

HSBC HOLDINGS PLC

RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

31 December 2014

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Abbreviation

The following abbreviations appear in this:

CMB	Commercial Banking
CML	Consumer and Mortgage Lending
CRS	Card and Retail Services
FHFA	Federal Housing Finance Agency
GAAP	Generally accepted accounting principles
GB&M	Global Banking and Markets
GPB	Global Private Banking
IFRSs	International Financial Reporting Standards
LICs	Loan improvement charges and other credit risk provisions
MENA	Middle East and North Africa
PVIF	Present value of in-force long-term insurance business
Ping An	Ping An Insurance (Group) Company of China, Ltd
RBWM	Retail Banking and Wealth Management
ROE	Return on equity
ROTE	Return on tangible equity
RWAs	Risk-weighted assets
UK	United Kingdom
US	United States of America

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 345

of our *Annual Report and Accounts 2014*. 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.

Return on Equity and Return on Tangible Equity

ROTE is computed by adjusting reported results for the movements in the present value of in-force long-term insurance business ('PVIF'), impairments of goodwill, and adjusting the reported equity for goodwill, intangibles and PVIF. The adjustment to reported results and

reported equity excludes amounts attributable to non-controlling interests.

The following table details the adjustments made to the reported results and equity:

	2014 US\$m	2013 US\$m	2012 US\$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	13,115	15,631	13,454
Goodwill impairment (net of tax)	–	279	–
Increase in PVIF (net of tax)	(213)	(397)	(537)
Profit attributable to the ordinary shareholders, excl. goodwill impairment and PVIF	12,901	15,513	12,917
Equity			
Average ordinary shareholders' equity excluding preference shares	178,898	169,260	159,564
Effect of Goodwill and intangibles (net of deferred tax)	(23,423)	(24,042)	(24,859)
Effect of PVIF (net of deferred tax)	(4,317)	(3,982)	(3,557)
Average tangible equity	151,158	141,236	131,148
Ratio			
Return on equity	7.3	9.2	8.4
Return on tangible equity	8.5	11.0	9.8

2014 compared with 2013

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items which distort year-on-year comparisons.

Previously we used the non-GAAP financial measure of 'underlying performance', which was calculated by adjusting reported results for the year-on-year effects of currency translation differences, own credit spread and acquisitions, disposals and dilutions. In 2014, we modified our approach to better align it with the way we view our performance internally and with feedback received from investors. Adjusted performance builds on underlying performance by maintaining the adjustment for currency translation differences and incorporating the adjustments for own credit spread and acquisitions, disposals and dilutions into the definition of significant items. We use the term 'significant items' to collectively describe the group of individual adjustments which are excluded from reported results when arriving at adjusted performance. Significant items, which are detailed below, are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business.

We believe adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses year-on-year performance.

We arrive at adjusted performance by excluding from our reported results:

- the year-on-year effects of foreign currency translation differences. This is done by comparing reported results for 2014 with reported results for 2013 retranslated at 2014 exchange rates. The foreign currency translation differences reflect the movements of the US dollar against most major currencies; and
- significant items which distort the year-on-year comparison of reported results by obscuring the underlying factors and trends which affect operations. Significant items include adjustments for own credit spread and acquisitions, disposals and dilutions which were previously part of our underlying measure. The following pages provide further details, including a reconciliation from reported to adjusted results.

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. Disposal of strategic investments other than those included in the above definition would be included in other significant items if material.

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

Use of non-GAAP financial measures (continued)

Disposal gains/(losses) affecting adjusted performance

	Date	Disposal gain/(loss) US\$m
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties ⁷⁰	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holdings ⁷⁰	Mar 2013	104
Household Insurance Group Holding company's disposal of its insurance manufacturing business ⁷⁰	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC's disposal of its property and Casualty Insurance business in Mexico ⁷⁰	Apr 2013	20
HSBC Bank plc's disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA ⁷¹	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited ⁷⁰	May 2013	28
HSBC Bank plc's disposal of HSBC Assurances IARD ⁷¹	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited's disposal of HSBC Life (International) Limited's Taiwan branch operations ⁷¹	June 2013	(36)
HSBC Markets (USA) Inc.'s disposal of its subsidiary, Rutland Plastic Technologies ⁷¹	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd's disposal of its Employee Benefits Insurance business in Singapore ⁷¹	Aug 2013	(8)
HSBC Investment Bank Holdings plc's disposal of its investment in associate FIP Colorado ⁷¹	Aug 2013	(5)
HSBC Investment Bank Holdings plc group's disposal of its investment in subsidiary, Viking Sea Tech ⁷⁰	Aug 2013	54
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A. ⁷¹	Oct 2013	1,107
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Peru) S.A. ⁷¹	Nov 2013	(18)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Paraguay) S.A. ⁷¹	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital ⁷⁰	Dec 2013	(38)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Columbia) S.A. ⁷⁰	Feb 2014	18
Reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence ⁷⁰	Jun 2014	(32)
HSBC Bank Middle East Limited's disposal of its operations in Pakistan ⁷⁰	Oct 2014	(27)

For footnotes, see page 59.

Foreign currency translation differences ('constant currency')

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2014. We exclude the translation differences when using constant currency because it allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for 2013 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

the income statements for 2013 at the average rates of exchange for 2014; and the balance sheet at 31 December 2013 at the prevailing rates of exchange on 31 December 2014.

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 foreign currency translation differences 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.

Use of non-GAAP financial measures (continued)

Other significant items

The following tables detail the impact of other significant

items in 2014 and 2013 for each of our geographical segments and global businesses.

Other significant items affecting adjusted performance – Losses/(gains)

	2014					
	Europe US\$m	Asia US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
Revenue						
Debit valuation adjustment on derivative contracts	234	69	5	16	8	332
Fair value movements on non-qualifying hedges ⁷⁹	235	4	–	302	–	541
Gain on sale of several tranches of real estate secured accounts in the US	–	–	–	(168)	–	(168)
Gain on sale of shareholding in Bank of Shanghai	–	(428)	–	–	–	(428)
Impairment on our investment in Industrial Bank	–	271	–	–	–	271
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	632	–	–	–	–	632
	1,101	(84)	5	150	8	1,180
Operating expenses						
Charge in relation to the settlement agreement with Federal Housing Finance Authority	–	–	–	550	–	550
Settlements and provisions in connection with foreign exchange investigations	1,187	–	–	–	–	1,187
Restructuring and other related costs	123	9	2	28	116	278
Regulatory provisions in GBP	16	49	–	–	–	65
UK customer redress programmes	1,275	–	–	–	–	1,275
	2,601	58	2	578	116	3,355

	2013					
	RBWM US\$m	CMB US\$m	GB&M US\$m	GPB US\$m	Other US\$m	Total US\$m
Revenue						
Debit valuation adjustment on derivative contracts	–	–	332	–	–	332
Fair value movements on non-qualifying hedges ⁷⁹	493	(1)	8	1	40	541
Gain on sale of several tranches of real estate secured accounts in the US	(168)	–	–	–	–	(168)
Gain on sale of shareholding in Bank of Shanghai	–	–	–	–	(428)	(428)
Impairment on our investment in Industrial Bank	–	–	–	–	271	271
Provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	568	24	–	40	–	632
	893	23	340	41	(117)	1,180
Operating expenses						
Charge in relation to the settlement agreement with Federal Housing Finance Authority	17	–	533	–	–	550
Settlements and provisions in connection with foreign exchange investigations	–	–	1,187	–	–	1,187
Restructuring and other related costs	88	37	27	6	120	278
Regulatory provisions in GBP	–	–	–	65	–	65
UK customer redress programmes	992	138	145	–	–	1,275
	1,097	175	1,892	71	120	3,355

Use of non-GAAP financial measures (continued)

	2013					
	Europe US\$m	Asia US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
Revenue						
Net gain on completion of Ping An disposal	–	(553)	–	–	–	(553)
Debit valuation adjustment on derivative contracts	(65)	(40)	(2)	14	(13)	(106)
Fair value movements on non-qualifying hedges ⁷⁹	(297)	32	–	(246)	–	(511)
FX gains relating to sterling debt issued by HSBC Holdings	(442)	–	–	–	–	(442)
Write-off of allocated goodwill relating to the GPB Monaco business	279	–	–	–	–	279
Loss on sale of several tranches of real estate secured accounts in the US	–	–	–	123	–	123
Loss on sale of non-real estate secured accounts in the US	–	–	–	271	–	271
Loss on early termination of cash flow hedges in the US run-off portfolio	–	–	–	199	–	199
Loss on sale of an HFC Bank UK secured loan portfolio	146	–	–	–	–	146
	(379)	(561)	(2)	361	(13)	(594)
Operating expenses						
Restructuring and other related costs	217	86	4	101	75	483
UK customer redress programmes	1,235	–	–	–	–	1,235
Madoff-related litigation costs	298	–	–	–	–	298
Regulatory provisions in GPB	317	35	–	–	–	352
US customer remediation provisions relating to CRS	–	–	–	100	–	100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(430)	–	–	–	–	(430)
	1,637	121	4	201	75	2,038
	RBWM	CMB	GB&M	GPB	Other	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Revenue						
Net gain on completion of Ping An disposal	–	–	–	–	(553)	(553)
Debit valuation adjustment on derivative contracts	–	–	(106)	–	–	(106)
Fair value movements on non-qualifying hedges ⁷⁹	(262)	–	18	–	(267)	(511)
FX gains relating to sterling debt issued by HSBC Holdings	–	–	–	–	(442)	(442)
Write-off of allocated goodwill relating to the GPB Monaco business	–	–	–	279	–	279
Loss on sale of several tranches of real estate secured accounts in the US	123	–	–	–	–	123
Loss on sale of non-real estate secured accounts in the US	271	–	–	–	–	271
Loss on early termination of cash flow hedges in the US run-off portfolio	199	–	–	–	–	199
Loss on sale of an HFC Bank UK secured loan portfolio	146	–	–	–	–	146
	477	–	(88)	279	(1,262)	(594)
Operating expenses						
Restructuring and other related costs	167	31	13	73	199	483
UK customer redress programmes	953	148	134	–	–	1,235
Madoff-related litigation costs	–	–	298	–	–	298
Regulatory provisions in GPB	–	–	–	352	–	352
US customer remediation provisions relating to CRS	100	–	–	–	–	100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(189)	(160)	(81)	–	–	(430)
	1,031	19	364	425	199	2,038

Use of non-GAAP financial measures (continued)

The following table reconciles selected reported items for 2014 and 2013 to adjusted items. Equivalent tables are provided for each of our global businesses and

geographical segments in the Form 20-F filed with the Securities and Exchange Commission ('SEC'), which is available on www.hsbc.com.

