5 May 2015

HSBC BANK CANADA
FIRST QUARTER 2015 RESULTS

News Release

- Profit before income tax expense was C$231m for the quarter ended 31 March 2015, in line with the same period in 2014.
- Profit attributable to the common shareholder was C$163m for the quarter ended 31 March 2015, an increase of 1.9% compared with the same period in 2014.
- Return on average common equity was 14.5% for the quarter ended 31 March 2015 compared with 15.0% for the same period in 2014.
- The cost efficiency ratio was 54.0% for the quarter ended 31 March 2015 compared with 51.9% for the same period in 2014.
- Total assets were C$91.0bn at 31 March 2015 compared with C$88.2bn at 31 December 2014.
- Common equity tier 1 capital ratio was 10.5%, the tier 1 ratio was 11.8% and the total capital ratio was 13.1% at 31 March 2015.

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

This news release is issued by
HSBC Bank Canada

Overview

HSBC Bank Canada reported profit before income tax expense of C$231m for the first quarter of 2015, a decrease of C$2m, or 0.9%, compared with the first quarter of 2014, but an increase of C$25m, or 12.1%, compared with the fourth quarter of 2014.

The impact of higher fee income arising from increased capital market activities, growth in our Commercial and Global Banking and Market portfolios and increased gains on sales of available-for-sale securities was more than offset by the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met. Results also continue to be negatively impacted by competitive pressures in the low interest rate environment and run-off of the consumer finance portfolio.

The increase in profit before income tax expense compared with the fourth quarter of 2014, in addition to the factors noted above, also benefitted from lower specific loan impairment charges.

Commercial Banking continues to make progress in growing our business and streamlining processes. Lending balances grew by over C$1bn in the first quarter of 2015 and the number of new-to-bank lending customers increased by 17% since the first quarter of 2014. Significant improvements were seen in the credit application and client on-boarding processes.

Global Banking and Markets continued to see an increase in lending and credit activities and the Capital Financing business had increased activity in Capital Markets and Leverage and Acquisition Finance during the quarter.

Retail Banking and Wealth Management continues to benefit from the growth in residential mortgages and wealth balances, although revenues continue to be impacted by the highly competitive low interest rate environment.

Commenting on the results, Paulo Maia, President and Chief Executive Officer of HSBC Bank Canada, said: "I am happy to report growth in both fees and business volumes across all three business lines. There have been increases in Global Banking and Commercial lending, residential mortgages, wealth balances and capital markets activity in the quarter, and there is good momentum carrying us into the second quarter. The business continues to face challenges from the low interest rate environment and a delicate balance needs to be kept between investing in our business and managing costs. However, I am pleased with the growth we have achieved by providing the expertise and tools our clients need to do business internationally and helping internationally minded individuals to manage their finances."

Analysis of Consolidated Financial Results for the First Quarter of 2015

Net interest income for the first quarter of 2015 was C$287m, a decrease of C$20m, or 6.5%, compared with the first quarter of 2014 and a decrease of C$8m, or 2.7%, compared with the fourth quarter of 2014. The decreases were primarily due to competitive pressures in the low interest rate environment including the impact of the Bank of Canada rate cut and the impact of the continued run-off of the higher yielding consumer finance portfolio. This was partially offset by increases associated with the growth in commercial loans and residential mortgages. The reduction of net interest income for the first quarter of 2015 compared to the fourth quarter of 2014 also reflects the impact of two less days in the quarter.

Net fee income for the first quarter of 2015 was C$172m, an increase of C$17m, or 11.0%, compared with the first quarter of 2014 and an increase of C$3m, or 1.8%, compared with the fourth quarter of 2014. These increases were primarily due to higher credit fees resulting from increased standby and syndication fees as well as higher fees from growth in funds under management. Corporate finance fees were higher due to increased advisory, debt capital market and leveraged and acquisition finance activities.

