HSBC

3 August 2016

HSBC BANK CANADA
SECOND QUARTER 2016 RESULTS

- Profit before income tax expense for the quarter ended 30 June 2016 was $168m, a decrease of 26.0% compared with the same period in 2015. Profit before income tax expense was $326m for the half-year ended 30 June 2016, a decrease of 28.8% compared with the same period in 2015.
- Profit attributable to the common shareholder was $111m for the quarter ended 30 June 2016, a decrease of 31.1% compared with the same period in 2015. Profit attributable to the common shareholder was $217m for the half-year ended 30 June 2016, a decrease of 33.0% compared with the same period in 2015.
- Return on average common equity was 9.8% for the quarter ended 30 June 2016 compared with 14.0% for the same period in 2015. Return on average common equity was 9.6% for the half-year ended 30 June 2016 compared with 14.3% for the same period in 2015.
- The cost efficiency ratio was 57.3% for the quarter ended 30 June 2016 compared with 53.8% for the same period in 2015. The cost efficiency ratio was 56.3% for the half-year ended 30 June 2016 compared with 53.9% for the same period in 2015.
- Total assets were $93.3bn at 30 June 2016 compared with $94.0bn at 31 December 2015.
- Common equity tier 1 capital ratio was 10.4%, tier 1 ratio 12.4% and total capital ratio 13.5% at 30 June 2016 compared with 10.1%, 12.1% and 13.5% respectively at 31 December 2015.

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

This news release is issued by
HSBC Bank Canada

Overview

HSBC Bank Canada reported a profit before income tax expense of $168m for the second quarter of 2016, a decrease of $59m, or 26.0%, compared with the second quarter of 2015. Profit before income tax expense was $326m for the first half of 2016, a decrease of $132m, or 28.8%, compared with the first half of 2015. The decreases are in part due to higher loan impairment charges largely reflecting charges related to the oil and gas sectors, increased investment in HSBC's Global Standards, risk and compliance activities, and other strategic initiatives to deliver future savings.

Commercial banking continues to focus on international subsidiary banking and leverage our global trade and cash management product platform to drive new-to-bank client acquisition and growth through NAFTA and China trade corridors, despite headwinds from sustained low energy and commodity prices.

Global Banking and Markets increased trading revenues as well as lending and credit activities by leveraging HSBC's global network on behalf of its clients, while leverage and acquisition finance revenues decreased.

Retail Banking and Wealth Management benefited from growth in residential mortgages and deposits during the first half of 2016, 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:

"We are encouraged by the improvements we are seeing in the first half of 2016: In the second quarter, while profit before tax is down 26% compared to Q2 last year, it is up 6.3% compared with the previous quarter. Leveraging our global network led to increased trading revenues in Global Banking and Markets and drove client acquisition and growth along both the NAFTA and China trade corridors in Commercial Banking. We see a different picture when comparing to our results from a year ago: In Commercial Banking, loan impairment charges and two Bank of Canada rate cuts had a negative impact. Similarly, in Global Banking and Markets, there was a decrease in leveraged and acquisition finance activities and lower disposals of available-for-sale financial investments compared to the second quarter of 2015. Our Retail Banking and Wealth Management business continued to grow residential mortgages and deposits - with net operating income increasing 7.0% over last quarter and 4.3% over the second quarter of 2015.

"Loan impairment charges are lower again this quarter as we continue to carefully manage our exposure to the energy sector. Costs are unchanged from last quarter and down 3.2% from the fourth quarter of 2015 - even as we continued to invest to improve efficiency, combat financial crime and deliver the digitised services and global connectivity our customers demand. We are maintaining our strategy to invest in ever better products and services for our commercial, institutional and retail customers in Canada."

Analysis of Consolidated Financial Results for the Second Quarter of 2016

Net interest income for the second quarter of 2016 was $280m, a decrease of $9m, or 3.1%, compared with the second quarter of 2015. Net interest income for the first half of 2016 was $561m, a decrease of $15m, or 2.6%, compared with the first half of 2015. The decreases over comparative periods were mainly driven by tighter spreads in a competitive low interest rate environment driven by two Bank of Canada rate cuts in 2015, and the continued run-off of the consumer finance portfolio. This was partially offset by residential mortgage growth and higher average yield on financial investments.

