

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
31 March 2020

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 229 of the *Annual Report and Accounts 2019*. 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 263 of the *Annual Report and Accounts 2019*).

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 debt 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 2020 \$m	31 Dec 2019 \$m	31 Mar 2019 \$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	1,785	(5,509)	4,134
Goodwill impairment	—	7,349	—
Increase in PVIF (net of tax)	(254)	42	(446)
Profit attributable to the ordinary shareholders, excluding goodwill impairment and PVIF	1,531	1,882	3,688
Significant items (net of tax) and bank levy	11		105
Profit attributable to the ordinary shareholders, excluding goodwill impairment, PVIF, significant items and UK bank levy	1,542		3,793
Equity			
Average ordinary shareholders' equity	164,566	163,822	163,769
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(17,484)	(20,724)	(22,683)
Average tangible equity	147,082	143,098	141,086
Fair value of own debt, DVA and other adjustments	(373)		423
Average tangible equity excluding fair value of own debt, DVA and other adjustments	146,709		141,509
	%	%	%
Ratio			
Return on equity	4.4	(13.30)	10.2
Return on tangible equity (annualised)	4.2	5.2	10.6
Return on tangible equity excluding significant items and UK bank levy (annualised)	4.2		10.9

Return on tangible equity by global business

	Quarter ended 31 Mar 2020					
	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	343	609	995	120	1,162	3,229
Tax expense	(38)	(149)	(167)	(21)	(346)	(721)
Profit after tax	305	460	828	99	816	2,508
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(149)	(168)	(120)	(3)	(283)	(723)
Profit attributable to ordinary shareholders of the parent company	156	292	708	96	533	1,785
Increase in PVIF (net of tax)	(241)	(16)	—	4	(1)	(254)
Significant items (net of tax) and UK bank levy	11	2	(133)	—	(63)	(183)
Balance Sheet Management allocation and other adjustments	166	180	240	16	(408)	194
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	92	458	815	116	61	1,542
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,905	44,623	47,727	2,958	26,496	146,709
RoTE excluding significant items and UK bank levy (annualised) (%)	1.5	4.1	6.9	15.8	0.9	4.2
	Quarter ended 31 Mar 2019					
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 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

Use of non-GAAP financial measures

Analysis of significant items by geographical regions

Analysis of significant items by geographical regions is presented below.

Reconciliation of reported results to adjusted results – geographical regions

	Footnotes	Quarter ended 31 Mar 2020					
		Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m
Revenue	1						
Reported	2	4,420	7,559	690	1,704	863	13,686
Significant items		(229)	(98)	(1)	(15)	(16)	(359)
– disposals, acquisitions and investment in new businesses		–	–	–	7	–	7
– fair value movement on financial instruments	3	(229)	(98)	(1)	(13)	(16)	(357)
– restructuring and other related costs		–	–	–	(9)	–	(9)
Adjusted	2	4,191	7,461	689	1,689	847	13,327
ECL							
Reported		(868)	(1,000)	(333)	(508)	(317)	(3,026)
Adjusted		(868)	(1,000)	(333)	(508)	(317)	(3,026)
Operating expenses							
Reported	2	(3,962)	(3,284)	(369)	(1,307)	(480)	(7,852)
Significant items		55	1	–	116	–	172
– customer redress programmes		1	–	–	–	–	1
– restructuring and other related costs		53	1	–	116	–	170
– settlements and provisions in connection with legal and regulatory matters		1	–	–	–	–	1
Adjusted	2	(3,907)	(3,283)	(369)	(1,191)	(480)	(7,680)
Share of profit in associates and joint ventures							
Reported		(101)	465	56	–	1	421
Adjusted		(101)	465	56	–	1	421
Profit/(loss) before tax							
Reported		(511)	3,740	44	(111)	67	3,229
Significant items		(174)	(97)	(1)	101	(16)	(187)
– revenue		(229)	(98)	(1)	(15)	(16)	(359)
– operating expenses		55	1	–	116	–	172
Adjusted		(685)	3,643	43	(10)	51	3,042
Loans and advances to customers (net)							
Reported		386,221	481,512	29,651	122,858	20,040	1,040,282
Adjusted		386,221	481,512	29,651	122,858	20,040	1,040,282
Customer accounts							
Reported		531,992	690,917	40,553	153,893	23,174	1,440,529
Adjusted		531,992	690,917	40,553	153,893	23,174	1,440,529

