HSBC

News Release

26 April 2021

HSBC BANK CANADA
FIRST QUARTER 2021 RESULTS

Strong start to the year,
profits up in all three global businesses

Linda Seymour, President and Chief Executive Officer of HSBC Bank Canada, said:

"Throughout the pandemic, our priority has been and will continue to be the safety of our employees and financial well-being of our customers. Even as Canada continues under restrictions made necessary by the pandemic, we and our customers are continuously adapting, building and growing. We are using the power of our global network and expanding suite of digital services to support them - whether they are making their business more sustainable, expanding their supply chains or selling to new markets, purchasing a home or managing their savings and investments.

"The year is off to a good start with profits significantly higher than in the first quarter of 2020. As our customers and the economy adjusted to life with COVID-19, we've seen customer activity increase across all business lines while market volatility decreased and we benefited from the release of expected credit losses as the economic outlook improved. While total operating income is down compared to the first quarter of 2020 on the back of lower interest rates, it has increased from the fourth quarter. In Commercial Banking, loan balances grew and fee income rose on higher volumes of bankers' acceptances, along with expected credit loss releases. Global Banking and Markets experienced strong growth in advisory fees. Wealth and Personal Banking[1], saw record growth[2] in real estate secured lending, as well as funds under management and online broker trading in our wealth management services as we grew our client base and the proportion of international clients within it."

Highlights[3]

- **Profit before tax expense** was $232m, up $153m or 194% for the quarter - increasing across all our global businesses, building on the momentum from the second half of 2020. During the first quarter of 2021, we generated higher net fee and trading income as customer activity increased and market volatility reduced. We also benefited from lower expected credit losses as the forward-looking macro-economic outlook improved.
- **Total operating income** for the quarter was $529m, down $17m or 3.1%. The impact of central bank rate cuts in 2020 had a negative impact on net interest income. This was partly offset by increases in net fee income from higher advisory fees in Global Banking and Markets, higher credit facility fees from higher volumes of bankers' acceptances in Commercial Banking and higher funds under management and activity in our online brokerage business in Wealth and Personal Banking[1]. Trading income also improved due to favourable movements in certain credit spreads as the market continues to recover from the pandemic.
- The **change in expected credit losses** resulted in a release of $16m for the quarter, as forward-looking macro-economic variables improved on performing loans, partly offset by an increase in impairment charges from non-performing loans in the energy and wholesale foods sectors. The prior year's charge of $140m for the quarter was heavily impacted by the significant deterioration in forward-looking economic guidance on performing loans at the onset of the pandemic, coupled with the impairments from non-performing loans due to the decline in oil prices.

Head Office:
885 West Georgia Street, Vancouver, BC, Canada
Web: www.hsbc.ca

- **Total operating expenses** decreased by $14m or 4.3% for the quarter as we continue to prudently manage costs in response to the current economic environment while strategically making investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

Select financial metrics as at 31 March 2021:

- *Total assets:* $115.0bn (31 Dec 2020: $117.3bn)
- *Common equity tier 1 capital ratio:* 13.6% (31 Dec 2020: 13.7%)
- *Tier 1 ratio:* 16.4% (31 Dec 2020: 16.4%)
- *Total capital ratio[4]: 18.9%* (31 Dec 2020: 19.0%)
- *Return on average common equity[1]*: 11.2% (31 March 2020: 4.1%)

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

1. *In the second quarter of 2020, HSBC Holdings Group ('HSBC Group') combined Retail Banking and Wealth Management and Global Private Banking to form Wealth and Personal Banking. Therefore, going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure.*
2. *Record three months since inception of WPB (previously RBWM) as a single global business in 2011.*
3. *For the quarter ended 31 March 2021 compared with the same period in the prior year (unless otherwise stated).*
4. *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 International Financial Reporting Standards ('IFRS'). These are considered non-Generally Accepted Accounting Principles ('non-GAAP') financial measures and are unlikely to be comparable to similar measures presented by other companies. For further information on non-GAAP measures refer to the 'Use of non-GAAP 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 2021.*

Analysis of consolidated financial results for the first quarter ended 31 March 2021[1]

Net interest income for the quarter was $282m, a decrease of $36m or 11% compared with the same period in the prior year, as a result of margin compression due to central bank rate cuts in 2020.

Net fee income for the quarter was $196m, an increase of $18m or 10% compared with the same period in the prior year. This was mainly a result of higher advisory fees in Global Banking and Markets and an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking. Higher funds under management and activity in our online brokerage business in Wealth and Personal Banking also contributed to the increase.

