HSBC

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HSBC BANK CANADA
FIRST QUARTER 2016 RESULTS

- Profit before income tax expense for the quarter ended 31 March 2016 was C$158m, a decrease of 31.6% compared with the same period in 2015, and an increase of C$186m compared with the fourth quarter of 2015.

- Profit attributable to common shareholder was C$106m for the quarter ended 31 March 2016, a decrease of 35.0% compared with the same period in 2015, and an increase of C$144m compared with the fourth quarter of 2015.

- Return on average common equity was 9.4% for the quarter ended 31 March 2016 compared with 14.5% for the same period in 2015.

- The cost efficiency ratio was 55.3% for the quarter ended 31 March 2016 compared with 54.0% for the same period in 2015, and 69.4% for the fourth quarter ended 2015.

- Total assets were C$92.6bn at 31 March 2016 compared with C$94.0bn at 31 December 2015.

- Common equity tier 1 capital ratio was 10.0%, tier 1 ratio 12.0% and total capital ratio 13.2% at 31 March 2016 compared with 10.1%, 12.1% and 13.5% respectively at 31 December 2015.

The abbreviations 'C$m' and 'C$bn' represent millions and billions of Canadian dollars, respectively.

News Release

This news release is issued by
HSBC Bank Canada

Overview

HSBC Bank Canada reported a profit before income tax expense of C$158m for the first quarter of 2016, a decrease of C$73m, or 31.6%, compared with the first quarter of 2015. The decrease is mainly due to higher loan impairment charges due to credit deterioration on specific files in the energy portfolio. Excluding loan impairment charges, operating income net of operating expenses for the first quarter of 2016 is consistent with the first quarter of 2015.

Compared to the fourth quarter of 2015, operating profit increased by C$185m due to lower loan impairment charges taken in the quarter and higher trading income due to a favourable change to the Credit Value Adjustment in the first quarter of 2016.

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity to the benefit of its customers and employees, despite headwinds from sustained low energy and commodity prices. The business focuses on deepening relationships with existing clients while attracting and retaining new customers to the bank. In the first quarter of 2016, new-to-bank lending activities increased 30% year-over-year while client attrition improved when compared with 2015. The business continues to make tangible strides against compliance agenda with a number of key milestones achieved in the first quarter.

Global Banking and Markets continues to leverage HSBC's global network on behalf of its clients resulting in increased trading revenues as well as lending and credit activities, while Capital Financing activities decreased during the quarter**.**

Retail Banking and Wealth Management continues to benefit from growth in residential mortgages and deposits, with a key focus on revenue in a highly competitive low interest rate market environment.

Commenting on the results, Sandra Stuart, President and Chief Executive Officer of HSBC Bank Canada, said:

"In the first quarter, revenues improved by 3% over the same period in 2015. This is attributed to solid performance in our Global Banking and Markets business, where there were strong trading revenues. There was also growth in both our mortgage and mutual fund portfolios in Retail Banking and Wealth Management. Costs improved from the previous quarter. They are well managed, and reflect our investments in our people, processes and technology to improve our efficiency, combat financial crime, as well as deliver the digitised services and global connectivity our customers demand. The downturn in the energy sector continues to weigh on our results and we continue to take the steps necessary to effectively manage our exposure.

"Our business fundamentals remain sound and we are focused on working with our customers to help them realise their financial goals so they can grow here at home and around the world."

Analysis of Consolidated Financial Results for the First Quarter of 2016

Net interest income for the first quarter of 2016 was C$281m, a decrease of C$6m, or 2.1%, compared with the first quarter of 2015 and a decrease of C$1m, or 0.4%, compared with the fourth quarter of 2015. The decrease was mainly due to the continued run-off of the consumer finance portfolio, the impact of two Bank of Canada rate cuts in 2015, and increased liquidity and funding costs. This was partially offset by higher asset balances resulting from growth in residential mortgages, a change in the categorisation of banker's acceptances from the fourth quarter of 2015 and onwards from trading assets to loans and advances, as well as yield improvement on commercial loans.

Net fee income for the first quarter of 2016 was C$161m, a decrease of C$11m, or 6.4%, compared with the first quarter of 2015 and a decrease of C$4m, or 2.4%, compared with the fourth quarter of 2015. The decreases are mainly due to reduced account service fees from fee refunds and lower debt capital market volume.

