HSBC

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HSBC BANK CANADA REPORTS
FIRST QUARTER 2017 FINANCIAL RESULTS

- Profit before income tax expense for the quarter ended 31 March 2017 was $243m
- Profit attributable to the common shareholder was $177m for the quarter ended 31 March 2017
- Return on average common equity was 15.4% for the quarter ended 31 March 2017
- The cost efficiency ratio was 61.5% for the quarter ended 31 March 2017
- Total assets were $95.7bn at 31 March 2017
- Common equity tier 1 capital ratio was 10.6%, tier 1 ratio 12.6% and total capital ratio 13.5% at 31 March 2017

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 $243m for the first quarter of 2017, an increase of $85m, or 54% compared with the first quarter of 2016. The increase is due to recoveries in loan impairment charges on improved credit quality in the oil and gas sector compared to the high impairment charges in the first quarter last year. This was partially offset by a decrease of $25m in trading revenues as a result of favourable changes in the credit valuation, debt valuation, and funding fair value adjustments on derivative contracts in the prior year.

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity for the benefit of its customers and employees. We continue to focus on international subsidiary banking as a driver of growth through strategic trade corridors and leverage our global trade and cash management product platforms for client acquisition and fee income.

Global Banking and Markets increased fee revenues through increased advisory and underwriting activities on a year to date basis by leveraging HSBC's global network on behalf of its clients.

Retail Banking and Wealth Management benefited from growth in assets under management during the quarter.

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

"In the first quarter of 2017, profit before tax at HSBC Bank Canada was 54% higher than in the same quarter in 2016. This was primarily due to significant improvements in the oil and gas sector which resulted in a net recovery of loan loss provisions and was also central to a 243% increase in profit before tax in Commercial Banking. In Global Banking & Markets, although profit before tax was down 42% compared to the same period last year due to adverse credit valuation adjustments the business saw increased volume of deposits and higher advisory and debt underwriting fees. In Retail Banking and Wealth Management, cost saving initiatives and lower loan impairment charges drove a 110% increase in profit before tax. Canada is a great place to do business and we are continuing to make significant investments to grow here. In the first quarter, we expanded in key markets by hiring in Commercial Banking and Global Banking and Markets and continued our drive to make the bank simpler and more secure for our clients, introducing biometric identification to our mobile banking and preparing for the launch of additional innovations in Retail Banking and Wealth Management. We also continued to invest in efficiency improvements, as well as in risk and compliance resources and practices to protect our customers, our business and the financial system."

Analysis of consolidated financial results for the first quarter of 2017

Net interest income for the first quarter of 2017 was broadly unchanged at $282m, an increase of $1m, compared with the first quarter of 2016.

Net fee income for the first quarter of 2017 was broadly unchanged at $160m, a decrease of $1m, or 1%, compared with the first quarter of 2016.

Net trading income for the first quarter of 2017 was $31m, a decrease of $36m, or 54%, compared with the first quarter of 2016. There were $25m of favourable changes to the credit valuation, debt valuation, and funding fair valuation adjustment in the prior year due to the tightening of client and HSBC's own credit spreads. Furthermore, trading activities decreased by $13m due to refinement of prior year valuation methodology and lower treasury bills and other trading income in the current year.

Gains less losses from financial investments for the first quarter of 2017 were $18m, a decrease of $3m, or 14%, compared with the first quarter of 2016. Gains on sale of available-for-sale debt securities arose from the continued rebalancing of the bank's liquid assets.

Net expense from financial instruments designated at fair value for the first quarter of 2017 was $3m compared with net expense of $1m in the first quarter of 2016. The net expense from financial instruments designated at fair value was caused from narrowing of the bank's own credit spread.

Other operating income for the first quarter of 2017 was $18m, an increase of $3m, or 20%, compared with the first quarter of 2016. The increase was mainly due to higher activities with other Group entities.

Loan impairment recoveries and other credit risk provisions for the first quarter of 2017 were $49m, a change of $134m compared with the first quarter of 2016. This net recovery over the comparative periods largely reflects improving economic conditions, primarily in the oil and gas sector, resulting in higher collateral values and improvements in credit quality. Loan impairment charges in the first quarter for 2016 were high due to credit deterioration on specific accounts in the oil and gas portfolio.

Total operating expenses for the first quarter of 2017 were $311m, an increase of $10m, or 3%, compared with the first quarter of 2016 driven by strategic spending to reduce future costs.