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	61,248	64,645	(5)
Currency translation adjustment ⁷⁴		(686)	
Own credit spread ⁷⁵	(417)	1,246	
Acquisitions, disposals and dilutions	(9)	(2,757)	
Other significant items	1,180	(594)	
Adjusted	62,002	61,854	–
LICs			
Reported	(3,851)	(5,849)	34
Currency translation adjustment ⁷⁴		168	
Acquisitions, disposals and dilutions	–	67	
Other significant items	–	–	
Adjusted	(3,851)	(5,614)	31
Total operating expenses			
Reported	(41,249)	(38,556)	(7)
Currency translation adjustment ⁷⁴		348	
Acquisitions, disposals and dilutions	40	488	
Other significant items	3,355	2,038	
Adjusted	(37,854)	(35,682)	(6)
Adjusted cost efficiency ratio	61.1%	57.7%	
Share of profit in associates and joint ventures			
Reported	2,532	2,325	9
Currency translation adjustment ⁷⁴		11	
Acquisitions, disposals and dilutions	–	87	
Other significant items	–	–	
Adjusted	2,532	2,423	4
Profit before tax			
Reported	18,680	22,565	(17)
Currency translation adjustment ⁷⁴		(159)	
Own credit spread ⁷⁵	(417)	1,246	
Acquisitions, disposals and dilutions	31	(2,115)	
Other significant items	4,535	1,444	
Adjusted	22,829	22,981	(1)

For footnotes, see page 59.

Reconciliation of reported and adjusted average risk-weighted assets

	2014 US\$bn	2013 US\$bn	Change %
Average reported RWAs	1,209	1,104	10
Currency translation adjustment ⁷⁷	–	(8)	
Acquisitions, disposals and dilutions	(2)	(21)	
Other significant items	–	(4)	
Average adjusted RWAs	1,207	1,071	13

For footnotes, see page 59

Use of non-GAAP financial measures (continued)

Adjusted profit before tax

	2014 US\$m	2013 US\$m	Change ⁷² %
By global business			
Retail Banking and Wealth Management	7,648	7,959	(4)
Commercial Banking	8,940	7,910	13
Global Banking and Markets	8,114	9,208	(12)
Global Private Banking	738	900	(18)
Other	(2,611)	(2,996)	13
Adjusted profit before tax	22,829	22,981	(1)
By geographical region			
Europe	3,905	4,301	(9)
Asia ⁷⁶	14,635	14,309	2
Middle East and North Africa	1,854	1,673	11
North America	2,111	2,048	3
Latin America	324	650	(50)
Adjusted profit before tax	22,829	22,981	(1)

For footnotes, see page 59.

Reconciliation of reported and adjusted items for 2014

Global businesses

Retail Banking and Wealth Management

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	24,594	26,740	(8)
Currency translation adjustment ⁷⁴		(393)	
Acquisitions, disposals and dilutions	(16)	(572)	
Other significant items	893	477	
Adjusted	25,471	26,252	(3)
LICs			
Reported	(1,819)	(3,227)	44
Currency translation adjustment ⁷⁴		152	
Acquisitions, disposals and dilutions	2	65	
Other significant items	–	–	
Adjusted	(1,817)	(3,010)	40
Operating expenses			
Reported	(17,522)	(17,248)	(2)
Currency translation adjustment ⁷⁴		262	
Acquisitions, disposals and dilutions	21	275	
Other significant items	1,097	1,031	
Adjusted	(16,404)	(15,680)	(5)
Adjusted cost efficiency ratio	64.4%	59.7%	
Share of profit in associates and joint ventures			
Reported	398	384	4
Currency translation adjustment ⁷⁴		–	
Acquisitions, disposals and dilutions	–	13	
Other significant items	–	–	
Adjusted	398	397	–
Profit before tax			
Reported	5,651	6,649	(15)
Currency translation adjustment ⁷⁴		21	
Acquisitions, disposals and dilutions	7	(219)	
Other significant items	1,990	1,508	
Adjusted	7,648	7,959	(4)

Reconciliation of reported and adjusted average risk-weighted assets

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	220	252	(13)
Currency translation adjustment ⁷⁷	–	(2)	
Acquisitions, disposals and dilutions	(1)	(4)	
Other significant items	–	(4)	
Average adjusted RWAs	219	242	(10)

For footnotes, see page 59.

Principal RBWM business

The Principal RBWM business measure excludes the effects of the US run-off portfolio. We believe that looking at the Principal RBWM business without the run-off business allows management to more clearly discuss the cause of material changes from year to year in the

ongoing business and assess the factors and trends in the business which are expected to have a material effect in future years. Tables which reconcile reported RBWM financial measures to Principal RBWM financial measures are provided below.

Reconciliation of reported and adjusted items

US run-off

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	1,337	1,672	(20)
Currency translation adjustment ⁷⁴	–	–	
Acquisitions, disposals and dilutions	–	105	
Other significant items	149	278	
Adjusted	1,486	2,055	(28)
LICs			
Reported	(30)	(705)	96
Currency translation adjustment ⁷⁴	–	–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(30)	(705)	96
Operating expenses			
Reported	(738)	(1,166)	37
Currency translation adjustment ⁷⁴	–	–	
Acquisitions, disposals and dilutions	–	14	
Other significant items	19	113	
Adjusted	(719)	(1,039)	31
Adjusted cost efficiency ratio	48.4%	50.6%	
Profit/(loss) before tax			
Reported	569	(200)	
Currency translation adjustment ⁷⁴	–	–	
Acquisitions, disposals and dilutions	–	120	
Other significant items	168	391	
Adjusted	737	311	137

Reconciliation of reported and adjusted average risk-weighted assets

US run-off

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	67	92	(27)
Currency translation adjustment ⁷⁷	–	–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	(4)	
Average adjusted RWAs	67	88	(24)

Card and Retail Services

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	–	4	(100)
Currency translation adjustment ⁷⁷	–	–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Average adjusted RWAs	–	4	(100)

For footnotes, see page 59.

Principal RBWM⁷⁸

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	23,257	25,068	(7)
Currency translation adjustment ⁷⁴		(393)	
Acquisitions, disposals and dilutions	(16)	(677)	
Significant items			
Other significant items	744	199	
Adjusted	23,985	24,197	(1)
LICs			
Reported	(1,789)	(2,522)	29
Currency translation adjustment ⁷⁴		152	
Acquisitions, disposals and dilutions	2	65	
Other significant items	–	–	
Adjusted	(1,787)	(2,305)	22
Operating expenses			
Reported	(16,784)	(16,082)	(4)
Currency translation adjustment ⁷⁴		262	
Acquisitions, disposals and dilutions	21	261	
Other significant items	1,078	918	
Adjusted	(15,685)	(14,641)	(7)
Adjusted cost efficiency ratio	65.4%	60.5%	
Profit before tax			
Reported	5,082	6,849	(26)
Currency translation adjustment ⁷⁴		21	
Acquisitions, disposals and dilutions	7	(339)	
Other significant items	1,822	1,117	
Adjusted	6,911	7,648	(10)

Reconciliation of reported and adjusted average risk-weighted assets

Principal RBWM

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	152	156	(3)
Currency translation adjustment ⁷⁷	–	(2)	
Acquisitions, disposals and dilutions	–	(4)	
Other significant items	–	–	
Average adjusted RWAs	152	150	1

For footnotes, see page 59.

Commercial Banking

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	16,303	16,365	-
Currency translation adjustment ⁷⁴		(243)	
Acquisitions, disposals and dilutions	(14)	(643)	
Other significant items	23	-	
Adjusted	16,312	15,479	5
LICs			
Reported	(1,675)	(2,384)	30
Currency translation adjustment ⁷⁴		42	
Acquisitions, disposals and dilutions	(2)	2	
Other significant items	-	-	
Adjusted	(1,677)	(2,340)	28
Operating expenses			
Reported	(7,489)	(7,049)	(6)
Currency translation adjustment ⁷⁴		164	
Acquisitions, disposals and dilutions	14	101	
Other significant items	175	19	
Adjusted	(7,300)	(6,765)	(8)
Adjusted cost efficiency ratio	44.8%	43.7%	
Share of profit in associates and joint ventures			
Reported	1,605	1,509	6
Currency translation adjustment ⁷⁴		8	
Acquisitions, disposals and dilutions	-	19	
Other significant items	-	-	
Adjusted	1,605	1,536	4
Profit before tax			
Reported	8,744	8,441	4
Currency translation adjustment ⁷⁴		(29)	
Acquisitions, disposals and dilutions	(2)	(521)	
Other significant items	198	19	
Adjusted	8,940	7,910	13

Reconciliation of reported and adjusted average risk-weighted assets

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	419	389	8
Currency translation adjustment ⁷⁷	-	(3)	
Acquisitions, disposals and dilutions	(1)	(11)	
Other significant items	-	-	
Average adjusted RWAs	418	375	12

For footnotes, see page 59.

Global Banking and Markets

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	17,778	19,176	(7)
Currency translation adjustment ⁷⁴		(62)	
Acquisitions, disposals and dilutions	(12)	(494)	
Other significant items	340	(88)	
Adjusted	18,106	18,532	(2)
LICs			
Reported	(365)	(207)	(76)
Currency translation adjustment ⁷⁴		(23)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(365)	(230)	(59)
Operating expenses			
Reported	(12,028)	(9,960)	(21)
Currency translation adjustment ⁷⁴		(44)	
Acquisitions, disposals and dilutions	5	78	
Other significant items	1,892	364	
Adjusted	(10,131)	(9,562)	(6)
Adjusted cost efficiency ratio	56.0%	51.6%	
Share of profit in associates and joint ventures			
Reported	504	432	17
Currency translation adjustment ⁷⁴		2	
Acquisitions, disposals and dilutions	–	34	
Other significant items	–	–	
Adjusted	504	468	8
Profit before tax			
Reported	5,889	9,441	(38)
Currency translation adjustment ⁷⁴		(127)	
Acquisitions, disposals and dilutions	(7)	(382)	
Other significant items	2,232	276	
Adjusted	8,114	9,208	(12)

Reconciliation of reported and adjusted average risk-weighted assets

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	511	417	23
Currency translation adjustment ⁷⁷	–	(3)	
Acquisitions, disposals and dilutions	(1)	(5)	
Other significant items	–	–	
Average adjusted RWAs	510	409	25

For footnotes, see page 59.

