

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
30 June 2019

Use of non-GAAP financial measures

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Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 82 of the *Interim Report 2019*. 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 period-on-period comparisons. These are considered non-GAAP financial measures.

Return on Equity and Return on Tangible Equity

We provide Return on Tangible Equity ('ROTE') in addition to Return on Equity ('ROE') as a way of assessing our performance which is closely aligned to our capital position.

ROTE is computed by adjusting reported 'profit attributable to the ordinary shareholders of the parent company' for the post tax movements in the present value of in-force long-term insurance business ('PVIF') and adjusting the reported equity for goodwill, intangibles and PVIF, net of deferred tax. The adjustment to reported results and reported equity excludes amounts attributable to other equity instrument holders and non-controlling interests.

For our global businesses, we provide ROTE excluding significant items and the UK bank levy which is more closely aligned to the basis on which the global business performance is assessed by the Chief Operating Decision Maker (further information on the basis of preparation for our global businesses is provided on page 29 of the *Interim Report 2019*).

ROTE excluding significant items and UK bank levy is computed by adjusting 'profit attributable to the ordinary shareholders, excluding PVIF' for significant items (net of tax) and the bank levy, and adjusting the 'average tangible equity' for the change in fair value on our long-term debt attributable to credit spread through other comprehensive income ('fair value of own debt'), and debit valuation adjustments ('DVA').

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

Return on Equity and Return on Tangible Equity

	Half-year ended 30 Jun		Year ended 31 Dec	
	2019	2018	2018	2018
	\$m	\$m	\$m	\$m
Profit				
Profit attributable to the ordinary shareholders of the parent company	8,507	7,173	12,608	
Increase in PVIF (net of tax)	(638)	(243)	(506)	
Profit attributable to the ordinary shareholders, excluding PVIF	7,869	6,930	12,012	
Significant items (net of tax), bank levy and other adjustments	(48)	1,362	2,590	
Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy	7,821	8,292	14,692	
Equity				
Average ordinary shareholders' equity	165,258	165,733	163,483	
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,943)	(22,038)	(22,102)	
Average tangible equity	142,315	143,695	141,381	
Fair value of own debt, DVA and other adjustments	1,140	2,130	2,439	
Average tangible equity excluding fair value of own debt, DVA and other adjustments	143,455	145,825	143,820	
	%	%	%	
Ratio				
Return on equity	10.4	8.7	7.7	
Return on tangible equity	11.2	9.7	8.6	
Return on tangible equity excluding significant items and UK bank levy	11.0	11.5	10.2	

Return on tangible equity by global business

	Half-year ended 30 Jun 2019					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Profit before tax	3,783	3,998	2,634	183	1,809	12,407
Tax expense	(675)	(851)	(523)	(30)	(391)	(2,470)
Profit after tax	3,108	3,147	2,111	153	1,418	9,937
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(442)	(445)	(341)	(11)	(191)	(1,430)
Profit attributable to ordinary shareholders of the parent company	2,666	2,702	1,770	142	1,227	8,507
Increase in PVIF (net of tax)	(611)	(25)	—	(1)	(1)	(638)
Significant items (net of tax) and UK bank levy	481	20	144	11	(649)	7
Balance Sheet Management allocation and other adjustments	272	290	440	32	(1,089)	(55)
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	2,808	2,987	2,354	184	(512)	7,821
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,125	43,000	48,073	3,301	24,956	143,455
RoTE excluding significant items and UK bank levy (annualised) (%)	23.5%	14.0%	9.9%	11.2%	(4.1)%	11.0%
	Half-year ended 30 Jun 2018					
Profit before tax	3,512	4,149	3,725	146	(820)	10,712
Tax expense	(629)	(901)	(819)	(24)	77	(2,296)
Profit after tax	2,883	3,248	2,906	122	(743)	8,416
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(417)	(417)	(290)	(13)	(106)	(1,243)
Profit attributable to ordinary shareholders of the parent company	2,466	2,831	2,616	109	(849)	7,173
Increase in PVIF (net of tax)	(224)	(17)	—	—	(2)	(243)
Significant items (net of tax) and UK bank levy	87	(27)	(109)	35	1,382	1,368
Balance Sheet Management allocation and other adjustments	295	303	424	47	(1,069)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	2,623	3,090	2,931	190	(542)	8,292
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,809	41,377	47,866	3,436	28,337	145,825
RoTE excluding significant items and UK bank levy (annualised) (%)	21.3%	15.1%	12.3%	11.2%	(3.9)%	11.5%
	Year ended 31 Dec 2018					
Profit before tax	6,882	7,719	6,312	248	(1,271)	19,890
Tax expense	(1,238)	(1,680)	(1,350)	(53)	(544)	(4,865)
Profit after tax	5,644	6,039	4,962	195	(1,815)	15,025
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(763)	(746)	(659)	(19)	(230)	(2,417)
Profit attributable to ordinary shareholders of the parent company	4,881	5,293	4,303	176	(2,045)	12,608
Increase in PVIF (net of tax)	(483)	(21)	—	—	(2)	(506)
Significant items (net of tax) and UK bank levy	146	(36)	(168)	75	2,573	2,590
Balance Sheet Management allocation and other adjustments	555	581	851	82	(2,069)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	5,099	5,817	4,986	333	(1,543)	14,692
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,287	41,550	47,477	3,376	27,130	143,820
RoTE excluding significant items and UK bank levy (%)	21.0%	14.0%	10.5%	9.9%	(5.7)%	10.2%

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