HSBC HOLDINGS PLC

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

31 December 2013

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 416 of the *Annual Report and Accounts 2013*. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort year-on-year comparisons. These are considered non-GAAP financial measures. Non-GAAP financial measures that we use throughout our Financial Review and are described below. Other non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Constant currency

The constant currency measure adjusts for the year-on-year effects of foreign currency translation differences by comparing reported results for 2013 with reported results for 2012 retranslated at 2013 exchange rates. Except where stated otherwise, commentaries are on a constant currency basis, as reconciled in the table below.

The foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2013.

We exclude the translation differences because we consider the like-for-like basis of constant currency financial measures more appropriately reflects changes due to operating performance.

Constant currency

Constant currency comparatives for 2012 referred to in the commentaries are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for 2012 at the average rates of exchange for 2013; and
- the balance sheet at 31 December 2012 at the prevailing rates of exchange on 31 December 2013.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. When reference is made to 'constant currency' in tables or commentaries, comparative data reported in the functional currencies of HSBC's operations have been translated at the appropriate exchange rates applied in the current year on the basis described above.

Constant currency and underlying reconciliations (continued)

Use of non-GAAP financial measures / Underlying performance

Reconciliation of reported and constant currency profit before tax

HSBC	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	2012 as reported US$m	Reported change[2] %	Constant currency change[2] %
	2013 compared with 2012					
Net interest income	37,672	(682)	36,990	35,539	(6)	(4)
Net fee income	16,430	(203)	16,227	16,434	–	1
Net trading income	7,091	(164)	6,927	8,690	23	25
Own credit spread[3]	(5,215)	12	(5,203)	(1,246)	76	76
Other income/(expense) from financial instruments	2,989	(53)	2,936	2,014	(33)	(31)
Net income/(expense) from financial instruments designated at fair value	(2,226)	(41)	(2,267)	768		
Gains on disposal of US branch network, US cards business and Ping An	7,024	–	7,024	–	(100)	(100)
Gains less losses from financial investments	1,189	(17)	1,172	2,012	69	72
Net earned insurance premiums	13,044	(118)	12,926	11,940	(8)	(8)
Other operating income	2,321	(200)	2,121	2,954	27	39
Total operating income	82,545	(1,425)	81,120	78,337	(5)	(3)
Net insurance claims[4]	(14,215)	96	(14,119)	(13,692)	(4)	(3)
Net operating income[5]	68,330	(1,329)	67,001	64,645	(5)	(4)
Loan impairment charges and other credit risk provisions	(8,311)	201	(8,110)	(5,849)	30	28
Net operating income	60,019	(1,128)	58,891	58,796	(2)	–
Operating expenses	(42,927)	683	(42,244)	(38,556)	10	9
Operating profit	17,092	(445)	16,647	20,240	18	22
Share of profit in associates and joint ventures	3,557	45	3,602	2,325	(35)	(35)
Profit before tax	20,649	(400)	20,249	22,565	9	11
By global business						
Retail Banking and Wealth Management	9,575	(26)	9,549	6,649	(31)	(30)
Commercial Banking	8,535	(96)	8,439	8,441	(1)	–
Global Banking and Markets	8,520	(147)	8,373	9,441	11	13
Global Private Banking	1,009	(16)	993	193	(81)	(81)
Other	(6,990)	(115)	(7,105)	(2,159)	69	70
Profit before tax	20,649	(400)	20,249	22,565	9	11
By geographical region						
Europe	(3,414)	65	(3,349)	1,825		
Hong Kong	7,582	(1)	7,581	8,089	7	7
Rest of Asia-Pacific	10,448	(227)	10,221	7,764	(26)	(24)
Middle East and North Africa	1,350	(36)	1,314	1,694	25	29
North America	2,299	(28)	2,271	1,221	(47)	(46)
Latin America	2,384	(173)	2,211	1,972	(17)	(11)
Profit before tax	20,649	(400)	20,249	22,565	9	11

For footnotes, see page 32.

Underlying performance

To arrive at underlying performance:

- we adjust for the year-on-year effects of foreign currency translation;
- we eliminate the fair value movements on our long-term debt attributable to credit spread ('own credit spread') where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities; and
- we adjust for acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses.

For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses, we eliminate the gain or loss on disposal or dilution and any associated gain or loss on reclassification or impairment recognised in the year incurred, and remove the operating profit or loss of the acquired, disposed of or diluted subsidiaries, associates, joint ventures and businesses from all the years presented so we can view results on a like-for-like basis. For example, if a disposal was made in the current year, any gain or loss on disposal, any associated gain or loss on reclassification or impairment recognised and the results of the disposed-of business would be removed from the results of the current year and the previous year as if the disposed-of business did not exist in those years. Disposal of investments other than those included in the above definition do not lead to underlying adjustments.

We use underlying performance to explain year-on-year changes when the effect of fair value movements on own debt, acquisitions, disposals or dilution is significant because we consider that this basis more appropriately reflects operating performance.

The following acquisitions, disposals and changes to ownership levels affected the underlying performance:

Constant currency and underlying reconciliations (continued)

Underlying performance

Disposal gains/(losses) affecting underlying performance

	Date	Disposal gain/(loss) US$m
HSBC Bank Canada's disposal of HSBC Securities (Canada) Inc's full service retail brokerage business[6]	Jan 2012	83
The Hongkong and Shanghai Banking Corporation Limited's disposal of RBWM operations in Thailand[6]	Mar 2012	108
HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc.'s disposal of US Card and Retail Services business[6]	May 2012	3,148
HSBC Bank USA, N.A.'s disposal of 138 non-strategic branches[6]	May 2012	661
HSBC Argentina Holdings S.A.'s disposal of its non-life insurance manufacturing subsidiary[6]	May 2012	102
The Hongkong and Shanghai Banking Corporation Limited's disposal of its private banking business in Japan[6]	Jun 2012	67
The Hongkong and Shanghai Banking Corporation Limited's disposal of its shareholding in a property company in the Philippines[7]	Jun 2012	130
Hang Seng Bank Limited's disposal of its non-life insurance manufacturing subsidiary[6]	Jul 2012	46
HSBC Bank USA, N.A.'s disposal of 57 non-strategic branches[6]	Aug 2012	203
HSBC Asia Holdings B.V.'s investment loss on a subsidiary[6]	Aug 2012	(85)
HSBC Bank plc's disposal of HSBC Securities SA[7]	Aug 2012	(11)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Credit Zrt[7]	Aug 2012	(2)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Insurance (Ireland) Limited[7]	Oct 2012	(12)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Reinsurance Limited[7]	Oct 2012	7
HSBC Private Bank (UK) Limited's disposal of Property Vision Holdings Limited[7]	Oct 2012	(1)
HSBC Investment Bank Holdings Limited's disposal of its stake in Havas Havalimanlari Yer Hizmetleri Yatirim Holding Anonim Sirketi[7]	Oct 2012	18
HSBC Insurance (Asia) Limited's disposal of its non-life insurance portfolios[6]	Nov 2012	117
HSBC Bank plc's disposal of HSBC Shipping Services Limited[7]	Nov 2012	(2)
HSBC Bank (Panama) S.A.'s disposal of its operations in Costa Rica, El Salvador and Honduras[6]	Dec 2012	(62)
HSBC Insurance Holdings Limited and The Hongkong and Shanghai Banking Corporation Limited's disposal of their shares in Ping An Insurance (Group) Company of China, Ltd ('Ping An')[6]	Dec 2012	3,012
The Hongkong and Shanghai Banking Corporation Limited's disposal of its shareholding in Global Payments Asia-Pacific Limited[6]	Dec 2012	212
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[6]	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holdings[6]	Mar 2013	104
Household Insurance Group Holding company's disposal of its insurance manufacturing business[6]	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC's disposal of its property and Casualty Insurance business in Mexico[6]	Apr 2013	20
HSBC Bank plc's disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA[7]	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited[6]	May 2013	28
HSBC Bank plc's disposal of HSBC Assurances IARD[7]	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited's disposal of HSBC Life (International) Limited's Taiwan branch operations[7]	June 2013	(36)
HSBC Markets (USA) Inc.'s disposal of its subsidiary, Rutland Plastic Technologies[7]	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd's disposal of its Employee Benefits Insurance business in Singapore[7]	Aug 2013	(8)
HSBC Investment Bank Holdings plc's disposal of its investment in associate FIP Colorado[7]	Aug 2013	(5)
HSBC Investment Bank Holdings plc group's disposal of its investment in subsidiary, Viking Sea Tech[6]	Aug 2013	54
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A.[7]	Oct 2013	1,107
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Peru) S.A.[7]	Nov 2013	(18)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Paraguay) S.A.[7]	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital[6]	Dec 2013	(38)

For footnote, see page 32.

Acquisition gains/(losses) affecting the underlying performance[7]

	Date	Fair value gain on acquisition US$m
Gain on the merger of Oman International Bank S.A.O.G. and the Omani operations of HSBC Bank Middle East Limited	Jun 2012	3
Gain on the acquisition of the onshore retail and commercial banking business of Lloyds Banking Group in the UAE by HSBC Bank Middle East Limited	Oct 2012	18

For footnote, see page 32.

The following table reconciles selected reported items for 2013 and 2012 to an underlying basis. We reconcile other reported results to underlying results when doing so results in a more useful discussion of operating performance.

Reconciliation of reported and underlying items

	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported	**35,539**	37,672	(6)
Currency translation adjustment[1]		(682)	
Acquisitions, disposals and dilutions	**(273)**	(2,015)	
Underlying	**35,266**	34,975	1
Other operating income			
Reported	**2,632**	2,100	25
Currency translation adjustment[1]		(195)	
Acquisitions, disposals and dilutions	**(2,234)**	(811)	
Underlying	**398**	1,094	(64)
Revenue[5]			
Reported	**64,645**	68,330	(5)
Currency translation adjustment[1]		(1,341)	
Own credit spread[3]	**1,246**	5,215	
Acquisitions, disposals and dilutions	**(2,596)**	(10,607)	
Underlying	**63,295**	61,597	3
LICs[8]			
Reported	**(5,849)**	(8,311)	30
Currency translation adjustment[1]		201	
Acquisitions, disposals and dilutions	**32**	376	
Underlying	**(5,817)**	(7,734)	25
Total operating expenses			
Reported	**(38,556)**	(42,927)	10
Currency translation adjustment[1]		683	
Acquisitions, disposals and dilutions	**353**	1,490	
Underlying	**(38,203)**	(40,754)	6
Underlying cost efficiency ratio	**60.4%**	66.2%	
Share of profit in associates and joint ventures			
Reported	**2,325**	3,557	(35)
Currency translation adjustment[1]		45	
Acquisitions, disposals and dilutions	**(14)**	(1,425)	
Underlying	**2,311**	2,177	6
Profit before tax			
Reported	**22,565**	20,649	9
Currency translation adjustment[1]		(412)	
Own credit spread[3]	**1,246**	5,215	
Acquisitions, disposals and dilutions	**(2,225)**	(10,166)	
Underlying	**21,586**	15,286	41

For footnotes, see page 32.

