

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
30 September 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

	Nine months ended		Quarter ended		
	30 Sep 2019 \$m	30 Sep 2018 \$m	30 Sep 2019 \$m	30 Jun 2019 \$m	30 Sep 2018 \$m
Profit					
Profit attributable to the ordinary shareholders of the parent company	11,478	11,071	2,971	4,373	3,899
Increase in PVIF (net of tax)	(1,290)	(317)	(652)	(192)	(75)
Profit attributable to the ordinary shareholders, excluding PVIF	10,188	10,754	2,319	4,181	3,824
Significant items (net of tax) and bank levy	608	1,602			
Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy	10,796	12,356			
Equity					
Average ordinary shareholders' equity	165,954	164,290	167,347	166,747	161,406
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(23,191)	(22,037)	(23,688)	(23,202)	(22,036)
Average tangible equity	142,763	142,253	143,659	143,545	139,370
Fair value of own debt, DVA and other adjustments	529	2,495			
Average tangible equity excluding fair value of own debt, DVA and other adjustments	143,292	144,748			
	%	%	%	%	%
Ratio					
Return on equity	9.2	9.0	7.0	10.5	9.6
Return on tangible equity (annualised)	9.5	10.1	6.4	11.7	10.9
Return on tangible equity excluding significant items and UK bank levy (annualised)	10.1	11.4			

Return on tangible equity by global business

	Nine months ended 30 Sep 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	4,891	5,602	3,866	365	2,520	17,244
Tax expense	(801)	(1,190)	(766)	(64)	(691)	(3,512)
Profit after tax	4,090	4,412	3,100	301	1,829	13,732
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(656)	(652)	(465)	(14)	(467)	(2,254)
Profit attributable to ordinary shareholders of the parent company	3,434	3,760	2,635	287	1,362	11,478
Increase in PVIF (net of tax)	(1,238)	(51)	—	1	(2)	(1,290)
Significant items (net of tax) and UK bank levy	911	40	148	(37)	(614)	448
Balance Sheet Management allocation and other adjustments	406	432	677	49	(1,404)	160
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	3,513	4,181	3,460	300	(658)	10,796
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,310	43,134	48,206	3,305	24,337	143,292
RoTE excluding significant items and UK bank levy (annualised) (%)	19.3	13.0	9.6	12.1	(3.6)	10.1
	Nine months ended 30 Sep 2018					
Profit before tax	5,544	6,034	5,535	182	(661)	16,634
Tax expense	(983)	(1,272)	(1,212)	(28)	(207)	(3,702)
Profit after tax	4,561	4,762	4,323	154	(868)	12,932
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(630)	(642)	(429)	(19)	(141)	(1,861)
Profit attributable to ordinary shareholders of the parent company	3,931	4,120	3,894	135	(1,009)	11,071
Increase in PVIF (net of tax)	(300)	(16)	—	(1)	—	(317)
Significant items (net of tax) and UK bank levy	134	(25)	(110)	81	1,522	1,602
Balance Sheet Management allocation and other adjustments	399	418	641	61	(1,519)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	4,164	4,497	4,425	276	(1,006)	12,356
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,462	41,324	47,340	3,392	28,230	144,748
RoTE excluding significant items and UK bank levy (annualised) (%)	22.8	14.5	12.5	10.9	(4.8)	11.4

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Incorporated in England with limited liability

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