Net trading income for the first quarter of 2015 was C$15m, a decrease of C$24m, or 61.5%, compared with both the first quarter of 2014 and the fourth quarter of 2014. The decreases were mostly due to the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met. This was partially offset by the improved performance of the rates trading desk and from the flow of derivative transactions. The initial adoption in the fourth quarter of 2014 of a fair value adjustment reflecting the funding of uncollateralised derivative exposures also had an impact.

Net income from financial instruments designated at fair value for the first quarter of 2015 was C$2m, compared with expenses of C$2m and C$1m respectively in the first and fourth quarters of 2014. The net income from financial instruments designated at fair value results from marginal widening of the bank's own credit spread which decreased the fair value of these subordinated debentures. This compared with an expense recorded in comparative periods which arose from the narrowing of the bank's own credit spread.

Gains less losses from financial investments for the first quarter of 2015 were C$36m, an increase of C$17m, or 89.5%, compared with the first quarter of 2014 and an increase of C$33m compared with the fourth quarter of 2014. Higher gains on sale of available-for-sale debt securities arose from the continued rebalancing of the Balance Sheet Management portfolio.

Other operating income for the first quarter of 2015 was C$18m, an increase of C$4m, or 28.6%, compared with the first and fourth quarters of 2014. 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 2015 were C$16m, a decrease of C$10m and C$21m respectively compared with the first quarter and the fourth quarter of 2014. The decreases in loan impairment charges and other credit risk provisions were primarily as a result of lower specifically assessed wholesale allowances and lower collectively assessed allowances due to the smaller consumer finance portfolio as the run-off continues, and lower levels of other personal lending.

Total operating expenses for the first quarter of 2015 were C$286m, an increase of C$10m or 3.6%, and C$8m or 2.9% compared with the first and the fourth quarters of 2014 respectively. Total operating expenses are higher than the first quarter last year primarily due to continued investment in growing our Global Businesses capabilities, and to continued investments in the implementation of HSBC's Global Standards and other risk and compliance activities. Employee compensation and benefits are higher than the fourth quarter last year mainly due to front-loaded social security costs and increase in health care costs, while the fourth quarter of 2014 also included a reduction of performance-based compensation. General and administrative expenses are lower than in the fourth quarter of 2014 mainly due to the timing of certain expenditures.

Share of profit in associates for the first quarter of 2015 was C$3m, little changed compared with the first and fourth quarters of 2014.

Income tax expense. The effective tax rate in the first quarter of 2015 was 26.8%, compared with 26.5% in the first quarter of 2014 and 39.7% in the fourth quarter of 2014. The higher income tax expense in the fourth quarter of 2014 resulted from the resolution and closure of multiple tax issues covering a number of years with the Canadian tax authorities.

Statement of Financial Position

Total assets at 31 March 2015 were C$91.0bn, an increase of C$2.8bn over 31 December 2014. Loans and advances to customers increased by C$1.4bn and customer acceptances increased by C$0.7bn due to increased utilisation of customer credit facilities. Derivatives increased by C$1.5bn due to the impact of recent changes in the value of the US dollar on values of forward foreign exchange contracts. This was matched by similar increases in the mark to market value of derivative liabilities, offset by a reduction in trading assets of C$0.7bn due to lower outstanding settlement balances.

Total liabilities at 31 March 2015 were C$85.8bn, an increase of C$2.6bn from 31 December 2014. Derivatives increased C$1.6bn due to client activities and the impact of foreign exchange movements on forward foreign exchange positions as noted above. Liabilities under customer acceptances increased by C$0.7bn arising from increased customer utilisation.

Total equity at 31 March 2015 was C$5.2bn, an increase of C$0.2bn from 31 December 2014, primarily due to profits generated in the period.

Business Performance in the First Quarter of 2015

Commercial Banking

Profit before income tax expense was C$136m for the first quarter of 2015, a decrease of C$13m, or 9%, compared with the first quarter of 2014 and an increase of C$17m, or 14%, compared with the fourth quarter of 2014. The decrease from the first quarter of 2014 was primarily due to lower net interest income arising from competitive pressures in the low interest rate environment. The increase over the fourth quarter of 2014 is due to lower specific loan impairment charges partially offset by lower net interest and net fee income.