Reconciliation of reported and underlying average risk-weighted assets ('RWA's)

	Year ended 31 December		
	2013 US$bn	2012 US$bn	Change %
Average reported RWAs	**1,104**	1,172	(6)
Currency translation adjustment[1]	**–**	(6)	
Acquisitions, disposals and dilutions	**(16)**	(88)	
Average underlying RWAs	**1,088**	1,078	1

Constant currency and underlying reconciliations (continued)

Global businesses

Retail Banking and Wealth Management

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	2013 as reported US$m	Reported change[2] %	Constant currency change[2] %
Net interest income	20,298	(368)	19,930	**18,339**	**(10)**	**(8)**
Net fee income	7,205	(113)	7,092	**7,021**	**(3)**	**(1)**
Net trading income	304	(18)	286	**686**	**126**	**140**
Net income/(expense) from financial instruments designated at fair value	1,893	(26)	1,867	**1,638**	**(13)**	**(12)**
Gains on disposal of US branch network and cards business	3,735	–	3,735	**–**	**(100)**	**(100)**
Gains less losses from financial investments	96	(7)	89	**55**	**(43)**	**(38)**
Net earned insurance premiums	11,191	(68)	11,123	**10,543**	**(6)**	**(5)**
Other operating income (including dividend income)	1,496	(34)	1,462	**565**	**(62)**	**(61)**
Total operating income	46,218	(634)	45,584	**38,847**	**(16)**	**(15)**
Net insurance claims incurred and movement in liabilities to policyholders	(12,357)	44	(12,313)	**(12,107)**	**2**	**2**
Net operating income[5]	33,861	(590)	33,271	**26,740**	**(21)**	**(20)**
LICs[8]	(5,515)	135	(5,380)	**(3,227)**	**41**	**40**
Net operating income	28,346	(455)	27,891	**23,513**	**(17)**	**(16)**
Operating expenses	(19,769)	415	(19,354)	**(17,248)**	**13**	**11**
Operating profit	8,577	(40)	8,537	**6,265**	**(27)**	**(27)**
Income from associates[11]	998	14	1,012	**384**	**(62)**	**(62)**
Profit before tax	9,575	(26)	9,549	**6,649**	**(31)**	**(30)**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**18,339**	20,298	(10)
Currency translation adjustment[1]		(368)	
Acquisitions, disposals and dilutions	**(151)**	(1,735)	
Underlying	**18,188**	18,195	-
Other operating income			
Reported other operating income	**544**	1,472	(63)
Currency translation adjustment[1]		(33)	
Acquisitions, disposals and dilutions	**(312)**	(395)	
Underlying	**232**	1,044	
Revenue[5]			
Reported revenue	**26,740**	33,861	(21)
Currency translation adjustment[1]		(590)	
Acquisitions, disposals and dilutions	**(494)**	(6,447)	
Underlying	**26,246**	26,824	(2)
LICs[8]			
Reported LICs	**(3,227)**	(5,515)	41
Currency translation adjustment[1]		135	
Acquisitions, disposals and dilutions	**33**	377	
Underlying	**(3,194)**	(5,003)	36
Operating expenses			
Reported operating expenses	**(17,248)**	(19,769)	13
Currency translation adjustment[1]		415	
Acquisitions, disposals and dilutions	**203**	1,176	
Underlying	**(17,045)**	(18,178)	6
Underlying cost efficiency ratio	**64.9%**	67.8%	
Share of profit in associates and joint ventures			
Reported	**384**	998	(62)
Currency translation adjustment[1]		14	
Acquisitions, disposals and dilutions	**(6)**	(670)	
Underlying	**378**	342	11
Profit before tax			
Reported profit before tax	**6,649**	9,575	(31)
Currency translation adjustment[1]		(26)	
Acquisitions, disposals and dilutions	**(264)**	(5,565)	
Underlying	**6,385**	3,984	60

For footnotes, see page 32.

Principal RBWM business

The Principal RBWM business measure excludes the effects of the US run-off portfolio and the disposed of US CRS business. We believe that looking at the Principal RBWM business without the run-off and disposed of businesses allows management to more clearly discuss the cause of material changes from year-to-year in the ongoing business and to assess the factors and trends in the business which are anticipated to have a material effect in future years. Tables which reconcile reported RBWM financial measures to Principal RBWM financial measures are provided below.

Constant currency and underlying reconciliations (continued)

Global businesses

Principal Retail Banking and Wealth Management business

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	16,468	(368)	16,100	**16,278**	**(1)**	**1**
Net fee income	6,777	(113)	6,664	**7,010**	**3**	**5**
Other income[9]	3,403	(109)	3,294	**1,780**	**(48)**	**(46)**
Net operating income[5]	26,648	(590)	26,058	**25,068**	**(6)**	**(4)**
LICs[8]	(2,624)	135	(2,489)	**(2,522)**	**4**	**(1)**
Net operating income	24,024	(455)	23,569	**22,546**	**(6)**	**(4)**
Total operating expenses	(17,937)	415	(17,522)	**(16,082)**	**10**	**8**
Operating profit	6,087	(40)	6,047	**6,464**	**6**	**7**
Income from associates[11]	996	14	1,010	**385**	**(61)**	**(62)**
Profit before tax	7,083	(26)	7,057	**6,849**	**(3)**	**(3)**

For footnotes, see page 32.

Reconciliation of Principal RBWM business

	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported RBWM	**18,339**	20,298	(10)
US CRS	**–**	1,267	(100)
US run-off portfolio	**2,061**	2,563	(20)
Principal RBWM business	**16,278**	16,468	(1)
Net fee income			
Reported RBWM	**7,021**	7,205	(3)
US CRS	**–**	395	(100)
US run-off portfolio	**11**	33	(67)
Principal RBWM business	**7,010**	6,777	3
Other income[9]			
Reported RBWM	**1,380**	6,358	(78)
US CRS	**–**	3,155	(100)
US run-off portfolio	**(400)**	(200)	100
Principal RBWM business	**1,780**	3,403	(48)
Net operating income[5]			
Reported RBWM	**26,740**	33,861	(21)
US CRS	**–**	4,817	(100)
US run-off portfolio	**1,672**	2,396	30
Principal RBWM business	**25,068**	26,648	(6)
LICs[8]			
Reported RBWM	**(3,227)**	(5,515)	42
US CRS	**–**	(322)	100
US run-off portfolio	**(705)**	(2,569)	73
Principal RBWM business	**(2,522)**	(2,624)	4
Net operating income			
Reported RBWM	**23,513**	28,346	(17)
US CRS	**–**	4,495	(100)
US run-off portfolio	**967**	(173)	
Principal RBWM business	**22,546**	24,024	(6)

	2013 US$m	2012 US$m	Change[2] %
Total operating expenses			
Reported RBWM	**(17,248)**	(19,769)	13
US CRS	**–**	(729)	100
US run-off portfolio	**(1,166)**	(1,103)	(6)
Principal RBWM business	**(16,082)**	(17,937)	10
Operating profit/(loss)			
Reported RBWM	**6,265**	8,577	(27)
US CRS	**–**	3,766	(100)
US run-off portfolio	**(199)**	(1,276)	84
Principal RBWM business	**6,464**	6,087	6
Share of profit in associates and joint ventures			
Reported RBWM	**384**	998	(62)
US CRS	**–**	–	
US run-off portfolio	**(1)**	2	
Principal RBWM business	**385**	996	(61)
Profit before tax			
Reported RBWM	**6,649**	9,575	(31)
US CRS	**–**	3,766	(100)
US run-off portfolio	**(200)**	(1,274)	84
Principal RBWM business	**6,849**	7,083	(3)

For footnote, see page 32.

Retail Banking and Wealth Management – HSBC Finance

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013 US$m	2012 US$m	Change[2] %
Revenue[5]			
Reported revenue	**1,672**	7,251	(77)
Acquisitions, disposals and dilutions	**105**	(4,888)	
Underlying	**1,777**	2,363	(25)
Profit/(loss) before tax			
Reported profit/(loss) before tax	**(200)**	2,443	
Acquisitions, disposals and dilutions	**120**	(3,889)	
Underlying	**(80)**	(1,446)	94

For footnote, see page 32.

Constant currency and underlying reconciliations (continued)

Global businesses

Commercial Banking

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	10,361	(220)	10,141	**10,200**	**(2)**	**1**
Net fee income	4,470	(69)	4,401	**4,717**	**6**	**7**
Net trading income	633	(15)	618	**649**	**3**	**5**
Net income/(expense) from financial instruments designated at fair value	250	(17)	233	**332**	**33**	**42**
Gains on disposal of US branch network and cards business	277	–	277	**–**	**(100)**	**(100)**
Gains less losses from financial investments	22	(2)	20	**1**	**(95)**	**(95)**
Net earned insurance premiums	1,786	(49)	1,737	**1,375**	**(23)**	**(21)**
Other operating income (including dividend income)	554	(10)	544	**636**	**15**	**17**
Total operating income	18,353	(382)	17,971	**17,910**	**(2)**	**–**
Net insurance claims incurred and movement in liabilities to policyholders	(1,802)	53	(1,749)	**(1,545)**	**15**	**12**
Net operating income[5]	16,551	(329)	16,222	**16,365**	**(1)**	**1**
LICs[8]	(2,099)	59	(2,040)	**(2,384)**	**(14)**	**(17)**
Net operating income	14,452	(270)	14,182	**13,981**	**(3)**	**(1)**
Operating expenses	(7,598)	149	(7,449)	**(7,049)**	**7**	**5**
Operating profit	6,854	(121)	6,733	**6,932**	**1**	**3**
Income from associates[11]	1,681	25	1,706	**1,509**	**(10)**	**(12)**
Profit before tax	8,535	(96)	8,439	**8,441**	**(1)**	**–**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**10,200**	10,361	(2)
Currency translation adjustment[1]		(220)	
Acquisitions, disposals and dilutions	**(92)**	(211)	
Underlying	**10,108**	9,930	2
Other operating income			
Reported other operating income	**621**	536	16
Currency translation adjustment[1]		(10)	
Acquisitions, disposals and dilutions	**(470)**	(187)	
Underlying	**151**	339	(55)
Revenue[5]			
Reported revenue	**16,365**	16,551	(1)
Currency translation adjustment[1]		(329)	
Acquisitions, disposals and dilutions	**(593)**	(762)	
Underlying	**15,772**	15,460	2
LICs[8]			
Reported LICs	**(2,384)**	(2,099)	(14)
Currency translation adjustment[1]	**–**	59	
Acquisitions, disposals and dilutions	**(1)**	–	
Underlying	**(2,385)**	(2,040)	(17)
Operating expenses			
Reported operating expenses	**(7,049)**	(7,598)	7
Currency translation adjustment[1]	**–**	149	
Acquisitions, disposals and dilutions	**63**	191	
Underlying	**(6,986)**	(7,258)	4
Underlying cost efficiency ratio	**44.3%**	46.9%	
Share of profit in associates and joint ventures			
Reported	**1,509**	1,681	(10)
Currency translation adjustment[1]		25	
Acquisitions, disposals and dilutions	**(10)**	(351)	
Underlying	**1,499**	1,355	11
Profit before tax			
Reported profit before tax	**8,441**	8,535	(1)
Currency translation adjustment[1]	**–**	(96)	
Acquisitions, disposals and dilutions	**(541)**	(922)	
Underlying	**7,900**	7,517	5

For footnotes, see page 32.

Global Banking and Markets

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	6,960	(127)	6,833	**6,766**	**(3)**	**(1)**
Net fee income	3,329	(22)	3,307	**3,482**	**5**	**5**
Net trading income	5,690	(90)	5,600	**6,780**	**19**	**21**
Net income/(expense) from financial instruments designated at fair value	1,094	(13)	1,081	**599**	**(45)**	**(45)**
Gains less losses from financial investments	730	(8)	722	**747**	**2**	**3**
Net earned insurance premiums	25	(3)	22	**6**	**(76)**	**(73)**
Other operating income (including dividend income)	461	9	470	**799**	**73**	**70**
Total operating income	18,289	(254)	18,035	**19,179**	**5**	**6**
Net insurance claims incurred and movement in liabilities to policyholders	(16)	1	(15)	**(3)**	**81**	**80**
Net operating income[5]	18,273	(253)	18,020	**19,176**	**5**	**6**
LICs[8]	(670)	5	(665)	**(207)**	**69**	**69**
Net operating income	17,603	(248)	17,355	**18,969**	**8**	**9**
Operating expenses	(9,907)	95	(9,812)	**(9,960)**	**(1)**	**(2)**
Operating profit	7,696	(153)	7,543	**9,009**	**17**	**19**
Income from associates[11]	824	6	830	**432**	**(48)**	**(48)**
Profit before tax	8,520	(147)	8,373	**9,441**	**11**	**13**

For footnotes, see page 32.