Net trading income for the first quarter of 2016 was C$67m, an increase of C$52m, or 346.7%, compared with the first quarter of 2015, and an increase of C$90m compared with the fourth quarter of 2015. Net trading income increased over the comparative periods mainly due to a favourable change to the Credit Value Adjustment on derivative contracts due to the tightening of customer credit spreads and the strengthening Canadian dollar. Also, derivative fair value movements were recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in 2015.

Net expense from financial instruments designated at fair value for the first quarter of 2016 was C$1m, compared with an income of C$2m in the first quarter of 2015 and an expense of C$1m for the fourth quarter of 2015. The net expense from financial instruments designated at fair value was caused from marginal narrowing of the bank's own credit spread which increased the fair value of these subordinated debentures. This compares with an income recorded in the prior quarter which arose from the widening of the bank's own credit spread.

Gains less losses from financial investments for the first quarter of 2016 were C$21m, a decrease of C$15m, or 41.7%, compared with the first quarter of 2015 and an increase of C$14m, or 200.0%, compared with the fourth quarter of 2015. Gains on sale of available-for-sale debt securities arise from the continued rebalancing of the Balance Sheet Management portfolio.

Other operating income for the first quarter of 2016 was C$15m, a decrease of C$3m, or 16.7%, compared with the first and fourth quarters of 2015. This was primarily due to income received from the sale in the first quarter of 2015 of a small portfolio of impaired loans.

Loan impairment charges and other credit risk provisions for the first quarter of 2016 were C$85m, an increase of C$69m compared with the first quarter of 2015 and a decrease of C$79m compared to the fourth quarter of 2015. The increase in loan impairment charges and other credit risk provisions over the first quarter of 2015 is primarily due to credit deterioration on specific files in the energy portfolio. The decrease over the fourth quarter of 2015 is mainly due to the timing of collective allowances taken on the energy sector.

Total operating expenses for the first quarter of 2016 were C$301m, an increase of C$15m or 5.2%, compared with the first quarter of 2015 and a decrease of C$10m, or 3.2%, compared with the fourth quarter of 2015. Total operating expenses are higher than the first quarter of 2015 mainly due to the adverse impact caused by the lower Canadian dollar on expenses denominated in foreign currencies, and continued investments in the implementation of HSBC's Global Standards and other efficiency initiatives to deliver future savings. Total operating expenses are lower than the fourth quarter of 2015 due to prudent cost management resulting in lower salaries from reduced head count, lower automobile and travel expenses, as well as the timing of certain expenditures.

Share of profit in associates for the first quarter of 2016 was $nil, a decrease of C$3m from the first quarter of 2015 and an increase of C$1m from the fourth quarter of 2015.

Income tax expense The effective tax rate in the first quarter of 2016 was 27.0%, compared with 27.8% for fiscal year 2015.

Statement of Financial Position

Total assets at 31 March 2016 were C$92.6bn, a decrease of C$1.4bn over 31 December 2015. Balance Sheet Management activities decreased financial investments, reverse repurchase agreements – non-trading, and loans and advances to banks by C$1.3bn, C$0.8bn and C$0.4bn respectively. The decrease in loans and advances to customers is driven mainly by lower facility utilisation partially offset by increased new-to-bank activities. Trading assets increased by C$1.0bn mainly due to the timing of settlement.

Total liabilities at 31 March 2016 were C$87.2bn, a decrease of C$1.5bn from 31 December 2015. Customer deposit accounts decreased by C$1.3bn mainly due to seasonal movement on commercial banking deposits. Balance Sheet Management activities decreased non-trading repurchase agreements by C$0.8bn, and subordinated liabilities of C$0.2bn were redeemed. This was partially offset by increased trading liabilities of C$1.0bn mainly due to higher securities short positions from client facilitation trades.

Total equity at 31 March 2016 was C$5.4bn, an increase of C$0.04bn from 31 December 2015, mainly due to profits generated in the period.

Business Performance in the First Quarter of 2016

Commercial Banking

Profit before income tax expense was C$52m for the first quarter of 2016, a decrease of C$84m, or 62%, compared with the first quarter of 2015. Higher loan impairment charges from the energy sector, lower net interest income due to increased liquidity and funding costs, and margin compression driven by Bank of Canada rate cuts in 2015 were the main drivers of the decrease. Profit before income tax expense was C$85m higher when compared with the fourth quarter of 2015, driven primarily by lower loan impairment charges and lower operating expenses.