Global Banking and Markets

Profit before income tax expense was C$81m for the first quarter of 2015, an increase of C$4m, or 5%, compared with the first quarter of 2014 and an increase of C$22m, or 37%, compared with the fourth quarter of 2014. The increase over comparative periods was mainly due to higher gains on disposals of financial investments from re-balancing of the financial investments portfolio and higher fees on increased capital markets activities, offset by the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met.

Retail Banking and Wealth Management

Profit before income tax expense for the first quarter of 2015 was C$23m, an increase of $8m, or 53%, compared with first quarter of 2014 and a decrease of C$13m, or 36%, compared with the fourth quarter of 2014. Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was C$11m, an increase of C$2m, or 22%, and a decrease of C$17m or 61%, compared with the first and fourth quarters of 2014 respectively. Profit before income tax expense relating to the ongoing business increased over the first quarter of 2014 mainly from increased fees from wealth management products during the first quarter investment season and lower loan impairment charges partially offset by increased operating expenses. The decrease from the fourth quarter of 2014 resulted from a reduction in net interest income, primarily due to lower net interest spreads, increased loan impairment charges resulting from a release of provisions in the fourth quarter of 2014 and increased operating costs. This arose from front-loaded social security costs, increased investment in Premier relationship managers and other business support costs.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2015 was C$12m, an increase of C$6m, or 100%, compared with the first quarter of 2014 and an increase of C$4m, or 50%, compared with the fourth quarter of 2014. The reduction of interest income in this portfolio was more than offset by a reduction in both loan impairment charges and operating expenses as well as income received from the sale of a small portfolio of impaired loans.

Other

Loss before income tax expense was C$9m for the quarter ended 31 March 2015, little changed from the first and fourth quarters of 2014. The increase in operating expenses compared to the first and fourth quarters of 2014 arise primarily from foreign exchange losses on settlements of US dollar denominated services provided by HSBC Group companies and the timing of recoveries from other Group companies.

Dividends

During the first quarter of 2015, the bank declared and paid C$88m in dividends on HSBC Bank Canada common shares, compared with C$160m in the fourth quarter of 2014.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. Dividends will be paid on 30 June 2015, for shareholders of record on 15 June 2015.

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 annual profit attributable to the common shareholder divided by average common equity (determined using month-end balances).

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

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 year. 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 year.

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.

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

Cost efficiency ratio is calculated as annual total operating expenses as a percentage of annual net operating income before loan impairment charges and other credit risk provisions.

Adjusted cost efficiency ratio is calculated similar to the cost efficiency ratio; however, annual net operating income before loan impairment charges and other credit risk provisions excludes annual 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 annual net interest income, annual net fee income and annual net trading income divided by annual 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 for the year (determined using month-end balances) with average total assets (determined using month-end balances) for the year.

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 6,100 offices in over 73 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,670bn at 31 March 2015, 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 2015 Interim Report will be sent to shareholders in May 2015.