Legacy Credit

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	(2)	149	
Currency translation adjustment ⁷⁴		(3)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(2)	146	
LICs			
Reported	349	206	69
Currency translation adjustment ⁷⁴		7	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	349	213	64
Operating expenses			
Reported	(708)	(170)	
Currency translation adjustment ⁷⁴		(3)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	533	–	
Adjusted	(175)	(173)	(1)
Profit/(loss) before tax			
Reported	(361)	185	
Currency translation adjustment ⁷⁴		1	
Acquisitions, disposals and dilutions	–	–	
Other significant items	533	–	
Adjusted	172	186	(8)

For footnotes, see page 59.

Global Banking and Markets excluding Legacy Credit

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	17,780	19,027	(7)
Currency translation adjustment ⁷⁴		(59)	
Acquisitions, disposals and dilutions	(12)	(494)	
Other significant items	340	(88)	
Adjusted	18,108	18,386	(2)
LICs			
Reported	(714)	(413)	(73)
Currency translation adjustment ⁷⁴		(30)	
Acquisitions, disposals and dilutions	-	-	
Other significant items	-	-	
Adjusted	(714)	(443)	(61)
Operating expenses			
Reported	(11,320)	(9,790)	(16)
Currency translation adjustment ⁷⁴		(41)	
Acquisitions, disposals and dilutions	5	78	
Other significant items	1,359	364	
Adjusted	(9,956)	(9,389)	(6)
Adjusted cost efficiency ratio	55.0%	51.1%	
Profit before tax			
Reported	6,250	9,256	(32)
Currency translation adjustment ⁷⁴		(128)	
Acquisitions, disposals and dilutions	(7)	(382)	
Other significant items	1,699	276	
Adjusted	7,942	9,022	(12)

For footnotes, see page 59.

Global Private Banking

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	2,377	2,439	(3)
Currency translation adjustment ⁷⁴		12	
Acquisitions, disposals and dilutions	–	(5)	
Other significant items	41	279	
Adjusted	2,418	2,725	(11)
LICs			
Reported	8	(31)	
Currency translation adjustment ⁷⁴		(2)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	8	(33)	
Operating expenses			
Reported	(1,778)	(2,229)	20
Currency translation adjustment ⁷⁴		(6)	
Acquisitions, disposals and dilutions	–	4	
Other significant items	71	425	
Adjusted	(1,707)	(1,806)	5
Adjusted cost efficiency ratio	70.6%	66.3%	
Share of profit in associates and joint ventures			
Reported	19	14	36
Currency translation adjustment ⁷⁴		–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	19	14	36
Profit before tax			
Reported	626	193	224
Currency translation adjustment ⁷⁴		4	
Acquisitions, disposals and dilutions	–	(1)	
Other significant items	112	704	
Adjusted	738	900	(18)

Reconciliation of reported and adjusted average risk-weighted assets

	2014 US\$bn	2013 US\$bn	
Average RWAs			
Average reported RWAs	22	22	–
Currency translation adjustment ³³	–	–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Average adjusted RWAs	22	22	–

For footnotes, see page 59.

Other

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	6,365	5,651	13
Currency translation adjustment ⁷⁴		(60)	
Own credit spread ⁷⁵	(417)	1,246	
Acquisitions, disposals and dilutions	33	(1,043)	
Other significant items	(117)	(1,262)	
Adjusted	5,864	4,532	29
Operating expenses			
Reported	(8,601)	(7,796)	(10)
Currency translation adjustment ⁷⁴		32	
Acquisitions, disposals and dilutions	-	30	
Other significant items	120	199	
Adjusted	(8,481)	(7,535)	(13)
Adjusted cost efficiency ratio	144.6%	166.3%	
Loss before tax			
Reported	(2,230)	(2,159)	(3)
Currency translation adjustment ⁷⁴		(28)	
Own credit spread ⁷⁵	(417)	1,246	
Acquisitions, disposals and dilutions	33	(992)	
Other significant items	3	(1,063)	
Adjusted	(2,611)	(2,996)	13

For footnotes, see page 59.

Geographical regions

Europe

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	21,571	20,967	3
Currency translation adjustment ⁷⁴		651	
Own credit spread ⁷⁵	(393)	1,015	
Acquisitions, disposals and dilutions	–	(51)	
Other significant items	1,101	(379)	
Adjusted	22,279	22,203	–
LICs			
Reported	(764)	(1,530)	50
Currency translation adjustment ⁷⁴		(54)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(764)	(1,584)	52
Operating expenses			
Reported	(20,217)	(17,613)	(15)
Currency translation adjustment ⁷⁴		(376)	
Acquisitions, disposals and dilutions	–	28	
Other significant items	2,601	1,637	
Adjusted	(17,616)	(16,324)	(8)
Adjusted cost efficiency ratio	79.1%	73.5%	
Profit before tax			
Reported	596	1,825	(67)
Currency translation adjustment ⁷⁴		221	
Own credit spread ⁷⁵	(393)	1,015	
Acquisitions, disposals and dilutions	–	(18)	
Other significant items	3,702	1,258	
Adjusted	3,905	4,301	(9)

For footnotes, see page 59.

Geographical regions (continued)

Asia⁷⁶

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	23,677	24,432	(3)
Currency translation adjustment ⁷⁴		(280)	
Own credit spread ⁷⁵	4	2	
Acquisitions, disposal and dilutions	32	(1,139)	
Other significant items	(84)	(561)	
Adjusted	23,629	22,454	5
LICs			
Reported	(647)	(498)	(30)
Currency translation adjustment ⁷⁴		18	
Acquisitions, disposal and dilutions	-	-	
Other significant items	-	-	
Adjusted	(647)	(480)	(35)
Operating expenses			
Reported	(10,427)	(9,936)	(5)
Currency translation adjustment ⁷⁴		127	
Acquisitions, disposal and dilutions	-	72	
Other significant items	58	121	
Adjusted	(10,369)	(9,616)	(8)
Adjusted cost efficiency ratio	43.9%	42.8%	
Share of profit in associates and joint ventures			
Reported	2,022	1,855	9
Currency translation adjustment ⁷⁴		14	
Acquisitions, disposal and dilutions	-	82	
Other significant items	-	-	
Adjusted	2,022	1,951	4
Profit before tax			
Reported	14,625	15,853	(8)
Currency translation adjustment ⁷⁴		(121)	
Own credit spread ⁷⁵	4	2	
Acquisitions, disposal and dilutions	32	(985)	
Other significant items	(26)	(440)	
Adjusted	14,635	14,309	2

For footnotes, see page 59.

Geographical regions (continued)

Middle East and North Africa

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	2,548	2,503	2
Currency translation adjustment ⁷⁴		(13)	
Own credit spread ⁷⁵	6	4	
Acquisitions, disposals and dilutions	(14)	(90)	
Other significant items	5	(2)	
Adjusted	2,545	2,402	6
LICs			
Reported	6	42	(86)
Currency translation adjustment ⁷⁴		–	
Acquisitions, disposals and dilutions	(2)	6	
Other significant items	–	–	
Adjusted	4	48	(92)
Operating expenses			
Reported	(1,216)	(1,289)	6
Currency translation adjustment ⁷⁴		6	
Acquisitions, disposals and dilutions	31	65	
Other significant items	2	4	
Adjusted	(1,183)	(1,214)	3
Adjusted cost efficiency ratio	46.5%	50.5%	
Share of profit in associates and joint ventures			
Reported	488	438	11
Currency translation adjustment ⁷⁴		(1)	
Acquisitions, disposal and dilutions	–	–	
Other significant items	–	–	
Adjusted	488	437	12
Profit before tax			
Reported	1,826	1,694	8
Currency translation adjustment ⁷⁴		(8)	
Own credit spread ⁷⁵	6	4	
Acquisitions, disposals and dilutions	15	(19)	
Other significant items	7	2	
Adjusted	1,854	1,673	11

For footnotes, see page 59.

Geographical regions (continued)

North America

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	8,152	8,803	(7)
Currency translation adjustment ⁷⁴		(139)	
Own credit spread ⁷⁵	(34)	225	
Acquisitions, disposals and dilutions	–	89	
Other significant items	150	361	
Adjusted	8,268	9,339	(11)
LICs			
Reported	(322)	(1,197)	73
Currency translation adjustment ⁷⁴		13	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(322)	(1,184)	73
Operating expenses			
Reported	(6,429)	(6,416)	–
Currency translation adjustment ⁷⁴		65	
Acquisitions, disposals and dilutions	–	14	
Other significant items	578	201	
Adjusted	(5,851)	(6,136)	5
Adjusted cost efficiency ratio	70.8%	65.7%	
Profit before tax			
Reported	1,417	1,221	16
Currency translation adjustment ⁷⁴		(63)	
Own credit spread ⁷⁵	(34)	225	
Acquisitions, disposals and dilutions	–	103	
Other significant items	728	562	
Adjusted	2,111	2,048	3

For footnotes, see page 59.

Geographical regions (continued)

Latin America

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	8,272	10,568	(22)
Currency translation adjustment ⁷⁴		(914)	
Own credit spread ⁷⁵	–	–	
Acquisitions, disposals and dilutions	(27)	(1,566)	
Other significant items	8	(13)	
Adjusted	8,253	8,075	2
LICs			
Reported	(2,124)	(2,666)	20
Currency translation adjustment ⁷⁴		191	
Acquisitions, disposals and dilutions	2	61	
Other significant items	–	–	
Adjusted	(2,122)	(2,414)	12
Operating expenses			
Reported	(5,932)	(5,930)	–
Currency translation adjustment ⁷⁴		535	
Acquisitions, disposals and dilutions	9	309	
Other significant items	116	75	
Adjusted	(5,807)	(5,011)	(16)
Adjusted cost efficiency ratio	70.4%	62.1%	
Profit before tax			
Reported	216	1,972	(89)
Currency translation adjustment ⁷⁴		(188)	
Acquisitions, disposals and dilutions	(16)	(1,196)	
Other significant items	124	62	
Adjusted	324	650	(50)

For footnotes, see page 59.

