29 October 2017

HSBC BANK CANADA REPORTS THIRD QUARTER 2017 FINANCIAL RESULTS

Strong overall performance with PBT up 58% for the quarter

- Profit before income tax expense for the quarter ended 30 September 2017 was $218m, an increase of 58% compared with the same period in 2016.
- Profit attributable to the common shareholder was $153m for the quarter ended 30 September 2017, an increase of 68% compared with the same period in 2016.
- Return on average common shareholder's equity was 12.7% for the quarter ended 30 September 2017 compared with 7.7% for the same period in 2016.
- The cost efficiency ratio was 61.9% for the quarter ended 30 September 2017 compared with 66.0% for the same period in 2016.
- Total assets were $93.2bn at 30 September 2017 compared with $94.7bn at 31 December 2016.
- Common equity tier 1 capital ratio was 10.8%, tier 1 ratio 12.7% and total capital ratio 15.1% at 30 September 2017.
- HSBC InvestDirect ranked 5th in the J.D. Power customer satisfaction ranking – a significant improvement over 2016 and evidence that HSBC's continued investments in making the bank better for our customers is working.
- HSBC Bank Canada climbed 20 spots to place third overall in the annual Canada's Best 50 Corporate Citizens by Corporate Knights. HSBC was also the first company to be recognized as a top performer in gender diversity within the financial services sector.
- For the second year in a row HSBC has received an Outstanding Commitment to Employment Equity award from the Government of Canada. This award recognizes employers who have demonstrated outstanding commitment in implementing their employment equity plans.

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 $218m for the third quarter of 2017, an increase of $80m, or 58%, compared with the third quarter of 2016. The increase in profit before tax is driven by net loan impairment recoveries of $14m, an improvement of $43m compared to the same period in the prior year, as a result of improving credit conditions mainly in the oil and gas industry. In addition, trading income increased by $12m, or 41%, primarily due to the impact of negative mark to market in the prior period from economic hedges not qualifying for hedge accounting. Net interest income increased due to higher outstanding loans and advances, interest recovered on impaired loans and the impact of the Bank of Canada rate changes in July and September. Profit before tax for the first nine months of the year was $689m, an increase of $225m, or 48%, versus the same period in the prior year. The increase is primarily due to net loan impairment recoveries for the year-to-date of $109m, an improvement of $277m versus the prior year. This was partially offset by a reduction in trading income due to a one-off novation transaction and credit and funding valuation adjustments that favourably impacted trading income in the prior period.

The Commercial Banking strategic plan is focused on growing market share through expansion in eastern Canada, increasing productivity by deepening product penetration, streamlining processes, leveraging our differentiated product suite in Global Trade and Receivable Finance (GTRF) and Global Liquidity and Cash Management (GLCM), and building on our position as the leading international bank with improved positioning in the US-Canada trade corridor. After weathering the energy sector downturn in previous years, we have regained momentum in 2017 with $800m of lending balance growth since December 2016, driven mainly by new-to-bank loans and acceptances. Our international connectivity continues to be a key driver of growth, as evidenced by double-digit revenue growth rate in both our International Subsidiary Banking (ISB) and Greater-China trade corridor.

Global Banking and Markets generated higher event fee revenues through increased advisory and debt capital markets activities by leveraging HSBC’s global network on behalf of its clients. Growth has been focused on the North American and Canada - China trade corridors with double digit growth achieved year-to-date. This included the revival of the Maple bond market, with HSBC acting as a lead manager for several US-based clients issuing debt into the Canadian market.

Retail Banking and Wealth Management had another quarter of strong sales momentum leading to record year-to-date growth in total relationship balances (lending, deposits and wealth balances) across the core products. In the last quarter, we continued to make strategic investments to make our bank simpler, faster and better for our clients. For example, we introduced mobile cheque deposit, live chat for online banking, and the new HSBC Premier World Elite® Mastercard®. The new card offers Canadian travellers some of the richest and most flexible travel rewards available today, and is the latest in a range of new, innovative products and services available from HSBC Bank Canada. Customers are clearly pleased with the impact of these investments - which is showing up in another quarter of strong results in our customer experience survey.