Share of profit in associates for the first quarter of 2017 was a loss of $1m, a decrease of $1m compared with the first quarter of 2016.

Income tax expense. The effective tax rate in the first quarter of 2017 was 23%, compared with 27% in the first quarter of 2016 due to adjustment to prior years' provision for tax.

Business performance in the first quarter of 2017

Commercial Banking

Profit before income tax expense was $161m for the first quarter of 2017, an increase of $114m, or 243%, compared with the first quarter of 2016, primarily due to lower loan impairment charges largely reflecting improved credit quality in the oil and gas sectors, offset partially by lower revenue as a result of lower lending balances and higher interest expense from long-term borrowings.

Global Banking and Markets

Profit before income tax expense was $40m for the first quarter of 2017, a decrease of $29m, or 42%, compared with the first quarter of 2016. The decrease was driven by prior year trading revenues realized from favourable changes in the credit and funding valuation adjustments due to the tightening of clients and HSBC's own credit. This was partially offset by higher revenues from advisory and debt underwriting activities.

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 first quarter of 2017, an increase of $11m, or 220%, compared with the first quarter of 2016. The increase in profit before income tax expense relating to ongoing business was due to lower operating expenses primarily driven by cost saving initiatives and lower loan impairment charges due to a release of collective allowances in the current period. Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2017 was $5m, unchanged from the first quarter of 2016. Lower revenues due to continued run-off of the portfolio was offset by the release related to collective allowance.

Corporate Centre

Profit before income tax expense was $21m for the first quarter of 2017, a decrease of $11m, or 34%, compared with the first quarter of 2016. The decrease in profit was driven by higher operating expenses due to investments in streamlining initiatives, partially offset by higher net interest income from balance sheet management due to higher yields earned on financial investments. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments.

Dividends

During the first quarter of 2017, the bank declared and paid $47m in dividends on HSBC Bank Canada common shares, a decrease of $1m compared with the same quarter last year. 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 respectively and will be paid on 30 June 2017 for shareholders of record on 15 June 2017.

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$2,416bn at 31 March 2017. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

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Copies of HSBC Bank Canada's First Quarter 2017 Interim Report will be sent to shareholders in May 2017.

($ millions, except where otherwise stated)	Quarter ended	
	31 March 2017	31 March 2016
Finance performance for the period		
Total operating income	**506**	544
Profit before income tax expense	**243**	158
Profit attributable to the common shareholder	**177**	106
Basic earnings per common share ($)	**0.35**	0.21
Performance ratios (%)[1]		
Return ratios (%)[1]		
Return on average common shareholders' equity	**15.4**	9.4
Post-tax return on average total assets	**0.76**	0.46
Pre-tax return on average risk-weighted assets[2]	**2.3**	1.5
Credit coverage ratios (%)[1]		
Loan impairment charges to total operating income	**n/a**	15.6
Loan impairment charges to average gross customer advances and acceptances	**n/a**	0.7
Total impairment allowances to impaired loans and advances at period-end	**60.7**	74.3
Efficiency and revenue mix ratios (%)[1]		
Cost efficiency ratio	**61.5**	55.3
Adjusted cost efficiency ratio	**61.1**	55.2
As a percentage of total operating income:		
- net interest income	**55.7**	51.7
- net fee income	**31.6**	29.6
- net trading income	**6.1**	12.3

	At period ended	
	31 March 2017	31 December 2016
Financial position at period-end		
Loan and advances to customers	**46,967**	46,907
Customer accounts	**54,283**	56,674
Ratio of customer advances to customer accounts (%)[1]	**86.5**	82.8
Shareholders' equity	**5,581**	5,415
Average total shareholders' equity to average total assets (%)[1]	**5.8**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.6**	10.5
Tier 1 ratio (%)	**12.6**	12.5
Total capital ratio (%)	**13.5**	13.5
Leverage ratio (%)	**4.8**	4.7
Risk-weighted assets	**42,921**	42,005