Home markets

UK

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	15,727	14,253	10
Currency translation adjustment ⁷⁴		789	
Own credit spread ⁷⁵	(474)	1,011	
Acquisitions, disposals and dilutions	–	(51)	
Other significant items	827	(637)	
Adjusted	16,080	15,365	5
LICs			
Reported	(214)	(1,003)	79
Currency translation adjustment ⁷⁴		(83)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(214)	(1,086)	80
Operating expenses			
Reported	(15,576)	(12,096)	(29)
Currency translation adjustment ⁷⁴		(455)	
Acquisitions, disposals and dilutions	–	28	
Other significant items	2,553	909	
Adjusted	(13,023)	(11,614)	(12)
Adjusted cost efficiency ratio	81.0%	75.6%	
Profit/(loss) before tax			
Reported	(56)	1,160	
Currency translation adjustment ⁷⁴		251	
Own credit spread ⁷⁵	(474)	1,011	
Acquisitions, disposals and dilutions	–	(18)	
Other significant items	3,380	272	
Adjusted	2,850	2,676	7

For footnotes, see page 59.

Hong Kong

Reconciliation of reported and adjusted items

	2014 US\$m	2013 US\$m	Change ⁷² %
Revenue ⁷³			
Reported	13,844	13,203	5
Currency translation adjustment ⁷⁴		5	
Own credit spread ⁷⁵	1	1	
Acquisitions, disposals and dilutions	–	–	
Other significant items	(120)	2	
Adjusted	13,725	13,211	4
LICs			
Reported	(320)	(137)	(134)
Currency translation adjustment ⁷⁴		–	
Acquisitions, disposals and dilutions	–	–	
Other significant items	–	–	
Adjusted	(320)	(137)	(134)
Operating expenses			
Reported	(5,424)	(5,045)	(8)
Currency translation adjustment ⁷⁴		(1)	
Acquisitions, disposals and dilutions	–	–	
Other significant items	56	41	
Adjusted	(5,368)	(5,005)	(7)
Adjusted cost efficiency ratio	39.1%	37.9%	
Profit before tax			
Reported	8,142	8,089	1
Currency translation adjustment ⁷⁴		3	
Own credit spread ⁷⁵	1	1	
Acquisitions, disposals and dilutions	–	–	
Other significant items	(64)	43	
Adjusted	8,079	8,136	(1)

For footnotes, see page 59.

Other significant items affecting adjusted performance

	2014	
	UK	Hong Kong
Revenue		
Debit valuation adjustment on derivative contracts	203	26
Fair value movements on non-qualifying hedges	(8)	11
Gain on sale of shareholding in Bank of Shanghai	–	(428)
Impairment on our investment in Industrial Bank	–	271
Provision arising from the ongoing review of compliance with the Consumer Credit Act in the UK	632	–
	827	(120)
Operating expenses		
Settlements and provisions in connection with foreign exchange investigations	1,187	–
Restructuring and other related costs	91	7
Regulatory provisions in GPB	–	49
UK customer redress programmes	1,275	–
	2,553	56
	2013	
	UK	Hong Kong
Revenue		
Debit valuation adjustment on derivative contracts	(78)	(12)
Fair value movements on non-qualifying hedges	(263)	14
FX gains relating to sterling debt issued by HSBC Holdings	(442)	–
Loss on sale of an HFC Bank UK secured loan portfolio	146	–
	(637)	2
Operating expenses		
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(430)	–
Restructuring and other related costs	104	6
Regulatory provisions in GPB	–	35
UK customer redress programmes	1,235	–
	909	41

Leverage ratio

Leverage ratio

In January 2014, the Basel Committee published its finalised leverage ratio framework, along with public disclosure requirements applicable from 1 January 2015.

In June 2014, the PRA published its revised expectations in relation to the leverage ratio for major UK banks and building societies, namely that from 1 July 2014, we are expected to meet a 3% end point tier 1 leverage ratio, calculated using the CRD IV definition of capital for the numerator and the Basel 2014 exposure measure for the denominator.

In October 2014, the European Commission adopted a delegated act to establish a common definition of the leverage ratio for EU banks (based on the Basel revised definition). This was published in the EU's Official Journal in January 2015.

Under CRD IV, the legislative proposals and final calibration of the leverage ratio 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, between 1 January 2014 and 30 June 2016.

In January 2015 the PRA issued a letter setting out the approach to be taken for calculating the leverage ratio for 2014 year end disclosures. While the numerator continues to be calculated using the final CRD IV end point tier 1 capital definition, the exposure measure is now calculated based on the EU delegated act (rather than the Basel 2014 definition used in the Interim Report 2014). There is no material difference 2bps as a result of the change in approach. A detailed basis of preparation can be found overleaf.

It should be noted that the UK specific leverage ratio proposals published in November 2014 by the Financial Policy Committee ('FPC') are conceptually different to the Basel and CRD IV leverage frameworks and are not yet in place.

Estimated leverage ratio

(Unaudited)

	EU Delegated Act basis at 31 Dec 2014 US\$bn	Basel III 2010 basis at 31 Dec 2013 US\$bn
Total assets per accounting balance sheet	2,634	2,671
Deconsolidation of insurance/other entities	(104)	
Capital invested in insurance entities	2	
Consolidation of banking associates	194	
Total assets per regulatory/accounting balance sheet	2,726	2,671
Adjustment to reverse netting of loans and deposits allowable under IFRS	38	93
Reversal of accounting values:	(525)	(482)
Derivatives	(345)	(282)
Repurchase agreement and securities finance	(180)	(200)
Replaced with values after applying regulatory rules:		
Derivatives:	166	239
Mark-to-market value	81	69
Deductions of receivables assets for cash variation margin	(82)	
Add-on amounts for potential future exposure	148	170
Exposure amount resulting from the additional treatment for written credit derivatives	19	
Repurchase agreement and securities finance:	188	147
Gross securities financing transactions assets	269	
Netted amounts of cash payables and cash receivables of gross securities financing transactions assets	(89)	
Securities financing transactions assets netted under Basel III 2010 framework		147
Measurement of counterparty risk	8	
Addition of off balance sheet commitments and guarantees:	396	388
Guarantees and contingent liabilities	67	85
Commitments	321	295
Other	8	8
Exclusion of items already deducted from the capital measure	(36)	(28)
Exposure measure after regulatory adjustments	2,953	3,028
Tier 1 capital under CRD IV (end point)	142	133
Estimated leverage ratio (end point)	4.8%	4.4%

Leverage ratio: basis of preparation

The numerator, capital measure, is calculated using the 'end point' definition of tier 1 capital applicable from 1 January 2022, which is set out in the final CRD IV rules. This is supplemented with the EBA's Own Funds' RTS to the extent that these have been published in the EU's Official Journal of the European Commission as at the reporting date, as well as making reference to the PRA Rulebook where appropriate. The denominator, exposure measure, is calculated on the basis of the Leverage Ratio Delegated Act adopted by the European Commission in October 2014 and published in the EU's Official Journal in January 2015, which is aligned to the Basel 2014 leverage ratio framework. This follows the same scope of regulatory consolidation used for the risk-based capital framework, which differs to the 2010 Basel text that required banks to include items using their accounting balance sheet. The exposure measure generally follows the accounting value, adjusted as follows:

- on-balance sheet, non-derivative exposures are included in the exposure measure net of specific provisions or accounting valuation adjustments (e.g. accounting credit valuation adjustments);
- loans are not netted with deposits;
- the scope of netting for derivatives is extended to all scenarios where we would recognise a netting agreement for regulatory purposes;
- the scope for offsetting of cash variation margin against derivative assets and liabilities is extended subject to certain additional conditions including the requirement that the margin be exchanged daily and be in the same currency as the currency of settlement of the derivative contract. For these purposes we have considered this to include any currency that can be used to make payments under the derivative contract, the governing qualifying master netting agreement, or its associated credit support annex. Such offsetting is not permitted under the Basel 2010 text;
- the approach to netting securities financing transactions ('SFT's) is aligned to that permitted under IFRS, though for the purposes of the leverage ratio there is an additional counterparty credit risk add-on to the extent that an SFT is under collateralised. This represents a stricter requirement compared with the Basel 2010 text;
- there is an add-on for potential future exposure for both OTC and exchange-traded derivatives;
- the notional amount of written credit derivatives is included in the exposure measure, subject to offsets for purchased protection. This represents a stricter requirement compared with the Basel 2010 text;
- off-balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors ('CCF's). Depending on the risk category of the exposure a CCF of 10%, 20%, 50% or 100% is applied. In contrast, the Basel 2010 text requires that 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; and
- items deducted from the end point tier 1 capital such as goodwill and intangible assets, are excluded.

2013 compared with 2012

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 334. 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

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2014. We exclude the translation differences when using constant currency because it allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

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.

Reconciliations of non-GAAP financial measures (continued)

Reconciliation of reported and constant currency profit before tax

	2013 compared with 2012					
	2012 as reported	Currency translation adjustment ⁷⁴	2012 at 2013 exchange rates	2013 as reported	Reported change ⁷²	Constant currency change ⁷²
	US\$m	US\$m	US\$m	US\$m	%	%
HSBC						
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 ⁷⁵	(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 ⁸¹	(14,215)	96	(14,119)	(13,692)	(4)	(3)
Net operating income ⁷³	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		
Asia ⁷⁶	18,030	(228)	17,802	15,853	(12)	(11)
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 59.

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. The disposal of investments other than those included in the above definition does 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.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the year-on-year effects of foreign currency translation differences and significant items which distort year-on-year comparisons.

In 2013 we used the non-GAAP financial measure of 'underlying performance', as described above. In 2014, we modified our approach to better align it with the way we view our performance internally and with feedback received from investors. Adjusted performance builds on underlying performance by maintaining the adjustment for currency translation differences and incorporating the adjustments for own credit spread and acquisitions, disposals and dilutions into the definition of significant items. We use the term 'significant items' to collectively describe the group of individual adjustments which are

excluded from reported results when arriving at adjusted performance. Significant items, which are detailed below, are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business.