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

“Profit before tax for the third quarter and first nine months of the year increased 58% and 48% respectively, largely driven by significant loan impairment recoveries from improving credit conditions. Revenues are on target, and operating expenses are up only slightly over the previous year reflecting our strategic investments to drive future growth, introduce digital innovation and implement risk and compliance initiatives.

“There is clear evidence that our investments to grow our business in Canada are starting to produce results. In Commercial Banking, outstanding loans and advances from new-to-bank clients increased and there was double-digit revenue growth in both International Subsidiary Banking and the Greater China trade corridor. In Global Banking and Markets, event fee revenues increased as we continued to bring global investment options to Canadians as lead arranger on Maple bond issues by Apple and Disney. In Retail Banking and Wealth Management, there were significant increases in total relationship balances and overall revenues as we continued to improve our services, launching LiveSign paperless applications and mobile cheque deposit in the quarter. I am truly proud of all we continue to accomplish as we work to deliver a better, simpler, faster bank for our customers.”

Analysis of consolidated financial results for the third quarter of 2017

Net interest income for the third quarter of 2017 was $292m, an increase of $8m, or 3%, compared with the third quarter of 2016. Net interest income for the first nine months of 2017 was $859m, an increase of $14m, or 2%, compared with the same period of 2016. The increase is due to higher outstanding loans and advances, interest recovered on impaired loans and the impact of the Bank of Canada rate changes in July and September.

Net fee income for the third quarter of 2017 was $169m, an increase of $3m, or 2%, compared to the third quarter of 2016. The increase was driven by higher advisory and debt underwriting fees and increased fees from higher assets under management. This was partially offset by lower standby fees collected on undrawn credit facilities and lower loan underwriting activities. Net fee income for the first nine months of 2017 remained broadly unchanged at $494m, a decrease of $4m, or 1%, versus the same period in the prior year. The decrease is primarily due to lower fees collected on undrawn credit facilities and lower other fees and commissions which were partially offset by increased fees from higher assets under management.

Net trading income for the third quarter of 2017 was $41m, an increase of $12m, or 41%, compared with the third quarter of 2016. The increase compared to the prior year is primarily due to negative mark to market in the prior period from economic hedges not qualifying for hedge accounting. Net trading income for the first nine months of 2017 was $94m, a decrease of $51m, or 35%, compared with the first nine months of 2016. The year-to-date decrease is mainly driven by a one-off novation transaction in the prior year and favourable changes in the credit and funding valuation adjustments in the prior year due to the tightening of client and HSBC's own credit spreads.

Gains less losses from financial investments for the third quarter of 2017 were $4m, an increase of $1m, or 33%, compared with the same period in 2016. Gains less losses from financial investments for the first nine months of the year were $25m, a decrease of $5m, or 17%, compared with the same period in the prior year. Gains on the 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 third quarter of 2017 was nil. The net expense from financial instruments designated at fair value for the first nine months of the year was $4m, an increase of $1m, or 33%, compared with the prior year and related to the marginal narrowing of the bank's own credit spread.

Other operating income for the third quarter of 2017 was $22m, an increase of $5m, or 29%, compared with the third quarter of 2016. Other operating income for the first nine months of the year was $62m, an increase of $10m, or 19%, compared with the same period in the prior year. The increase was mainly due to higher income from other Group entities.

Loan impairment recoveries and other credit risk provisions for the third quarter of 2017 were a recovery of $14m, an improvement of $43m compared with the third quarter of 2016. Loan impairment recoveries and other credit risk provisions for the first nine months of 2017 were a recovery of $109m, an improvement of $277m compared with the same period in the prior year. The net loan impairment recovery over comparative periods reflects the improvements in the oil and gas industry.

