HSBC

News Release

27 April 2020

HSBC BANK CANADA
FIRST QUARTER 2020 RESULTS

Stable revenue performance,
offset by increased expected credit losses from COVID-19

Overview[1]

HSBC Bank Canada reported operating income for the quarter of $546m, an increase of $1m or 0.2% compared with the first quarter of 2019. Building on the momentum from last year, we continued to grow our businesses and deepen our relationships with existing customers, particularly in Commercial Banking and Retail Banking and Wealth Management, where total operating income increased by $11m or 4.5% and $9m or 4.9%, respectively.

However, beginning in March, declines in oil prices and central bank rate cuts related to COVID-19 had a negative impact on operating income and expected credit losses. Decreases in net interest income were partly offset by higher loans and deposits. Operating income in Global Banking and Markets was also impacted, as unfavourable credit and funding valuation movements were only partly offset by strong Markets trading and sales activities.

The change in expected credit losses for the quarter resulted in a charge of $140m related to an adverse shift in forward-looking economic scenarios related to COVID-19 and impairments from non-performing loans in the energy sector due to declines in oil prices. This is compared to reversals of $12m in the same period in the prior year.

Total operating expenses decreased by $1m or 0.3% for the quarter as we prudently manage costs while strategically making investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

Profit before income tax expense was down $150m or 66% for the quarter. The decrease was mainly driven by the variance in expected credit losses and lower operating income from the adverse impact of COVID-19, partly offset by continued momentum in operating income from Commercial Banking and Retail Banking and Wealth Management and strong Markets trading and sales activities.

Select financial metrics as at quarter ended 31 March 2020:

- *Total assets:* $125.5bn (31 Dec 2019: $106.6bn)
- *Common equity tier 1 capital ratio:* 12.0% (31 Dec 2019: 11.3%)
- *Tier 1 ratio:* 14.5% (31 Dec 2019: 13.9%)
- *Total capital ratio[2]: 16.9%* (31 Dec 2019: 16.4%)
- *Return on average common equity[2]*: 4.1% (31 March 2019: 13.3%)

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

1. *For the quarter ended 31 March 2020 compared with the same period in the prior year (unless otherwise stated).*
2. *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 consolidated 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. For further information on non-IFRS measures refer to the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A') of the unaudited condensed interim consolidated financial statements for the quarter ended 31 March 2020.*

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

"While we began the year with strong momentum in all of our business lines, results were impacted by economic factors over the course of the quarter. We saw significant slowdowns in national supply chains attributed to rail transportation disruptions, followed by unprecedented measures taken globally to slow the spread of COVID-19 and a severe decline in oil prices. These events combined with reductions in Bank of Canada rates have resulted in increased impairment charges and thinning margins which impacted profits.

"We have strengthened our capital and liquidity position so that we are well placed to help our customers weather the economic disruptions brought about by our collective fight to keep COVID-19 infections to a manageable level. We've introduced credit relief and other support measures for our customers and are actively participating in government programs to support the economy. With banking an essential service, HSBC branches are open and each of our digital channels are operating at much heightened levels to ensure customers have access to our banking services at this critical time. We have also made a $500,000 donation to Food Banks Canada, Breakfast Club of Canada and United Way to support the most vulnerable members of society.

"The resilience and energy our employees are showing in supporting our customers makes me very proud. I am humbled by the efforts of the HSBC team and we are equally humbled by our health workers and those providing essential services. We will continue to play our part in the response and recovery, and together I am confident we will get through this."

Analysis of consolidated financial results for the first quarter ended 31 March 2020[1]

Net interest income for the quarter was $318m, a decrease of $5m or 1.5% compared with the same period in the prior year. The decrease was a result of higher costs to fund the growth in lending balances, and lower contribution from balance sheet management activities.

Net fee income for the quarter was $178m, an increase of $22m or 14% compared with the same period in the prior year. This increase was mainly driven by an increase in credit facility fees as a result of higher volumes of bankers' acceptances in Commercial Banking, higher underwriting fees from Global Banking and Markets and an increase in average funds under management and credit cards in Retail Banking and Wealth Management.