Net income from financial instruments held for trading for the quarter was $30m, an increase of $4m or 15% compared with the same period in the prior year. The increase was driven by reduced market volatility and tightening credit spreads. This was partly offset by lower trading activities and lower net interest income due to the lower interest rate environment.

Other items of income for the quarter were $21m, a decrease of $3m or 13% compared with the same period in the prior year. The decrease was driven by balance sheet management activities in other operating income and lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio.

Change in expected credit losses for the first quarter of 2021 resulted in a release of $16m compared to a charge of $140m for the same period in the prior year. The release for the quarter was primarily driven by improvement in forward-looking macro-economic variables related to performing loans, partly offset by impairment charges from non-performing loans in the energy and wholesale foods sectors. In 2020, the charge was related to a significant adverse shift in forward-looking economic scenarios driven by the onset of the COVID-19 pandemic impacting the performing loan portfolio, coupled with the impairments from non-performing loans due to the decline in oil prices.

Total operating expenses for the quarter were $313m, a decrease of $14m or 4.3% compared with the same period in the prior year. The decrease was mainly due to lower staff costs and reduced discretionary costs in response to the current economic environment. This was partly offset by strategic investments to grow our business, simplify our processes and provide the digital services our customers are asking for.

Income tax expense: the effective tax rate for the first quarter of 2021 was 26.9% which is higher than the statutory tax rate of 26.5% due to an increase in tax provisions. The effective tax rate for the first quarter of 2020 was 17.0%.

1. *For the quarter ended 31 March 2021 compared with the same period in the prior year (unless otherwise stated).*

Dividends

Dividends declared in the first quarter 2021

The bank declared a final dividend of $195m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2020 and regular quarterly dividends of $11m for the first quarter of 2021 on all series of outstanding HSBC Bank Canada Class 1 preferred shares.

Dividends declared in the second quarter 2021

On 23 April 2021, the bank declared regular quarterly dividends for the second quarter of 2021 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 June 2021 or the first business day thereafter to the shareholder of record on 15 June 2021.

On 23 April 2021, the bank also declared a first interim dividend of $60m on HSBC Bank Canada common shares in respect of the fiscal year ending 31 December 2021, which will be paid on or before 30 June 2021 to the shareholder of record on 23 April 2021.

As the quarterly dividends on preferred shares for the second quarter of 2021 and the first interim dividend on common shares for 2021 were declared after 31 March 2021, the amounts have not been included in the balance sheet as a liability.

Business performance in the first quarter ended 31 March 2021[1, 2]

Commercial Banking ('CMB')

Total operating income for the first quarter of 2021 was $239m, a decrease of $27m or 10% compared with the first quarter of 2020. Results were primarily impacted by lower interest rates, lower average loan balances and lower foreign exchange and derivative income. Despite the year-on-year revenue decline, CMB has maintained positive momentum in 2021 with loans and acceptances increasing by $0.6bn in the first three months and loan margins improving as the cost of liquidity declined from the beginning of year.

Our ambition is to maintain our leadership position as the preferred international financial partner for our clients and to support their plans to prioritize sustainable finance and transition to a net zero carbon economy. Taking advantage of our international network and with continued investments in our front-end platforms for Global Liquidity and Cash Management (‘GLCM’) and Global Trade and Receivable Finance (‘GTRF’), we are well positioned to support our customers with both their domestic and cross-border banking requirements. We continue to invest and improve our customers’ digital experiences while ensuring security and resilience and are ready to serve our customers on their path to recovery as the economy reopens.

Profit before income tax for the first quarter of 2021 was $151m, an increase of $104m or 221% compared with the first quarter of 2020. This was primarily due to a significant decrease in expected credit losses and lower operating expenses.

Global Banking and Markets ('GBM')

Total operating income for the first quarter of 2021 was $81m, an increase of $5m or 6.6% compared with the first quarter of 2020. This was a result of strong advisory fees along with favourable movements in certain credit spreads as the market continues to recover from the pandemic. This was partly offset by a weaker performance in Market and Securities Services sales and trading activities.

As the Canadian economy continues to emerge from the COVID-19 pandemic, our Banking and Markets teams continue to work closely with our clients to understand their unique challenges and support them as they look to return to growth.

GBM continues to pursue its well-established strategy to provide tailored, wholesale banking solutions, leveraging HSBC’s extensive distribution network to provide products and solutions to meet our global clients’ needs.