Total operating expenses for the third quarter of 2017 remained broadly unchanged at $327m, a $1m, or 0.3%, decrease versus the third quarter of 2016. Total operating expenses for the first nine months of the year were $956m, an increase of $26m, or 3%, versus the same period in the prior year. The year-to-date increase reflects strategic spending to drive future growth and reduce costs as well as continued investments in the implementation of risk and compliance initiatives.

Share of profit in associates for the third quarter of 2017 was a $3m gain versus a loss of $3m in the third quarter of 2016. Share of profit in associates for the first nine months of 2017 was a gain of $6m, an increase of $11m compared with the same period in the prior year. The share of profits represents changes in the value of the bank's investments in private equity funds.

Income tax expense. The effective tax rate in the third quarter of 2017 was 25.7%, which is close to the statutory tax rate. The effective rate for the third quarter of 2016 was 28.0%.

Business performance in the third quarter of 2017

Commercial Banking

Profit before income tax expense was $122m for the third quarter of 2017, an increase of $22m, or 22%, compared with the third quarter of 2016. Profit before income tax expense was $451m for the first nine months of 2017, an increase of $239m, or 113%, compared with the same period in 2016. The increases from last year were driven primarily by lower loan impairment charges as a result of improving credit conditions.

Global Banking and Markets

Profit before income tax expense was $64m for the third quarter of 2017, an increase of $30m, or 88%, compared with the third quarter of 2016. The increase resulted from higher revenues from advisory fees, the positive impact of increased interest rates on net interest income and favourable loan impairment charges due to recoveries in the current period. Profit before income tax expense was $140m for the first nine months of 2017, a decrease of $13m, or 8%, compared to the same period in 2016. The decrease was driven by a one-off novation transaction in the prior year and favourable changes in credit and funding valuation adjustments in the prior year due to the tightening of client and HSBC's own credit spreads. This was partially offset by higher revenues from advisory and debt underwriting activities and favourable loan impairment charges.

Retail Banking and Wealth Management

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) for the third quarter of 2017 and for the first nine months of 2017 was $10m and $34m, respectively, an increase of $1m, or 11%, and $4m, or 13%, compared with the relevant periods in 2016. This is due to higher revenues from significant growth in client relationship balances, lower loan impairment charges, partly offset by investments in strategic initiatives. Prior year also included the gain on the sale of a small portfolio of impaired loans.

Corporate Centre

Profit before income tax expense was $16m for the third quarter of 2017, an increase of $27m compared with the third quarter of 2016. There was a marginal decrease in profit before income tax expense for the first nine months of $1m, or 2%, versus the same period in the prior year. Contributing to the increase in the third quarter was a reduction in operating expenses due to higher spending on strategic cost saving initiatives during the same quarter in the prior year. In addition, trading income increased by $11m, due to negative mark to market in the prior period from economic hedges not qualifying for hedge accounting. These gains were partially offset by a reduction in net interest income due to lower yields on investment products versus the same period in the prior year.

Dividends

During the third 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, and $9m in dividends on all series of HSBC Bank Canada Class 1 preferred shares, consistent with the same quarter last year. Common share dividends of $94m have been declared on HSBC Bank Canada common shares and will be paid on or before 31 December 2017 to the shareholder of record on 27 October 2017. 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 31 December 2017 to the shareholders of record on 15 December 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$2,526bn at 30 September 2017. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 3,900 offices in 67 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 third quarter 2017 Interim Report will be sent to shareholders in November 2017.

