

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures

31 December 2019

Use of non-GAAP financial measures

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 that have been derived from our reported results in order to eliminate factors that distort year-on-year comparisons. These are considered non-GAAP financial measures.

Return on equity and return on tangible equity

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') and for 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.

We provide RoTE in addition to return on equity ('RoE') as a way of assessing our performance, which is closely aligned to our capital position.

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

Return on Equity and Return on Tangible Equity

	2019 \$m	2018 \$m	2017 \$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	5,969	12,608	9,683
Goodwill impairment	7,349	—	—
Increase/(decrease) in PVIF (net of tax)	(1,248)	(506)	16
Profit attributable to the ordinary shareholders, excluding goodwill impairment and PVIF	12,070	12,102	9,699
Significant items (net of tax) and UK bank levy and other adjustments	2,251	2,590	3,827
Profit attributable to the ordinary shareholders, excluding goodwill impairment, PVIF, significant items and UK bank levy	14,321	14,692	13,526
Equity			
Average ordinary shareholders' equity	165,421	163,483	163,419
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,574)	(22,102)	(20,721)
Average tangible equity	142,847	141,381	142,698
Fair value of own debt, DVA and other adjustments	1,032	2,439	2,788
Average tangible equity excluding fair value of own debt, DVA and other adjustments	143,879	143,820	145,486
	%	%	%
Ratio			
Return on equity	3.6	7.7	5.9
Return on tangible equity	8.4	8.6	6.8
Return on tangible equity excluding significant items and UK bank levy	10.0	10.2	9.3

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Return on tangible equity by global business

	Year ended 31 Dec 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	6,428	4,272	1,047	9	1,591	13,347
Tax expense	(1,111)	(1,548)	(1,013)	(81)	(886)	(4,639)
Profit after tax	5,317	2,724	34	(72)	705	8,708
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(849)	(865)	(625)	(19)	(381)	(2,739)
Profit attributable to ordinary shareholders of the parent company	4,468	1,859	(591)	(91)	324	5,969
Increase in PVIF (net of tax)	(1,204)	(40)	—	(2)	(2)	(1,248)
Significant items (net of tax) and UK bank levy	1,234	3,033	4,213	401	716	9,597
Balance Sheet Management allocation and other adjustments	497	528	802	59	(1,883)	3
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	4,995	5,380	4,424	367	(845)	14,321
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,418	43,498	48,182	3,300	24,481	143,879
Return on tangible equity excluding significant items and UK bank levy (%)	20.5%	12.4%	9.2%	11.1%	(3.5)%	10.0%
	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
Return on tangible equity excluding significant items and UK bank levy (%)	21.0%	14.0%	10.5%	9.9%	(5.7)%	10.2%

HSBC Holdings plc

8 Canada Square
London E14 5HQ

United Kingdom

Telephone: 44 020 7991 8888

www.hsbc.com

Incorporated in England with limited liability

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