunity (15%).

Similarly, under the cost efficiency ratio element of the scorecard the Committee judged that no award could be made under this opportunity (15%). This was despite strong delivery of further sustainable cost savings. However, the Committee noted that the ratio remained above the target range of 48-52%, and further noted that a notable element of the underperformance related to continuing legal and regulatory fines and penalties and customer redress costs, none of which it could view for the time being as non-recurring.

Non-financial (40% weighting - achieved 30%)

With regard to the execution of strategic priorities laid down by the Board, the Committee reviewed delivery under the programmes for restructuring and de-risking the Group's businesses. This included, inter alia, the implementation of Global Standards, plans to maintain product leadership and improve digital strategy and steps to enhance global business co-operation and integration. The Committee concluded that it would be an appropriate reflection of management achievement to award 80% of the available opportunity, namely 16%.

With regard to compliance and reputation (10%), minimising the long-term impact of regulatory and compliance issues on the Group's reputation remains a top priority and the Committee noted further progress made in 2013. The continuing work on restructuring the Global Compliance function, investment in greater compliance and financial crime resources and capabilities, the launch of the 'Driving a Values-led high performance culture' programme and continued strengthening of governance were all favourably assessed. Reflecting, however, that there was still much to deliver, the Committee concluded to make a 50% achievement against long-term goals, which resulted in a 5% award in the scorecard.

Brand equity (5%) scored 100% of the available opportunity as independent research recorded that the value of the HSBC brand had increased. The Committee noted that HSBC had retained its status as one of the world's strongest banking brands, ranking second in The Brand Finance® Banking 500 2014 survey.

In relation to the people aspect of long-term strategy delivery, the Committee looked, inter alia, at progress made in talent development, succession planning and diversity. Recognising the continued progress, the Committee awarded 80% of the available opportunity of 5%, which was 4%. This performance assessment resulted in an overall score of 60%.

Appendix I

Simplified organisation chart for regulatory purposes¹

http://www.rns-pdf.londonstockexchange.com/rns/7387A_-2014-2-23.pdf

Appendix II

Risk management framework - risk types

Risks assessed via capital

Credit (including counterparty credit), market and operational risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and derivatives, and from the Group's holdings of debt and other securities.

Basel II applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the IRB foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's PD, but estimates of EAD and LGD are subject to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.

The capital resources requirement, which is intended to cover unexpected losses, is derived from a formula specified in the regulatory rules, which incorporates PD, LGD, EAD and other variables such as maturity and correlation. Expected losses under the IRB approaches are calculated by multiplying PD by EAD and LGD. Expected losses are deducted from capital to the extent that they exceed total accounting impairment allowances.

Counterparty credit risk, in both the trading and non-trading books, is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. Three approaches to calculating counterparty credit risk and determining exposure values are defined by Basel II: standardised, mark-to-market and IMM. These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation and IRB advanced.

Securitisation positions are held in both the trading and non-trading books. To calculate the credit risk capital requirements for securitisation positions in the non-trading book, Basel II specifies two approaches: standardised and IRB. Both approaches rely on the mapping of rating agency credit ratings to risk weights, which range between 7% and 1,250%. When positions qualify for 1,250%, they are then not risk-weighted but deducted instead from capital.

Within the IRB approach, we use the ratings-based method for the majority of our non-trading book securitisation positions, and the IAA for unrated liquidity facilities and programme-wide enhancements for asset-backed securitisations.

The majority of securitisation positions in the trading book are treated for capital purposes as if they are held in the non-trading book under the standardised or IRB approaches. Other traded securitisation positions, known as correlation trading, are treated under an internal model approach approved by the FSA.

Market risk is the risk that movements in market risk factors, including foreign exchange, commodity prices, interest rates, credit spread and equity prices will reduce our income or the value of our portfolios.

The market risk capital requirement is measured using internal market risk models, where approved by the FSA, or the FSA standard rules. Our internal market risk models comprise VAR, stressed VAR, IRC and correlation trading under the CRM.

Basel II includes capital requirements for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach, it is one of three different percentages of total operating income less insurance premiums allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.

We assess economic capital requirements for these risk types by utilising the embedded operational infrastructure used for the Pillar 1 capital calculation, together with an additional suite of models that take into account, in particular:

- the increased level of confidence required to meet our strategic goals (99.95%); and
- internal assessments of diversification of risks within our portfolios and, similarly, any concentrations of risk that arise.

Non-trading book interest rate risk

Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas, such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, such as current accounts.

The economic capital requirement for non-trading interest rate risk under Pillar 2 is measured by EVE sensitivity. EVE sensitivity considers all re-pricing mismatches assuming a run-off of the current balance sheet, and quantifies the larger loss in economic value of the Group's net asset position (including off balance sheet positions) under a +/- 200bps shock to interest rates.