We believe adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses year-on-year performance.

We arrive at adjusted performance by excluding from our reported results:

- the year-on-year effects of foreign currency translation differences. This is done by comparing reported results for 2013 with reported results for 2012 retranslated at 2013 exchange rates. The foreign currency translation differences reflect the movements of the US dollar against most major currencies; and
- significant items which distort the year-on-year comparison of reported results by obscuring the underlying factors and trends which affect operations. Significant items include adjustments for own credit spread and acquisitions, disposals and dilutions which were previously part of our underlying measure and are as follows for 2013 as compared with 2012.

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

Reconciliations of non-GAAP financial measures (continued)

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 ⁷⁰	Jan 2012	83
The Hongkong and Shanghai Banking Corporation Limited's disposal of RBWM operations in Thailand ⁷⁰	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 ⁷⁰	May 2012	3,148
HSBC Bank USA, N.A.'s disposal of 138 non-strategic branches ⁷⁰	May 2012	661
HSBC Argentina Holdings S.A.'s disposal of its non-life insurance manufacturing subsidiary ⁷⁰	May 2012	102
The Hongkong and Shanghai Banking Corporation Limited's disposal of its private banking business in Japan ⁷⁰	Jun 2012	67
The Hongkong and Shanghai Banking Corporation Limited's disposal of its shareholding in a property company in the Philippines ⁷¹	Jun 2012	130
Hang Seng Bank Limited's disposal of its non-life insurance manufacturing subsidiary ⁷⁰	Jul 2012	46
HSBC Bank USA, N.A.'s disposal of 57 non-strategic branches ⁷⁰	Aug 2012	203
HSBC Asia Holdings B.V.'s investment loss on a subsidiary ⁷⁰	Aug 2012	(85)
HSBC Bank plc's disposal of HSBC Securities SA ⁷¹	Aug 2012	(11)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Credit Zrt ⁷¹	Aug 2012	(2)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Insurance (Ireland) Limited ⁷¹	Oct 2012	(12)
HSBC Europe (Netherlands) B.V.'s disposal of HSBC Reinsurance Limited ⁷¹	Oct 2012	7
HSBC Private Bank (UK) Limited's disposal of Property Vision Holdings Limited ⁷¹	Oct 2012	(1)
HSBC Investment Bank Holdings Limited's disposal of its stake in Havas Havalimanlari Yer Hizmetleri Yatirim Holding Anonim Sirketi ⁷¹	Oct 2012	18
HSBC Insurance (Asia) Limited's disposal of its non-life insurance portfolios ⁷⁰	Nov 2012	117
HSBC Bank plc's disposal of HSBC Shipping Services Limited ⁷¹	Nov 2012	(2)
HSBC Bank (Panama) S.A.'s disposal of its operations in Costa Rica, El Salvador and Honduras ⁷⁰	Dec 2012	(62)
HSBC Insurance Holdings Limited and The Hongkong and Shanghai Banking Corporation Limited's disposal of their shares in Ping An ⁷⁰	Dec 2012	3,012
The Hongkong and Shanghai Banking Corporation Limited's disposal of its shareholding in Global Payments Asia-Pacific Limited ⁷⁰	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 ⁷⁰	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited's disposal of its shareholding in Bao Viet Holdings ⁷⁰	Mar 2013	104
Household Insurance Group Holding company's disposal of its insurance manufacturing business ⁷⁰	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC's disposal of its property and Casualty Insurance business in Mexico ⁷⁰	Apr 2013	20
HSBC Bank plc's disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA ⁷¹	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited ⁷⁰	May 2013	28
HSBC Bank plc's disposal of HSBC Assurances IARD ⁷¹	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited's disposal of HSBC Life (International) Limited's Taiwan branch operations ⁷¹	June 2013	(36)
HSBC Markets (USA) Inc.'s disposal of its subsidiary, Rutland Plastic Technologies ⁷¹	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd's disposal of its Employee Benefits Insurance business in Singapore ⁷¹	Aug 2013	(8)
HSBC Investment Bank Holdings plc's disposal of its investment in associate FIP Colorado ⁷¹	Aug 2013	(5)
HSBC Investment Bank Holdings plc group's disposal of its investment in subsidiary, Viking Sea Tech ⁷⁰	Aug 2013	54
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Panama) S.A. ⁷¹	Oct 2013	1,107
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Peru) S.A. ⁷¹	Nov 2013	(18)
HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Paraguay) S.A. ⁷¹	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital ⁷⁰	Dec 2013	(38)

For footnotes, see page 59.

Acquisition gains/(losses) affecting the underlying performance⁷¹

	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 59.

Reconciliations of non-GAAP financial measures (continued)

The following table reconciles selected reported items for 2013 and 2012 to the underlying basis. For comparison purposes the reconciliations have been updated to additionally reflect the adjusted basis.

The details of other significant items can be found on page 6.

Reconciliation of reported, underlying and adjusted items

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	35,539	37,672	(6)
Currency translation adjustment ⁷⁴		(682)	
Acquisitions, disposals and dilutions	(273)	(2,015)	
Underlying	35,266	34,975	1
Other significant items	–	–	
Adjusted	35,266	34,975	
Other operating income			
Reported	2,632	2,100	25
Currency translation adjustment ⁷⁴		(195)	
Acquisitions, disposals and dilutions	(2,234)	(811)	
Underlying	398	1,094	(64)
Other significant items	819	–	
Adjusted	1,217	1,094	
Revenue⁷³			
Reported	64,645	68,330	(5)
Currency translation adjustment ⁷⁴		(1,341)	
Own credit spread ⁷⁵	1,246	5,215	
Acquisitions, disposals and dilutions	(2,596)	(10,607)	
Underlying	63,295	61,597	3
Other significant items	(594)	17	
Adjusted	62,701	61,614	
LICs			
Reported	(5,849)	(8,311)	30
Currency translation adjustment ⁷⁴		201	
Acquisitions, disposals and dilutions	32	376	
Underlying	(5,817)	(7,734)	25
Other significant items	–	–	
Adjusted	(5,817)	(7,734)	
Total operating expenses			
Reported	(38,556)	(42,927)	10
Currency translation adjustment ⁷⁴		683	
Acquisitions, disposals and dilutions	353	1,490	
Underlying	(38,203)	(40,754)	6
Other significant items	2,038	5,239	
Adjusted	(36,165)	(35,515)	
Underlying cost efficiency ratio	60.4%	66.2%	
Adjusted cost efficiency ratio	57.7%	57.6%	
Share of profit in associates and joint ventures			
Reported	2,325	3,557	(35)
Currency translation adjustment ⁷⁴		45	
Acquisitions, disposals and dilutions	(14)	(1,425)	
Underlying	2,311	2,177	6
Other significant items	–	–	
Adjusted	2,311	2,177	

Reconciliations of non-GAAP financial measures (continued)

	2013 US\$m	2012 US\$m	Change ⁷² %
Profit before tax			
Reported	22,565	20,649	9
Currency translation adjustment ⁷⁴		(412)	
Own credit spread ⁷⁵	1,246	5,215	
Acquisitions, disposals and dilutions	(2,225)	(10,166)	
Underlying	21,586	15,286	41
Other significant items	1,444	5,256	
Adjusted	23,030	20,542	

For footnotes, see page 59.

Reconciliations of non-GAAP financial measures (continued)

The following table details the impact of other significant items in 2013 and 2012 for each of our geographical regions and global businesses.

Other significant items affecting adjusted performance – Losses/(gains)

	2013					
	Europe US\$m	Asia ⁷⁶ US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
Revenue						
Net gain on completion of Ping An disposal	–	(553)	–	–	–	(553)
Debit valuation adjustment on derivative contracts	(65)	(40)	(2)	14	(13)	(106)
Fair value movements on non-qualifying hedges	(297)	32	–	(246)	–	(511)
FX gains relating to sterling debt issued by HSBC Holdings	(442)	–	–	–	–	(442)
Write-off of allocated goodwill relating to the GPB Monaco business	279	–	–	–	–	279
Gain/(loss) on sale of several tranches of real estate secured accounts in the US	–	–	–	123	–	123
Loss on sale of non-real estate secured accounts in the US	–	–	–	271	–	271
Loss on early termination of cash flow hedges in the US run-off portfolio	–	–	–	199	–	199
Loss on sale of an HFC Bank UK secured loan portfolio	146	–	–	–	–	146
	(379)	(561)	(2)	361	(13)	(594)
Operating expenses						
Restructuring and other related costs	217	86	4	101	75	483
UK customer redress programmes	1,235	–	–	–	–	1,235
Madoff-related litigation costs	298	–	–	–	–	298
Regulatory provisions in GPB	317	35	–	–	–	352
US customer remediation provisions relating to CRS	–	–	–	100	–	100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(430)	–	–	–	–	(430)
	1,637	121	4	201	75	2,038
	RBWM	CMB	GB&M	GPB	Other	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Revenue						
Net gain on completion of Ping An disposal	–	–	–	–	(553)	(553)
Revenue						
Debit valuation adjustment on derivative contracts	–	–	(106)	–	–	(106)
Fair value movements on non-qualifying hedges	(262)	–	18	–	(267)	(511)
FX gains relating to sterling debt issued by HSBC Holdings	–	–	–	–	(442)	(442)
Write-off of allocated goodwill relating to the GPB Monaco business	–	–	–	279	–	279
Gain/(loss) on sale of several tranches of real estate secured accounts in the US	123	–	–	–	–	123
Loss on sale of non-real estate secured accounts in the US	271	–	–	–	–	271
Loss on early termination of cash flow hedges in the US run-off portfolio	199	–	–	–	–	199
Loss on sale of an HFC Bank UK secured loan portfolio	146	–	–	–	–	146
	477	–	(88)	279	(1,262)	(594)
Operating expenses						
Restructuring and other related costs	167	31	13	73	199	483
UK customer redress programmes	953	148	134	–	–	1,235
Madoff-related litigation costs	–	–	298	–	–	298
Regulatory provisions in GPB	–	–	–	352	–	352
US customer remediation provisions relating to CRS	100	–	–	–	–	100
Accounting gain arising from change in basis of delivering ill-health benefits in the UK	(189)	(160)	(81)	–	–	(430)
	1,031	19	364	425	199	2,038