Global Banking and Markets

Profit before income tax expense was C$111m for the first quarter of 2016, an increase of C$30m, or 37%, compared with the first quarter of 2015, and an increase of C$117m compared with the fourth quarter of 2015. Lower loan impairment charges from the energy sector offset against lower net interest income due to increased liquidity and funding costs, and margin compression driven by Bank of Canada rate cuts in 2015 were the main drivers of the increase.

Retail Banking and Wealth Management

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was C$5m, a decrease of C$6m, or 55%, compared with the first quarter of 2015 and a decrease of C$4m, or 44% compared with the fourth quarter of 2015.

The decreases over comparative periods were primarily due to increased business operating expenses and investment in HSBC's Global Standards and risk and compliance activities, as well as higher loan impairment charges.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2016 was C$5m, a decrease of C$7m, or 58%, compared to the first quarter of 2015 and a decrease of C$2m, or 29%, compared to the last quarter of 2015.

The decreases over comparative periods were primarily due to income received from the sale of a small portfolio of impaired loans in 2015, and the continued run-off of the portfolio.

Other

Loss before income tax expense was C$15m for the quarter ended 31 March 2016, an increase of C$6m, or 67%, compared to the first quarter of 2015 and an increase of C$10m, or 200%, compared to the fourth quarter of 2015. The increase in loss compared to the comparative periods is mainly due to the narrowing of credit spreads on financial instruments designated at fair value, and a change in the bank's liquidity funds transfer pricing policy framework, negatively impacting net interest income in the first quarter of 2016.

Dividends

During the first quarter of 2016, the bank declared and paid C$48m in dividends on HSBC Bank Canada common shares, a decrease of C$40m compared with the same quarter last year. Regular quarterly dividends of 31.875 cents per share, 31.25 cents per share, and 25 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, Series D and Series G respectively, for shareholders of record on 15 June 2016 and will be paid on 30 June 2016.

Use of Non-IFRS Financial Measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However these are not presented within the Financial Statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS financial measures are used throughout this document and their purposes and definitions are discussed below:

<u>Performance ratios</u>
Performance ratios are useful for management to evaluate profitability on equity, assets and risk-weighted assets.

Return on average common shareholder's equity is calculated as profit attributable to the common shareholder divided by average common equity (determined using month-end balances during the period).

Post-tax return on average total assets is calculated as profit attributable to the common shareholder divided by average total assets (determined using average month-end balances during the period).

Pre-tax return on average risk-weighted assets is calculated as profit before income tax expense divided by the average monthly balances of risk-weighted assets for the period. Risk-weighted assets are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework.

<u>Credit coverage ratios</u>
Credit coverage ratios are useful to management as a measure of the extent of incurred loan impairment charges relative to the bank's performance and size of its customer loan portfolio during the period.

Loan impairment charges to total operating income is calculated as loan impairment charges and other credit provisions, as a percentage of total operating income for the period.

Loan impairment charges to average gross customer advances is calculated as annualised loan impairment charges and other credit provisions for the period, as a percentage of average gross customer advances (determined using month-end balances during the period).

Total impairment allowances to impaired loans at period-end are useful to management to evaluate the coverage of impairment allowances relative to impaired loans using period-end balances.

Efficiency ratios
Efficiency ratios are measures of the bank's efficiency in managing its operating expense to generate revenue.

Cost efficiency ratio is calculated as total operating expenses as a percentage of total operating income for the period.

Adjusted cost efficiency ratio is calculated similar to the cost efficiency ratio; however, total operating excludes gains and losses from financial instruments designated at fair value, as the movement in value of the bank's own subordinated debt issues is primarily driven by changes in market rates and are not under the control of management.

Revenue mix ratio
This measure demonstrates the contribution of each of the primary revenue streams to total income.

Net interest income, net fee income and net trading income as a percentage of total operating income is calculated as net interest income, net fee income and net trading income divided by net operating income before loan impairment charges and other credit risk provisions.

Financial ratios
These measures are indicators of the stability of the bank's balance sheet and the degree to which funds are deployed to fund assets.

Ratio of customer advances to customer accounts is calculated by dividing loans and advances to customers by customer accounts using period-end balances.

Average total shareholders' equity to average total assets is calculated by dividing average total shareholders' equity with average total assets (determined using month-end balances) for the period.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. The HSBC Group serves customers worldwide from over 6,000 offices in over 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,596bn at 31 March 2016, HSBC is one of the world's largest banking and financial services organizations.