Risk management of insurance operations

We provide wealth and protection 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 as part of the underwriting profit, investment income and distribution commission are kept 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). Our life insurance manufacturing entities in the US were disposed of during the year.

We continue to evolve the risk-based capital methodology used within our insurance businesses for risk and performance management. 2013 saw enhancements to movement analysis and further embedding into management

decision making.

Pension risk

Pension risk arises from the potential for a deficit to emerge in a defined-benefit pension plan. This risk is assessed using an economic capital model, using VAR methodology, which takes into account possible variations in the factors underlying such a deficit.

Residual risk

Residual risk is, primarily, the risk that mitigation techniques prove less effective than expected. This category also includes risks from specific business events that give rise to exposures not deemed to be included in the major risk categories. We conduct economic capital assessments of such risks on a regular, forward-looking basis to ensure that their impact is adequately covered by our capital base.

Structural foreign exchange risk

Structural foreign exchange risks arise from our net investments in subsidiaries, branches and associates, the functional currencies of which are other than the US dollar. Unrealised gains or losses due to revaluations of structural foreign exchange exposures are reflected in reserves, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of the individual banking subsidiaries are largely protected from the effect of changes in exchange rates. This is usually achieved by ensuring that, for each subsidiary bank, the ratio of structural exposures in a given currency to RWAs denominated in that currency is broadly equal to the capital ratio of the subsidiary in question. We evaluate residual structural foreign exchange exposures using an expected shortfall method. Details of our structural FX exposures are provided on page 237 of the Annual Report and Accounts 2013.

Risks not explicitly assessed via capital

Liquidity risk

We use cash-flow stress testing as part of our control processes to assess liquidity risk. We do not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. However, we recognise that a strong capital base can help to mitigate liquidity risk both by providing a capital buffer to allow an entity to raise funds and deploy them in liquid positions, and by serving to reduce the credit risk taken by providers of funds to the Group.

Reputational risk

As a banking group, our good reputation depends upon the way in which we conduct our business, but it can also be affected by the way in which clients, to whom we provide financial services, conduct themselves. The safeguarding of our reputation is paramount and is the responsibility of all members of staff, supported by a global risk management structure, underpinned by relevant policies and practices, readily available guidance and regular training. Our continuing emphasis on values makes these more explicit, to ensure we meet the expectations of society, customers, regulators and investors.

Sustainability risk

Sustainability risks arise from the provision of financial services to companies or projects which run counter to the needs of sustainable development; in effect, this risk arises when the environmental and social effects outweigh economic benefits. Sustainability risk is implicitly covered for economic capital purposes in credit risk, where risks associated with lending to certain categories of customers and industries are embedded.

Business risk

The PRA specifies that banks, as part of their internal assessment of capital adequacy process, should review their exposure to business risk.

Business risk is the potential negative impact on profits and capital from the Group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our business planning and stress testing processes, so that our business model and planned activities are resourced and capitalised consistent with the commercial, economic and risk environment in which the Group operates, and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non recourse portfolio, we do not report any dilution risk as we obtain an indemnity from the seller which indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables which provides protection against dilution risk.

Details of our management of these risks may be found on the following pages of the Annual Report and Accounts 2013:
liquidity and funding 213, structural foreign exchange 237, reputational 260 and sustainability 263.

Appendix III

Supplementary Basel III disclosures Composition of regulatory capital on a Basel III basis

	At 31 December 2013	CRR prescribed residual amount	Final CRD IV text
	US\$m	US\$m	US\$m
CET1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	19,145	-	19,145
Retained earnings	126,008	-	126,008
Accumulated other comprehensive income (and other reserves)	19,189	-	19,189
Minority interests (amount allowed in consolidated CET1)	3,644	-	3,644
	(285)	-	(285)

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Independently reviewed interim net profits net of any foreseeable charge or dividend1			
CET1 capital before regulatory adjustments	167,701	-	167,701
CET1 capital: regulatory adjustments.....	(35,187)	-	(35,187)
Additional value adjustments	(2,006)	-	(2,006)
Intangible assets (net of related deferred tax liability)	(24,899)	-	(24,899)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(680)	-	(680)
Fair value reserves related to gains or losses on cash flow hedges	121	-	121
Negative amounts resulting from the calculation of expected loss amounts ...	(5,976)	-	(5,976)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	661	-	661
Defined-benefit pension fund assets	(1,731)	-	(1,731)
Direct and indirect holdings of own CET1 instruments	(677)	-	(677)
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment			
Regulatory adjustments relating to unrealised gains and losses	(1,281)	1,281	-
of which: reserves arising from revaluation of property	(1,281)	1,281	-
Total regulatory adjustments to CET1	(36,468)	1,281	(35,187)
CET1 capital	131,233	1,281	132,514
Additional Tier 1 ('AT1') capital: instruments			
Amount of qualifying items and the related share premium accounts subject to phase out from AT1	10,594	(10,594)	-
Qualifying tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	3,979	(3,614)	365
of which: instruments issued by subsidiaries subject to phase out	3,248	(3,248)	-
	14,573	(14,208)	365