($ millions, except where otherwise stated)	Quarter ended		Nine months ended	
	30 Sep 2017	30 Sep 2016	**30 Sep 2017**	30 Sep 2016
Finance performance for the period				
Total operating income	**528**	498	**1,530**	1,567
Profit before income tax expense	**218**	138	**689**	464
Profit attributable to the common shareholder	**153**	91	**488**	308
Basic earnings per common share ($)	**0.31**	0.18	**0.98**	0.62
Performance ratios (%)[1]				
Return ratios (%)[1]				
Return on average common shareholders' equity	**12.7**	7.7	**13.8**	9.0
Post-tax return on average total assets	**0.64**	0.38	**0.69**	0.44
Pre-tax return on average risk-weighted assets[2]	**2.0**	1.3	**2.1**	1.5
Credit coverage ratios (%)[1]				
Loan impairment charges to total operating income	**n/a**	5.4	**n/a**	10.7
Loan impairment charges to average gross customer advances and acceptances	**n/a**	0.2	**n/a**	0.5
Total impairment allowances to impaired loans and advances at period-end	**79.4**	58.1	**79.4**	58.1
Efficiency and revenue mix ratios (%)[1]				
Cost efficiency ratio	**61.9**	66.0	**62.5**	59.4
Adjusted cost efficiency ratio	**61.9**	65.9	**62.3**	59.3
As a percentage of total operating income:				
- net interest income	**55.3**	57.1	**56.2**	54.0
- net fee income	**32.0**	33.4	**32.3**	31.8
- net trading income	**7.8**	5.8	**6.1**	9.2

	At period ended	
	30 Sep 2017	31 Dec 2016
Financial position at period-end		
Loan and advances to customers	**48,767**	46,907
Customer accounts	**55,229**	56,674
Ratio of customer advances to customer accounts (%)[1]	**88.3**	82.8
Shareholders' equity	**5,660**	5,415
Average total shareholders' equity to average total assets (%)	**6.0**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.8**	10.5
Tier 1 ratio (%)	**12.7**	12.5
Total capital ratio (%)	**15.1**	13.5
Leverage ratio (%)	**5.1**	4.7
Risk-weighted assets	**43,624**	42,005

1 *Refer to the 'Use of non-IFRS financial measures' section of the MD&A 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.*

(Figures in $m, except per share amounts)	Quarter ended		Nine months ended	
	30 Sep 2017	30 Sep 2016	**30 Sep 2017**	30 Sep 2016
Interest income	**481**	440	**1,384**	1,299
Interest expense	**(189)**	(156)	**(525)**	(454)
Net interest income	**292**	284	**859**	845
Fee income	**187**	181	**547**	548
Fee expense	**(18)**	(15)	**(53)**	(50)
Net fee income	**169**	166	**494**	498
Trading income excluding net interest income	**36**	24	**79**	131
Net interest income on trading activities	**5**	5	**15**	14
Net trading income	**41**	29	**94**	145
Net expense from financial instruments designated at fair value	**—**	(1)	**(4)**	(3)
Gains less losses from financial investments	**4**	3	**25**	30
Other operating income	**22**	17	**62**	52
Total operating income	**528**	498	**1,530**	1,567
Loan impairment recoveries/(charges) and other credit risk provisions	**14**	(29)	**109**	(168)
Net operating income	**542**	469	**1,639**	1,399
Employee compensation and benefits	**(183)**	(163)	**(537)**	(496)
General and administrative expenses	**(134)**	(155)	**(388)**	(404)
Depreciation of property, plant and equipment	**(7)**	(8)	**(23)**	(23)
Amortisation and impairment of intangible assets	**(3)**	(2)	**(8)**	(7)
Total operating expenses	**(327)**	(328)	**(956)**	(930)
Operating profit	**215**	141	**683**	469
Share of profit/(loss) in associates	**3**	(3)	**6**	(5)
Profit before income tax expense	**218**	138	**689**	464
Income tax expense	**(56)**	(38)	**(173)**	(128)
Profit for the period	**162**	100	**516**	336
Profit attributable to the common shareholder	**153**	91	**488**	308
Profit attributable to preferred shareholders	**9**	9	**28**	28
Profit attributable to shareholders	**162**	100	**516**	336
Average number of common shares outstanding (000's)	**498,668**	498,668	**498,668**	498,668
Basic earnings per common share ($)	**$ 0.31**	$ 0.18	**$ 0.98**	$ 0.62

