HSBC HOLDINGS PLC

SUPPLEMENTARY
REGULATORY DISCLOSURES

30 June 2014

Composition of regulatory capital supplementary disclosure

In October 2012, the PRA wrote to large UK firms describing the disclosures it required them to make for capital resources on a first year transitional basis under CRD IV, in the format prescribed in annex VI ‘Transitional Own Funds disclosure template’ of the EBA consultation paper ‘Draft Implementing Technical Standards on Disclosure for Own Funds by Institutions’ (‘ITS’).

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. The ITS has since been published in the Official Journal in final form – Commission Implementing Regulation 1423/2013.

The capital position is presented on a CRD IV Year 1 transitional basis. Where appropriate, additional line items have been included in the table below to accommodate certain amounts not captured by the template. We have also provided additional information in the column, ‘CRR prescribed residual amount’, for completeness, to facilitate the reading of the end point capital resources position which results from adding the two columns together.

The effects of draft EBA standards are not generally captured in our numbers. These could have additional effects on our capital position and risk-weighted assets (‘RWA’s).

Whilst CRD IV allows for the majority of regulatory adjustments and deductions from common equity tier 1 (‘CET1’) to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA has largely decided not to make use of these transitional provisions. This results in a cost to our transitional CET1 capital and ratio, corresponding to the treatment of unrealised gains on investment property and in available-for-sale securities, which are only capable of being recognised in CET1 capital from 1 January 2015.

For tier 1 and tier 2 capital, the PRA followed the transitional provisions timing as set out in CRD IV to apply the necessary regulatory adjustments and deductions. The effect of these adjustments will be phased in at 20% per annum from 1 January 2014 to 1 January 2018.

Furthermore, 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.

Under CRD IV, as implemented in the UK, banks are required to meet a minimum CET1 ratio of 4.0% of RWAs (increasing to 4.5% from 1 January 2015), a minimum tier 1 ratio of 5.5% of RWAs (increasing to 6% from 1 January 2015) and a total capital ratio of 8% of RWAs. Going forward, as the grandfathering provisions fall away, we intend to meet these minima in an economic manner by issuing non-equity capital as necessary.

In addition, the PRA has also published its expectation in relation to capital ratios for major UK banks and building societies, namely that from 1 July 2014, capital resources should be held equivalent to at least 7% of risk-weighted assets using a CRD IV end point definition of CET1. This PRA capital guidance applies instead of the minimum 4% CET1 transitional ratio applicable during 2014 under CRD IV.

At 30 June 2014, the Group had US$15.2bn of CRD IV compliant non-equity capital instruments and US$37.1bn of non-equity capital instruments qualifying as eligible capital under CRD IV by virtue of application of the grandfathering provisions, after applying the 20% reduction outlined above.

A list of the features of our capital instruments in accordance with annex III of Commission Implementing Regulation 1423/2013 is also being published on our website with reference to our balance sheet on 30 June 2014.

Transitional own funds disclosure

	At 30 June 2014 US$m	CRR prescribed residual amount US$m	Final CRD IV text US$m
Common equity tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	19,712	–	19,712
Retained earnings	126,978	–	126,978
Accumulated other comprehensive income (and other reserves)	20,454	–	20,454
Minority interests (amount allowed in consolidated CET1)	3,792	–	3,792
Independently reviewed interim net profits net of any foreseeable charge or dividend	6,309	–	6,309
Common equity tier 1 capital before regulatory adjustments	177,245	–	177,245
Common equity tier 1 capital: regulatory adjustments			
Additional value adjustments	(1,688)	–	(1,688)
Intangible assets (net of related deferred tax liability)	(24,752)	–	(24,752)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(945)	–	(945)
Fair value reserves related to gains or losses on cash flow hedges	269	–	269
Negative amounts resulting from the calculation of expected loss amounts	(6,327)	–	(6,327)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	960	–	960
Defined-benefit pension fund assets	(2,301)	–	(2,301)
Direct and indirect holdings of own CET1 instruments	(904)	–	(904)
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	(1,487)	1,487	–
Regulatory adjustments relating to unrealised gains and losses	(141)	141	–
of which: reserves arising from revaluation of property	(1,346)	1,346	–
Total regulatory adjustments to common equity tier 1 (CET1)	(37,175)	1,487	(35,688)
Common equity tier 1 (CET1) capital	140,070	1,487	141,557
Additional tier 1 (AT1) capital: instruments			
Amount of qualifying items and the related share premium accounts subject to phase out from AT1	10,094	(10,094)	–
Qualifying tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	3,883	(3,479)	404
of which: instruments issued by subsidiaries subject to phase out	3,248	(3,248)	–
AT1 capital before regulatory adjustments	13,977	(13,573)	404
Additional tier 1 capital: regulatory adjustments			
Residual amounts deducted from additional tier 1 capital with regard to deduction from tier 2 capital during the transitional period	(164)	164	–
of which: 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	(164)	164	–
Total regulatory adjustments to additional tier 1 (AT1) capital	(164)	164	–
Additional tier 1 (AT1) capital	13,813	(13,409)	404
Tier 1 capital (T1 = CET1 + AT1)	153,883	(11,922)	141,961
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts	15,179	–	15,179
Amount of qualifying items and the related share premium accounts subject to phase out from T2	7,594	(7,594)	–
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments) issued by subsidiaries and held by third parties	16,424	(16,187)	237
of which: instruments issued by subsidiaries subject to phase out	16,137	(16,137)	–
T2 capital before regulatory adjustments	39,197	(23,781)	15,416

	At 30 June 2014 US$m	CRR prescribed residual amount US$m	Final CRD IV text US$m
Tier 2 (T2) capital: regulatory adjustments			
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)	**(246)**	**(164)**	**(410)**
Total regulatory adjustments to tier 2 (T2) capital	**(246)**	**(164)**	**(410)**
Tier 2 (T2) capital	**38,951**	**(23,945)**	**15,006**
Total capital (TC = T1 + T2)	**192,834**	**(35,867)**	**156,967**
Total risk-weighted assets	**1,248,572**	**–**	**1,248,572**
Capital ratios and buffers			
Common equity tier 1	**11.2%**		
Tier 1	**12.3%**		
Total capital	**15.4%**		
Instituition specific buffer requirement	**–**		
of which: capital conservation buffer requirement	**–**		
of which: counter cyclical buffer requirement	**–**		
of which: systemic risk buffer requirement	**–**		
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**–**		
Common equity tier 1 available to meet buffers	**7.2%**		
Amounts below the threshold for deduction (before risk weighting)			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**3,075**		
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**6,799**		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**7,726**		
Applicable caps on the inclusion of provisions in tier 2			
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**–**		
Cap on inclusion of credit risk adjustments in T2 under standardised approach	**4,374**		
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**–**		
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**3,400**		
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
Current cap on CET1 instruments subject to phase out arrangements	**–**		
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**–**		
Current cap on AT1 instruments subject to phase out arrangements	**13,342**		
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**613**		
Current cap on T2 instruments subject to phase out arrangements	**23,971**		
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**4,572**		