Net fee income for the second quarter of 2016 was $171m, a decrease of $10m, or 5.5%, compared with the second quarter of 2015. Net fee income for the first half of 2016 was $332m, a decrease of $21m, or 5.9%, compared with the first half of 2015. The decreases are primarily driven by lower capital markets advisory and underwriting fees, and lower credit facility utilisation.

Net trading income for the second quarter of 2016 was $49m, an increase of $8m, or 19.5%, compared with the second quarter of 2015. Net trading income for the first half of 2016 was $116m, an increase of $60m, or 107.1%, compared with the first half of 2015. The increases from comparative periods are mainly driven by favorable changes to the Credit Valuation Adjustment ('CVA') on derivative contracts due to the tightening of customer credit spreads. Also, derivative fair value movements were recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Gains less losses from financial investments for the second quarter of 2016 were $6m, a decrease of $12m, or 66.7%, compared with the second quarter of 2015. Gains less losses from financial investments for the first half of 2016 was $27m, a decrease of $27m, or 50% compared with the first half of 2015. Gains on sale of available-for-sale debt securities arose from the continued rebalancing of the balance sheet management liquid assets.

Other operating income for the second quarter of 2016 was $20m, an increase of $8m, or 66.7%, compared with the second quarter of 2015. Other operating income for the first half of 2016 was $35m, an increase of $5m, or 16.7% compared with the first half of 2015. The increase was partly due to income received from the sale of a small impaired loan portfolio and higher inter-company activities this quarter.

Loan impairment charges and other credit risk provisions for the second quarter of 2016 were $54m, an increase of $31m compared with the second quarter of 2015. Loan impairment charges and other credit risk provisions for the first half of 2016 were $139m, an increase of $100m compared with the first half of 2015. The increases over the comparative periods largely reflect charges related to the oil and gas sectors.

Total operating expenses for the second quarter of 2016 were $301m, an increase of $10m, or 3.4%, compared with the second quarter of 2015. Total operating expenses for the first half of 2016 were $602m, an increase of $25m, or 4.3%, compared with the first half of 2015. The increases over the comparative periods are driven by 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.

Share of profit in associates represents changes in the value of the bank's investment in certain private equity funds. Share of profit in associates for the second quarter of 2016 was a loss of $2m, a decrease of $2m compared with the second quarter of 2015. Share of profit in associates for the first half of 2016 was a loss of $2m, a decrease of $5m compared with the first half of 2015.

Income tax expense. The effective tax rate in the second quarter of 2016 was 27.7%, compared with 26.7% in the second quarter of 2015.

Movement in Financial Position

Total assets at 30 June 2016 were $93.3bn, a decrease of $0.8bn from 31 December 2015. Balance sheet management activities decreased financial investments and reverse repurchase agreements - non trading by $1.5bn and $1.2bn respectively, and increased trading assets and other assets by $1.3bn and $0.6bn respectively. Customer's liability under acceptances increased by $0.7bn due to an increase in the volume of acceptances. Derivatives decreased by $0.5bn mainly due to a decrease in foreign exchange contracts and commodity contracts, partially offset by an increase in interest rate contracts. Loans and advances to customers decreased by $0.3bn mainly driven by lower credit facility utilisation partially offset by increased new-to-bank activities.

Total liabilities at 30 June 2016 were $87.8bn, a decrease of $0.9bn from 31 December 2015. Balance sheet management activities decreased reverse repurchase agreements – non-trading and deposits by banks by $2.8bn and $1.1bn respectively, as well as $0.4bn of debt securities matured during the quarter. This is offset by increased trading liabilities of $1.4bn due to higher securities short positions from client facilitation trades, $1.6bn increase in other liabilities largely due to long-term borrowing and a $0.7bn increase in the volume of acceptances during the quarter.

Total equity at 30 June 2016 was $5.5bn, an increase of $0.1bn from 31 December 2015, due to profits generated in the period.

