

HSBC Holdings plc

Reconciliations of Non-GAAP Financial Measures
30 June 2020

Use of non-GAAP financial measures

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Our reported results are prepared in accordance with IFRSs as detailed in the interim condensed financial statements starting on page 92 of the *Interim Report 2020*. 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 32 of the *Interim Report 2020*).

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	
	2020	2019	2019	2019
	\$m	\$m	\$m	\$m
Profit				
Profit attributable to the ordinary shareholders of the parent company	1,977	8,507	5,969	
Impairment of goodwill and other intangible assets (net of tax)	1,154	—	7,349	
Increase in PVIF (net of tax)	(310)	(638)	(1,248)	
Profit attributable to the ordinary shareholders, excluding goodwill, other intangible assets impairment and PVIF	2,821	7,869	12,070	
Significant items (net of tax), bank levy and other adjustments	227	(48)	2,251	
Profit attributable to the ordinary shareholders, excluding goodwill impairment, PVIF, significant items and UK bank levy	3,048	7,821	14,321	
Equity				
Average ordinary shareholders' equity	165,325	165,258	165,421	
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(17,310)	(22,943)	(22,574)	
Average tangible equity	148,015	142,315	142,847	
Fair value of own debt, DVA and other adjustments	(852)	1,140	1,032	
Average tangible equity excluding fair value of own debt, DVA and other adjustments	147,163	143,455	143,879	
	%	%	%	
Ratio				
Return on average ordinary shareholders' equity (annualised)	2.4	10.4	3.6	
Return on average tangible equity (annualised)	3.8	11.2	8.4	
Return on average tangible equity excluding significant items and UK bank levy (annualised)	4.2	11.0	10.0	

Return on tangible equity by global business

	Half-year ended 30 Jun 2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Profit before tax	1,491	77	1,914	836	4,318
Tax expense	(269)	(147)	(650)	(127)	(1,193)
Profit after tax	1,222	(70)	1,264	709	3,125
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(353)	(330)	(322)	(143)	(1,148)
Profit attributable to ordinary shareholders of the parent company	869	(400)	942	566	1,977
Increase in PVIF (net of tax)	(299)	(9)	—	(2)	(310)
Significant items (net of tax) and UK bank levy	195	109	624	272	1,200
Other adjustments	8	(3)	(4)	180	181
Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy	773	(303)	1,562	1,016	3,048
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	25,865	37,233	40,865	43,200	147,163
RoTE excluding significant items and UK bank levy (annualised) (%)	6.0	(1.6)	7.7	4.7	4.2
	Half-year ended 30 Jun 2019				
Profit before tax	4,208	3,948	2,610	1,641	12,407
Tax expense	(572)	(723)	(284)	(891)	(2,470)
Profit after tax	3,636	3,225	2,326	750	9,937
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(620)	(456)	(445)	91	(1,430)
Profit attributable to ordinary shareholders of the parent company	3,016	2,769	1,881	841	8,507
Increase in PVIF (net of tax)	(610)	(27)	—	(1)	(638)
Significant items (net of tax) and UK bank levy	512	24	156	(685)	7
Other adjustments	(8)	1	(3)	(45)	(55)
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	2,910	2,767	2,034	110	7,821
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	26,593	36,411	40,358	40,059	143,455
RoTE excluding significant items and UK bank levy (annualised) (%)	22.1	15.3	10.2	0.6	11.0
	Year ended 31 Dec 2019				
Profit before tax	6,819	4,159	942	1,427	13,347
Tax expense	(720)	(1,502)	(460)	(1,957)	(4,639)
Profit after tax	6,099	2,657	482	(530)	8,708
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(1,279)	(846)	(784)	170	(2,739)
Profit attributable to ordinary shareholders of the parent company	4,820	1,811	(302)	(360)	5,969
Increase in PVIF (net of tax)	(1,207)	(40)	—	(1)	(1,248)
Significant items (net of tax) and UK bank levy	1,641	3,036	4,218	702	9,597
Other adjustments	1	—	—	2	3
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	5,255	4,807	3,916	343	14,321
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	26,627	36,856	39,999	40,397	143,879
RoTE excluding significant items and UK bank levy (%)	19.7	13.0	9.8	0.8	10.0

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Incorporated in England with limited liability

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