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

2 Amounts are non-additive across geographical regions due to intercompany transactions within the Group.

3 Fair value movements on financial instruments include non-qualifying hedges and debt valuation adjustments on derivatives.

Reconciliation of reported to adjusted results – geographical regions (continued)

	Footnotes	Quarter ended 31 Dec 2019					Total \$m
		Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	
Revenue	1						
Reported	2	4,575	7,245	764	1,603	937	13,371
Currency translation	2	(34)	11	(1)	(8)	(38)	(66)
Significant items		208	14	—	56	3	281
– customer redress programmes		45	—	—	—	—	45
– disposals, acquisitions and investment in new businesses		—	—	—	55	—	55
– fair value movement on financial instruments	3	158	15	—	1	2	176
– currency translation on significant items		5	(1)	—	—	1	5
Adjusted	2	4,749	7,270	763	1,651	902	13,586
ECL							
Reported		(128)	(182)	(52)	(97)	(274)	(733)
Currency translation		(1)	—	1	—	11	11
Adjusted		(129)	(182)	(51)	(97)	(263)	(722)
Operating expenses							
Reported	2, 5	(8,126)	(3,502)	(497)	(1,784)	(935)	(17,053)
Currency translation	2	32	(2)	2	4	22	54
Significant items	5	2,988	53	104	491	358	7,956
– costs of structural reform	4	31	1	—	—	—	32
– customer redress programmes		183	—	—	—	—	183
– goodwill impairment	5	2,522	—	97	431	337	7,349
– restructuring and other related costs		260	51	7	61	21	400
– settlements and provisions in connection with legal and regulatory matters		5	—	—	—	—	5
– currency translation on significant items		(13)	1	—	(1)	—	(13)
Adjusted	2, 5	(5,106)	(3,451)	(391)	(1,289)	(555)	(9,043)
Share of profit in associates and joint ventures							
Reported		(30)	476	71	—	1	518
Currency translation		—	4	—	—	—	4
Adjusted		(30)	480	71	—	1	522
Profit/(loss) before tax							
Reported	5	(3,709)	4,037	286	(278)	(271)	(3,897)
Currency translation		(3)	13	2	(4)	(5)	3
Significant items	5	3,196	67	104	547	361	8,237
– revenue		208	14	—	56	3	281
– operating expenses	5	2,988	53	104	491	358	7,956
Adjusted		(516)	4,117	392	265	85	4,343
Loans and advances to customers (net)							
Reported		393,850	477,727	28,556	113,474	23,136	1,036,743
Currency translation		(20,041)	(8,143)	(258)	(4,199)	(4,371)	(37,012)
Adjusted		373,809	469,584	28,298	109,275	18,765	999,731
Customer accounts							
Reported		528,718	697,358	38,126	146,676	28,237	1,439,115
Currency translation		(27,950)	(7,806)	(335)	(4,262)	(5,100)	(45,453)
Adjusted		500,768	689,552	37,791	142,414	23,137	1,393,662

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

2 Amounts are non-additive across geographical regions due to intercompany transactions within the Group.

3 Fair value movements on financial instruments include non-qualifying hedges and debt valuation adjustments on derivatives.

4 Comprises costs associated with preparations for the UK's exit from the European Union.

5 Amounts are non-additive across geographical regions due to goodwill impairment recognised on the Global Banking and Markets cash-generating unit, which is monitored on a global basis.