Business Performance in the Second Quarter of 2016

Commercial Banking

Profit before income tax expense was $71m for the second quarter of 2016, a decrease of $47m, or 40%, compared with the second quarter of 2015. Profit before income tax expense for the first half of 2016 was $123m, a decrease of $131m, or 52%, compared with the first half of 2015. Profit before income tax expense was down primarily because of increased loan impairment charges largely reflecting charges related to the oil and gas sectors, increased funding costs, lower deposit margins due to two Bank of Canada rate cuts in 2015, and lower asset balances, partially offset by lower operating expenses.

Global Banking and Markets

Profit before income tax expense was $87m for the second quarter of 2016, a decrease of $7m, or 7%, compared with the second quarter of 2015, mainly driven by decreased net fee income from lower leveraged and acquisition finance activities, lower disposals of available-for-sale financial investments, offset by higher net yields on available-for-sale financial investments. Profit before income tax expense was $198m for the first half of 2016, an increase of $23m, or 13%, compared with the first half of 2015, mainly driven by favourable trading performance in the rates business and the impact of tightening of customer credit spreads and the strengthening of the Canadian dollar on CVA on derivative contracts. Also, derivative fair value movements were recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Retail Banking and Wealth Management

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $16m for the second quarter of 2016, an increase of $7m, or 78%, compared with the second quarter of 2015, mainly driven by higher net interest income. Profit before income tax expense relating to ongoing business was $21m for the first half of 2016, largely unchanged from the first half of 2015, as higher net interest income was partially offset by investments in HSBC's Global Standards, risk and compliance activities, and other strategic initiatives.

Profit before income tax expense relating to the run-off consumer finance portfolio for the second quarter of 2016 was $10m, an increase of $1m, or 11%, compared with the second quarter of 2015, mainly driven by the sale of a small impaired loan portfolio. Profit before income tax expense relating to the run-off of consumer finance portfolio was $15m in the first half of 2016, a decrease of $6m, or 29%, compared with the first half of 2015, mainly driven by lower interest income from declining loan balances.

Other

Loss before income tax expense was $16m for the second quarter of 2016, an increase of $13m, compared with the second quarter of 2015. Loss before income tax expense was $31m for the first half of 2016, an increase of $19m, compared with the first half of 2015. The increase in losses compared with the comparative periods are mainly due to the continued investments in the implementation of HSBC's Global standards and other initiatives to deliver future savings. As well, the narrowing of credit spreads on financial instruments designated at fair value and a transitional change in the liquidity funds transfer pricing policy framework negatively impacted net interest income in the first half of 2016.

Dividends

During the second quarter of 2016, the bank declared and paid $48m in dividends on HSBC Bank Canada common shares, a decrease of $40m compared with the same quarter last year, and $9m in dividends on HSBC Bank Canada preferred shares, an increase of $5m compared with the same quarter last year. Common share dividends of $48m will be paid on or before 30 September 2016 to the holder of record on 04 August 2016. Regular quarterly dividends have been declared on all series of HSBC Bank Canada Class 1 Preferred Shares in the amounts of $0.31875, $0.3125 and $0.25 for Series C, Series D and Series G respective and will be paid on 30 September 2016 for shareholders of record on 15 September 2016.

Use of non-IFRSs 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 IFRSs. These are considered non-IFRSs financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRSs financial measures are used throughout this document and their purposes and definitions are discussed below:

Return ratios

Return 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.

Credit coverage ratios

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 the country. We help companies and individuals across Canada to do business and manage their finances internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management. Canada is a priority market for the HSBC Group - one of the world's largest banking and financial services groups with assets of US$2,608bn at 30 June 2016. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

Media enquiries to:	**Sharon Wilks**	**416-868-3878**	**sharon_wilks@hsbc.ca**
	Aurora Bonin	**604-641-1905**	**aurora.f.bonin@hsbc.ca**

