

# HSBC Holdings plc

**Reconciliations of Non-GAAP Financial Measures**  
**30 June 2018**

## Use of non-GAAP financial measures

### Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 76 of the *Interim Report 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 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 30 of the *Interim Report 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

	Half-year ended 30 Jun		Year ended 31 Dec
	2018	2017	2017
	\$m	\$m	\$m
<b>Profit</b>			
Profit attributable to the ordinary shareholders of the parent company	7,173	6,999	9,683
Increase in PVIF (net of tax)	(243)	(89)	16
Profit attributable to the ordinary shareholders, excluding PVIF	6,930	6,910	9,699
Significant items (net of tax) and bank levy	1,362	1,298	3,827
Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy	8,292	8,208	13,526
<b>Equity</b>			
Average ordinary shareholders' equity	165,733	160,725	163,419
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,038)	(20,154)	(20,721)
Average tangible equity	143,695	140,571	142,698
Fair value of own debt, DVA and other adjustments	2,130	2,726	2,788
Average tangible equity excluding fair value of own debt, DVA and other adjustments	145,825	143,297	145,486
	%	%	%
<b>Ratio</b>			
Return on equity	8.7	8.8	5.9
Return on tangible equity	9.7	9.9	6.8
Return on tangible equity excluding significant items and UK bank levy	11.5	11.6	9.3

## Return on tangible equity by global business

	Half-year ended 30 Jun 2018					
	Total	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre
	\$m	\$m	\$m	\$m	\$m	\$m
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	8,292	2,623	3,090	2,931	190	(542)
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	145,825	24,809	41,377	47,866	3,436	28,337
Return on tangible equity excluding significant items and UK bank levy (%)	11.5	21.3	15.1	12.3	11.2	(3.9)
	Half-year ended 30 Jun 2017					
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	8,208	2,615	2,634	2,742	157	60
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	143,297	23,312	36,001	44,102	4,906	34,976
Return on tangible equity excluding significant items and UK bank levy (%)	11.6	22.6	14.8	12.5	6.5	0.3
	Year ended 31 Dec 2017					
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	13,526	5,159	5,161	4,744	314	(1,852)
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	145,486	23,838	36,935	44,664	4,400	35,649
Return on tangible equity excluding significant items and UK bank levy (%)	9.3	21.6	14.0	10.6	7.1	(5.2)

## Reconciliation of reported and adjusted average risk-weighted assets

The following table reconciles average reported and average adjusted risk-weighted assets. These are utilised for the calculation of year-to-date reported and adjusted return on risk-weighted assets, based on a 3-point average.

### Reconciliation of reported and adjusted average risk-weighted assets

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
<b>Half-year to 30 Jun 2018</b>						
Average reported RWAs	123.8	310.1	296.0	16.7	130.5	877.1
Currency translation	(1.8)	(5.7)	(3.2)	(0.2)	(1.7)	(12.6)
Disposals	–	–	–	–	(2.6)	(2.6)
– Brazil operations	–	–	–	–	(2.6)	(2.6)
<b>Average adjusted RWAs</b>	<b>122.0</b>	<b>304.4</b>	<b>292.8</b>	<b>16.5</b>	<b>126.2</b>	<b>861.9</b>
<b>Half-year to 30 Jun 2017</b>						
Average reported RWAs	115.0	281.9	300.8	15.7	150.3	863.7
Currency translation	0.1	3.2	2.2	0.2	0.9	6.6
Disposals	(1.1)	(0.3)	(0.2)	–	(3.6)	(5.2)
– Brazil operations	(1.1)	(0.3)	(0.2)	–	(3.6)	(5.2)
Average adjusted RWAs	114.0	284.8	302.8	15.9	147.6	865.1
<b>Half-year to 31 Dec 2017</b>						
Average reported RWAs	119.8	296.2	303.5	16.3	142.9	878.7
Currency translation	(1.6)	(4.2)	(2.4)	(0.1)	(0.8)	(9.1)
Disposals	–	–	–	–	(4.4)	(4.4)
– Brazil operations	–	–	–	–	(4.4)	(4.4)
Average adjusted RWAs	118.2	292.0	301.1	16.2	137.7	865.2

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