

# HSBC Holdings plc

**Reconciliations of Non-GAAP Financial Measures**  
**30 September 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 175 of the *Annual Report and Accounts 2017*. 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 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

	Nine months ended		Quarter ended		
	30 Sep 2018 \$m	30 Sep 2017 \$m	30 Sep 2018 \$m	30 Jun 2018 \$m	30 Sep 2017 \$m
<b>Profit</b>					
Profit/(loss) attributable to the ordinary shareholders of the parent company	11,071	9,957	3,899	4,087	2,958
Increase in PVIF (net of tax)	(317)	(60)	(75)	(164)	30
Profit/(loss) attributable to the ordinary shareholders, excluding PVIF	10,754	9,897	3,824	3,923	2,988
Significant items (net of tax) and bank levy	1,602	1,855			
Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy	12,356	11,752			
<b>Equity</b>					
Average ordinary shareholders' equity	164,290	162,546	161,406	164,632	165,783
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(22,037)	(20,466)	(22,036)	(22,093)	(21,091)
Average tangible equity	142,253	142,080	139,370	142,539	144,692
Fair value of own debt, DVA and other adjustments	2,495	2,562			
Average tangible equity excluding fair value of own debt, DVA and other adjustments	144,748	144,642			
	%	%	%	%	%
<b>Ratio</b>					
Return on equity	9.0	8.2	9.6	10.0	7.1
Return on tangible equity	10.1	9.3	10.9	11.0	8.2
Return on tangible equity excluding significant items and UK bank levy	11.4	10.9			

## Return on tangible equity by global business

	Nine months ended 30 Sep 2018					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Profit before tax</b>	<b>5,544</b>	<b>6,034</b>	<b>5,535</b>	<b>182</b>	<b>(661)</b>	<b>16,634</b>
Tax expense	(983)	(1,272)	(1,212)	(28)	(207)	(3,702)
<b>Profit after tax</b>	<b>4,561</b>	<b>4,762</b>	<b>4,323</b>	<b>154</b>	<b>(868)</b>	<b>12,932</b>
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(630)	(642)	(429)	(19)	(141)	(1,861)
<b>Profit attributable to ordinary shareholders of the parent company</b>	<b>3,931</b>	<b>4,120</b>	<b>3,894</b>	<b>135</b>	<b>(1,009)</b>	<b>11,071</b>
Increase in PVIF (net of tax)	(300)	(16)	—	(1)	—	(317)
Significant items (net of tax) and UK bank levy	134	(25)	(110)	81	1,522	1,602
Balance Sheet Management allocation and other adjustments	399	418	641	61	(1,519)	—
<b>Profit attributable to ordinary shareholders, excluding PVIF, significant items and UK bank levy</b>	<b>4,164</b>	<b>4,497</b>	<b>4,425</b>	<b>276</b>	<b>(1,006)</b>	<b>12,356</b>
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	24,462	41,324	47,340	3,392	28,230	144,748
Return on tangible equity excluding significant items and UK bank levy (%)	22.8%	14.5%	12.5%	10.9%	(4.8)%	11.4%

	Nine months ended 30 Sep 2017					
Profit before tax	4,687	5,066	4,877	212	21	14,863
Tax expense	(906)	(1,220)	(1,249)	(49)	114	(3,310)
Profit after tax	3,781	3,846	3,628	163	135	11,553
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(544)	(508)	(411)	(17)	(116)	(1,596)
Profit attributable to ordinary shareholders of the parent company	3,237	3,338	3,217	146	19	9,957
Increase in PVIF (net of tax)	(56)	(3)	—	—	(1)	(60)
Significant items (net of tax) and UK bank levy	296	16	83	(11)	1,471	1,855
Balance Sheet Management allocation and other adjustments	482	508	689	79	(1,758)	—
Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy	3,959	3,859	3,989	214	(269)	11,752
Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments	23,574	36,456	44,460	4,780	35,373	144,642
Return on tangible equity excluding significant items and UK bank levy (%)	22.5%	14.2%	12.0%	6.0%	(1.0)%	10.9%

## 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.

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
<b>Nine months to 30 Sep 2018</b>						
Average reported RWAs	124.1	311.8	291.4	16.6	129.6	873.5
Currency translation	(1.9)	(6.3)	(3.4)	(0.1)	(1.2)	(12.9)
Disposals	—	—	—	—	(2.6)	(2.6)
– Brazil operations	—	—	—	—	(2.6)	(2.6)
<b>Average adjusted RWAs</b>	<b>122.2</b>	<b>305.5</b>	<b>288.0</b>	<b>16.5</b>	<b>125.8</b>	<b>858.0</b>
<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	(2.5)	(8.4)	(4.5)	(0.2)	(1.6)	(17.2)
Disposals	—	—	—	—	(2.6)	(2.6)
– Brazil operations	—	—	—	—	(2.6)	(2.6)
Average adjusted RWAs	121.3	301.7	291.5	16.5	126.3	857.3
<b>Nine months to 30 Sep 2017</b>						
Average reported RWAs	116.5	286.0	301.9	15.9	149.6	869.9
Currency translation	(1.1)	(1.1)	(0.3)	0.1	(0.9)	(3.3)
Disposals	(0.7)	(0.3)	(0.2)	—	(4.0)	(5.2)
– Brazil operations	(0.7)	(0.3)	(0.2)	—	(4.0)	(5.2)
Average adjusted RWAs	114.7	284.6	301.4	16.0	144.7	861.4

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