(Figures in C$ millions, except where stated)	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
Financial performance for the period			
Total operating income	**530**	532	519
Profit before income tax expense	**231**	233	206
Profit attributable to the common shareholder	**163**	160	118
Basic earnings per common share (C$)	**0.33**	0.32	0.24
Financial position at period-end			
Loan and advances to customers	**42,660**	41,208	41,219
Customer accounts	**50,490**	49,456	50,843
Ratio of customer advances to customer accounts (%)[1]	**84.5**	83.3	81.1
Shareholders' equity	**4,959**	4,969	4,800
Average total shareholders' equity to average total assets (%)[1]	**5.4**	5.8	5.5
Capital measures[2]			
Common equity tier 1 capital ratio (%)	**10.5**	10.8	10.6
Tier 1 ratio (%)	**11.8**	12.9	12.0
Total capital ratio (%)	**13.1**	14.5	13.5
Assets-to-capital multiple (times)	**n/a**	15.3	17.1
Leverage ratio (%)[3]	**4.6**	n/a	n/a
Risk-weighted assets (C$m)	**41,659**	38,466	40,269
Performance ratios (%)[1]			
Return ratios (%)			
Return on average common shareholders' equity	**14.5**	15.0	10.5
Post-tax return on average total assets	**0.73**	0.76	0.54
Pre-tax return on average risk-weighted assets[2]	**2.3**	2.5	2.0
Credit coverage ratios (%)			
Loan impairment charges to total operating income	**3.0**	4.9	7.0
Loan impairment charges to average gross customer advances	**0.2**	0.3	0.3
Total impairment allowances to impaired loans at period-end	**74.8**	62.0	69.9
Efficiency and revenue mix ratios (%)			
Cost efficiency ratio	**54.0**	51.9	53.6
Adjusted cost efficiency ratio	**54.2**	51.7	53.5
As a percentage of total operating income:			
– Net interest income to total operating income	**54.2**	57.7	56.8
– Net fee income to total operating income	**32.5**	29.1	32.6
– Net trading income to total operating income	**2.8**	7.3	7.5

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$m (except per share amounts)	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
Interest income	**434**	483	441
Interest expense	**(147)**	(176)	(146)
Net interest income	**287**	307	295
Fee income	**191**	172	187
Fee expense	**(19)**	(17)	(18)
Net fee income	**172**	155	169
Trading income excluding net interest income	**8**	36	28
Net interest income on trading activities	**7**	3	11
Net trading income	**15**	39	39
Net income / (expense) from financial instruments designated at fair value	**2**	(2)	(1)
Gains less losses from financial investments	**36**	19	3
Other operating income/(expense)	**18**	14	14
Total operating income	**530**	532	519
Loan impairment charges and other credit risk provisions	**(16)**	(26)	(37)
Net operating income	**514**	506	482
Employee compensation and benefits	**(169)**	(159)	(152)
General and administrative expenses	**(106)**	(104)	(114)
Depreciation of property, plant and equipment	**(7)**	(8)	(8)
Amortisation of intangible assets	**(4)**	(5)	(4)
Total operating expenses	**(286)**	(276)	(278)
Operating profit	**228**	230	204
Share of profit in associates	**3**	3	2
Profit before income tax expense	**231**	233	206
Income tax expense	**(61)**	(61)	(81)
Profit for the period	**170**	172	125
Profit attributable to the common shareholder	**163**	160	118
Profit attributable to preferred shareholders	**4**	9	5
Profit attributable to shareholders	**167**	169	123
Profit attributable to non-controlling interests	**3**	3	2
Average number of common shares outstanding (000's)	**498,668**	498,668	498,668
Basic earnings per common share	**C$ 0.33**	C$ 0.32	C$ 0.24