Profit before income tax for the first quarter of 2021 was $58m, an increase of $39m or 205% compared with the first quarter of 2020. This was mainly due to the decreased charge in expected credit losses on performing loans from the improvement in forward-looking macro-economic variables, along with higher operating income and lower operating expenses due to prudent cost management.

Wealth and Personal Banking ('WPB')[3]

Total operating income for the first quarter of 2021 was $207m, flat compared with the first quarter of 2020 as strong volume growth in total relationship balances[4] was offset by lower spreads due to central bank rate decreases in 2020. Growth in total relationship balances[4] was led by record net sales[5] in funds under management and real estate secured lending.

We grew our overall and international client base as we continue to invest in our distribution channels, along with market-competitive products. We continued to make it easier for our clients to bank with us and improve client experience through digital enhancements, such as chat bot integration with web messaging, streamlining digital account opening journeys and allowing clients to retrieve additional documents digitally at their convenience.

Profit before income tax for the first quarter of 2021 was $37m, an increase of $8m or 28% compared with the first quarter of 2020. This was primarily due to strong volume growth in total relationship balances[4], lower expected credit losses and lower operating expenses, partly offset by lower spreads due to central bank rate decreases in 2020.

Corporate Centre

Profit before income tax for the first quarter of 2021 was a loss of $14m, an increase in profit before income tax of $2m compared with the first quarter of 2020. This was primarily the result of a decrease in liquidity costs improving net interest income, partly offset by an increase in operating expenses from the cost of initiatives to support future growth.

1. *For the quarter ended 31 March 2021 compared with the same period in the prior year (unless otherwise stated).*
2. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated.*
3. *In the second quarter of 2020, HSBC Holdings Group ('HSBC Group') combined Retail Banking and Wealth Management and Global Private Banking to form Wealth and Personal Banking. Therefore, going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure.*
4. *Total relationship balances includes lending, deposits and wealth balances.*
5. *Record three months since inception of WPB (previously RBWM) as a single global business in 2011.*

(Figures in $m, except where otherwise stated)

Financial performance and position

	Quarter ended	
	31 Mar 2021	31 Mar 2020
Financial performance for the period		
Total operating income	**529**	546
Profit before income tax expense	**232**	79
Profit attributable to the common shareholder	**158**	54
Change in expected credit losses and other credit impairment charges - release/(charge)	**16**	(140)
Operating expenses	**(313)**	(327)
Basic and diluted earnings per common share ($)	**0.29**	0.11
Financial measures %[1]		
Return on average common shareholder's equity	**11.2**	4.1
Return on average risk-weighted assets[2]	**2.4**	0.7
Cost efficiency ratio	**59.2**	59.9
Operating leverage ratio	**1.2**	0.5
Net interest margin	**1.12**	1.33
Change in expected credit losses to average gross loans and advances and acceptances[3]	**n/a**	0.84
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	**0.11**	0.21
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances	**32.4**	39.5
Net write-offs as a percentage of average loans and advances and acceptances	**0.06**	0.11

Financial and capital measures

	At	
	31 Mar 2021	31 Dec 2020
Financial position at period end		
Total assets	**115,033**	117,347
Loans and advances to customers	**62,459**	61,002
Customer accounts	**69,603**	71,950
Ratio of customer advances to customer accounts (%)[1]	**89.7**	84.8
Common shareholder's equity	**5,658**	5,782
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**13.6**	13.7
Tier 1 ratio (%)	**16.4**	16.4
Total capital ratio (%)	**18.9**	19.0
Leverage ratio (%)	**5.9**	6
Risk-weighted assets ($m)	**39,522**	40,014
Liquidity coverage ratio (%)[4]	**176**	188

1. *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 International Financial Reporting Standards ('IFRS'). These are considered non-Generally Accepted Accounting Principles ('non-GAAP') financial measures and are unlikely to be comparable to similar measures presented by other companies. For further information on non-GAAP measures refer to the 'Use of non-GAAP 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 2021.*
2. *The bank assesses capital adequacy against standards established in guidelines issued by Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework.*
3. *n/a is shown where the bank is in a net release position resulting in a negative ratio.*
4. *The liquidity coverage ratio ('LCR') in this table has been calculated using averages of the three month-end figures in the quarter.*