Reconciliation of reported and constant currency management view of total operating income of Global Banking and Markets

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Markets[10]	6,105	(75)	6,030	**6,935**	**14**	**15**
Credit	485	(2)	483	**796**	**64**	**65**
Rates	1,607	(18)	1,589	**1,653**	**3**	**4**
Foreign Exchange	3,215	(54)	3,161	**3,186**	**(1)**	**1**
Equities	798	(1)	797	**1,300**	**63**	**63**
Capital Financing	3,758	(34)	3,724	**3,994**	**6**	**7**
Payments and Cash Management	1,680	(32)	1,648	**1,770**	**5**	**7**
Securities Services	1,623	(20)	1,603	**1,662**	**2**	**4**
Global Trade and Receivables Finance	740	(14)	726	**741**	**–**	**2**
Balance Sheet Management	3,738	(64)	3,674	**3,110**	**(17)**	**(15)**
Principal Investments	188	(3)	185	**512**	**172**	**177**
Debit valuation adjustment	518	(6)	512	**105**	**(80)**	**(79)**
Other[12]	(77)	(5)	(82)	**347**		
Total operating income	18,273	(253)	18,020	**19,176**	**5**	**6**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**6,766**	6,960	(3)
Currency translation adjustment[1]		(127)	
Acquisitions, disposals and dilutions	**(26)**	(56)	
Underlying	**6,740**	6,777	(1)
Other operating income			
Reported other operating income	**670**	313	114
Currency translation adjustment[1]		10	
Acquisitions, disposals and dilutions	**(407)**	(78)	
Underlying	**263**	245	7
Revenue[5]			
Reported revenue	**19,176**	18,273	5
Currency translation adjustment[1]		(253)	
Acquisitions, disposals and dilutions	**(460)**	(219)	
Underlying	**18,716**	17,801	5
LICs[8]			
Reported LICs	**(207)**	(670)	69
Currency translation adjustment[1]		5	
Acquisitions, disposals and dilutions	**–**	–	
Underlying	**(207)**	(665)	69
Operating expenses			
Reported operating expenses	**(9,960)**	(9,907)	(1)
Currency translation adjustment[1]		95	
Acquisitions, disposals and dilutions	**54**	107	
Underlying	**(9,906)**	(9,705)	(2)
Underlying cost efficiency ratio	**52.9%**	54.5%	
Share of profit in associates and joint ventures			
Reported	**432**	824	(48)
Currency translation adjustment[1]		6	
Acquisitions, disposals and dilutions	**2**	(404)	
Underlying	**434**	426	2
Profit before tax			
Reported profit before tax	**9,441**	8,520	11
Currency translation adjustment[1]		(147)	
Acquisitions, disposals and dilutions	**(404)**	(516)	
Underlying	**9,037**	7,857	15

For footnotes, see page 32.

Global Private Banking

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	1,294	(6)	1,288	**1,146**	**(11)**	**(11)**
Net fee income	1,232	1	1,233	**1,150**	**(7)**	**(7)**
Net trading income	490	(1)	489	**394**	**(20)**	**(19)**
Net income/(expense) from financial instruments designated at fair value	–	–	–	**4**		
Gains less losses from financial investments	(3)	–	(3)	**(3)**	**–**	**–**
Net earned insurance premiums	42	2	44	**16**	**(62)**	**(64)**
Other operating income /(expense) (including dividend income)	157	(13)	144	**(231)**		
Total operating income	3,212	(17)	3,195	**2,476**	**(23)**	**(23)**
Net insurance claims incurred and movement in liabilities to policyholders	(40)	(2)	(42)	**(37)**	**8**	**12**
Net operating income[5]	3,172	(19)	3,153	**2,439**	**(23)**	**(23)**
LICs[8]	(27)	1	(26)	**(31)**	**(15)**	**(19)**
Net operating income	3,145	(18)	3,127	**2,408**	**(23)**	**(23)**
Operating expenses	(2,143)	2	(2,141)	**(2,229)**	**(4)**	**(4)**
Operating profit	1,002	(16)	986	**179**	**(82)**	**(82)**
Income from associates[11]	7	–	7	**14**	**100**	**100**
Profit before tax	1,009	(16)	993	**193**	**(81)**	**(81)**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**1,146**	1,294	(11)
Currency translation adjustment[1]		(6)	
Acquisitions, disposals and dilutions	**(4)**	(13)	
Underlying	**1,142**	1,275	(10)
Other operating income			
Reported other operating income	**(239)**	151	
Currency translation adjustment[1]		(13)	
Acquisitions, disposals and dilutions	**(1)**	(56)	
Underlying	**(240)**	82	
Revenue[5]			
Reported revenue	**2,439**	3,172	(23)
Currency translation adjustment[1]		(19)	
Acquisitions, disposals and dilutions	**(5)**	(72)	
Underlying	**2,434**	3,081	(21)
LICs[8]			
Reported LICs	**(31)**	(27)	(15)
Currency translation adjustment[1]		1	
Acquisitions, disposals and dilutions	**-**	-	
Underlying	**(31)**	(26)	(19)
Operating expenses			
Reported operating expenses	**(2,229)**	(2,143)	(4)
Currency translation adjustment[1]		2	
Acquisitions, disposals and dilutions	**4**	15	
Underlying	**(2,225)**	(2,126)	(5)
Underlying cost efficiency ratio	**91.4%**	69.0%	
Profit before tax			
Reported profit before tax	**193**	1,009	(81)
Currency translation adjustment[1]		(16)	
Acquisitions, disposals and dilutions	**(1)**	(57)	
Underlying	**192**	936	(79)

For footnotes, see page 32.

Other

2013 compared with 2012

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	(730)	(4)	(734)	**(737)**	**(1)**	**–**
Net fee income	194	–	194	**64**	**(67)**	**(67)**
Net trading income	(537)	(1)	(538)	**6**		
Own credit spread[3]	(5,215)	12	(5,203)	**(1,246)**	**76**	**76**
Other income/(expense) from financial instruments designated at fair value	(248)	7	(241)	**(558)**	**(125)**	**(132)**
Net income/(expense) from financial instruments designated at fair value	(5,463)	19	(5,444)	**(1,804)**	**67**	**67**
Gains on disposal of US branch network, US cards business and Ping An	3,012	–	3,012	**–**	**(100)**	**(100)**
Gains less losses from financial investments	344	–	344	**1,212**	**252**	**252**
Other operating income (including dividend income)	5,512	(210)	5,302	**6,910**	**25**	**30**
Total operating income	2,332	(196)	2,136	**5,651**	**142**	**165**
Net insurance claims incurred and movement in liabilities to policyholders	–	–	–	**–**		
Net operating income[5]	2,332	(196)	2,136	**5,651**	**142**	**165**
LICs[8]	–	–	–	**–**	**–**	**–**
Net operating income	2,332	(196)	2,136	**5,651**	**142**	**165**
Operating expenses	(9,369)	81	(9,288)	**(7,796)**	**17**	**16**
Operating loss	(7,037)	(115)	(7,152)	**(2,145)**	**70**	**70**
Income from associates[11]	47	–	47	**(14)**		
Loss before tax	(6,990)	(115)	(7,105)	**(2,159)**	**69**	**70**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013	2012	Change[2]
	US$m	US$m	%
Revenue[5]			
Reported revenue	**5,651**	2,332	142
Currency translation adjustment[1]		(209)	
Own credit spread[3]	**1,246**	5,215	
Acquisitions, disposals and dilutions	**(1,044)**	(3,107)	
Underlying	**5,853**	4,231	38
Operating expenses			
Reported operating expenses	**(7,796)**	(9,369)	17
Currency translation adjustment[1]		81	
Acquisitions, disposals and dilutions	**29**	1	
Underlying	**(7,767)**	(9,287)	16
Underlying cost efficiency ratio	**132.7%**	219.5%	
Loss before tax			
Reported loss before tax	**(2,159)**	(6,990)	69
Currency translation adjustment[1]		(127)	
Own credit spread[3]	**1,246**	5,215	
Acquisitions, disposals and dilutions	**(1,015)**	(3,106)	
Underlying	**(1,928)**	(5,008)	62

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

Europe

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	10,394	(38)	10,356	**10,693**	**3**	**3**
Net fee income	6,169	1	6,170	**6,032**	**(2)**	**(2)**
Net trading income	2,707	(19)	2,688	**4,423**	**63**	**65**
Own credit spread[3]	(4,110)	12	(4,098)	**(1,015)**	**75**	**75**
Other income/(expense) from financial instruments designated at fair value	1,895	12	1,907	**1,433**	**(24)**	**(25)**
Net income/(expense) from financial instruments designated at fair value	(2,215)	24	(2,191)	**418**		
Gains less losses from financial investments	364	(4)	360	**379**	**4**	**5**
Net earned insurance premiums	3,630	85	3,715	**3,158**	**(13)**	**(15)**
Other operating income (including dividend income)	1,189	49	1,238	**604**	**(49)**	**(51)**
Total operating income	22,238	98	22,336	**25,707**	**16**	**15**
Net insurance claims incurred and movement in liabilities to policyholders	(4,630)	(121)	(4,751)	**(4,740)**	**(2)**	**–**
Net operating income[5]	17,608	(23)	17,585	**20,967**	**19**	**19**
LICs[8]	(1,921)	15	(1,906)	**(1,530)**	**20**	**20**
Net operating income	15,687	(8)	15,679	**19,437**	**24**	**24**
Operating expenses	(19,095)	74	(19,021)	**(17,613)**	**8**	**7**
Operating profit/(loss)	(3,408)	66	(3,342)	**1,824**		
Income/(loss) from associates[11]	(6)	(1)	(7)	**1**		
Profit/(loss) before tax	(3,414)	65	(3,349)	**1,825**		

For footnotes, see page 32.

Reconciliation of reported and underlying items – Europe

	Year ended 31 December 2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**10,693**	10,394	3
Currency translation adjustment[1]		(38)	
Acquisitions, disposals and dilutions	**17**	15	
Underlying	**10,710**	10,371	3
Other operating income			
Reported other operating income	**529**	1,080	(51)
Currency translation adjustment[1]		49	
Acquisitions, disposals and dilutions	**(69)**	(54)	
Underlying	**460**	1,075	(57)
Revenue[5]			
Reported revenue	**20,967**	17,608	19
Currency translation adjustment[1]		(35)	
Own credit spread[3]	**1,015**	4,110	
Acquisitions, disposals and dilutions	**(51)**	(36)	
Underlying	**21,931**	21,647	1
LICs[8]			
Reported LICs	**(1,530)**	(1,921)	20
Currency translation adjustment[1]		15	
Acquisitions, disposals and dilutions	**-**	-	
Underlying	**(1,530)**	(1,906)	20
Operating expenses			
Reported operating expenses	**(17,613)**	(19,095)	8
Currency translation adjustment[1]		74	
Acquisitions, disposals and dilutions	**28**	46	
Underlying	**(17,585)**	(18,975)	7
Underlying cost efficiency ratio	**80.2%**	87.7%	
Profit/(loss) before tax			
Reported profit/(loss) before tax	**1,825**	(3,414)	
Currency translation adjustment[1]		53	
Own credit spread[3]	**1,015**	4,110	
Acquisitions, disposals and dilutions	**(18)**	10	
Underlying	**2,822**	759	272

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

Hong Kong

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	5,316	–	5,316	**5,993**	**13**	**13**
Net fee income	3,335	–	3,335	**3,877**	**16**	**16**
Net trading income	1,463	–	1,463	**1,570**	**7**	**7**
Own credit spread[3]	–	–	–	**–**		
Other income/(expense) from financial instruments designated at fair value	447	–	447	**258**	**(42)**	**(42)**
Net income/(expense) from financial instruments designated at fair value	447	–	447	**258**	**(42)**	**(42)**
Gains less losses from financial investments	322	–	322	**53**	**(84)**	**(84)**
Net earned insurance premiums	5,957	1	5,958	**6,081**	**2**	**2**
Other operating income (including dividend income)	1,948	(2)	1,946	**1,941**	**–**	**–**
Total operating income	18,788	(1)	18,787	**19,773**	**5**	**5**
Net insurance claims incurred and movement in liabilities to policyholders	(6,366)	(1)	(6,367)	**(6,570)**	**(3)**	**(3)**
Net operating income[5]	12,422	(2)	12,420	**13,203**	**6**	**6**
LICs[8]	(74)	-	(74)	**(137)**	**(85)**	**(85)**
Net operating income	12,348	(2)	12,346	**13,066**	**6**	**6**
Operating expenses	(4,848)	-	(4,848)	**(5,045)**	**(4)**	**(4)**
Operating profit	7,500	(2)	7,498	**8,021**	**7**	**7**
Income from associates[11]	82	1	83	**68**	**(17)**	**(18)**
Profit before tax	7,582	(1)	7,581	**8,089**	**7**	**7**

For footnotes, see page 32.

