

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures

31 March 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 214 of the *Annual Report and Accounts 2018*. 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 47 of the Annual Report and Accounts 2018).

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

	Quarter ended		
	31 Mar 2019 \$m	31 Dec 2018 \$m	31 Mar 2018 \$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	4,134	1,537	3,086
Increase in PVIF (net of tax)	(446)	(189)	(79)
Profit attributable to the ordinary shareholders, excluding PVIF	3,688	1,348	3,007
Significant items (net of tax) and bank levy	105		1,215
Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy	3,793		4,222
Equity			
Average ordinary shareholders' equity	163,769	161,060	166,834
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,683)	(22,299)	(21,983)
Average tangible equity	141,086	138,761	144,851
Fair value of own debt, DVA and other adjustments	423		2,974
Average tangible equity excluding fair value of own debt, DVA and other adjustments	141,509		147,825
	%	%	%
Ratio			
Return on equity	10.2	3.8	7.5
Return on tangible equity (annualised)	10.6	3.9	8.4
Return on tangible equity excluding significant items and UK bank levy (annualised)	10.9		11.6

Return on tangible equity by global business

	Quarter ended 31 Mar 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	2,174	2,012	1,535	96	396	6,213
Tax expense	(410)	(430)	(307)	(18)	(138)	(1,303)
Profit after tax	1,764	1,582	1,228	78	258	4,910
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(230)	(241)	(164)	(5)	(136)	(776)
Profit attributable to ordinary shareholders of the parent company	1,534	1,341	1,064	73	122	4,134
Increase in PVIF (net of tax)	(424)	(22)	—	—	—	(446)
Significant items (net of tax) and UK bank levy	41	3	79	2	(20)	105
Balance Sheet Management allocation and other adjustments	147	147	184	14	(492)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	1,298	1,469	1,327	89	(390)	3,793
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	23,800	42,916	47,743	3,330	23,720	141,509
RoTE excluding significant items and UK bank levy (annualised) (%)	22.1%	13.9%	11.3%	10.9%	-6.7%	10.9%
	Quarter ended 31 Mar 2018					
Profit before tax	1,796	2,110	1,769	70	(990)	4,755
Tax expense	(310)	(458)	(377)	(9)	137	(1,017)
Profit after tax	1,486	1,652	1,392	61	(853)	3,738
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(216)	(223)	(149)	(6)	(58)	(652)
Profit attributable to ordinary shareholders of the parent company	1,270	1,429	1,243	55	(911)	3,086
Increase in PVIF (net of tax)	(66)	(14)	—	—	1	(79)
Significant items (net of tax) and UK bank levy	81	3	(31)	33	1,129	1,215
Balance Sheet Management allocation and other adjustments	126	122	149	20	(417)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	1,411	1,540	1,361	108	(198)	4,222
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,737	40,258	46,488	3,574	32,768	147,825
RoTE excluding significant items and UK bank levy (annualised) (%)	23.1%	15.5%	11.9%	12.3%	(2.5)%	11.6%

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