Net income from financial instruments held for trading for the quarter was $26m, a decrease of $22m or 46% compared with the same period in the prior year. This was due to unfavourable movement in credit and funding fair value adjustments mainly driven by increases in credit spreads and market volatility related to COVID-19. Lower net interest from trading activities due to product mix, also contributed to the decrease. This was partly offset by an increase in foreign exchange sales volumes and balance sheet management activities.

Other items of income for the quarter were $24m, an increase of $6m or 33% compared with the same period in the prior year. The increase was driven by higher gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio.

Change in expected credit losses for the first quarter of 2020 resulted in a charge of $140m compared to a reversal of $12m for the same period in the prior year. The charge for the quarter was primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19 impacting the performing loan portfolio. Impairment charges from non-performing loans in the energy sector also contributed to the increase driven by a significant decline in oil prices. In 2019, there was a release of provisions against certain energy service sector customers.

Total operating expenses for the quarter were $327m, a decrease of $1m or 0.3% compared with the same period in the prior year, as we prudently manage costs while strategically making investments in our people and technology to grow our businesses and make it more convenient for our customers to bank with us.

Income tax expense: the effective tax rate for the first quarter of 2020 was 17.0% which is lower than the statutory tax rate of 26.7%. The decrease is a result of remeasurement of required tax liabilities. The effective tax rate for the first quarter of 2019 was 27.1%.

1. *For the quarter ended 31 March 2020 compared with the same period in the prior year (unless otherwise stated).*

Dividends

Dividends declared in the first quarter 2020

During the first quarter of 2020, the bank declared a final dividend of $160m on HSBC Bank Canada common shares in respect of the financial year ended 31 December 2019 and regular quarterly dividends of $12m for the first quarter of 2020 on all series of HSBC Bank Canada Class 1 preferred shares.

Dividends declared in the second quarter 2020

On 24 April 2020, the bank declared regular quarterly dividends for the second quarter of 2020 on all series of HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 June 2020 or the first business day thereafter to shareholder of record on 15 June 2020.

As the dividends on preferred shares for the second quarter of 2020 were declared after 31 March 2020, the amounts have not been included in the balance sheet as a liability.

Business performance in the first quarter ended 31 March 2020[1]

Commercial Banking ('CMB')

Total operating income for the first quarter of 2020 was $255m, an increase of $11m or 4.5% compared with the first quarter of 2019. CMB began the year with continued momentum as we continued to focus on increasing market share, deepening relationships with existing customers and leveraging our global network and products. However, beginning in March, central bank rate cuts related to COVID-19 had a negative impact on income with lower deposit margins as a result of the lower rates.

COVID-19 and declines in the oil price have impacted impairment charges in the first quarter. We continue to support existing customers with their working capital needs, including offering payment deferrals to help customers through the current crisis.

Profit before income tax for the first quarter of 2020 was $37m, a decrease of $120m or 76% compared with the first quarter of 2019. This was primarily due to a significant increase in charges in expected credit losses for this quarter.

Global Banking and Markets ('GB&M')

Total operating income for the first quarter of 2020 was $63m, a decrease of $17m or 21% compared with the first quarter of 2019. The decrease was due to unfavourable credit and funding valuation movements as a result of increases in credit spreads and market volatility driven by COVID-19.

Throughout the COVID-19 related disruptions and volatile market conditions, the Banking and Markets teams worked closely with our clients to understand their unique challenges and to support them through the crisis. This increased client activity and income across all products, mainly from Markets trading and sales activities, lending activities and underwriting fees.

We continue to leverage the Group's global network to provide products and solutions to meet our global clients' needs.

Profit before income tax for the first quarter of 2020 was $7m, a decrease of $32m or 82% compared with the first quarter of 2019, due to credit and funding adjustments and a higher charges in expected credit losses for the period.

Retail Banking and Wealth Management ('RBWM')

Total operating income for the first quarter of 2020 was $193m, an increase of $9m or 4.9% compared with the first quarter of 2019. The increase is primarily due to continued momentum in growing total relationship balances[2]. Fee income was higher and there was strong volume growth in lending balances and deposits. This was offset by the impact of lower spreads and the continued run-off of our consumer finance portfolio.

Investments in our branches and digital technologies, along with competitive products, helped us grow our customer base and total relationship balances[2]. Despite the challenging outlook under COVID-19, we will continue to serve our customers and support them through various initiatives including payment deferrals and fee waivers.