Reconciliation of reported and underlying items – Hong Kong

	Year ended 31 December		
	2013	2012	Change[2]
	US$m	US$m	%
Net interest income			
Reported	**5,993**	5,316	13
Currency translation adjustment[1]		–	
Acquisitions, disposals and dilutions	**–**	(9)	
Underlying	**5,993**	5,307	13
Other operating income			
Reported	**1,791**	1,924	(7)
Currency translation adjustment[1]		(2)	
Acquisitions, disposals and dilutions	**–**	(375)	
Underlying	**1,791**	1,547	16
Revenue[5]			
Reported	**13,203**	12,422	6
Currency translation adjustment[1]		(2)	
Own credit spread[3]	**–**	–	
Acquisitions, disposals and dilutions	**–**	(445)	
Underlying	**13,203**	11,975	10
LICs[8]			
Reported	**(137)**	(74)	(85)
Currency translation adjustment[1]		–	
Acquisitions, disposals and dilutions	**–**	–	
Underlying	**(137)**	(74)	(85)
Operating expenses			
Reported	**(5,045)**	(4,848)	(4)
Currency translation adjustment[1]		–	
Acquisitions, disposals and dilutions	**–**	34	
Underlying	**(5,045)**	(4,814)	(5)
Underlying cost efficiency ratio	**38.2%**	40.2%	
Profit before tax			
Reported	**8,089**	7,582	7
Currency translation adjustment[1]		(1)	
Own credit spread[6]	**–**	–	
Acquisitions, disposals and dilutions	**–**	(420)	
Underlying	**8,089**	7,161	13

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

Rest of Asia-Pacific

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	5,391	(119)	5,272	**5,439**	**1**	**3**
Net fee income	2,083	(77)	2,006	**2,059**	**(1)**	**3**
Net trading income	1,053	(56)	997	**456**	**(57)**	**(54)**
Own credit spread[3]	(3)	–	(3)	**(1)**	**67**	**67**
Other income/(expense) from financial instruments designated at fair value	109	2	111	**57**	**(48)**	**(49)**
Net income/(expense) from financial instruments designated at fair value	106	2	108	**56**	**(47)**	**(48)**
Gains on disposal of Ping An	3,012	–	3,012	**–**	**(100)**	**(100)**
Gains less losses from financial investments	16	(1)	15	**1,222**	**7,538**	**8,047**
Net earned insurance premiums	812	(1)	811	**837**	**3**	**3**
Other operating income (including dividend income)	1,829	(237)	1,592	**2,635**	**44**	**66**
Total operating income	14,302	(489)	13,813	**12,704**	**(11)**	**(8)**
Net insurance claims incurred and movement in liabilities to policyholders	(718)	1	(717)	**(726)**	**(1)**	**(1)**
Net operating income[5]	13,584	(488)	13,096	**11,978**	**(12)**	**(9)**
LICs[8]	(436)	12	(424)	**(361)**	**17**	**15**
Net operating income	13,148	(476)	12,672	**11,617**	**(12)**	**(8)**
Operating expenses	(5,806)	204	(5,602)	**(5,640)**	**3**	**(1)**
Operating profit	7,342	(272)	7,070	**5,977**	**(19)**	**(15)**
Income from associates[11]	3,106	45	3,151	**1,787**	**(42)**	**(43)**
Profit before tax	10,448	(227)	10,221	**7,764**	**(26)**	**(24)**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**5,439**	5,391	1
Currency translation adjustment[1]		(119)	
Own credit spread[3]	**1**	3	
Acquisitions, disposals and dilutions	**–**	(22)	
Underlying	**5,440**	5,253	4
Other operating income			
Reported other operating income	**2,633**	1,823	44
Currency translation adjustment[1]		(233)	
Acquisitions, disposals and dilutions	**(1,139)**	(299)	
Underlying	**1,494**	1,291	
Revenue[5]			
Reported revenue	**11,978**	13,584	(12)
Currency translation adjustment[1]		(488)	
Own credit spread[3]	**1**	3	
Acquisitions, disposals and dilutions	**(1,139)**	(3,342)	
Underlying	**10,840**	9,757	11
LICs[8]			
Reported LICs	**(361)**	(436)	17
Currency translation adjustment[1]		12	
Acquisitions, disposals and dilutions	**–**	(2)	
Underlying	**(361)**	(426)	15
Operating expenses			
Reported operating expenses	**(5,640)**	(5,806)	3
Currency translation adjustment[1]		204	
Acquisitions, disposals and dilutions	**72**	111	
Underlying	**(5,568)**	(5,491)	(1)
Underlying cost efficiency ratio	**51.4%**	56.3%	
Share of profit in associates and joint ventures			
Reported	**1,787**	3,106	(42)
Currency translation adjustment[1]		45	
Acquisitions, disposals and dilutions	**(19)**	(1,416)	
Underlying	**1,768**	1,735	2
Profit before tax			
Reported profit before tax	**7,764**	10,448	(26)
Currency translation adjustment[1]		(227)	
Own credit spread[3]	**1**	3	
Acquisitions, disposals and dilutions	**(1,086)**	(4,649)	
Underlying	**6,679**	5,575	20

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

Middle East and North Africa

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	1,470	(43)	1,427	**1,486**	**1**	**4**
Net fee income	595	(11)	584	**622**	**5**	**7**
Net trading income	390	(9)	381	**357**	**(8)**	**(6)**
Own credit spread[3]	(12)	–	(12)	**(4)**	**67**	**67**
Other income/(expense) from financial instruments designated at fair value	–	–	–	**2**		
Net income/(expense) from financial instruments designated at fair value	(12)	–	(12)	**(2)**	**83**	**83**
Gains less losses from financial investments	9	–	9	**(18)**		
Net earned insurance premiums	–	–	–	**–**		
Other operating income/(expense) (including dividend income)	(22)	–	(22)	**58**		
Total operating income	2,430	(63)	2,367	**2,503**	**3**	**6**
Net insurance claims incurred and movement in liabilities to policyholders	–	–	–	**–**		
Net operating income[5]	2,430	(63)	2,367	**2,503**	**3**	**6**
LICs[8]	(286)	4	(282)	**42**		
Net operating income	2,144	(59)	2,085	**2,545**	**19**	**22**
Operating expenses	(1,166)	23	(1,143)	**(1,289)**	**(11)**	**(13)**
Operating profit	978	(36)	942	**1,256**	**28**	**33**
Income from associates[11]	372	–	372	**438**	**18**	**18**
Profit before tax	1,350	(36)	1,314	**1,694**	**25**	**29**

For footnotes, see page 32.

Reconciliation of reported and underlying items – Middle East and North Africa

	Year ended 31 December		
	2013 US$m	2012 US$m	Change[2] %
Net interest income			
Reported net interest income	**1,486**	1,470	1
Currency translation adjustment[1]		(43)	
Acquisitions, disposals and dilutions	**–**	(8)	
Underlying	**1,486**	1,419	5
Other operating income			
Reported other operating income	**49**	(27)	
Currency translation adjustment[1]		–	
Acquisitions, disposals and dilutions	**–**	64	
Underlying	**49**	37	32
Revenue[5]			
Reported revenue	**2,503**	2,430	3
Currency translation adjustment[1]		(63)	
Own credit spread[3]	**4**	12	
Acquisitions, disposals and dilutions	**–**	3	
Underlying	**2,507**	2,382	5
LICs[8]			
Reported LICs	**42**	(286)	
Currency translation adjustment[1]		4	
Acquisitions, disposals and dilutions	**–**	–	
Underlying	**42**	(282)	
Operating expenses			
Reported operating expenses	**(1,289)**	(1,166)	(11)
Currency translation adjustment[1]		23	
Acquisitions, disposals and dilutions	**–**	15	
Underlying	**(1,289)**	(1,128)	(14)
Underlying cost efficiency ratio	**51.4%**	47.4%	
Profit before tax			
Reported profit before tax	**1,694**	1,350	25
Currency translation adjustment[1]		(36)	
Own credit spread[3]	**4**	12	
Acquisitions, disposals and dilutions	**–**	18	
Underlying	**1,698**	1,344	26

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

North America

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	8,117	(42)	8,075	**5,742**	**(29)**	**(29)**
Net fee income	2,513	(18)	2,495	**2,143**	**(15)**	**(14)**
Net trading income	507	(6)	501	**948**	**87**	**89**
Own credit spread[3]	(1,090)	–	(1,090)	**(226)**	**79**	**79**
Other income/(expense) from financial instruments designated at fair value	(129)	–	(129)	**(62)**	**52**	**52**
Net income/(expense) from financial instruments designated at fair value	(1,219)	–	(1,219)	**(288)**	**76**	**76**
Gains on disposal of US branch network and US cards business	4,012	–	4,012	**–**	**(100)**	**(100)**
Gains less losses from financial investments	251	(1)	250	**294**	**17**	**18**
Net earned insurance premiums	193	–	193	**34**	**(82)**	**(82)**
Other operating income/(expense) (including dividend income)	467	3	470	**(31)**		
Total operating income	14,841	(64)	14,777	**8,842**	**(40)**	**(40)**
Net insurance claims incurred and movement in liabilities to policyholders	(148)	–	(148)	**(39)**	**74**	**74**
Net operating income[5]	14,693	(64)	14,629	**8,803**	**(40)**	**(40)**
LICs[8]	(3,457)	6	(3,451)	**(1,197)**	**65**	**65**
Net operating income	11,236	(58)	11,178	**7,606**	**(32)**	**(32)**
Operating expenses	(8,940)	30	(8,910)	**(6,416)**	**28**	**28**
Operating profit	2,296	(28)	2,268	**1,190**	**(48)**	**(48)**
Income from associates[11]	3	–	3	**31**	**933**	**933**
Profit before tax	2,299	(28)	2,271	**1,221**	**(47)**	**(46)**

For footnotes, see page 32.

Reconciliation of reported and underlying items – North America

	Year ended 31 December		
	2013	2012	Change[2]
	US$m	US$m	%
Net interest income			
Reported net interest income	**5,742**	8,117	(29)
Currency translation adjustment[1]		(42)	
Acquisitions, disposals and dilutions	**(14)**	(1,433)	
Underlying	**5,728**	6,642	(14)
Other operating income			
Reported other operating income	**(108)**	406	
Currency translation adjustment[1]		3	
Acquisitions, disposals and dilutions	**97**	(134)	
Underlying	**(11)**	275	
Revenue[5]			
Reported revenue	**8,803**	14,693	(40)
Currency translation adjustment[1]		(64)	
Own credit spread[3]	**226**	1,090	
Acquisitions, disposals and dilutions	**89**	(5,982)	
Underlying	**9,118**	9,737	(6)
LICs[8]			
Reported LICs	**(1,197)**	(3,457)	65
Currency translation adjustment[1]		6	
Acquisitions, disposals and dilutions	**–**	325	
Underlying	**(1,197)**	(3,126)	62
Operating expenses			
Reported operating expenses	**(6,416)**	(8,940)	28
Currency translation adjustment[1]		30	
Acquisitions, disposals and dilutions	**14**	796	
Underlying	**(6,402)**	(8,114)	21
Underlying cost efficiency ratio	**70.2%**	83.3%	
Profit/(loss) before tax			
Reported profit before tax	**1,221**	2,299	(47)
Currency translation adjustment[1]		(28)	
Own credit spread[3]	**226**	1,090	
Acquisitions, disposals and dilutions	**103**	(4,861)	
Underlying	**1,550**	(1,500)	

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Geographical regions

Latin America

Reconciliation of reported and constant currency profit/(loss) before tax

	2012 as reported US$m	Currency translation adjustment[1] US$m	2012 at 2013 exchange rates US$m	**2013 as reported US$m**	**Reported change[2] %**	**Constant currency change[2] %**
Net interest income	6,984	(440)	6,544	**6,186**	**(11)**	**(5)**
Net fee income	1,735	(98)	1,637	**1,701**	**(2)**	**4**
Net trading income	971	(74)	897	**936**	**(4)**	**4**
Own credit spread[3]	–	–	–	**–**		
Other income/(expense) from financial instruments designated at fair value	667	(67)	600	**326**	**(51)**	**(46)**
Net income/(expense) from financial instruments designated at fair value	667	(67)	600	**326**	**(51)**	**(46)**
Gains less losses from financial investments	227	(11)	216	**82**	**(64)**	**(62)**
Net earned insurance premiums	2,452	(203)	2,249	**1,830**	**(25)**	**(19)**
Other operating income (including dividend income)	268	(49)	219	**1,124**	**319**	**413**
Total operating income	13,304	(942)	12,362	**12,185**	**(8)**	**(1)**
Net insurance claims incurred and movement in liabilities to policyholders	(2,353)	217	(2,136)	**(1,617)**	**31**	**24**
Net operating income[5]	10,951	(725)	10,226	**10,568**	**(3)**	**3**
LICs[8]	(2,137)	164	(1,973)	**(2,666)**	**(25)**	**(35)**
Net operating income	8,814	(561)	8,253	**7,902**	**(10)**	**(4)**
Operating expenses	(6,430)	388	(6,042)	**(5,930)**	**8**	**2**
Operating profit	2,384	(173)	2,211	**1,972**	**(17)**	**(11)**
Income from associates[11]	–	–	–	**–**	**–**	**–**
Profit before tax	2,384	(173)	2,211	**1,972**	**(17)**	**(11)**

For footnotes, see page 32.