1 *Refer to the 'Use of non-IFRS's financial measures' section of the MD&A for a discussion of non-IFRS's 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 $m, except per share amounts)	Quarter ended	
	31 March 2017	31 March 2016
Interest income	**451**	418
Interest expense	**(169)**	(137)
Net interest income	**282**	281
Fee income	**177**	178
Fee expense	**(17)**	(17)
Net fee income	**160**	161
Trading income excluding net interest income	**26**	62
Net interest income on trading activities	**5**	5
Net trading income	**31**	67
Net (expense)/income from financial instruments designated at fair value	**(3)**	(1)
Gains less losses from financial investments	**18**	21
Other operating income	**18**	15
Total operating income	**506**	544
Loan impairment recoveries/(charges) and other credit risk provisions	**49**	(85)
Net operating income	**555**	459
Employee compensation and benefits	**(181)**	(169)
General and administrative expenses	**(121)**	(122)
Depreciation of property, plant and equipment	**(7)**	(7)
Amortisation and impairment of intangible assets	**(2)**	(3)
Total operating expenses	**(311)**	(301)
Operating profit	**244**	158
Share of (loss)/profit in associates	**(1)**	—
Profit before income tax expense	**243**	158
Income tax expense	**(57)**	(43)
Profit for the period	**186**	115
Profit attributable to the common shareholder	**177**	106
Profit attributable to preferred shareholders	**9**	9
Profit attributable to shareholders	**186**	115
Average number of common shares outstanding (000's)	**498,668**	498,668
Basic earnings per common share ($)	**0.35**	0.21

(Figures in $m)	**31 March 2017**	31 December 2016
ASSETS		
Cash and balances at central bank	**57**	66
Items in the course of collection from other banks	**32**	58
Trading assets	**9,158**	6,288
Derivatives	**3,061**	3,850
Loans and advances to banks	**891**	1,071
Loans and advances to customers	**46,967**	46,907
Reverse repurchase agreements – non-trading	**7,068**	5,938
Financial investments	**22,825**	25,231
Other assets	**888**	447
Prepayments and accrued income	**221**	186
Customers' liability under acceptances	**4,254**	4,322
Property, plant and equipment	**101**	104
Goodwill and intangible assets	**74**	70
Deferred assets	**117**	119
Total assets	**95,714**	94,657
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**930**	946
Customer accounts	**54,283**	56,674
Repurchase agreements – non-trading	**7,700**	4,345
Items in the course of transmission to other banks	**236**	82
Trading liabilities	**5,438**	3,784
Financial liabilities designated at fair value	**400**	403
Derivatives	**3,041**	3,838
Debt securities in issue	**9,341**	10,256
Other liabilities	**2,620**	2,610
Acceptances	**4,254**	4,322
Accruals and deferred income	**363**	475
Retirement benefit liabilities	**343**	342
Subordinated liabilities	**1,039**	1,039
Provisions	**112**	116
Current taxes	**33**	10
Total liabilities	**90,133**	89,242
Equity		
Preferred shares	**850**	850
Common shares	**1,225**	1,225
Other reserves	**61**	27
Retained earnings	**3,445**	3,313
Total equity	**5,581**	5,415
Total equity and liabilities	**95,714**	94,657

(Figures in $m)	Quarter ended	
	31 March 2017	31 March 2016
Commercial Banking		
Net interest income	**133**	139
Net fee income	**70**	74
Net trading income	**7**	7
Gains less losses from financial investments	**—**	2
Other operating income	**6**	5
Total operating income	**216**	227
Loan impairment recoveries/(charges) and other credit risk provisions	**39**	(78)
Net operating income	**255**	149
Total operating expenses	**(94)**	(102)
Profit before income tax expense	**161**	47
Global Banking and Markets		
Net interest income	**21**	16
Net fee income	**37**	33
Net trading income	**12**	55
Total operating income	**70**	104
Loan impairment recoveries/(charges) and other credit risk provisions	**5**	(3)
Net operating income	**75**	101
Total operating expenses	**(35)**	(32)
Profit before income tax expense	**40**	69
Retail Banking and Wealth Management		
Net interest income	**96**	100
Net fee income	**53**	54
Net trading income	**6**	5
Other operating income	**1**	2
Total operating income	**156**	161
Loan impairment recoveries/(charges) and other credit risk provisions	**5**	(4)
Net operating income	**161**	157
Total operating expenses	**(140)**	(147)
Profit before income tax expense	**21**	10
Corporate Centre		
Net interest income	**32**	26
Net trading income	**6**	(1)
Net (expense)/income from financial instruments designated at fair value	**(3)**	—
Gains less losses from financial investments	**18**	19
Other operating income	**11**	8
Net operating income	**64**	52
Total operating expenses	**(42)**	(20)
Operating profit	**22**	32
Share of loss in associates	**(1)**	—
Profit before income tax expense	**21**	32