Profit before income tax for the first quarter of 2020 was $17m, an increase of $10m or 143% compared with the first quarter of 2019. This was mostly due to higher operating income and lower operating expenses, partly offset by higher charges related to the expected credit losses.

Corporate Centre

Total operating income for the first quarter of 2020 was $35m, a decrease of $2m or 5.4% compared with the first quarter of 2019. The decrease was primarily due to lower net interest income from balance sheet management activities and the negative impact from lower yields. This was partly offset by higher gains on the disposal of financial investments compared to the prior year.

Operating expenses for the first quarter of 2020 were $17m, an increase of $6m or 55% compared with the first quarter of 2019. The increase was primarily related to investments in our support functions.

Profit before income tax for the first quarter of 2020 was $18m, a decrease of $8m or 31% compared with the first quarter of 2019, as a result of all the above movements.

1. *For the quarter ended 31 March 2020 compared with the same period in the prior year (unless otherwise stated).*
2. *Total relationship balances includes comprised of lending, deposits and wealth balances.*

Financial performance and position

	Quarter ended	
	31 Mar 2020	31 Mar 2019
Financial performance for the period		
Total operating income	**546**	545
Profit before income tax expense	**79**	229
Profit attributable to the common shareholder	**54**	158
Change in expected credit losses and other credit impairment charges - (charge)/release	**(140)**	12
Operating expenses	**(327)**	(328)
Basic and diluted earnings per common share ($)	**0.11**	0.32
Financial measures %[1]		
Return on average common shareholder's equity	**4.1**	13.3
Return on average risk-weighted assets[2]	**0.7**	2.3
Cost efficiency ratio	**59.9**	60.2
Operating leverage/jaws	**0.5**	(2.4)
Net interest margin	**1.33**	1.46
Change in expected credit losses to average gross loans and advances and acceptances[3]	**0.84**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	**0.21**	—
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances	**39.5**	32.6
Net write-offs as a percentage of average loans and advances and acceptances	**0.11**	0.11

Financial and capital measures

	At	
	31 Mar 2020	31 Dec 2019
Financial position at period end		
Total assets	**125,474**	106,571
Loans and advances to customers	**63,644**	61,922
Customer accounts	**65,451**	62,889
Ratio of customer advances to customer accounts (%)[1]	**97.2**	98.5
Common shareholder's equity	**5,512**	5,009
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**12.0**	11.3
Tier 1 ratio (%)	**14.5**	13.9
Total capital ratio (%)	**16.9**	16.4
Leverage ratio (%)	**5.4**	4.9
Risk-weighted assets ($m)	**43,128**	42,080
Liquidity coverage ratio (%)	**156**	140

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2. *The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.*
3. *n/a is shown where the bank is in a net recovery position resulting in a negative ratio.*

(Figures in $m, except per share amounts)	Quarter ended	
	31 Mar 2020	31 Mar 2019
Interest income	**668**	680
Interest expense	**(350)**	(357)
Net interest income	**318**	323
Fee income	**201**	179
Fee expense	**(23)**	(23)
Net fee income	**178**	156
Net income from financial instruments held for trading	**26**	48
Gains less losses from financial investments	**16**	8
Other operating income	**8**	10
Total operating income	**546**	545
Change in expected credit losses and other credit impairment charges - (charge)/release	**(140)**	12
Net operating income	**406**	557
Employee compensation and benefits	**(169)**	(174)
General and administrative expenses	**(130)**	(131)
Depreciation	**(20)**	(18)
Amortization and impairment of intangible assets	**(8)**	(5)
Total operating expenses	**(327)**	(328)
Profit before income tax expense	**79**	229
Income tax expense	**(13)**	(62)
Profit for the period	**66**	167
Profit attributable to the common shareholder	**54**	158
Profit attributable to the preferred shareholder	**12**	9
Profit attributable to shareholder	**66**	167
Average number of common shares outstanding (000's)	**499,767**	498,668
Basic and diluted earnings per common share ($)	**0.11**	0.32