(Figures in $m)	**30 Sep 2017**	31 Dec 2016
ASSETS		
Cash and balances at central bank	**49**	66
Items in the course of collection from other banks	**35**	58
Trading assets	**5,679**	6,288
Derivatives	**3,705**	3,850
Loans and advances to banks	**641**	1,071
Loans and advances to customers	**48,767**	46,907
Reverse repurchase agreements – non-trading	**5,744**	5,938
Financial investments	**22,092**	25,231
Other assets	**1,046**	417
Prepayments and accrued income	**231**	186
Customers' liability under acceptances	**4,896**	4,322
Current tax assets	**44**	30
Property, plant and equipment	**101**	104
Goodwill and intangible assets	**83**	70
Deferred assets	**121**	119
Total assets	**93,234**	94,657
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**1,308**	946
Customer accounts	**55,229**	56,674
Repurchase agreements – non-trading	**3,955**	4,345
Items in the course of transmission to other banks	**201**	82
Trading liabilities	**4,184**	3,784
Financial liabilities designated at fair value	**—**	403
Derivatives	**3,559**	3,838
Debt securities in issue	**9,762**	10,256
Other liabilities	**2,554**	2,610
Acceptances	**4,896**	4,322
Accruals and deferred income	**426**	475
Retirement benefit liabilities	**357**	342
Current tax liabilities	**32**	10
Provisions	**72**	116
Subordinated liabilities	**1,039**	1,039
Total liabilities	**87,574**	89,242
Equity		
Common shares	**1,225**	1,225
Preferred shares	**850**	850
Other reserves	**(65)**	27
Retained earnings	**3,650**	3,313
Total equity	**5,660**	5,415
Total equity and liabilities	**93,234**	94,657

(Figures in $m)	Quarter ended		Nine months ended	
	30 Sep 2017	30 Sep 2016	**30 Sep 2017**	30 Sep 2016
Commercial Banking				
Net interest income	**132**	133	**395**	397
Net fee income	**70**	73	**211**	219
Net trading income	**8**	8	**25**	23
Gains less losses from financial investments	**1**	—	**1**	2
Other operating income	**5**	4	**16**	14
Total operating income	**216**	218	**648**	655
Loan impairment recoveries/(charges) and other credit risk provisions	**4**	(23)	**90**	(148)
Net operating income	**220**	195	**738**	507
Total operating expenses	**(98)**	(95)	**(287)**	(295)
Profit before income tax expense	**122**	100	**451**	212
Global Banking and Markets				
Net interest income	**28**	18	**74**	54
Net fee income	**44**	39	**118**	117
Net trading income	**17**	16	**35**	99
Gains less losses from financial investments	**—**	—	**—**	(1)
Other operating loss	**—**	(1)	**—**	(6)
Total operating income	**89**	72	**227**	263
Loan impairment recoveries/(charges) and other credit risk provisions	**8**	(3)	**13**	(12)
Net operating income	**97**	69	**240**	251
Total operating expenses	**(33)**	(35)	**(100)**	(98)
Profit before income tax expense	**64**	34	**140**	153
Retail Banking and Wealth Management				
Net interest income	**111**	102	**311**	305
Net fee income	**55**	54	**165**	162
Net trading income	**6**	6	**17**	16
Gain less losses from financial investments	**—**	—	**1**	—
Other operating income	**2**	3	**4**	12
Total operating income	**174**	165	**498**	495
Loan impairment recoveries/(charges) and other credit risk provisions	**2**	(3)	**6**	(8)
Net operating income	**176**	162	**504**	487
Total operating expenses	**(160)**	(147)	**(453)**	(436)
Profit before income tax expense	**16**	15	**51**	51
Corporate Centre				
Net interest income	**21**	31	**79**	89
Net trading income	**10**	(1)	**17**	7
Net expense from financial instruments designated at fair value	**—**	(1)	**(4)**	(3)
Gains less losses from financial investments	**3**	3	**23**	29
Other operating income	**15**	11	**42**	32
Total operating income	**49**	43	**157**	154
Total operating expenses	**(36)**	(51)	**(116)**	(101)
Operating profit	**13**	(8)	**41**	53
Share of gain/(loss) in associates	**3**	(3)	**6**	(5)
Profit/(loss) before income tax expense	**16**	(11)	**47**	48