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Copies of HSBC Bank Canada's First Quarter 2016 Interim Report will be sent to shareholders in May 2016.

Figures in C$m (except where otherwise stated)	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
Financial performance for the period			
Total operating income	**544**	530	448
Profit/(loss) before income tax expense	**158**	231	(28)
Profit/(loss) attributable to the common shareholder	**106**	163	(38)
Basic earnings/(loss) per common share (C$)	**0.21**	0.33	(0.08)
Financial position at period-end			
Loan and advances to customers	**47,873**	42,660	48,378
Customer accounts	**53,830**	50,490	55,089
Ratio of customer advances to customer accounts (%)[1]	**88.9**	84.5	87.8
Shareholders' equity	**5,411**	4,959	5,376
Average total shareholders' equity to average total assets (%)[1]	**5.7**	5.4	5.8
Capital measures[2]			
Common equity tier 1 capital ratio (%)	**10.0**	10.5	10.1
Tier 1 ratio (%)	**12.0**	11.8	12.1
Total capital ratio (%)	**13.2**	13.1	13.5
Leverage ratio (%)[3]	**4.8**	4.6	4.7
Risk-weighted assets (C$m)	**43,069**	41,659	42,846
Performance ratios (%)[1]			
Return ratios (%)			
Return on average common shareholders' equity	**9.4**	14.5	(0.9)
Post-tax return on average total assets	**0.46**	0.73	(0.16)
Pre-tax return on average risk-weighted assets[2]	**1.5**	2.3	(0.3)
Credit coverage ratios (%)			
Loan impairment charges to total operating income	**15.6**	3.0	36.6
Loan impairment charges to average gross customer advances	**0.7**	0.2	1.5
Total impairment allowances to impaired loans at period-end	**74.3**	74.8	83.4
Efficiency and revenue mix ratios (%)			
Cost efficiency ratio	**55.3**	54.0	69.4
Adjusted cost efficiency ratio	**55.2**	54.2	69.3
As a percentage of total operating income:			
– net interest income to total operating income	**51.7**	54.2	62.9
– net fee income to total operating income	**29.6**	32.5	36.8
– net trading income (loss) to total operating income	**12.3**	2.8	(5.1)

1 *Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.*

2 *The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy frameworks.*

3 *Leverage ratio replaces assets-to-capital multiple effective 1 January 2015.*

Figures in C$m (except per share amounts)	Quarter ended 31 March 2016	31 March 2015	31 December 2015
Interest income	**418**	434	417
Interest expense	**(137)**	(147)	(135)
Net interest income	**281**	287	282
Fee income	**178**	191	183
Fee expense	**(17)**	(19)	(18)
Net fee income	**161**	172	165
Trading income excluding interest income	**62**	8	(35)
Net interest income on trading activities	**5**	7	12
Net trading income	**67**	15	(23)
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Gains less losses from financial investments	**21**	36	7
Other operating income	**15**	18	18
Total operating income	**544**	530	448
Loan impairment charges and other credit risk provisions	**(85)**	(16)	(164)
Net operating income	**459**	514	284
Employee compensation and benefits	**(169)**	(169)	(169)
General and administrative expenses	**(122)**	(106)	(131)
Depreciation of property, plant and equipment	**(7)**	(7)	(8)
Amortisation of intangible assets	**(3)**	(4)	(3)
Total operating expenses	**(301)**	(286)	(311)
Operating profit	**158**	228	(27)
Share of profit in associates	**–**	3	(1)
Profit before income tax expense	**158**	231	(28)
Income tax expense	**(43)**	(61)	-
Profit for the period	**115**	170	(28)
Profit attributable to the common shareholder	**106**	163	(38)
Profit attributable to preferred shareholders	**9**	4	10
Profit attributable to shareholders	**115**	167	(28)
Profit attributable to non-controlling interests	**–**	3	–
Average number of common shares outstanding (000's)	**498,668**	498,668	498,668
Basic earnings per common share	**C$ 0.21**	C$ 0.33	C$ (0.08)