(Figures in $m)	At 31 Mar 2020	At 31 Dec 2019
ASSETS		
Cash and balances at central banks	**4,159**	54
Items in the course of collection from other banks	**9**	15
Trading assets	**5,212**	4,322
Other financial assets mandatorily measured at fair value through profit or loss	**6**	5
Derivatives	**9,009**	3,267
Loans and advances to banks	**1,087**	1,169
Loans and advances to customers	**63,644**	61,922
Reverse repurchase agreements – non-trading	**6,523**	6,269
Financial investments	**23,262**	23,645
Other assets	**7,210**	1,580
Prepayments and accrued income	**285**	241
Customers' liability under acceptances	**4,461**	3,500
Current tax assets	**28**	26
Property, plant and equipment	**338**	339
Goodwill and intangible assets	**159**	155
Deferred tax assets	**82**	62
Total assets	**125,474**	106,571
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**3,978**	1,036
Customer accounts	**65,451**	62,889
Repurchase agreements – non-trading	**8,151**	7,098
Items in the course of transmission to other banks	**293**	225
Trading liabilities	**2,907**	2,296
Derivatives	**9,334**	3,431
Debt securities in issue	**16,615**	14,594
Other liabilities	**5,850**	3,384
Acceptances	**4,474**	3,505
Accruals and deferred income	**451**	600
Retirement benefit liabilities	**244**	265
Subordinated liabilities	**1,033**	1,033
Provisions	**57**	41
Current tax liabilities	**24**	65
Total liabilities	**118,862**	100,462
Equity		
Common shares	**1,725**	1,225
Preferred shares	**1,100**	1,100
Other reserves	**135**	39
Retained earnings	**3,652**	3,745
Total shareholder's equity	**6,612**	6,109
Total liabilities and equity	**125,474**	106,571

(Figures in $m)	Quarter ended	
	31 Mar 2020	31 Mar 2019
Commercial Banking		
Net interest income	**151**	151
Non-interest income	**104**	93
Total operating income	**255**	244
Change in expected credit losses - (charge)/release	**(117)**	14
Net operating income	**138**	258
Total operating expenses	**(101)**	(101)
Profit before income tax expense	**37**	157
Global Banking and Markets		
Net interest income	**33**	24
Non-interest income	**30**	56
Total operating income	**63**	80
Change in expected credit losses - (charge)/release	**(14)**	(1)
Net operating income	**49**	79
Total operating expenses	**(42)**	(40)
Profit before income tax expense	**7**	39
Retail Banking and Wealth Management		
Net interest income	**125**	126
Non-interest income	**68**	58
Total operating income	**193**	184
Change in expected credit losses - (charge)/release	**(9)**	(1)
Net operating income	**184**	183
Total operating expenses	**(167)**	(176)
Profit before income tax expense	**17**	7
Corporate Centre		
Net interest income	**9**	22
Non-interest income	**26**	15
Net operating income	**35**	37
Total operating expenses	**(17)**	(11)
Profit before income tax expense	**18**	26

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. HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,918bn at 31 March 2020, HSBC is one of the world's largest banking and financial services organizations.

For more information visit www.hsbc.ca or follow us on Twitter: @hsbc_ca or Facebook: @HSBCCanada

Media enquiries:	**Sharon Wilks**	**416-868-3878**	**sharon_wilks@hsbc.ca**
	Caroline Creighton	**416-868-8282**	**caroline.x.creighton@hsbc.ca**
Investor relations enquiries:			**investor_relations@hsbc.ca**

Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The risk management section in the Management's Discussion and Analysis in our Annual Report and Accounts 2019 describes the most significant risks to which the bank is exposed and, if not managed appropriately, could have a material impact on our future financial results. These risk factors include: credit risk, liquidity and funding risk, market risk, resilience risks, regulatory compliance risk, financial crime risk, model risk and pension risk. Additional factors that may cause our actual results to differ materially from the expectations expressed in such forward-looking statements include: general economic and market conditions, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, changes to our credit rating, climate change risk, IBOR transition and other risks such as changes in accounting standards, changes in tax rates, tax law and policy, and our ability to attract, develop and retain key personnel, risk of fraud by employees or others, unauthorized transactions by employees and human error. Despite contingency plans we have in place for resilience in the event of sustained and significant operational disruption, our ability to conduct business may be adversely affected by disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies, environmental disasters and terrorist acts. Refer to the 'Factors that may affect future results' section of the Management's Discussion and Analysis in our Annual Report and Accounts 2019 for a description of these risk factors. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document speak only as of the date of this document. We do not undertake any obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required under applicable securities legislation.