Reconciliations of non-GAAP financial measures (continued)

	2012					
	Europe US\$m	Asia ⁷⁶ US\$m	MENA US\$m	North America US\$m	Latin America US\$m	Total US\$m
Revenue						
Debit valuation adjustment on derivative contracts	(303)	(136)	(4)	(58)	(17)	(518)
Fair value movements on non-qualifying hedges	51	51	–	194	–	296
Gain on sale of our shares in Indian banks	–	(314)	–	–	–	(314)
Loss on forward contract relating to Ping An sale	–	553	–	–	–	553
	(252)	154	(4)	136	(17)	17
Operating expenses						
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws	375	–	–	1,546	–	1,921
North America mortgage foreclosure and servicing costs	–	–	–	104	–	104
Restructuring and related costs	299	162	27	221	167	876
UK customer redress charges	2,338	–	–	–	–	2,338
	3,012	162	27	1,871	167	5,239
	RBWM US\$m	CMB US\$m	GB&M US\$m	GPB US\$m	Other US\$m	Total US\$m
Revenue						
Debit valuation adjustment on derivative contracts	–	–	(518)	–	–	(518)
Fair value movements on non-qualifying hedges	193	–	42	(4)	65	296
Gain on sale of our shares in Indian banks	–	–	–	–	(314)	(314)
Loss on forward contract relating to Ping An sale	–	–	–	–	553	553
	193	–	(476)	(4)	304	17
Operating expenses						
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws	–	–	–	–	1,921	1,921
North America mortgage foreclosure and servicing costs	104	–	–	–	–	104
Restructuring and related costs	266	62	63	58	427	876
UK customer redress charges	1,751	258	331	(2)	–	2,338
	2,121	320	394	56	2,348	5,239

For footnotes, see page 59.

Reconciliation of reported to constant currency, underlying and adjusted items for 2013

Global businesses

Retail Banking and Wealth Management

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 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 insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(12,357)	44	(12,313)	(12,107)	2	2
Net operating income ⁷³	33,861	(590)	33,271	26,740	(21)	(20)
LICs	(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)
Share of profit from associates and joint ventures	998	14	1,012	384	(62)	(62)
Profit before tax	9,575	(26)	9,549	6,649	(31)	(30)

For footnotes, see page 59.

Reconciliation of reported, underlying and adjusted items – RBWM

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported net interest income	18,339	20,298	(10)
Currency translation adjustment ⁷⁴		(368)	
Acquisitions, disposals and dilutions	(151)	(1,735)	
Underlying	18,188	18,195	–
Other significant items	–	–	
Adjusted	18,188	18,195	
Other operating income			
Reported other operating income	544	1,472	(63)
Currency translation adjustment ⁷⁴		(33)	
Acquisitions, disposals and dilutions	(312)	(395)	
Underlying	232	1,044	(78)
Other significant items	540	–	
Adjusted	772	1,044	
Revenue⁷³			
Reported revenue	26,740	33,861	(21)
Currency translation adjustment ⁷⁴		(590)	
Acquisitions, disposals and dilutions	(494)	(6,447)	
Underlying	26,246	26,824	(2)
Other significant items	477	193	
Adjusted	26,723	27,017	
LICs			
Reported LICs	(3,227)	(5,515)	41
Currency translation adjustment ⁷⁴		135	
Acquisitions, disposals and dilutions	33	377	
Underlying	(3,194)	(5,003)	36
Other significant items	–	–	
Adjusted	(3,194)	(5,003)	
Operating expenses			
Reported operating expenses	(17,248)	(19,769)	13
Currency translation adjustment ⁷⁴		415	
Acquisitions, disposals and dilutions	203	1,176	
Underlying	(17,045)	(18,178)	6
Other significant items	1,031	2,121	
Adjusted	(16,014)	(16,057)	
Underlying cost efficiency ratio	64.9%	67.8%	
Adjusted cost efficiency ratio	59.9%	59.4%	
Share of profit in associates and joint ventures			
Reported	384	998	(62)
Currency translation adjustment ⁷⁴		14	
Acquisitions, disposals and dilutions	(6)	(670)	
Underlying	378	342	11
Other significant items	–	–	
Adjusted	378	342	
Profit before tax			
Reported profit before tax	6,649	9,575	(31)
Currency translation adjustment ⁷⁴		(26)	
Acquisitions, disposals and dilutions	(264)	(5,565)	
Underlying	6,385	3,984	60
Other significant items	1,508	2,314	
Adjusted	7,893	6,298	

For footnotes, see page 59.

Principal Retail Banking and Wealth Management business⁷⁶

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁸⁰	3,403	(109)	3,294	1,780	(48)	(46)
Net operating income ⁷³	26,648	(590)	26,058	25,068	(6)	(4)
LICs	(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
Share of profit from associates and joint ventures	996	14	1,010	385	(61)	(62)
Profit before tax	7,083	(26)	7,057	6,849	(3)	(3)

For footnotes, see page 59.

Retail Banking and Wealth Management – HSBC Finance

Reconciliation of reported, underlying and adjusted items

	2013 US\$m	2012 US\$m	Change ⁷² %
Revenue ⁷³			
Reported revenue	1,672	7,251	(77)
Acquisitions, disposals and dilutions	105	(4,888)	
Underlying	1,777	2,363	(25)
Other significant items	278	227	
Adjusted	2,055	2,590	
Profit/(loss) before tax			
Reported profit/(loss) before tax	(200)	2,443	
Acquisitions, disposals and dilutions	120	(3,889)	
Underlying	(80)	(1,446)	94
Other significant items	391	323	
Adjusted	311	(1,123)	

For footnote, see page 59.

Commercial Banking

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 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 insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(1,802)	53	(1,749)	(1,545)	15	12
Net operating income ⁷³	16,551	(329)	16,222	16,365	(1)	1
LICs	(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
Share of profit from associates and joint ventures	1,681	25	1,706	1,509	(10)	(12)
Profit before tax	8,535	(96)	8,439	8,441	(1)	–

For footnotes, see page 59.

Reconciliation of reported, underlying and adjusted items – CMB

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported net interest income	10,200	10,361	(2)
Currency translation adjustment ⁷⁴		(220)	
Acquisitions, disposals and dilutions	(92)	(211)	
Underlying	10,108	9,930	2
Other significant items	–	–	
Adjusted	10,108	9,930	
Other operating income			
Reported other operating income	621	536	16
Currency translation adjustment ⁷⁴		(10)	
Acquisitions, disposals and dilutions	(470)	(187)	
Underlying	151	339	(55)
Other significant items	–	–	
Adjusted	151	339	
Revenue⁷³			
Reported revenue	16,365	16,551	(1)
Currency translation adjustment ⁷⁴		(329)	
Acquisitions, disposals and dilutions	(593)	(762)	
Underlying	15,772	15,460	2
Other significant items	–	–	
Adjusted	15,772	15,460	
LICs			
Reported LICs	(2,384)	(2,099)	(14)
Currency translation adjustment ⁷⁴	–	59	
Acquisitions, disposals and dilutions	(1)	–	
Underlying	(2,385)	(2,040)	(17)
Other significant items	–	–	
Adjusted	(2,385)	(2,040)	
Operating expenses			
Reported operating expenses	(7,049)	(7,598)	7
Currency translation adjustment ⁷⁴	–	149	
Acquisitions, disposals and dilutions	63	191	
Underlying	(6,986)	(7,258)	4
Other significant items	19	320	
Adjusted	(6,967)	(6,938)	
Underlying cost efficiency ratio	44.3%	46.9%	
Adjusted cost efficiency ratio	44.2%	44.9%	
Share of profit in associates and joint ventures			
Reported	1,509	1,681	(10)
Currency translation adjustment ⁷⁴		25	
Acquisitions, disposals and dilutions	(10)	(351)	
Underlying	1,499	1,355	11
Other significant items	–	–	
Adjusted	1,499	1,355	
Profit before tax			
Reported profit before tax	8,441	8,535	(1)
Currency translation adjustment ⁷⁴	–	(96)	
Acquisitions, disposals and dilutions	(541)	(922)	
Underlying	7,900	7,517	5
Other significant items	19	320	
Adjusted	7,919	7,837	

For footnotes, see page 59.

Global Banking and Markets

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 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 insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(16)	1	(15)	(3)	81	80
Net operating income ⁷³	18,273	(253)	18,020	19,176	5	6
LICs	(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
Share of profit from associates and joint ventures	824	6	830	432	(48)	(48)
Profit before tax	8,520	(147)	8,373	9,441	11	13

For footnotes, see page 59.

Reconciliation of reported, underlying and adjusted items – GB&M

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported net interest income	6,766	6,960	(3)
Currency translation adjustment ⁷⁴		(127)	
Acquisitions, disposals and dilutions	(26)	(56)	
Underlying	6,740	6,777	(1)
Other significant items	–	–	
Adjusted	6,740	6,777	
Other operating income			
Reported other operating income	670	313	114
Currency translation adjustment ⁷⁴		10	
Acquisitions, disposals and dilutions	(407)	(78)	
Underlying	263	245	7
Other significant items	–	–	
Adjusted	263	245	
Revenue⁷³			
Reported revenue	19,176	18,273	5
Currency translation adjustment ⁷⁴		(253)	
Acquisitions, disposals and dilutions	(460)	(219)	
Underlying	18,716	17,801	5
Other significant items	(88)	(476)	
Adjusted	18,628	17,325	
LICs			
Reported LICs	(207)	(670)	69
Currency translation adjustment ⁷⁴		5	
Acquisitions, disposals and dilutions	–	–	
Underlying	(207)	(665)	69
Other significant items	–	–	
Adjusted	(207)	(665)	
Operating expenses			
Reported operating expenses	(9,960)	(9,907)	(1)
Currency translation adjustment ⁷⁴		95	
Acquisitions, disposals and dilutions	54	107	
Underlying	(9,906)	(9,705)	(2)
Other significant items	364	394	
Adjusted	(9,542)	(9,311)	
Underlying cost efficiency ratio	52.9%	54.5%	
Adjusted cost efficiency ratio	51.2%	53.7%	
Share of profit in associates and joint ventures			
Reported	432	824	(48)
Currency translation adjustment ⁷⁴		6	
Acquisitions, disposals and dilutions	2	(404)	
Underlying	434	426	2
Other significant items	–	–	
Adjusted	434	426	
Profit before tax			
Reported profit before tax	9,441	8,520	11
Currency translation adjustment ⁷⁴		(147)	
Acquisitions, disposals and dilutions	(404)	(516)	
Underlying	9,037	7,857	15
Other significant items	276	(82)	
Adjusted	9,313	7,775	

For footnotes, see page 59.