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

(Figures in $m, except where otherwise state)	Quarter ended		Half-year ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Finance performance for the period				
Total operating income	**525**	541	**1,069**	1,071
Profit before income tax expense	**168**	227	**326**	458
Profit attributable to the common shareholder	**111**	161	**217**	324
Basic earnings per common share ($)	**0.22**	0.32	**0.43**	0.65
Financial position at period-end				
Loan and advances to customers	**48,034**	42,866		
Customer accounts	**55,052**	50,362		
Ratio of customer advances to customer accounts (%)[1]	**87.3**	85.1		
Shareholders' equity	**5,484**	5,483		
Average total shareholders' equity to average total assets (%)[1]	**5.8**	5.6		
Capital measures[2]				
Common equity tier 1 capital ratio (%)	**10.4**	10.5		
Tier 1 ratio (%)	**12.4**	12.5		
Total capital ratio (%)	**13.5**	13.8		
Leverage ratio (%)	**4.8**	4.9		
Risk-weighted assets	**42,442**	42,358		
Performance ratios (%)[1]				
Return ratios (%)[1]				
Return on average common shareholders' equity	**9.8**	14.0	**9.6**	14.3
Post-tax return on average total assets	**0.48**	0.71	**0.47**	0.72
Pre-tax return on average risk-weighted assets[2]	**1.6**	2.2	**1.5**	2.2
Credit coverage ratios (%)				
Loan impairment charges to total operating income	**10.5**	4.3	**13.1**	3.6
Loan impairment charges to average gross customer advances and acceptances	**0.5**	0.2	**0.6**	0.2
Total impairment allowances to impaired loans and advances at period-end	**67.0**	81.1	**67.0**	81.1
Efficiency and revenue mix ratios (%)				
Cost efficiency ratio	**57.3**	53.8	**56.3**	53.9
Adjusted cost efficiency ratio	**57.2**	53.8	**56.2**	54.0
As a percentage of total operating income:				
- net interest income	**53.3**	53.4	**52.5**	53.8
- net fee income	**32.6**	33.5	**31.1**	32.9
- net trading income	**9.3**	7.6	**10.8**	5.2

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

(Figures in $m, except per share amounts)	Quarter ended		Half-year ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Interest income	**441**	427	**859**	861
Interest expense	**(161)**	(138)	**(298)**	(285)
Net interest income	**280**	289	**561**	576
Fee income	**189**	198	**367**	389
Fee expense	**(18)**	(17)	**(35)**	(36)
Net fee income	**171**	181	**332**	353
Trading income excluding net interest income	**44**	33	**106**	41
Net interest income on trading activities	**5**	8	**10**	15
Net trading income	**49**	41	**116**	56
Net (expense)/income from financial instruments designated at fair value	**(1)**	—	**(2)**	2
Gains less losses from financial investments	**6**	18	**27**	54
Other operating income	**20**	12	**35**	30
Total operating income	**525**	541	**1,069**	1,071
Loan impairment charges and other credit risk provisions	**(54)**	(23)	**(139)**	(39)
Net operating income	**471**	518	**930**	1,032
Employee compensation and benefits	**(164)**	(168)	**(333)**	(337)
General and administrative expenses	**(127)**	(112)	**(249)**	(218)
Depreciation of property, plant and equipment	**(8)**	(8)	**(15)**	(15)
Amortisation and impairment of intangible assets	**(2)**	(3)	**(5)**	(7)
Total operating expenses	**(301)**	(291)	**(602)**	(577)
Operating profit	**170**	227	**328**	455
Share of profit in associates	**(2)**	—	**(2)**	3
Profit before income tax expense	**168**	227	**326**	458
Income tax expense	**(47)**	(59)	**(90)**	(120)
Profit for the period	**121**	168	**236**	338
Profit attributable to the common shareholder	**111**	161	**217**	324
Profit attributable to preferred shareholders	**10**	5	**19**	9
Profit attributable to shareholders	**121**	166	**236**	333
Profit attributable to non-controlling interest	**—**	2	**—**	5
Average number of common shares outstanding (000's)	**498,668**	498,668	**498,668**	498,668
Basic earnings per common share ($)	**0.22**	0.32	**0.43**	0.65