Figures in C$m	**At 31 March 2015**	At 31 March 2014	At 31 December 2014
ASSETS			
Cash and balances at central bank	**64**	71	73
Items in the course of collection from other banks	**128**	104	76
Trading assets	**8,254**	5,962	8,914
Derivatives	**5,604**	2,121	4,082
Loans and advances to banks	**950**	1,188	1,264
Loans and advances to customers	**42,660**	41,208	41,219
Reserve repurchase agreements – non-trading	**7,361**	7,748	6,714
Financial investments	**19,462**	19,570	20,122
Other assets	**384**	368	345
Prepayments and accrued income	**238**	213	186
Customers' liability under acceptances	**5,740**	5,578	5,023
Property, plant and equipment	**118**	134	124
Goodwill and intangibles assets	**61**	66	62
Total assets	**91,024**	84,331	88,204
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**1,177**	645	681
Customer accounts	**50,490**	49,456	50,843
Repurchase agreements – non-trading	**4,754**	2,037	4,054
Items in the course of transmission to other banks	**142**	124	105
Trading liabilities	**4,020**	5,471	4,227
Financial liabilities designated at fair value	**425**	430	425
Derivatives	**5,449**	1,859	3,885
Debt securities in issue	**10,316**	10,320	10,610
Other liabilities	**2,319**	2,203	2,279
Acceptances	**5,740**	5,578	5,023
Accruals and deferred income	**439**	516	524
Retirement benefit liabilities	**355**	284	309
Subordinated liabilities	**239**	239	239
Total liabilities	**85,865**	79,162	83,204
Equity			
Common shares	**1,225**	1,225	1,225
Preferred shares	**350**	600	350
Other reserves	**234**	149	117
Retained earnings	**3,150**	2,995	3,108
Total shareholders' equity	**4,959**	4,969	4,800
Non-controlling interests	**200**	200	200
Total equity	**5,159**	5,169	5,000
Total equity and liabilities	**91,024**	84,331	88,204

Figures in C$m	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
Cash flows generated from/(used in):			
– operating activities	**(1,373)**	(1,841)	1,319
– investing activities	**684**	2,245	(335)
– financing activities	**(95)**	(92)	(166)
Net increase/(decrease) in cash and cash equivalents	**(784)**	312	818
Cash and cash equivalents, beginning of period	**2,337**	1,896	1,519
Cash and cash equivalents, end of period	**1,553**	2,208	2,337
Represented by:			
– Cash and balances at central bank	**64**	71	73
– Items in the course of transmission from/(to) other banks, net	**(14)**	(20)	(29)
– Loans and advances to banks of one month or less	**950**	1,188	1,264
– Reverse repurchase agreements with banks of one month or less	**402**	810	744
– Treasury bills and certificates of deposits of three months or less	**151**	159	285
Cash and cash equivalents, end of period	**1,553**	2,208	2,337

Figures in C$m

	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
Commercial Banking			
Net interest income	**152**	168	161
Net fee income	**80**	79	85
Net trading income	**8**	6	7
Other operating income	**5**	6	5
Total operating income	**245**	259	258
Loan impairment charges and other credit risk provisions	**(11)**	(12)	(38)
Net operating income	**234**	247	220
Total operating expenses	**(101)**	(101)	(103)
Operating profit	**133**	146	117
Share of profit in associates	**3**	3	2
Profit before income tax expense	**136**	149	119
Global Banking and Markets			
Net interest income	**48**	44	44
Net fee income	**35**	24	26
Net trading (loss) income	**(6)**	21	16
Gains less losses from financial investments	**36**	19	13
Total operating income	**113**	108	89
Loan impairment charges and other credit risk provisions	**(1)**	(1)	(2)
Net operating income	**112**	107	87
Total operating expenses	**(31)**	(30)	(28)
Profit before income tax expense	**81**	77	59

Figures in C$m	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
Retail Banking and Wealth Management			
Net interest income	**94**	102	102
Net fee income	**57**	52	58
Net trading income	**6**	5	6
Other operating income	**6**	2	1
Total operating income	**163**	161	167
Loan impairment (charges)/reversals and other credit risk provisions	**(4)**	(13)	3
Net operating income	**159**	148	170
Total operating expenses	**(136)**	(133)	(134)
Profit before income tax expense	**23**	15	36
Attributable as follows:			
Ongoing Retail Banking and Wealth Management business	**11**	9	28
Run-off consumer finance portfolio	**12**	6	8
Profit before income tax expense	**23**	15	36
Other			
Net interest expense	**(7)**	(7)	(12)
Net trading income	**7**	7	10
Net income /(expense) from financial instruments designated at fair value	**2**	(2)	(1)
Other operating income	**7**	6	8
Net operating income	**9**	4	5
Total operating expenses	**(18)**	(12)	(13)
(Loss) before income tax expense	**(9)**	(8)	(8)