Global Private Banking

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 from financial instruments designated at fair value	–	–	–	4		
Gains less losses from financial investments	(3)	–	(3)	(3)	–	–
Net insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(40)	(2)	(42)	(37)	8	12
Net operating income ⁷³	3,172	(19)	3,153	2,439	(23)	(23)
LICs	(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)
Share of profit from associates and joint ventures	7	–	7	14	100	100
Profit before tax	1,009	(16)	993	193	(81)	(81)

For footnotes, see page 59.

Reconciliation of reported, underlying and adjusted items – GBP

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported net interest income	1,146	1,294	(11)
Currency translation adjustment ⁷⁴		(6)	
Acquisitions, disposals and dilutions	(4)	(13)	
Underlying	1,142	1,275	(10)
Other significant items	–	–	
Adjusted	1,142	1,275	
Other operating income			
Reported other operating income	(239)	151	
Currency translation adjustment ⁷⁴		(13)	
Acquisitions, disposals and dilutions	(1)	(56)	
Underlying	(240)	82	
Other significant items	279	–	
Adjusted	39	82	
Revenue ⁷³			
Reported revenue	2,439	3,172	(23)
Currency translation adjustment ⁷⁴		(19)	
Acquisitions, disposals and dilutions	(5)	(72)	
Underlying	2,434	3,081	(21)
Other significant items	279	(4)	
Adjusted	2,713	3,077	
LICs			
Reported LICs	(31)	(27)	(15)
Currency translation adjustment ⁷⁴		1	
Acquisitions, disposals and dilutions	–	–	
Underlying	(31)	(26)	(19)
Other significant items	–	–	
Adjusted	(31)	(26)	
Operating expenses			
Reported operating expenses	(2,229)	(2,143)	(4)
Currency translation adjustment ⁷⁴		2	
Acquisitions, disposals and dilutions	4	15	
Underlying	(2,225)	(2,126)	(5)
Other significant items	425	56	
Adjusted	(1,800)	(2,070)	
Underlying cost efficiency ratio	91.4%	69.0%	
Adjusted cost efficiency ratio	66.3%	67.3%	
Profit before tax			
Reported profit before tax	193	1,009	(81)
Currency translation adjustment ⁷⁴		(16)	
Acquisitions, disposals and dilutions	(1)	(57)	
Underlying	192	936	(79)
Other significant items	704	52	
Adjusted	896	988	

For footnotes, see page 59.

Other

Reconciliation of reported and constant currency loss before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁷⁵	(5,215)	12	(5,203)	(1,246)	76	76
Other expense from financial instruments designated at fair value	(248)	7	(241)	(558)	(125)	(132)
Net 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 and benefits paid and movement in liabilities to policyholders	–	–	–	–		
Net operating income ⁷³	2,332	(196)	2,136	5,651	142	165
LICs	–	–	–	–	–	–
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
Share of profit/(loss) from associates and joint ventures	47	–	47	(14)		
Loss before tax	(6,990)	(115)	(7,105)	(2,159)	69	70

For footnotes, see page 59.

Reconciliation of reported, underlying and adjusted items – Other

	2013 US\$m	2012 US\$m	Change ⁷² %
Revenue⁷³			
Reported revenue	5,651	2,332	142
Currency translation adjustment ⁷⁴		(209)	
Own credit spread ⁷⁵	1,246	5,215	
Acquisitions, disposals and dilutions	(1,044)	(3,107)	
Underlying	5,853	4,231	38
Other significant items	(1,262)	304	
Adjusted	4,591	4,535	
Operating expenses			
Reported operating expenses	(7,796)	(9,369)	17
Currency translation adjustment ⁷⁴		81	
Acquisitions, disposals and dilutions	29	1	
Underlying	(7,767)	(9,287)	16
Other significant items	199	2,348	
Adjusted	(7,568)	(6,939)	
Underlying cost efficiency ratio	132.7%	219.5%	
Adjusted cost efficiency ratio	164.8%	153.0%	
Loss before tax			
Reported loss before tax	(2,159)	(6,990)	69
Currency translation adjustment ⁷⁴		(127)	
Own credit spread ⁷⁵	1,246	5,215	
Acquisitions, disposals and dilutions	(1,015)	(3,106)	
Underlying	(1,928)	(5,008)	62
Other significant items	(1,063)	2,652	
Adjusted	(2,991)	(2,356)	

For footnotes, see page 59.

Geographical regions

Europe

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

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁷⁵	(4,110)	12	(4,098)	(1,015)	75	75
Other income 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 and benefits paid and movement in liabilities to policyholders	(4,630)	(121)	(4,751)	(4,740)	(2)	–
Net operating income ⁷³	17,608	(23)	17,585	20,967	19	19
LICs	(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		
Share of profit/(loss) from associates and joint ventures	(6)	(1)	(7)	1		
Profit/(loss) before tax	(3,414)	65	(3,349)	1,825		

For footnotes, see page 59.

Geographical regions (continued)

Reconciliation of reported, underlying and adjusted items – Europe

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	10,693	10,394	3
Currency translation adjustment ⁷⁴		(38)	
Acquisitions, disposals and dilutions	17	15	
Underlying	10,710	10,371	3
Other significant items	–	–	
Adjusted	10,710	10,371	
Other operating income			
Reported	529	1,080	(51)
Currency translation adjustment ⁷⁴		49	
Acquisitions, disposals and dilutions	(69)	(54)	
Underlying	460	1,075	(57)
Other significant items	425	–	
Adjusted	885	1,075	
Revenue⁷³			
Reported	20,967	17,608	19
Currency translation adjustment ⁷⁴		(35)	
Own credit spread ⁷⁵	1,015	4,110	
Acquisitions, disposals and dilutions	(51)	(36)	
Underlying	21,931	21,647	1
Other significant items	(379)	(252)	
Adjusted	21,552	21,395	
LICs			
Reported	(1,530)	(1,921)	20
Currency translation adjustment ⁷⁴		15	
Acquisitions, disposals and dilutions	–	–	
Underlying	(1,530)	(1,906)	20
Other significant items	–	–	
Adjusted	(1,530)	(1,906)	
Operating expenses			
Reported	(17,613)	(19,095)	8
Currency translation adjustment ⁷⁴		74	
Acquisitions, disposals and dilutions	28	46	
Underlying	(17,585)	(18,975)	7
Other significant items	1,637	3,012	
Adjusted	15,948	(15,963)	
Underlying cost efficiency ratio	80.2%	87.7%	
Adjusted cost efficiency ratio	74.0%	74.6%	
Profit/(loss) before tax			
Reported	1,825	(3,414)	
Currency translation adjustment ⁷⁴		53	
Own credit spread ⁷⁵	1,015	4,110	
Acquisitions, disposals and dilutions	(18)	10	
Underlying	2,822	759	272
Other significant items	1,258	2,760	
Adjusted	4,080	3,519	

For footnotes, see page 59.

Geographical regions (continued)

Asia⁷⁶

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
Net interest income	10,707	(119)	10,588	11,432	7	8
Net fee income	5,418	(77)	5,341	5,936	10	11
Net trading income	2,516	(56)	2,460	2,026	(19)	(18)
Own credit spread ⁷⁵	(3)	–	(3)	(2)	33	33
Other income from financial instruments designated at fair value	556	2	558	316	(43)	(43)
Net income from financial instruments designated at fair value	553	2	555	314	(43)	(43)
Gains on disposal of Ping An	3,012	–	3,012	–	(100)	(100)
Gains less losses from financial investments	338	(1)	337	1,275	277	278
Net insurance premium income	6,769	–	6,769	6,918	2	2
Other operating income (including dividend income)	3,103	(214)	2,889	3,827	23	32
Total operating income	32,416	(465)	31,951	31,728	(2)	(1)
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,084)	–	(7,084)	(7,296)	(3)	(3)
Net operating income ⁷³	25,332	(465)	24,867	24,432	(4)	(2)
LICs	(510)	12	(498)	(498)	2	–
Net operating income	24,822	(453)	24,369	23,934	(4)	(2)
Operating expenses	(9,980)	179	(9,801)	(9,936)	–	(1)
Operating profit	14,842	(274)	14,568	13,998	(6)	(4)
Share of profit from associates and joint ventures	3,188	46	3,234	1,855	(42)	(43)
Profit before tax	18,030	(228)	17,802	15,853	(12)	(11)

For footnotes, see page 59.

Geographical regions (continued)

Reconciliation of reported, underlying and adjusted items – Asia⁷⁶

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	11,432	10,707	7
Currency translation adjustment ⁷⁴	–	(119)	
Acquisitions, disposals and dilutions	–	(31)	
Underlying	11,432	10,557	8
Other significant items	–	–	
Adjusted	11,432	10,557	
Other operating income			
Reported	3,675	3,074	20
Currency translation adjustment ⁷⁴	–	(214)	
Acquisitions, disposals and dilutions	(1,139)	(674)	
Underlying	2,536	2,186	16
Other significant items	–	–	
Adjusted	2,536	2,186	
Revenue⁷³			
Reported	24,432	25,332	(4)
Currency translation adjustment ⁷⁴	–	(465)	
Own credit spread ⁷⁵	2	3	
Acquisitions, disposals and dilutions	(1,139)	(3,787)	
Underlying	23,295	21,083	10
Other significant items	(561)	154	
Adjusted	22,734	21,237	
LICs			
Reported	(498)	(510)	2
Currency translation adjustment ⁷⁴	–	12	
Acquisitions, disposals and dilutions	–	(2)	
Underlying	(498)	(500)	–
Other significant items	–	–	
Adjusted	(498)	(500)	
Operating expenses			
Reported	(9,936)	(9,980)	–
Currency translation adjustment ⁷⁴	–	179	
Acquisitions, disposals and dilutions	72	145	
Underlying	(9,864)	(9,656)	(2)
Other significant items	121	162	
Adjusted	(9,743)	(9,494)	
Underlying cost efficiency ratio	42.3%	45.8%	
Adjusted cost efficiency ratio	42.9%	44.7%	
Share of profit in associates and joint ventures			
Reported	1,855	3,188	(42)
Currency translation adjustment ⁶	–	46	
Acquisitions, disposals and dilutions	(19)	(1,425)	
Underlying	1,836	1,809	1
Other significant items	–	–	
Adjusted	1,836	1,809	
Profit before tax			
Reported	15,853	18,030	(12)
Currency translation adjustment ⁷⁴	–	(228)	
Own credit spread ⁷⁵	2	3	
Acquisitions, disposals and dilutions	(1,086)	(5,069)	
Underlying	14,769	12,736	16
Other significant items	(440)	316	
Adjusted	14,329	13,052	

For footnotes, see page 59.