Reconciliation of reported and underlying items

	Year ended 31 December		
	2013	2012	Change[2]
	US$m	US$m	%
Net interest income			
Reported net interest income	**6,186**	6,984	(11)
Currency translation adjustment[1]		(440)	
Acquisitions, disposals and dilutions	**(277)**	(561)	
Underlying	**5,909**	5,983	(1)
Other operating income			
Reported other operating income	**1,115**	253	341
Currency translation adjustment[1]		(48)	
Acquisitions, disposals and dilutions	**(1,123)**	(14)	
Underlying	**(8)**	191	
Revenue[5]			
Reported revenue	**10,568**	10,951	(3)
Currency translation adjustment[1]		(725)	
Acquisitions, disposals and dilutions	**(1,495)**	(805)	
Underlying	**9,073**	9,421	(4)
LICs[8]			
Reported LICs	**(2,666)**	(2,137)	(25)
Currency translation adjustment[1]		164	
Acquisitions, disposals and dilutions	**32**	53	
Underlying	**(2,634)**	(1,920)	(37)
Operating expenses			
Reported operating expenses	**(5,930)**	(6,430)	8
Currency translation adjustment[1]		388	
Acquisitions, disposals and dilutions	**239**	488	
Underlying	**(5,691)**	(5,554)	(2)
Underlying cost efficiency ratio	**62.7%**	59.0%	
Profit before tax			
Reported profit before tax	**1,972**	2,384	(17)
Currency translation adjustment[1]		(173)	
Acquisitions, disposals and dilutions	**(1,224)**	(264)	
Underlying	**748**	1,947	(62)

For footnotes, see page 32.

Constant currency and underlying reconciliations (continued)

Global businesses

Reconciliation of reported to underlying average risk-weighted assets

Global businesses

Retail Banking and Wealth Management

	2013 US$bn	2012 US$bn	Change %
Average reported RWAs	**251.5**	313.8	(20)
Currency translation adjustment[1]	**–**	(1.7)	
Acquisitions, disposals and dilutions	**(2.8)**	(31.3)	
Average underlying RWAs	**248.7**	280.8	(11)

Commercial Banking

	2013 US$bn	2012 US$bn	Change %
Average reported RWAs	**388.7**	396.8	(2)
Currency translation adjustment[1]	**–**	(1.7)	
Acquisitions, disposals and dilutions	**(8.9)**	(43.7)	
Average underlying RWAs	**379.8**	351.4	8

Global Banking and Markets

	2013 US$bn	2012 US$bn	Change %
Average reported RWAs	**416.8**	412.4	1
Currency translation adjustment[1]	**–**	(2.6)	
Acquisitions, disposals and dilutions	**(3.6)**	(11.7)	
Average underlying RWAs	**413.2**	398.1	4

Global Private Banking

	2013 US$bn	2012 US$bn	Change %
Average reported RWAs	**21.8**	22.1	(1)
Currency translation adjustment[1]	**–**	(0.1)	
Acquisitions, disposals and dilutions	**–**	(0.1)	
Average underlying RWAs	**21.8**	21.9	(1)

For footnote, see page 32.

Constant currency and underlying reconciliations (continued)

Global businesses

Footnotes to Reconciliations of non-GAAP financial measures

1 *'Currency translation on adjustment' is the effect of translating the results of subsidiaries and associates for the previous year at the average rates of exchange applicable in the current year.*
2 *Positive numbers are favourable: negative numbers are unfavourable.*
3 *Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the fair value changes due to own credit spread on structured notes issued, derivatives and other hybrid instruments included within trading liabilities.*
4 *Net insurance claims incurred and movement in liabilities to shareholders.*
5 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as 'revenue'.*
6 *The operating results of these disposals were removed from underlying results in addition to disposal gains and losses.*
7 *The operating results of these disposals and acquisitions were not removed from underlying results as they were not significant.*
8 *Loan impairment charges and other credit risk provisions.*
9 *Other income in this context comprises where applicable net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.*
10 *In 2013, Markets included an [adverse/favourable] fair value movement of US$[ ]m on the widening of credit spreads on structured liabilities (2012: adverse fair value movement of US$629m).*
11 *In each Group entity, Balance Sheet Management is responsible for managing liquidity and funding under the supervision of the local Asset and Liability Management Committee. Balance Sheet Management also manages the structural interest rate position of the entity within a Global Markets limit structure. Balance Sheet Management revenues include notional tax credits on income earned from tax-exempt investments of US$[ ]m in 2013 and US$116m in 2012, which are offset within 'Other'.*
12 *'Other' in GB&M includes net interest earned on free capital held in the global business not assigned to products allocated funding costs and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRS basis, the offset to these tax credits are included within 'Other'.*

Basel III implementation and CRD IV

(Unaudited)

In June 2013, the European Commission published the final Regulation and Directive, known collectively as CRD IV, to give effect to the Basel III framework in the EU. This came into effect on 1 January 2014.

In December 2013, the PRA issued its final rules on CRD IV in PS 7/13, which transposes the various areas of national discretion within the final CRD IV legislation in the UK. Despite these final PRA rules further PRA consultations are due in 2014 for CRD IV capital buffers and Pillar 2.

In addition, many technical standards and guidelines have been issued by the EBA in draft form for consultation or are pending publication in 2014. These must be adopted by the European Commission to become legally enforceable, which provides further uncertainty as to the capital requirements under CRD IV.

Following publication of the final CRD IV rules and UK national discretions, in order to provide transparency to the way we manage our transition to Basel III under CRD IV, we set out information for investors on the estimated effects of these rules on our CET1 capital position in the table on page 34.

This is supplemented by a table on page 35 which presents a reconciliation of our reported core tier 1 capital and RWAs to our estimated CET1 end point capital and estimated RWAs at 31 December 2013. The position at 31 December 2013 is compared with that at 31 December 2012, where the estimated effect was based on the earlier July 2011 draft CRD IV text. The capital position is presented on an end-point definition of CET1 capital, applying all deductions and regulatory adjustments to CET1 capital in full, as they would apply at the end of the transitional period.

The tables quantify the capital and RWA impacts currently known and are based on our interpretation of the final CRD IV regulation and final rules issued by PRA, as supplemented by regulatory guidance.

The effects of draft EBA standards are not captured in our numbers. These could have additional, potentially significant effects on our capital position and RWAs.

For the detailed basis of preparation, see the Basis of preparation, page 41.

Composition of regulatory capital on an estimated CRD IV end point basis and Year 1 transitional basis
(Unaudited)

	At 31 December 2013 US$m
Shareholders' equity	**164,057**
Shareholders' equity per balance sheet1[1]	**181,871**
Foreseeable interim dividend	**(3,005)**
Preference share premium	**(1,405)**
Other equity instruments	**(5,851)**
Deconsolidation of special purpose entities[2]	**(1,166)**
Deconsolidation of insurance entities	**(6,387)**
Non-controlling interests	**3,644**
Non-controlling interests per balance sheet	**8,588**
Preference share non-controlling interests	**(2,388)**
Non-controlling interests transferred to tier 2 capital	**(488)**
Non-controlling interests in deconsolidated subsidiaries	**(757)**
Surplus non-controlling interest disallowed in CET1	**(1,311)**
Regulatory adjustments to the accounting basis	**782**
Own credit spread[3]	**1,112**
Debit valuation adjustment	**(451)**
Cash flow hedging reserve	**121**
Deductions	**(35,969)**
Goodwill and intangible assets	**(24,899)**
Deferred tax assets that rely on future profitability (excluding those arising from temporary differences)	**(680)**
Defined benefit pension fund assets	**(1,731)**
Additional valuation adjustment (referred to as PVA)	**(2,006)**
Investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives, and index stock)	**(677)**
Excess of expected losses over impairment allowances	**(5,976)**
Common equity tier 1 capital	**132,514**
Transitional adjustment:	**(1,281)**
Unrealised gains arising from revaluation of property	**(1,281)**
Common equity tier 1 capital on year 1 transitional basis	**131,233**

For footnotes, see page 46.

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 has largely decided not to make use of these transitional provisions. This results in a cost to our transitional CET1 ratio, corresponding to the treatment of unrealised gains on investment property, 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, banks should maintain a Pillar 1 tier 1 buffer of 1.5% of RWAs and a tier 2 buffer of 2.0% of RWAs. Going forward, as the grandfathering provisions fall away, we intend to meet these buffers in an economic manner by issuing non-equity capital as necessary. At 31 December 2013, the Group had US$11.7bn of CRD IV compliant, non-equity capital instruments and US$37.8bn 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.

For a full disclosure of the CET1, tier 1 and total capital position on a 'transitional basis' at 31 December 2013, see Appendix III of the Pillar 3 Disclosures 2013 report.

Constant currency and underlying reconciliations (continued)

Basel III implementation and CRD IV

Reconciliation of current rules to CRD IV end point rules

(Unaudited)

	Final text At 31 December 2013		July 2011 text[4] At 31 December 2012	
	RWAs US$m	**Capital US$m**	RWAs US$m	Capital US$m
Reported core tier 1 capital under the current regime		**149,051**		138,789
Regulatory adjustments applied to core tier 1 in respect of amounts subject to CRD IV treatment				
Foreseeable interim dividend		**(3,005)**		–
Deconsolidation of insurance undertakings in reserves		**(6,387)**		–
Surplus non-controlling interest disallowed in CET1		**(1,311)**		(2,299)
Debit valuation adjustment		**(451)**		(372)
Own credit spread on trading liabilities		**75**		–
Removal of filters under current regime:				
– unrealised gains/(losses) on available-for-sale securities		**(2,595)**		(1,223)
– unrealised gains on available-for-sale equities		**1,474**		2,088
– reserves arising from revaluation of property		**1,281**		1,202
Deferred tax liabilities on intangibles		**299**		267
Deferred tax assets that rely on future profitability (excluding those arising from temporary differences)		**(680)**		(456)
Defined benefit pension fund liabilities		**(1,213)**		(1,596)
Additional valuation adjustment (referred to as PVA)		**(2,006)**		(1,720)
Investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives, and index stock)		**(677)**		(1,322)
Excess of expected losses over impairment allowances deducted 100% from CET1		**(2,874)**		(3,084)
Removal of 50% of tax credit adjustment for expected losses		**(151)**		(111)
Securitisations positions risk-weighted under CRD IV		**1,684**		1,776
Deductions under threshold approach				
Amount exceeding the 10% threshold:				
– significant investments in CET1 capital of banks, financial institutions and insurance		**–**		(6,097)
Amount in aggregate exceeding the 15% threshold:				
– significant investments in CET1 capital of banks, financial institutions and insurance		**–**		(2,029)
– deferred tax assets		**–**		(1,310)
Estimated CET1 capital under CRD IV		**132,514**		122,503
Reported total RWAs	**1,092,653**		1,123,943	
Changes to capital requirements introduced by CRD IV				
Amounts in aggregate below 15% threshold and therefore subject to 250% risk weight	**38,713**		45,940	
Credit valuation adjustment	**30,726**		60,360	
Securitisation positions and free deliveries risk-weighted under CRD IV	**42,288**		44,513	
Other movements	**10,559**		17,099	
Estimated total RWAs under CRD IV	**1,214,939**		1,291,855	
Estimated CET1 ratio		**10.9%**		9.5%
Estimated regulatory impact of management actions				
Management actions completed in 2013:				
Dilution of our shareholding in Industrial Bank and the subsequent change in accounting treatment			(38,880)	(2,150)
Completion of the second tranche of the disposal of Ping An			3,522	9,393
Estimated total after management actions completed in 2013			1,256,497	129,746
Estimated CET1 ratio after management actions completed in 2013				10.3%

For footnote, see page 46.