(Figures in $m, except per share amounts)	Quarter ended	
	31 Mar 2021	31 Mar 2020
Interest income	**451**	668
Interest expense	**(169)**	(350)
Net interest income	**282**	318
Fee income	**225**	201
Fee expense	**(29)**	(23)
Net fee income	**196**	178
Net income from financial instruments held for trading	**30**	26
Gains less losses from financial investments	**15**	16
Other operating income	**6**	8
Total operating income	**529**	546
Change in expected credit losses and other credit impairment charges - release/(charge)	**16**	(140)
Net operating income	**545**	406
Employee compensation and benefits	**(159)**	(169)
General and administrative expenses	**(128)**	(130)
Depreciation	**(17)**	(20)
Amortization and impairment of intangible assets	**(9)**	(8)
Total operating expenses	**(313)**	(327)
Profit before income tax expense	**232**	79
Income tax expense	**(63)**	(13)
Profit for the period	**169**	66
Profit attributable to the common shareholder	**158**	54
Profit attributable to the preferred shareholder	**11**	12
Profit attributable to shareholder	**169**	66
Average number of common shares outstanding (000's)	**548,668**	499.767
Basic and diluted earnings per common share ($)	**0.29**	0.11

(Figures in $m)	At 31 Mar 2021	At 31 Dec 2020
ASSETS		
Cash and balances at central banks	**13,024**	15,750
Items in the course of collection from other banks	**11**	13
Trading assets	**4,217**	1,719
Other financial assets mandatorily measured at fair value through profit or loss	**10**	9
Derivatives	**3,680**	5,447
Loans and advances to banks	**1,260**	1,270
Loans and advances to customers	**62,459**	61,002
Reverse repurchase agreements – non-trading	**6,268**	5,996
Financial investments	**16,448**	19,879
Other assets	**3,240**	1,430
Prepayments and accrued income	**212**	196
Customers' liability under acceptances	**3,591**	4,043
Current tax assets	**62**	28
Property, plant and equipment	**267**	277
Goodwill and intangible assets	**165**	167
Deferred tax assets	**119**	121
Total assets	**115,033**	117,347
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**1,279**	1,139
Customer accounts	**69,603**	71,950
Repurchase agreements – non-trading	**4,074**	3,227
Items in the course of transmission to other banks	**315**	181
Trading liabilities	**3,812**	1,831
Derivatives	**3,868**	5,647
Debt securities in issue	**14,490**	17,387
Other liabilities	**5,469**	3,097
Acceptances	**3,606**	4,062
Accruals and deferred income	**398**	523
Retirement benefit liabilities	**287**	310
Subordinated liabilities	**1,011**	1,011
Provisions	**63**	81
Current tax liabilities	**—**	19
Total liabilities	**108,275**	110,465
Equity		
Common shares	**1,725**	1,725
Preferred shares	**1,100**	1,100
Other reserves	**145**	249
Retained earnings	**3,788**	3,808
Total shareholder's equity	**6,758**	6,882
Total liabilities and equity	**115,033**	117,347

(Figures in $m)	Quarter ended	
	31 Mar 2021	31 Mar 2020
Commercial Banking		
Net interest income	**127**	157
Non-interest income	**112**	109
Total operating income	**239**	266
Change in expected credit losses charges - release/(charge)	**8**	(117)
Net operating income	**247**	149
Total operating expenses	**(96)**	(102)
Profit before income tax expense	**151**	47
Global Banking and Markets		
Net interest income	**27**	39
Non-interest income	**54**	37
Total operating income	**81**	76
Change in expected credit losses charges - release/(charge)	**11**	(14)
Net operating income	**92**	62
Total operating expenses	**(34)**	(43)
Profit before income tax expense	**58**	19
Wealth and Personal Banking[2]		
Net interest income	**128**	132
Non-interest income	**79**	75
Total operating income	**207**	207
Change in expected credit losses charges - (charge)	**(3)**	(9)
Net operating income	**204**	198
Total operating expenses	**(167)**	(169)
Profit before income tax expense	**37**	29
Corporate Centre		
Net interest income	**—**	(10)
Non-interest income	**2**	7
Net operating income/(loss)	**2**	(3)
Total operating expenses	**(16)**	(13)
Profit/(loss) before income tax expense	**(14)**	(16)

1. *Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated.*
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About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. We help companies and individuals across Canada to do business and manage their finances here and internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking. HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,959bn at 31 March 2021, 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 2020 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, capital management, 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, cyber threat and unauthorized access to systems, changes to our credit rating, climate change risk, interbank offered rate ('IBOR') transition and other risks such as changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation of tax authorities, risk of fraud by employees or others, unauthorized transactions by employees and human error. Our success in delivering our strategic priorities and proactively managing the regulatory environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the COVID-19 pandemic proves challenging. We are monitoring people risks with attention to employee mental health and well-being, particularly in the face of the pandemic. 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, pandemics, 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 2020 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.