Middle East and North Africa

Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁷⁵	(12)	–	(12)	(4)	67	67
Other income from financial instruments designated at fair value	–	–	–	2		
Net expense from financial instruments designated at fair value	(12)	–	(12)	(2)	83	83
Gains less losses from financial investments	9	–	9	(18)		
Net insurance premium income	–	–	–	–		
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 and benefits paid and movement in liabilities to policyholders	–	–	–	–		
Net operating income ⁷³	2,430	(63)	2,367	2,503	3	6
LICs	(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
Share of profit from associates and joint ventures	372	–	372	438	18	18
Profit before tax	1,350	(36)	1,314	1,694	25	29

For footnotes, see page 59.

Geographical regions (continued)

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

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	1,486	1,470	1
Currency translation adjustment ⁷⁴	–	(43)	
Acquisitions, disposals and dilutions	–	(8)	
Underlying	1,486	1,419	5
Other significant items	–	–	
Adjusted	1,486	1,419	
Other operating income			
Reported	49	(27)	
Currency translation adjustment ⁷⁴	–	–	
Acquisitions, disposals and dilutions	–	64	
Underlying	49	37	32
Other significant items	–	–	
Adjusted	49	37	
Revenue⁷³			
Reported	2,503	2,430	3
Currency translation adjustment ⁷⁴	–	(63)	
Own credit spread ⁷⁵	4	12	
Acquisitions, disposals and dilutions	–	3	
Underlying	2,507	2,382	5
Other significant items	(2)	(4)	
Adjusted	2,505	2,378	
LICs			
Reported	42	(286)	
Currency translation adjustment ⁷⁴	–	4	
Acquisitions, disposals and dilutions	–	–	
Underlying	42	(282)	
Other significant items	–	–	
Adjusted	42	(282)	
Operating expenses			
Reported	(1,289)	(1,166)	(11)
Currency translation adjustment ⁷⁴	–	23	
Acquisitions, disposals and dilutions	–	15	
Underlying	(1,289)	(1,128)	(14)
Other significant items	4	27	
Adjusted	(1,285)	(1,101)	
Underlying cost efficiency ratio	51.4%	47.4%	
Adjusted cost efficiency ratio	51.3%	46.3%	
Profit before tax			
Reported	1,694	1,350	25
Currency translation adjustment ⁷⁴	–	(36)	
Own credit spread ⁷⁵	4	12	
Acquisitions, disposals and dilutions	–	18	
Underlying	1,698	1,344	26
Other significant items	2	23	
Adjusted	1,700	1,367	

For footnotes, see page 59.

North America
Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁷⁵	(1,090)	–	(1,090)	(226)	79	79
Other expense from financial instruments designated at fair value	(129)	–	(129)	(62)	52	52
Net 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 insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(148)	–	(148)	(39)	74	74
Net operating income ⁷³	14,693	(64)	14,629	8,803	(40)	(40)
LICs	(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)
Share of profit from associates and joint ventures	3	–	3	31	933	933
Profit before tax	2,299	(28)	2,271	1,221	(47)	(46)

For footnotes, see page 59.

Geographical regions (continued)

Reconciliation of reported, underlying and adjusted items – North America

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	5,742	8,117	(29)
Currency translation adjustment ⁷⁴		(42)	
Acquisitions, disposals and dilutions	(14)	(1,433)	
Underlying	5,728	6,642	(14)
Significant items	–	–	
Adjusted	5,728	6,642	
Other operating income/(expense)			
Reported	(108)	406	
Currency translation adjustment ⁷⁴		3	
Acquisitions, disposals and dilutions	97	(134)	
Underlying	(11)	275	
Significant items	394	–	
Adjusted	383	275	
Revenue⁷³			
Reported	8,803	14,693	(40)
Currency translation adjustment ⁷⁴		(64)	
Own credit spread ⁷⁵	226	1,090	
Acquisitions, disposals and dilutions	89	(5,982)	
Underlying	9,118	9,737	(6)
Significant items	361	136	
Adjusted	9,479	9,873	
LICs			
Reported	(1,197)	(3,457)	65
Currency translation adjustment ⁷⁴		6	
Acquisitions, disposals and dilutions	–	325	
Underlying	(1,197)	(3,126)	62
Significant items	–	–	
Adjusted	(1,197)	(3,126)	
Operating expenses			
Reported	(6,416)	(8,940)	28
Currency translation adjustment ⁷⁴		30	
Acquisitions, disposals and dilutions	14	796	
Underlying	(6,402)	(8,114)	21
Significant items	201	1,871	
Adjusted	(6,201)	(6,243)	
Underlying cost efficiency ratio	70.2%	83.3%	
Adjusted cost efficiency ratio	65.4%	63.2%	
Profit/(loss) before tax			
Reported	1,221	2,299	(47)
Currency translation adjustment ⁷⁴		(28)	
Own credit spread ⁷⁵	226	1,090	
Acquisitions, disposals and dilutions	103	(4,861)	
Underlying	1,550	(1,500)	
Significant items	562	2,007	
Adjusted	2,112	507	

For footnotes, see page 59.

Latin America
Reconciliation of reported and constant currency profit before tax

	2012 as reported US\$m	Currency translation adjustment ⁷⁴ US\$m	2012 at 2013 exchange rates US\$m	2013 as reported US\$m	Reported change ⁷² %	Constant currency change ⁷² %
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 ⁷⁵	–	–	–	–		
Other income from financial instruments designated at fair value	667	(67)	600	326	(51)	(46)
Net income 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 insurance premium income	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 and benefits paid and movement in liabilities to policyholders	(2,353)	217	(2,136)	(1,617)	31	24
Net operating income ⁷³	10,951	(725)	10,226	10,568	(3)	3
LICs	(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)
Share of profit from associates and joint ventures	–	–	–	–	–	–
Profit before tax	2,384	(173)	2,211	1,972	(17)	(11)

For footnotes, see page 59.

Geographical regions (continued)

Reconciliation of reported, underlying and adjusted items – Latin America

	2013 US\$m	2012 US\$m	Change ⁷² %
Net interest income			
Reported	6,186	6,984	(11)
Currency translation adjustment ⁷⁴		(440)	
Acquisitions, disposals and dilutions	(277)	(561)	
Underlying	5,909	5,983	(1)
Significant items	–	–	
Adjusted	5,909	5,983	
Other operating income			
Reported	1,115	253	341
Currency translation adjustment ⁷⁴		(48)	
Acquisitions, disposals and dilutions	(1,123)	(14)	
Underlying	(8)	191	
Significant items	–	–	
Adjusted	(8)	191	
Revenue⁷³			
Reported	10,568	10,951	(3)
Currency translation adjustment ⁷⁴		(725)	
Acquisitions, disposals and dilutions	(1,495)	(805)	
Underlying	9,073	9,421	(4)
Significant items	(13)	(17)	
Adjusted	9,060	9,404	
LICs			
Reported	(2,666)	(2,137)	(25)
Currency translation adjustment ⁷⁴		164	
Acquisitions, disposals and dilutions	32	53	
Underlying	(2,634)	(1,920)	(37)
Significant items	–	–	
Adjusted	(2,634)	(1,920)	
Operating expenses			
Reported	(5,930)	(6,430)	8
Currency translation adjustment ⁷⁴		388	
Acquisitions, disposals and dilutions	239	488	
Underlying	(5,691)	(5,554)	(2)
Significant items	75	167	
Adjusted	(5,616)	(5,387)	
Underlying cost efficiency ratio	62.7%	59.0%	
Adjusted cost efficiency ratio	62.0%	57.3%	
Profit before tax			
Reported	1,972	2,384	(17)
Currency translation adjustment ⁷⁴		(173)	
Acquisitions, disposals and dilutions	(1,224)	(264)	
Underlying	748	1,947	(62)
Significant items	62	150	
Adjusted	810	2,097	

For footnotes, see page 59.

Footnotes to Reconciliations of non-GAAP financial measures

Footnotes to Reconciliations of non-GAAP financial measures

- 70 *The operating results of these disposals were removed from underlying results in addition to disposal gains and losses.*
- 71 *The operating results of these disposals and acquisitions were not removed from underlying results as they were not significant.*
- 72 *Positive numbers are favourable: negative numbers are unfavourable.*
- 73 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as 'revenue'.*
- 74 *'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.*
- 75 *'Own credit spread' includes the fair value movements on our long-term debt attributable to 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.*
- 76 *From 1 January 2014, the geographical region 'Asia' replaced the geographical regions previously reported as 'Hong Kong' and 'Rest of Asia-Pacific' (See Note 11 on the Financial Statements for further details). Comparative data have been represented accordingly.*
- 77 *'Currency translation adjustment' is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current year-end.*
- 78 *The Principal RBWM business measure excludes the effects of the US run-off portfolio and the disposed-of US CRS business. Concentrating on the Principal RBWM business allows management to identify material changes in the ongoing business and assess the factors and trends which are expected to have a material effect on it in future years. Tables which reconcile reported RBWM financial measures to Principal RBWM financial measures are available on www.hsbc.com.*
- 79 *Excludes items where there are substantial offsets in the income statement for the same year.*
- 80 *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.*
- 81 *Net insurance claims incurred and movement in liabilities to shareholders.*