Figures in C$m	**At 31 March 2016**	At 31 March 2015	At 31 December 2015
ASSETS			
Cash and balances at central bank	**54**	64	65
Items in the course of collection from other banks	**63**	128	73
Trading assets	**4,908**	8,254	3,893
Derivatives	**4,949**	5,604	4,909
Loans and advances to banks	**1,038**	950	1,400
Loans and advances to customers	**47,873**	42,660	48,378
Reverse repurchase agreements – non-trading	**6,040**	7,361	6,807
Financial investments	**22,588**	19,462	23,935
Other assets	**357**	384	365
Prepayments and accrued income	**254**	238	194
Customers' liability under acceptances	**4,313**	5,740	3,834
Property, plant and equipment	**106**	118	110
Goodwill and intangibles assets	**62**	61	61
Total assets	**92,605**	91,024	94,024
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**1,595**	1,177	2,049
Customer accounts	**53,830**	50,490	55,089
Repurchase agreements – non-trading	**5,780**	4,754	6,606
Trading liabilities	**2,672**	4,020	1,713
Derivatives	**5,140**	5,449	5,005
Debt securities in issue	**10,539**	10,316	10,896
Acceptances	**4,313**	5,740	3,834
Other liabilities	**3,325**	3,919	3,456
Total liabilities	**87,194**	85,865	88,648
Equity			
Common shares	**1,225**	1,225	1,225
Preferred shares	**850**	350	850
Other reserves	**90**	234	92
Retained earnings	**3,246**	3,150	3,209
Total shareholders' equity	**5,411**	4,959	5,376
Non-controlling interests	**–**	200	–
Total equity	**5,411**	5,159	5,376
Total equity and liabilities	**92,605**	91,024	94,024

Figures in C$m

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
Cash flows generated from/(used in):			
– operating activities	**(1,353)**	(1,373)	(2,145)
– investing activities	**1,333**	684	1,443
– financing activities	**(257)**	(95)	(78)
Net decrease in cash and cash equivalents	**(277)**	(784)	(780)
Cash and cash equivalents, beginning of period	**1,983**	2,337	2,763
Cash and cash equivalents, end of period	**1,706**	1,553	1,983
Represented by:			
– Cash and balances at central bank	**54**	64	65
– Items in the course of transmission (to)/from other banks, net	**(187)**	(14)	(146)
– Loans and advances to banks of one month or less	**1,038**	950	1,400
– Reverse repurchase agreements with banks of one month or less	**640**	402	435
– Treasury bills and certificates of deposits of three months or less	**161**	151	229
Cash and cash equivalents, end of period	**1,706**	1,553	1,983

Figures in C$m	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
Commercial Banking			
Net interest income	**142**	152	145
Net fee income	**79**	80	81
Net trading income	**7**	8	8
Gains less losses from financial investments	**2**	–	–
Other operating income	**6**	5	9
Total operating income	**236**	245	243
Loan impairment charges and other credit risk provisions	**(81)**	(11)	(158)
Net operating income	**155**	234	85
Total operating expenses	**(103)**	(101)	(117)
Operating profit	**52**	133	(32)
Share of profit in associates	**–**	3	(1)
Profit/(loss) before income tax expense	**52**	136	(33)
Global Banking and Markets			
Net interest income	**47**	48	42
Net fee income	**28**	35	26
Net trading/(loss) income	**50**	(6)	(40)
Gains less losses from financial investments	**19**	36	7
Total operating income	**144**	113	35
Loan impairment charges and other credit risk provisions	**–**	(1)	(3)
Net operating income	**144**	112	32
Total operating expenses	**(33)**	(31)	(38)
Profit/(loss) before income tax expense	**111**	81	(6)

Figures in C$m	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
Retail Banking and Wealth Management			
Net interest income	**100**	94	98
Net fee income	**54**	57	57
Net trading income	**5**	6	5
Other operating income	**2**	6	2
Total operating income	**161**	163	162
Loan impairment charges and other credit risk provisions	**(4)**	(4)	(3)
Net operating income	**157**	159	159
Total operating expenses	**(147)**	(136)	(143)
Profit before income tax expense	**10**	23	16
Attributable as follows:			
Ongoing Retail Banking and Wealth Management business	**5**	11	9
Run-off consumer finance portfolio	**5**	12	7
Profit before income tax expense	**10**	23	16
Other			
Net interest expense	**(8)**	(7)	(3)
Net fee income	**–**	–	1
Net trading income	**5**	7	4
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Other operating income	**7**	7	7
Net operating income	**3**	9	8
Total operating expenses	**(18)**	(18)	(13)
Loss before income tax expense	**(15)**	(9)	(5)