Constant currency and underlying reconciliations (continued)

Basel III implementation and CRD IV

The main effect of the CRD IV final rules compared with those at 31 December 2012, when the estimated impact was based on the earlier July 2011 draft text, is detailed below.

To effect the deduction of significant investments in insurance companies from CET1, consistent with the treatment in our *Interim Report 2013*, we have removed from the Group consolidated reserves the contribution of our insurance business and calculated the amount of the insurance holding deduction, subject to threshold calculations, at cost. The regulatory treatment of insurance holdings was clarified in the final PRA rules set out in PS 7/13. The change in treatment had a negative capital impact of US$6.4bn on our reserves and resulted in the value of our 'significant investments in CET1 capital of banks, financial institutions and insurance' falling below the threshold amounts for deduction.

The estimated amount of capital deduction for non-significant (or 'immaterial') holdings of financial sector entities has changed upon finalisation of the CRD IV text.

At 31 December 2012, we quantified the effect of management actions estimated to be necessary to negate a capital deduction against this item. This followed an interpretation of the draft July 2011 CRD IV text around the restriction in the rules for netting of long and short positions held in the trading book, whereby the maturity of the short position has to match the maturity of the long position, or have a residual maturity of no less than a year.

For our interim results, following confirmation of the legislation, we changed the basis of presentation of the CRD IV estimated capital position, to reflect further regulatory clarification and the anticipated impact of management actions that while contemplated at that time, could not be concluded ahead of final rules. Consequently, the presentation of the capital position at 31 December 2012 was changed to take into account the effect of those management actions on immaterial holdings.

At 31 December 2013, following evolving regulatory discussions, as well as systems enhancements, we have been able to more effectively match our long and short positions under one year maturity. In addition, we have now executed selected management actions to optimise our maturity profile and make best use of matching opportunities. These measures have brought our net long position below the deduction threshold.

The EBA's publication of their final draft regulatory technical standards ('RTS') on 'Own Funds – Part III' on 13 December 2013 elaborates on the capital calculation of holdings of capital instruments of financial sector entities. The draft contains significant change from the initial consultation and is still due for consideration and adoption by the European Commission. We are monitoring developments and depending upon the final standard we will consider the effect, together with any further management actions.

Our CET1 capital ratio at 31 December 2013 was reduced by US$3bn to reflect our prospective fourth interim dividend declared, net of projected scrip dividend, which will be paid in 2014. This represents a change in our basis of preparation to reflect CRD IV final rules.

A notable change compared with our 31 December 2012 estimates relates to the CVA risk capital charge, which decreased to US$30.7bn, mainly as a result of the introduction of exemptions under the final CRD IV rules.

Other movements in our RWAs include residual credit risk items following the finalisation of the rules and their respective systems implementation. The latter will continue as future regulatory proposals are published in finalised form.

For a detailed description of the items above, see the Basis of preparation, page 42.

Leverage ratio

(Unaudited)

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III tier 1 capital divided by total on- and off-balance sheet exposures.

Basel III provides for a transitional period for the introduction of this ratio, comprising a supervisory monitoring period that started in 2011 and a parallel run period from January 2013 to January 2017. The parallel run will be used to assess whether the proposed minimum ratio of 3% is appropriate, with a view to migrating to a Pillar 1 requirement from 1 January 2018.

In November 2013, the PRA issued a supervisory statement on leverage and capital ratios which requires major UK banks from 1 January 2014 to meet a 3% CRD IV end point tier 1 leverage ratio but after taking deductions to reflect the FPC's assessment of expected future losses, future costs

Constant currency and underlying reconciliations (continued)

Basel III and its implementation in Europe

of conduct redress and adjusting for a more prudent calculation of risk weights, as published previously in June 2013.

In January 2014, the Basel Committee published its finalised leverage ratio framework, along with the public disclosure requirements applicable from 1 January 2015. Under CRD IV, the final calibration and legislative proposals are expected to be determined following a review of the revised Basel proposals and the basis of the EBA's assessment of the impact and effectiveness of the leverage ratio during a monitoring period from 1 January 2014 until 30 June 2016.

Monitoring leverage has been part of HSBC's regulatory reporting since December 2010. From the 2012 year end, ahead of the Basel III disclosure timeline, UK banks were required by the PRA to disclose an estimated leverage ratio at year-end and mid-year, using a hybrid of Basel III and CRD IV rules.

In January 2014, the PRA issued a letter to major UK banks setting out the approach to be taken for calculating the leverage ratio for year-end 2013 Pillar 3 disclosures. This confirmed that the calculation of the leverage ratio is conceptually unchanged and will continue to be based on a hybrid of Basel III and CRD IV basis. The numerator is now calculated using the final CRD IV end point tier 1 (rather than draft) capital definition. The calculation of the exposure measure will continue to be based on the December 2010 Basel III text.

It should be noted that this PRA-prescribed basis for disclosing the leverage ratio is not aligned with the November 2013 supervisory statement, the CRD IV final rules or the Basel Committee's final proposals on the Basel III leverage ratio. However, the CRD IV basis is expected to be aligned to Basel during 2014.

For a detailed basis of preparation of the leverage ratio, see the Basis of preparation, page 45.

Estimated leverage ratio

(Unaudited)

	PRA-prescribed basis US$bn
At 31 December 2013	
Total assets per financial balance sheet	2,671
Adjustment to reverse netting of loans and deposits allowable under IFRS	93
Reversal of the accounting values:	(482)
Derivatives	(282)
Repurchase agreement and Securities finance	(200)
Replaced with regulatory values:	386
Derivatives	239
Repurchase agreement and Securities finance	147
Addition of off balance sheet commitments and guarantees:	388
Guarantees and contingent liabilities	85
Commitments	295
Other	8
Exclusion of items already deducted from the capital measure	(28)
Exposure measure after regulatory adjustments	**3,028**
Tier 1 capital under CRD IV (end point)	133
Estimated leverage ratio (end point)	**4.4%**
Tier 1 capital under CRD IV (including instruments that will be ineligible for inclusion after Basel III transitional period has fully elapsed)	149
Estimated leverage ratio (including instruments that will be ineligible for inclusion after Basel III transitional period has fully elapsed)	**4.9%**
At 31 December 2012	
Estimated leverage ratio (end point)	4.2%
Estimated leverage ratio (including instruments that will be ineligible for inclusion after Basel III transitional period has fully elapsed)	4.8%

Constant currency and underlying reconciliations (continued)

Basel III and its implementation in Europe

Future developments

(Unaudited)

UK regulatory update

The UK financial services regulatory structure has undergone substantial reform following the abolition of the FSA and the establishment of three new regulatory bodies on 1 April 2013. These three bodies comprise the FPC, a committee of the Bank of England, the PRA, a subsidiary of the Bank of England and the Financial Conduct Authority ('FCA').

The PRA and the FCA are the supervisors inheriting the majority of the FSA's functions. The FPC is responsible for macro-prudential supervision, focusing on systemic risk that may affect the UK's financial stability.

UK authorities have a number of areas of ongoing regulatory focus. A common theme is the ability of banks' internal models to adequately capture the risk of the portfolio.

During 2013, the PRA proposed a wholesale loss given default ('LGD') and exposure at default ('EAD') framework to UK banks that includes the treatment of low-default portfolios. This imposed LGD and EAD floors based on the foundation approach in the case of portfolios with data quality shortcomings and also those with fewer than 20 events of default per country.

In December 2013, the PRA concluded its review of HSBC and confirmed that the floors should be implemented across a range of portfolios by the end of March 2014. Work is underway to implement the change, which is currently estimated to have a negative impact on our CET1 ratio in the range of 25bps to 35bps.

In December 2013, the PRA issued its Supervisory Statement SS13/13 in relation to Market Risk. This requires firms to identify risks not adequately captured by models and to hold additional funds against those under its Risks not in VaR ('RNIV') framework. In assessing these risks, no offsetting or diversification will be allowed across risk factors. To align with this, we are currently reviewing and revising our methodology.

In July 2013, the EBA published a consultation paper on prudent valuation together with a Quantitative Impact Study. We await the outcome of the EBA consultation process and the finalised standard during 2014.

Systemically important banks

In parallel with the Basel III proposals, the Basel Committee issued a consultative document in July 2011, 'Global systemically important banks: assessment methodology and the additional loss absorbency requirement'. In November 2011, it published its rules and the Financial Stability Board ('FSB') issued the initial list of global systemically important banks ('G-SIB's). This list, which includes HSBC and 28 other major banks from around the world, will be re-assessed periodically through annual re-scoring of the individual banks and a triennial review of the methodology.

The banks included in the list, depending on their relative ranking, will be required to hold a buffer in the form of CET1 capital on a scale between 1% and 2.5%.The requirements, initially for those banks identified as G-SIBs in November 2014, on the basis of end-2013 data, are envisaged to be phased in from 1 January 2016, becoming fully effective on 1 January 2019. However, national regulators have discretion to introduce higher thresholds than the minima.

In July 2013, the Basel Committee issued updated final rules, 'Global systemically important banks: updated assessment methodology and the additional loss absorbency requirement'. Based on this, in November 2013 the FSB and the Basel Committee updated the list of G-SIBs, using end-2012 data. One more institution was added to the list of 28 banking groups identified as G-SIBs in 2012, increasing the overall number to 29. The add-on of 2.5% previously assigned to HSBC was left unchanged.

The EBA is currently consulting on the implementation of the Basel methodology within the EU.

Regulatory capital buffers

CRD IV, in addition to giving effect to the Basel Committee's surcharge for G-SIBs in the form of a global systemically important institutions buffer ('G-SIIB'), establishes a number of additional capital buffers, to be met by CET1 capital, broadly aligned with the Basel III framework. CRD IV contemplates that these will be phased in from 1 January 2016, subject to national discretion.

These new capital requirements include a capital conservation buffer designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred, set at 2.5% of RWAs.

Constant currency and underlying reconciliations (continued)

Basel III and its implementation in Europe

Additionally, CRD IV sets out a systemic risk buffer ('SRB') for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. It is expected that, if such a risk was found to be prevalent, the SRB would be set at a minimum of 1% of the exposures to which it would apply. This is not restricted to exposures within the member state itself. To the extent it would apply at a global level, it is expected that the higher of the G-SIIB and the SRB would apply.

To implement the CRD IV capital buffers in the UK, in August 2013 the PRA issued a consultation proposing changes to the Pillar 2 framework and explaining its interaction with the buffers. Under the Pillar 2 framework, banks are already required to hold capital in respect of the internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is currently met by total capital, and in accordance with PS 7/13, is now to be met 56% by CET1 from 1 January 2015.

The PRA also proposed to introduce a PRA buffer, to replace the current capital planning add-on (known as Pillar 2B), also to be held in the form of CET1 capital.

The PRA buffer is intended to be calculated independently and then compared to the extent to which other CRD IV buffers may already cover the same risks. Depending upon the business undertaken by an individual firm, the PRA has stated its expectation that the capital conservation buffer and relevant systemic buffers should serve a similar purpose to the PRA buffer and therefore be deducted from it.

In PS 7/13, the PRA delayed the publication of the remaining rules on capital buffers, pending confirmation from HM Treasury of the UK authority responsible for setting the systemic buffers. The designated UK authority will have the discretion to set the precise buffer rates above the CRD IV minima and to accelerate the timetable for their implementation.