Use of non-GAAP financial measures

Reconciliation of reported to adjusted results – geographical regions (continued)

	Footnotes	Quarter ended 31 Mar 2019					Total \$m
		Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	
Revenue	1						
Reported	2	4,605	7,819	702	1,676	971	14,428
Currency translation	2	(95)	(27)	6	(5)	(147)	(257)
Significant items		(59)	27	—	4	6	(22)
– fair value movement on financial instruments	3	(60)	27	—	4	7	(22)
– currency translation on significant items		1	—	—	—	(1)	—
Adjusted	2	4,451	7,819	708	1,675	830	14,149
ECL							
Reported		(303)	(158)	(6)	(3)	(115)	(585)
Currency translation		6	1	(1)	—	10	16
Adjusted		(297)	(157)	(7)	(3)	(105)	(569)
Operating expenses							
Reported	2	(4,318)	(3,131)	(345)	(1,294)	(479)	(8,222)
Currency translation	2	75	24	1	3	64	156
Significant items		139	7	1	5	3	155
– costs of structural reform	4	52	1	—	—	—	53
– customer redress programmes		56	—	—	—	—	56
– restructuring and other related costs		35	6	1	5	3	50
– currency translation on significant items		(4)	—	—	—	—	(4)
Adjusted	2	(4,104)	(3,100)	(343)	(1,286)	(412)	(7,911)
Share of profit in associates and joint ventures							
Reported		2	476	114	—	—	592
Currency translation		2	(16)	(1)	—	—	(15)
Adjusted		4	460	113	—	—	577
Profit/(loss) before tax							
Reported		(14)	5,006	465	379	377	6,213
Currency translation		(12)	(18)	5	(2)	(73)	(100)
Significant items		80	34	1	9	9	133
– revenue		(59)	27	—	4	6	(22)
– operating expenses		139	7	1	5	3	155
Adjusted		54	5,022	471	386	313	6,246
Loans and advances to customers (net)							
Reported		384,129	461,508	27,823	109,923	21,896	1,005,279
Currency translation		(15,279)	(6,748)	(212)	(2,571)	(4,323)	(29,133)
Adjusted		368,850	454,760	27,611	107,352	17,573	976,146
Customer accounts							
Reported		507,459	656,566	35,941	129,934	26,611	1,356,511
Currency translation		(20,840)	(4,431)	(124)	(2,720)	(5,511)	(33,626)
Adjusted		486,619	652,135	35,817	127,214	21,100	1,322,885

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

2 Amounts are non-additive across geographical regions due to intercompany transactions within the Group.

3 Fair value movements on financial instruments include non-qualifying hedges and debt valuation adjustments on derivatives.

4 Comprises costs associated with preparations for the UK's exit from the European Union.

Reconciliation of reported and adjusted risk-weighted assets

The following table reconciles average reported and adjusted risk-weighted assets ('RWAs').

Reconciliation of reported and adjusted risk-weighted assets

		At 31 Mar 2020					
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
		\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
Risk-weighted assets							
Reported		131.3	316.8	269.1	14.1	125.8	857.1
Adjusted	<i>1</i>	131.3	316.8	269.1	14.1	125.8	857.1
		At 31 Dec 2019					
Risk-weighted assets							
Reported		134.0	316.7	258.2	14.0	120.5	843.4
Currency translation		(4.7)	(12.0)	(7.0)	(0.2)	(2.4)	(26.3)
Adjusted	<i>1</i>	129.3	304.7	251.2	13.8	118.1	817.1
		At 31 Mar 2019					
Risk-weighted assets							
Reported		126.5	325.4	285.5	16.8	125.3	879.5
Currency translation		(3.0)	(10.2)	(6.0)	(0.2)	(2.4)	(21.8)
Disposals		–	–	–	–	(0.8)	(0.8)
– operations in Brazil		–	–	–	–	(0.8)	(0.8)
Adjusted	<i>1</i>	123.5	315.2	279.5	16.6	122.1	856.9

1 Adjusted risk-weighted assets are calculated using reported risk-weighted assets adjusted for the effects of currency translation differences and significant items.

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Incorporated in England with limited liability

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