

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
30 September 2020

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 229 of the *Annual Report and Accounts 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 year-on-year 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 263 of the *Annual Report and Accounts 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 debt valuation adjustments ('DVA').

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

Return on Equity and Return on Tangible Equity

	Nine months ended		Quarter ended		
	30 Sep 2020 \$m	30 Sep 2019 \$m	30 Sep 2020 \$m	30 Jun 2020 \$m	30 Sep 2019 \$m
Profit					
Profit attributable to the ordinary shareholders of the parent company	3,336	11,478	1,359	192	2,971
Impairment of goodwill and other intangible assets (net of tax)	1,156	—	2	1,154	—
Increase in PVIF (net of tax)	(562)	(1,290)	(252)	(56)	(652)
Profit attributable to the ordinary shareholders, excluding goodwill, other intangible assets impairment and PVIF	3,930	10,188	1,109	1,290	2,319
Significant items (net of tax) and bank levy	1,505	608			
Profit attributable to the ordinary shareholders, excluding goodwill impairment, PVIF, significant items and UK bank levy	5,435	10,796			
Equity					
Average ordinary shareholders' equity	165,934	165,954	167,151	166,084	167,347
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(17,234)	(23,191)	(17,081)	(17,136)	(23,688)
Average tangible equity	148,700	142,763	150,070	148,948	143,659
Fair value of own debt, DVA and other adjustments	(260)	529			
Average tangible equity excluding fair value of own debt, DVA and other adjustments	148,440	143,292			
	%	%	%	%	%
Ratio					
Return on average ordinary shareholder's equity (annualised)	2.7	9.2	3.2	0.5	7.0
Return on tangible equity (annualised)	3.5	9.5	2.9	3.5	6.4
Return on tangible equity excluding significant items and UK bank levy (annualised)	4.9	10.1			

Return on Tangible Equity by global business

	Nine months ended 30 Sep 2020				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Profit before tax	2,696	1,284	2,912	500	7,392
Tax expense	(492)	(527)	(1,093)	(116)	(2,228)
Profit after tax	2,204	757	1,819	384	5,164
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(543)	(492)	(498)	(295)	(1,828)
Profit attributable to ordinary shareholders of the parent company	1,661	265	1,321	89	3,336
Increase in PVIF (net of tax)	(544)	(16)	—	(2)	(562)
Significant items (net of tax) and UK bank levy	346	64	818	1,040	2,268
Balance Sheet Management allocation and other adjustments	15	(8)	(12)	398	393
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	1,478	305	2,127	1,525	5,435
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	25,998	37,519	41,114	43,809	148,440
RoTE excluding significant items and UK bank levy (annualised) (%)	7.6	1.1	6.9	4.6	4.9
	Nine months ended 30 Sep 2019				
Profit before tax	5,607	5,531	3,832	2,274	17,244
Tax expense	(766)	(1,030)	(392)	(1,324)	(3,512)
Profit after tax	4,841	4,501	3,440	950	13,732
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(885)	(660)	(592)	(117)	(2,254)
Profit attributable to ordinary shareholders of the parent company	3,956	3,841	2,848	833	11,478
Increase in PVIF (net of tax)	(1,236)	(46)	—	(8)	(1,290)
Significant items (net of tax) and UK bank levy	858	45	158	(613)	448
Balance Sheet Management allocation and other adjustments	(3)	2	—	161	160
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	3,575	3,842	3,006	373	10,796
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	26,714	36,691	40,226	39,661	143,292
RoTE excluding significant items and UK bank levy (annualised) (%)	17.9	14.0	10.0	1.3	10.1

Use of non-GAAP financial measures

Reconciliation of reported and adjusted risk-weighted assets

The following table reconciles reported and adjusted risk-weighted assets ('RWAs').

Reconciliation of reported and adjusted risk-weighted assets

		At 30 September 2020				
		Wealth and Private Banking \$bn	Commercial Banking \$bn	Global Banking and Markets \$bn	Corporate Centre \$bn	Total \$bn
	<i>Footnotes</i>					
Risk-weighted assets						
Reported		173.2	332.4	267.1	84.3	857.0
Adjusted	<i>1</i>	173.2	332.4	267.1	84.3	857.0
		At 30 June 2020				
Risk-weighted assets						
Reported		161.8	330.9	277.6	84.3	854.6
Currency translation		2.6	7.1	4.0	0.5	14.2
Adjusted	<i>1</i>	164.4	338.0	281.6	84.8	868.8
		At 30 September 2019				
Risk-weighted assets						
Reported		161.6	328.0	294.6	81.0	865.2
Currency translation		1.1	5.5	1.8	0.5	8.9
Disposals						
- operations in Brazil					(0.8)	(0.8)
Adjusted	<i>1</i>	162.7	333.5	296.4	80.7	873.3

1 Adjusted risk-weighted assets are calculated using reported risk-weighted assets adjusted for the effects of currency translation differences and significant items.

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