(Figures in $m)	**30 June 2016**	31 December 2015
ASSETS		
Trading assets	**5,202**	3,893
Derivatives	**4,419**	4,909
Loans and advances to banks	**1,480**	1,400
Loans and advances to customers	**48,034**	48,378
Reverse repurchase agreements – non-trading	**5,647**	6,807
Financial investments	**22,462**	23,935
Customer's liability under acceptances	**4,542**	3,834
Other assets	**1,472**	868
Total assets	**93,258**	94,024
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**975**	2,049
Customer accounts	**55,052**	55,089
Repurchase agreements – non-trading	**3,844**	6,606
Trading liabilities	**3,099**	1,713
Derivatives	**4,821**	5,005
Debt securities in issue	**10,452**	10,896
Acceptances	**4,542**	3,834
Other liabilities	**4,989**	3,456
Total liabilities	**87,774**	88,648
Equity		
Share capital and other reserves	**2,221**	2,167
Retained earnings	**3,263**	3,209
Non-controlling interests	**—**	—
Total equity	**5,484**	5,376
Total equity and liabilities	**93,258**	94,024

	Half-year ended	
	30 June 2016	30 June 2015
Cash flows generated from/(used in):		
operating activities	**(799)**	837
investing activities	**1,520**	(803)
financing activities	**(315)**	110
Net increase in cash and cash equivalents	**406**	144
Cash and cash equivalents, beginning of period	**1,983**	2,337
Cash and cash equivalents, end of period	**2,389**	2,481
Represented by:		
Cash and balances at central bank	**620**	60
Items in the course of transmission to other banks, net	**(166)**	(149)
Loans and advances to banks off one month or less	**1,480**	965
Reverse repurchase agreements with banks of one month or less	**285**	777
Treasury bills and certificates of deposits of three months or less	**170**	828
Cash and cash equivalents, end of period	**2,389**	2,481

(Figures in $m)	Quarter ended		Half-year ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Commercial Banking				
Net interest income	**130**	152	**272**	304
Net fee income	**78**	78	**157**	158
Net trading income	**8**	8	**15**	16
Gains less losses from financial investments	**1**	—	**3**	—
Other operating income	**4**	5	**10**	10
Total operating income	**221**	243	**457**	488
Loan impairment charges and other credit risk provisions	**(47)**	(19)	**(128)**	(30)
Net operating income	**174**	224	**329**	458
Total operating expenses	**(101)**	(106)	**(204)**	(207)
Operating profit	**73**	118	**125**	251
Share of profit in associates	**(2)**	—	**(2)**	3
Profit before income tax expense	**71**	118	**123**	254
Global Banking and Markets				
Net interest income	**55**	43	**102**	91
Net fee income	**39**	48	**67**	83
Net trading income	**30**	20	**80**	14
Gains less losses from financial investments	**6**	18	**25**	54
Other operating income	**(5)**	—	**(5)**	—
Total operating income	**125**	129	**269**	242
Loan impairment charges and other credit risk provisions	**(6)**	(1)	**(6)**	(2)
Net operating income	**119**	128	**263**	240
Total operating expenses	**(32)**	(34)	**(65)**	(65)
Profit before income tax expense	**87**	94	**198**	175
Retail Banking and Wealth Management				
Net interest income	**103**	100	**203**	194
Net fee income	**54**	55	**108**	112
Net trading income	**5**	6	**10**	12
Other operating income	**7**	3	**9**	9
Total operating income	**169**	164	**330**	327
Loan impairment charges and other credit risk provisions	**(1)**	(3)	**(5)**	(7)
Net operating income	**168**	161	**325**	320
Total operating expenses	**(142)**	(143)	**(289)**	(279)
Profit before income tax expense	**26**	18	**36**	41
Other				
Net interest income	**(8)**	(6)	**(16)**	(13)
Net trading income	**6**	7	**11**	14
Net (expense)/income from financial instruments designated at fair value	**(1)**	—	**(2)**	2
Gains less losses from financial investments	**(1)**	—	**(1)**	—
Other operating income	**14**	4	**21**	11
Net operating income	**10**	5	**13**	14
Net operating expenses	**(26)**	(8)	**(44)**	(26)
Loss before income tax expense	**(16)**	(3)	**(31)**	(12)