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AT1 capital before regulatory adjustments			
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period.....	(165)	165	-
Regulatory adjustments to AT1 capital	(165)	165	-
AT1 capital	14,408	(14,043)	365
Tier 1 capital (T1 = CET1 + AT1).....	145,641	(12,762)	132,879

	At 31 December 2013 US\$m	CRR prescribed residual amount US\$m	Final CRD IV text US\$m
Tier 2 ('T2') capital: instruments and provisions			
Capital instruments and the related share premium accounts	11,729	-	11,729
Amount of qualifying items and the related share premium accounts subject to phase out from T2	7,593	(7,593)	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties	16,464	(16,033)	431
of which: instruments issued by subsidiaries subject to phase out	16,377	(16,377)	-
T2 capital before regulatory adjustments	35,786	(23,626)	12,160
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative..... amount)	(248)	(165)	(413)
Regulatory adjustments to AT1 capital	(248)	(165)	(413)
T2 capital.....	35,538	(23,791)	11,747
Total capital (TC = T1 + T2).....	181,179	(36,553)	144,626

1 Following regulatory guidance, the prospective fourth interim dividend, net of projected scrip, has been deducted from the fourth interim profits.

Capital table: basis of preparation

This disclosure has been produced to meet a regulatory requirement set out in a letter to major UK banks in October 2012 from the FSA. Banks were asked to provide detailed estimates of the composition of their regulatory capital calculated under the draft CRD IV rules on a first-year transitional basis, i.e. applying the draft CRD IV rules to the balance sheet position at 31 December 2012 as if banks were at the start of year 1 of the transition period.

The disclosure was required in the format prescribed in Annex VI 'Transitional Own Funds disclosure template' to the EBA consultation paper 'Draft Implementing Technical Standards on Disclosure for Own Funds by Institutions' (EBA/CP/2012/04 of 7 June 2012).

At 31 December 2012, our disclosures were based on the July 2011 draft version of the CRD IV text and followed the transitional assumptions detailed in the supplementary guidance 'CRD IV transitional provisions on capital resources', published by the FSA on 26 October 2012.

In January 2014, the PRA issued a letter requiring major UK banks to continue the disclosure of capital resources on a transitional basis following the same format but using the final CRD IV rules published in June 2013 and the final PRA rules in Policy Statement PS 7/13, which transposed the various areas of national discretion within the final CRD IV legislation into UK law.

Where appropriate, additional line items have been included to accommodate certain amounts not captured by the template. For completeness, we have also included a third column and provided additional information in the second column, in order to facilitate the reading of the end-point (full impact) capital resources position which results from adding the two columns together.

The basis of preparation of the various items is consistent with that used for our other disclosures in this document in the calculation of our estimated position under Basel III/CRD IV rules.

Whilst CRD IV allows for the majority of regulatory adjustments and deductions from CET1 to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA did not adopt most of these transitional provisions, thereby opting for acceleration of the CRD IV end point definition of CET1. Notwithstanding this, the transitional provisions for unrealised gains have been applied, whereby unrealised gains on investment property can only be recognised in CET1 capital from 1 January 2015. This basis differs from the one used for 31 December 2012, where, following the FSA's instructions, we had assumed most of the items would benefit from a gradual implementation following the minimum phasing-in percentages contemplated in the CRD IV legislation.

For tier 1 and tier 2 capital, the PRA followed the CRD IV timing of the transitional provisions for applying the necessary regulatory adjustments and deductions. The effect of these adjustments will be phased in at levels increasing 20% each year from 1 January 2014 to 1 January 2018.

It should be noted that during the CRD IV transitional period, the residual amounts of items not yet subject to the new rules in full would receive the capital treatment prescribed under the CRD IV transitional provisions.

Non CRD IV compliant additional tier 1 and tier 2 instruments benefit from a grandfathering period. This progressively reduces the eligible amount by 10% annually, following an initial 20% on 1 January 2014, until they are fully phased out by 1 January 2022.

At the time of writing, although we have final CRD IV rules, there remain many technical standards and guidelines still to be issued by the EBA in draft form for consultation or pending publication in 2014. These require adoption by the European Commission to come legally into force. This provides further uncertainty as to the precise capital requirements under CRD IV. We have not incorporated the impact of those draft standards in our estimates.

Moreover, as the transposition of the CRD IV rules in the UK was only published in late December 2013, we are still in the process of upgrading our models and systems used to calculate capital numbers in a CRD IV environment and, as a consequence, these are subject to change. For further information on the basis of preparation of CRD IV end point regulatory capital, refer to page 324 of the Annual Report and Accounts 2013.

Leverage ratio: basis of preparation