

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
31 December 2018

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 224 of the *Annual Report and Accounts 2018*. 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

	2018 \$m	2017 \$m	2016 \$m
Profit			
Profit/(loss) attributable to the ordinary shareholders of the parent company	12,608	9,683	1,299
Goodwill impairment	—	—	3,240
Increase/(decrease) in PVIF (net of tax)	(506)	16	(667)
Profit/(loss) attributable to the ordinary shareholders, excluding goodwill impairment and PVIF	12,102	9,699	3,872
Significant items (net of tax) and UK bank levy	2,590	3,827	8,740
Profit/(loss) attributable to the ordinary shareholders, excluding goodwill impairment, PVIF, significant items and UK bank levy	14,692	13,526	12,612
Equity			
Average ordinary shareholders' equity	163,483	163,419	170,168
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,102)	(20,721)	(23,577)
Average tangible equity	141,381	142,698	146,591
Fair value of own debt, DVA and other adjustments	2,439	2,788	(1,171)
Average tangible equity excluding fair value of own debt, DVA and other adjustments	143,820	145,486	145,420
	%	%	%
Ratio			
Return on equity	7.7	5.9	0.8
Return on tangible equity	8.6	6.8	2.6
Return on tangible equity excluding significant items and UK bank levy	10.2	9.3	8.7

Reconciliations of Non-GAAP Measures

Return on tangible equity by global business

	Year ended 31 Dec 2018					
	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	6,882	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 UK 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%

	Year ended 31 Dec 2017					
Profit before tax	5,823	6,623	5,435	121	(835)	17,167
Tax expense	(1,089)	(1,565)	(1,376)	(26)	(1,232)	(5,288)
Profit after tax	4,734	5,058	4,059	95	(2,067)	11,879
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(723)	(678)	(522)	(22)	(251)	(2,196)
Profit attributable to ordinary shareholders of the parent company	4,011	4,380	3,537	73	(2,318)	9,683
Increase in PVIF (net of tax)	17	2	—	1	(4)	16
Significant items (net of tax) and UK bank levy	501	116	294	133	2,783	3,827
Balance Sheet Management allocation and other adjustments	630	663	913	107	(2,313)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	5,159	5,161	4,744	314	(1,852)	13,526
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	23,838	36,935	44,664	4,400	35,649	145,486
Return on tangible equity excluding significant items and UK bank levy (%)	21.6%	14.0%	10.6%	7.1%	(5.2)%	9.3%

Reconciliation of reported and adjusted average risk-weighted assets

The following table reconciles average reported and average adjusted risk-weighted assets ('RWAs'). These are utilised for the calculation of year-to-date reported and adjusted return on average risk-weighted assets, based on a 5-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
12 months to 31 Dec 2018						
Average reported RWAs	124.6	313.7	289.3	16.6	127.6	871.8
Currency translation	(2.1)	(7.0)	(3.6)	(0.2)	(1.1)	(14.0)
Disposals	—	—	—	—	(2.3)	(2.3)
– operations in Brazil	—	—	—	—	(2.3)	(2.3)
Average adjusted RWAs	122.5	306.7	285.7	16.4	124.2	855.5
12 months to 31 Dec 2017						
Average reported RWAs	117.6	289.0	301.3	15.9	146.4	870.2
Currency translation	(2.1)	(5.0)	(2.5)	—	(1.3)	(10.9)
Disposals	(0.7)	(0.4)	(0.1)	—	(3.9)	(5.1)
– operations in Brazil	(0.6)	(0.2)	(0.1)	—	(3.7)	(4.6)
– operations in Lebanon	(0.1)	(0.2)	—	—	(0.2)	(0.5)
Average adjusted RWAs	114.8	283.6	298.7	15.9	141.2	854.2
12 months to 31 Dec 2016						
Average reported RWAs	125.2	292.7	323.3	17.0	254.1	1,012.3
Currency translation	(3.9)	(9.9)	(3.9)	(0.2)	(9.8)	(27.7)
Disposals	(9.4)	(9.3)	(7.3)	(0.1)	(2.5)	(28.6)
– operations in Brazil	(9.2)	(8.9)	(7.3)	(0.1)	(1.9)	(27.4)
– operations in Lebanon	(0.2)	(0.4)	—	—	(0.6)	(1.2)
Average adjusted RWAs	111.9	273.5	312.1	16.7	241.8	956.0

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