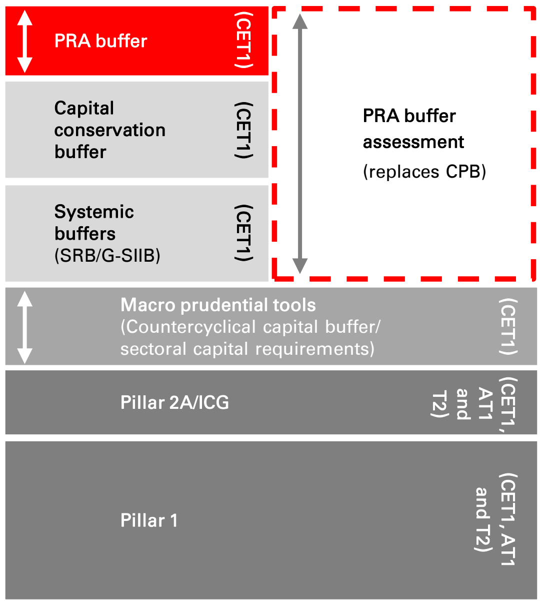
CRD IV also contemplates a cyclical buffer in line with Basel III, in the form of an institution-specific countercyclical capital buffer ('CCB'), to protect against future losses where unsustainable levels of leverage, debt or credit growth pose a systemic threat. Should a CCB be required, it is expected to be set in the range of 0-2.5%, whereby the rate shall consist of the weighted average of the CCB rates that apply in the jurisdictions where relevant exposures are located.

In January 2014, the FPC issued a policy statement on its powers to supplement capital requirements, through use of the CCB and the Sectoral Capital Requirements ('SCR') tools. The CCB allows the FPC to raise capital requirements above the micro-prudential level for all exposures to borrowers in the UK. The SCR is a more targeted tool which allows the FPC to increase capital requirements above minimum regulatory standards for exposures to three broad sectors judged to pose a risk to the stability of the financial system as a whole: residential and commercial property; and other parts of the financial sector, potentially on a global basis.

In October 2013, the Bank of England published a discussion paper 'A framework for stress testing the UK banking system'. The framework replaces the current stress testing for the capital planning buffer with annual concurrent stress tests, the results of which are expected to inform the setting of the PRA buffer, the CCB, sectoral capital requirements and other FPC recommendations to the PRA. The PRA is expected to further consult on Pillar 2, the transition to the PRA buffer and the relationship between the PRA buffer and the stress testing exercise in 2014.

Until outstanding consultations are published and guidance issued, there remains uncertainty as to the interaction between these buffers, the exact buffer rate requirements and the ultimate capital impact.

For a high-level representation of the proposed buffers under the new regime, see figure below.



Constant currency and underlying reconciliations (continued)

Potential effect of regulatory proposals on HSBC's capital requirements

Given the developments outlined above, it remains uncertain what HSBC's final capital requirement will be. However, elements of the capital requirements that are known to date are as follows:

	%
Minimum CET1[5]	4.5
Capital conservation buffer[5]	2.5
G-SIIB buffer (to be phased in up to 2019)[6]	2.5

In December 2011, against the backdrop of eurozone instability, the EBA recommended that banks aim to reach a 9% EBA-defined core tier 1 ratio by the end of June 2012. In July 2013, the EBA replaced the 2011 recapitalisation recommendation with a new measure on capital preservation. This equates for HSBC to US$104bn, compared with actual core tier 1 capital held of US$141bn at 30 June 2013. To monitor this, banks submitted additional reporting and capital plans in November 2013 to demonstrate that appropriate levels of capital are being preserved. The EBA indicated they will review this recommendation by December 2014.

RWA integrity

In July 2013, the Basel Committee published its findings on the 'Analysis of risk-weighted assets for credit risk in the banking book', reporting that while the majority of RWA variability arises from the underlying credit quality of a portfolio, differences also arise from banks' choices under the IRB approach. One of its recommendations to counteract this variance was the introduction of new or increased capital floors.

In parallel with the above and as part of the review of the Basel capital framework, also in July 2013, the Basel Committee published a discussion paper on its findings, 'The regulatory framework: balancing risk sensitivity, simplicity and comparability'. The Basel Committee proposed that a range of measures should be considered, including the possibility of additional floors, as a potential tool to constrain the effect of variation in RWAs derived from internal model outputs, to provide further comfort that banks' risks are adequately capitalised and to make capital ratios more comparable.

In November 2013, the FPC postponed a decision on whether to propose parallel RWA disclosures by UK banks on the Basel standardised approach, pending further assessment by the PRA of the merits, cost and benefits of such a proposition.

In December 2013, the EBA published the final results of its investigation into RWAs in the banking book, aimed at identifying any material difference in RWA outcomes between banks and understanding the sources of such differences. The report concluded that differences in implementation of the IRB approach were linked to differences in practice on the part of both supervisors and banks.

The EBA set out a number of policy recommendations to address its findings. These include enhancing the disclosure and transparency of RWA-related information, supporting supervisors in properly implementing the single rulebook with the delivery of existing mandates set out in CRD IV and developing additional guidance that specifically addresses and facilitates consistency in supervisory and bank practice.

We are reviewing these proposals and aim to further develop the measures that have already been taken to support and provide transparency to our metrics, such as RWA flow analysis (on pages 302 and 303 of the *Annual Report and Accounts 2013*.) and RWA density analysis (on page 36 of the *Pillar 3 Disclosures 2013* report), which reflects our compliance with the EDTF framework.

Structural banking reform

The Independent Commission on Banking ('ICB') published its final report in September 2011 and the UK government expressed broad approval for the principle of establishing a ring-fenced bank for retail banking activities and greater loss absorbing capacity.

In December 2013, the UK's Financial Services (Banking Reform) Act 2013 received Royal Assent, becoming primary legislation. It implements the recommendations of the ICB and of the Parliamentary Commission on Banking Standards, which *inter alia* establish a framework for 'ring-fencing' the UK retail banking from trading activities, and sets out requirements for loss absorbency in the form of equity capital and loss absorbing debt. The PRA, subject to the approval of HM Treasury, is empowered to require banking groups to restructure their operations if it considers that the operation of the ring-fence in a group is proving to be ineffective. The exercise of these powers may lead to groups being required to split their retail and investment banking operations into separate corporate groups. A consultation has also taken place on draft secondary legislation setting out further details but the underlying rules from supervisory authorities are not yet available.

The UK Financial Services (Banking Reform)

Constant currency and underlying reconciliations (continued)

Basel III and its implementation in Europe

Act 2013 also creates a ‘bail-in’ mechanism as an additional resolution tool alongside existing options to transfer all or part of the bank to a private sector purchaser, to transfer parts of the bank to a new 'bridge' bank which is later sold or takes the bank into temporary public sector ownership. In a ‘bail-in’, shareholders and creditors in the bank have their investments written down in value or converted into new interests (such as new shares) without the bank being placed in liquidation. This allows the bank to continue to provide its core banking services without interruption and ensures that the solvency of the bank is addressed without taxpayer support, while also allowing the Bank of England to provide temporary funding to this newly solvent bank. Certain liabilities such as deposits protected by the Financial Services Compensation Scheme are excluded from bail-in. It is intended that these bail-in provisions will be consistent with the European Recovery and Resolution Directive once it comes into force.

The UK government intends to complete the legislative process by the end of this Parliament in May 2015 and to have reforms in place by 2019.

In February 2012, the European Commission appointed a High Level Expert Group under the Governor of the Bank of Finland, Erkki Liikanen, to consider potential structural changes in banks within the EU. The group recommended, *inter alia*, the ring-fencing of certain market-making and trading activities from the deposit-taking and retail payments activities of major banks and possible amendments to the use of bail-in instruments as a resolution tool, as well as a number of other comments.

In January 2014, following a consultation period, the European Commission published its own legislative proposals on the structural reform of the European banking sector which would prohibit proprietary trading in financial instruments and commodities, and enable supervisors to require trading activities such as market-making, complex derivatives and securitisation operations to be undertaken in a separate subsidiary from deposit taking activities.

The ring-fenced deposit taking entity would be subject to separation from the trading entity including capital and management structures, issuance of own debt and arms-length transactions between entities.

The proposals allow for derogation from these requirements for super-equivalent national regimes. On the current basis, it is understood that non-EU subsidiaries of the Group which could be separately resolved without a threat to the financial stability of the EU would be excluded from the proposals.

The proposals will now be subject to discussion in the European Parliament and the Council of Ministers (representing the EU member states) and are not expected to be finalised in 2014. The implementation date for any separation under the final rules would depend upon the date on which the final legislation is agreed. The relationship between the UK, French, German and any EU proposals has still to be clarified (as does the interactivity between any of these proposals and the US Volcker Rule), although the G20 has asked the FSB, in collaboration with the IMF and OECD, to assess the cross-border consistency and global financial stability implications of structural measures, to be completed by the end of 2014.

Constant currency and underlying reconciliations (continued)

Basis of preparation of the estimated effect of the CRD IV end point applied to the 31 December 2013 position

(Unaudited)

The table on page 35 presents a reconciliation of our reported core tier 1 and RWA position at 31 December 2013 to the pro forma estimated CET1 and estimated RWAs based on the Group's interpretation of the final CRD IV legislation and final rules issued by the PRA, supplemented by ongoing regulatory guidance, as applicable. At 31 December 2012, we estimated the impact based on the July 2011 draft CRD IV text.

CRD IV was finalised in June 2013 and came into effect on 1 January 2014. The final text of the legislation contains significant provisions for national discretion and in December 2013 the PRA published Policy Statement PS7/13 containing the final rules and supervisory statements implementing CRD IV in the UK.

Notwithstanding, there remains considerable areas of uncertainty in the legislation, with numerous formal regulatory technical standards ('RTS') and implementing technical standards due for issue by the EBA still to be drafted and finalised by the European Commission, leaving the CRD IV rules subject to significant uncertainty. We have not incorporated the impact of those draft standards in our estimates. Furthermore, PRA consultations on capital buffers and Pillar 2 have been delayed to 2014.

As the transposition of the CRD IV rules in the UK was only published in late December, we are still in the process of upgrading our models and systems used to calculate capital numbers in a CRD IV environment. As a consequence, the estimates include manual adjustments and are subject to change.

Given the above, the final CRD IV impact on the Group's CET1 and RWAs may differ from our current estimates.

The detailed basis of preparation is described below for items that are different from the rules in application as at 31 December 2013 ('Basel II/PRA old regime'). We have also outlined where the basis of preparation has changed from our 31 December 2012 disclosures, principally as a result of publication of PRA's final rules and ongoing regulatory clarification of the rules as understanding evolves.

At 31 December 2013, our estimate of individual non-significant holdings in financial sector entities that are, in aggregate, above 10% of the Group's CET1 capital translates into a net long position amount that is below the threshold for deduction, as a result of management actions executed to optimise our maturity profile and make best use of matching opportunities. Our estimates are based on the CRD IV final rules and ongoing regulatory guidance.

The EBA's publication of their final draft RTS on 'Own Funds – Part III' on 13 December 2013 elaborates on the capital calculation of holdings of capital instruments of financial sector entities. The draft contains significant change from initial consultation and still due for consideration and adoption by the European Commission. This is currently under review and depending upon the final standard we will consider what, if any, further management actions will be possible to mitigate any impact.

To effect the deduction of significant investments in insurance companies from CET1, we have removed from the Group consolidated reserves the contribution of our insurance business and calculated the amount of the insurance holding deduction, subject to threshold calculations, at cost. The regulatory treatment of insurance holdings was clarified in the final PRA rules as set out in PS 7/13.

Following regulatory guidance, our CET1 capital ratio as at 31 December 2013 reflects our prospective fourth interim dividend declared, net of projected scrip dividend, which will be paid in 2014. This represents a change in our basis of preparation.

Key regulatory adjustments applied to core tier 1 in respect of amounts subject to CRD IV treatment

Fourth interim dividend: we have deducted the prospective fourth interim dividend from our CET1 capital at 31 December 2013, following our interpretation of the final rules and regulatory clarification. The amount deducted corresponds to the declared dividend, net of the scrip amount estimated based on our historic planning assumptions. This follows CRD IV final rules and represents a change in the basis of preparation compared with 31 December 2012 as well as the current disclosed capital position under Basel II.

Deconsolidation of insurance undertakings in reserves: under the Basel II/PRA old regime, the Group consolidated reserves include the post-acquisition reserves of our unconsolidated insurance businesses, which is then reflected in the value of the Basel II deduction from tier 1 and tier 2 capital. The CRD IV rules do not consider such a treatment.

Constant currency and underlying reconciliations (continued)

Basel III and its implementation in Europe

However, the PRA stated in PS 7/13 that the treatment contemplated under the PRA old regime was no longer considered appropriate. In accordance with the PRA's final rules, we have therefore excluded the post-acquisition reserves from our CET1 reserves, leaving the investment to be deducted from CET1 (subject to thresholds) valued at cost.

Investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives, and index stock): the value of our holdings of own CET1 instruments, where it is not already deducted under IFRSs, is deducted from CET1. Under CRD IV, this deduction comprises not only direct but also indirect and synthetic, actual and contingent, banking and trading book gross long positions. Trading book positions are calculated net of short positions only where there is no counterparty credit risk on these short positions (this restriction does not apply to short index positions being offset against other index positions).

The EBA's publication of their final draft RTS on 'Own Funds – Part III' on 13 December 2013 elaborates on the capital calculation of holdings of capital instruments of financial sector entities. The draft contains significant change from initial consultation and still due for consideration and adoption by the European Commission. This is currently under review and may change our estimates. Depending upon the final standard we will consider what, if any, management actions will be possible to mitigate any impact.

Under Basel II/PRA old regime, there is no regulatory adjustment made to the amounts already deducted under IFRS rules.

Surplus non-controlling interest disallowed in CET1: non-controlling interests arising from the issue of common shares by our banking subsidiaries receive limited recognition. The excess over the minimum capital requirements of the relevant subsidiary, calculated on the basis of its local reporting as well as its contribution to the parent consolidated requirements, is not allowable in the Group's CET1 capital to the extent it is attributable to minority shareholders.

The final rules require a calculation of the surplus to be undertaken at the sub-consolidated level for each relevant subsidiary. In addition, the calculation of the minimum requirements of the subsidiary includes any additional capital requirements imposed by the local regulations, to the extent those are to be met by CET1 capital.

Under the Basel II/PRA old regime, there is no regulatory restriction applied to minority interests.

Unrealised gains/(losses) on available-for-sale debt securities: under CRD IV, there is no adjustment to remove from CET1 capital unrealised gains and losses on available-for-sale debt securities. The final CRD IV text includes a national discretion for competent authorities to retain a prudential filter for those unrealised gains or losses on exposures to central governments. In PS 7/13, the PRA clarified that they were unlikely to apply such a filter and as a consequence we have not applied such a filter in our estimates.

Under Basel II, both unrealised gains and losses are removed from capital (net of tax).

Unrealised gains on available-for-sale equities and reserves arising from revaluation of property: there is no adjustment for unrealised gains and losses on reserves arising from the revaluation of property and on available-for-sale equities. Under the Basel II/PRA old regime, unrealised net gains on these items are included in tier 2 capital (net of deferred tax) and net losses are deducted from tier 1 capital.

Defined benefit pension fund assets and liabilities: in line with the Basel II/PRA old regime, the amount of retirement benefit assets as reported on the balance sheet is to be deducted from CET1. At 31 December 2013, the amount of retirement benefit liabilities as reported on the balance sheet was fully recognised in CET1 rather than being replaced by any commitment funding plans as allowed under the Basel II/PRA old regime.

Excess of expected losses over impairment allowances deducted 100% from CET1: the amount of excess of expected losses over impairment allowances is deducted 100% from CET1. Under the Basel II/PRA old regime, this amount is deducted 50% from core tier 1 and 50% from total capital.

Removal of 50% of tax credit adjustment for expected losses: the amount of expected losses in excess of impairment allowances that is deducted from CET1 capital is not reduced for any related tax effects. Under the Basel II/PRA old regime, any related tax credit offset is recognised 50% in core tier 1 and 50% in tier 1 capital.

Securitisation positions risk-weighted under CRD IV: securitisation positions that were deducted from core tier 1 under the Basel II/PRA old regime have been included in RWAs at 1,250%.

Deferred tax liabilities on intangibles: the amount of intangible assets deducted from CET1 has been reduced by the related deferred tax liability. Under Basel II, the goodwill and intangible assets are deducted at their accounting value.

Deferred tax assets that rely on future profitability (excluding those arising from temporary differences): the deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted 100% from CET1. The deferred tax assets that rely on future profitability and arise from temporary differences are subject to the separate threshold deduction approach detailed separately. Under Basel II, these items receive a risk weighting of 100%.

Additional valuation adjustment (referred to as prudent valuation adjustment or 'PVA'): under Basel II, banks are required to comply with requirements for prudent and reliable valuation of any balance sheet position measured at market or fair value. Under CRD IV, all assets and derivatives measured at fair value are subject to specified standards for prudent valuation, covering uncertainty around the input factors into the fair value valuation models – namely, uncertainty around the mark-to-market of positions, model risk, valuation of less liquid positions and credit valuation adjustments.

Where the accounting fair value calculated under IFRSs is higher than the valuation amount resulting from the application of the prudential adjustments, this would result in an additional valuation adjustment or PVA deduction from CET1 capital.

Following PRA direction, we have included an estimate of the impact of PVA, on a tax-effected basis, based on our current methodology. However, there is guidance outstanding following ongoing EBA consultation. A new consultation paper was issued by the EBA in July 2013 and a Quantitative Impact Study was launched on 22 July 2013 to assess the effect of the proposals. Further clarity on the requirements following finalisation of the EBA process and discussions with our regulator could potentially change this figure.

Debit valuation adjustment ('DVA'): the amount of all fair value gains and losses on OTC derivative liabilities that results from changes to our own credit spread are derecognised from CET1.

Individually non-significant holdings in CET1 capital of financial sector entities in aggregate above 10% of HSBC CET1: under CRD IV, the investments in CET1 instruments of financial sector entities, where we have a holding of not more than 10% of the CET1 instruments issued by those entities, are deducted from CET1 to the extent the aggregate amount of such holdings exceeds 10% of our CET1 capital (calculated before any threshold deductions).

At 31 December 2012 we had quantified the effect of management actions estimated to be necessary to negate a capital deduction against this item. This followed an interpretation of the draft July 2011 CRD IV rules around the restriction in the rules for netting of long and short positions held in the trading book, whereby the maturity of the short position has to match the maturity of the long position, or have a residual maturity of no less than a year. Consistent with our interim disclosures, we have changed the basis of presentation of the CRD IV estimated capital position as at 31 December 2012 in the table on page 35 to reflect the effect of the management actions deemed necessary at the time.

At 31 December 2013, following publication of CRD IV and evolving regulatory discussions, as well as systems enhancements, we have been able to more effectively match our long and short positions under one year maturity. In addition, we have now executed selected management actions to optimise our maturity profile and make best use of matching opportunities which bring our net long position below the deduction threshold.

The EBA's publication of their final draft RTS on 'Own Funds – Part III' on 13 December 2013 offers clarification on the extent to which we are required to look through holdings in intermediate entities to identify indirect financial sector exposures. This is currently under review and depending upon the final standard we will consider the impact and what, if any, further management actions will be taken.

Deductions under threshold approach: under CRD IV, where we have a holding of more than 10% of the CET1 instruments issued by banks, financial institutions and insurance entities which is not part of our regulatory consolidation, that holding is subject to a threshold deduction approach. Under the Basel II/PRA old regime, these exposures are deducted 50% from tier 1 capital and 50% from total capital, except for certain insurance holdings that met the requirements under the transitional provision of the current rules and until 31 December 2012 that were allowed to be deducted 100% from total capital.

Deferred tax assets that rely on the future profitability of the bank to be realised and which arise from temporary differences are also subject to this threshold deduction approach. Under the Basel II/PRA old regime, these assets would be subject to 100% risk weighting.

Under CRD IV, the amount of such deferred tax assets and significant investments which individually and in aggregate exceed 10% and 15% respectively of our CET1, are fully deducted from CET1 capital. Amounts falling below the 10% and 15% thresholds are risk-weighted at 250%.

Key changes to capital requirements introduced by CRD IV

Credit valuation adjustment ('CVA') risk: introduced as a new requirement under CRD IV rules, this is a capital charge to cover the risk of mark-to-market losses on expected counterparty risk, and is referred to as a regulatory CVA risk capital charge.

Where we have both specific risk VAR approval and internal model method approval for a product, the CVA VAR approach has been used to calculate the CVA capital charge. Where we do not hold both approvals, the standardised approach has been applied. We have estimated our regulatory CVA risk capital charge calculated on a full range of derivative counterparties on the basis of the final CRD IV text, which exempts from the calculation of the CVA risk capital charge certain corporates, retirement benefits pension funds and specific sovereign bodies.

We have identified the counterparties falling under the corporates exemption in a manner consistent with their categorisation for the purposes of related EU regulation concerning mandatory clearing of derivatives. We have also exempted applicable sovereigns.

At 31 December 2012, we had estimated our regulatory CVA risk capital charge based on the draft July 2011 CRD IV text, without any exemptions.

Amounts in aggregate below 15% threshold and therefore subject to 250% risk weight: as explained above, items that fall under the threshold approach treatment under CRD IV, and which are below the 10% and 15% thresholds, are risk-weighted at 250%.

Securitisation positions and free deliveries risk-weighted under CRD IV: securitisation positions which were deducted 50% from core tier 1 and 50% from total capital, and free deliveries (i.e., transactions where payment has been made for securities, foreign currencies or commodities, before receiving them, or where these have been delivered before receiving payment) that were deducted from total capital under current rules, are now included in RWAs at 1,250%.

Other movements: includes residual items following the finalisation of the rules and our continued systems implementation of these.

Notable items relate to changes in counterparty credit risk, such as the increase in the asset value correlation multiplier for financial counterparties, additional requirements for collateralised counterparties, margin period of risk and new requirements for exposures to central counterparties ('CCPs').

Similarly for credit risk, this includes key items such as the increase in the multiplier for financial counterparties, the change in the treatment of deferred tax assets and the confirmation of risk weights for immovable property following PRA final rules.

Leverage ratio: basis of preparation

(Unaudited)

The estimated tier 1 capital figure is based on an 'end point Basel III' definition of tier 1 capital applicable from 1 January 2022, applying the final CRD IV rules published in June 2013. We have calculated our tier 1 capital in accordance with the basis of preparation outlined on page 42. We also disclose an estimated leverage ratio which includes, in our tier 1 capital, instruments that will be ineligible for inclusion after the Basel III transitional period has fully elapsed.

The total exposures are calculated according to the December 2010 Basel III rules text, the instructions for the Basel III July 2012 Quantitative Impact Study, its related Frequently Asked Questions and the PRA's guidance on the methodologies used there. They are based on financial accounting rules for on- and off-balance exposures, adjusted as follows:

- the scope of netting for derivatives and securities financing transactions ('SFTs') is extended to all scenarios where we would recognise a netting agreement for Basel II regulatory purposes, except for cross-product netting

Constant currency and underlying reconciliations (continued)

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which is not permitted. For SFTs, only cash payables and receivables are netted and not securities provided or received;

- the inclusion of potential future exposure add-ons for both OTC and exchange-traded derivatives;
- off-balance sheet items are included in full except for commitments that are unconditionally cancellable at any time by HSBC without prior notice, where only 10% of the exposures are included;
- the exclusion of items deducted from the calculation of end point tier 1 capital; and
- for investments in banking associates that are equity accounted in the financial accounting consolidation but proportionally consolidated for regulatory purposes, the accounting treatment is used.

It should be noted that this PRA-prescribed basis for disclosing the leverage ratio is not at this time aligned with the November 2013 supervisory statement, the CRD IV final rules or the Basel Committee's final proposals on the Basel III leverage ratio

Footnotes to Capital

1 *Includes externally verified profits for the year ended 31 December 2013.*
2 *Mainly comprises unrealised gains/losses on available-for-sale debt securities related to SPEs.*
3 *Includes own credit spread on trading liabilities.*
4 *The basis of preparation for the calculation of the CET1 ratio is detailed on page 42. The CET1 ratio presented for 31 December 2012 has changed from the presentation in the* Annual Report and Accounts 2012 *and is shown post anticipated management actions to mitigate capital deductions for non-significant holdings of financial sector entities, consistent with the* Interim Report 2013. *Selected management actions have since been undertaken.*
5 *In November 2013, the PRA published its expectations that from 1 January 2014, capital resources should be held equivalent to at least 7% of risk-weighted assets using a Basel III end point definition of CET1 but after taking into account any adjustments set by the PRA to reflect the FPC's capital shortfall exercise recommendations. We assume but it has not yet been confirmed that the 7% equates to the 4.5% minimum CET1and the 2.5% capital conservation buffer requirements.*
6 *The systemic buffers are still pending transposition in the UK.*