HSBC

News Release

25 April 2022

HSBC BANK CANADA
FIRST QUARTER 2022 RESULTS

Revenue growth and credit improvement
led strong start to the year

Linda Seymour, President and Chief Executive Officer of HSBC Bank Canada[1], said:

"This year is off to a very strong start. We saw a significant increase in profit before income tax expense with each of our business segments contributing. It also began with positive signs the Canadian economy was shifting to a less restricted phase of the pandemic with services reopening across the country. As a result, lending, investment funds under management and card activity all grew in the quarter. Clients have been adopting our growing suite of digital services, and seeking out our expertise to support their transition to a net zero economy. This strong performance gives us the start to 2022 that we need as the world faces significant uncertainty for the balance of the year: the continuing pandemic and disruptions to supply chains, geopolitical tensions, along with soaring oil prices, inflation and rising interest rates. Despite the challenges ahead, I am confident that our teams will continue to be agile in supporting our clients as they have throughout our history."

Highlights[2]

- **Profit before income tax expense was $292m, up $60m or 26%** from higher total operating income and improved expected credit losses.
- **All business segments were profitable.** Profit before tax expense and total operating income has increased across three of our four business segments.
- **Total operating income was $570m, up 7.8%** as net interest margins improved and lending and client activity increased while trading income was down.
- **The change in expected credit losses ('ECL') was a release of $42m,** compared to a release of $16m in the prior year. ECL this quarter was primarily driven by a release in performing loans from COVID-19 related allowances, partly offset by a charge reflecting the effects of a mild deterioration in the forward economic outlook as a result of the Russian invasion of Ukraine and inflation on the Canadian economy.
- **Total operating expenses were up by $7m or 2.2%** as we continue to invest to grow our business, while prudently managing costs.
- **Total assets were $120.8bn, up $1.0bn or 0.8%.**
- **Common equity tier 1 capital ratio[3] of 11.6%, down 240 bps** from 2021 of 14.0%.
- **Return on average common equity[4] of 15.5%, up 430 bps** from 2021 of 11.2%.

1. *HSBC Bank Canada and its subsidiary undertakings (together 'the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc ('HSBC Holdings'). Throughout the document, HSBC Holdings is defined as the 'HSBC Group' or the 'Group'.*
2. *For the quarter ended 31 March 2022 compared with the same period in the prior year (unless otherwise stated). The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively.*
3. *Capital ratios and risk weighted assets are calculated using the Office of the Superintendent of Financial Institutions Canada's ('OSFI') Capital Adequacy Requirements ('CAR') guideline, and the Leverage ratio is calculated using OSFI's Leverage Requirements ('LR') guideline. The CAR and LR guidelines are based on the Basel III guidelines.*
4. *In evaluating our performance, we use supplementary financial measures which have been calculated from International Financial Reporting Standards ('IFRS') figures. For further information on these financial measures refer to the 'Use of supplementary financial measures' section of this document.*

Analysis of consolidated financial results for the first quarter ended 31 March 2022[1]

Net interest income for the quarter was $337m, an increase of $55m or 20% as net interest margin improved and lending volumes grew.

Net fee income for the quarter was $197m, an increase of $1m or 0.5% as investment funds under management, card and transaction activity grew. These increase were partly offset by the prior year's elevated levels of advisory fees.

Net income from financial instruments held for trading for the quarter was $27m, a decrease of $3m or 10%. The decrease was mainly driven by an unfavourable change in hedge ineffectiveness.

Other items of income for the quarter were $9m, a decrease of $12m or 57% driven by lower gains on the disposal of financial investments from re-balancing the bank’s liquid asset portfolio.

The change in ECL for the first quarter of 2022 resulted in a release of $42m, compared to a release of $16m for the same period in the prior year. ECL reversals for the quarter were primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate ECL. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of the Russian invasion of Ukraine and inflation on the Canadian economy. Change in ECL for stage 3 loans resulted in a charge mainly due to a material aviation loan, partly offset by releases in the energy sector. In 2021, the release was primarily driven by the improvement in forward-looking macro-economic variables at that time related to performing loans, partly offset by impairment charges from non-performing loans in the energy and wholesale foods sectors.

Total operating expenses for the quarter were $320m, an increase of $7m or 2.2% mainly due to costs associated with strategic investments to grow our business, support regulatory projects, simplify our processes and provide digital services to meet customers' needs.

Income tax expense: the effective tax rate for the first quarter of 2022 was 26.7% which is modestly higher than the statutory tax rate of 26.5% due to an increase in tax liabilities. The effective tax rate for the first quarter of 2021 was 26.9%.

1. *For the quarter ended 31 March 2022 compared with the same period in the prior year (unless otherwise stated).*

Dividends

Dividends declared in the first quarter 2022

During the first quarter of 2022, the bank declared regular quarterly dividends of $11m for the first quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a final dividend of $200m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021.

Dividends declared in the second quarter 2022

On 22 April 2022, the bank declared regular quarterly dividends for the second quarter of 2022 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 2022 or the first business day thereafter to the shareholder of record on 15 June 2022.

On 22 April 2022, the bank also declared a first interim dividend of $90m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2022, which will be paid on or before 30 June 2022 to the shareholder of record on 22 April 2022.

As the quarterly dividends on preferred shares for the second quarter of 2022 and the first interim dividend on common shares for 2022 were declared after 31 March 2022, the amounts have not been included in the balance sheet as a liability.

Business performance in the first quarter ended 31 March 2022[1]

Commercial Banking ('CMB')

Total operating income for the quarter was $280m, an increase of $41m or 17%. CMB has maintained positive momentum in 2022 with loans and acceptances increasing by $2.2bn in the first three months and higher deposit balances compared to the first quarter of 2021. Net interest income has improved as a result of higher volumes and a recovery in margins. Non-interest income has similarly improved with higher volumes of bankers' acceptances, higher fees from domestic and international payments, and corporate credit cards.

Our ambition is to maintain our leadership position as the preferred international financial partner for our clients and to continue to support their plans to 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 deepen client relationships with our award-winning transaction banking capabilities and to support our clients with both their domestic and cross-border banking requirements. With this continued focus, we won Euromoney's Trade Finance Market Leader and Best Service Awards in Canada.

Profit before income tax expense for the quarter was $217m, an increase of $66m or 44%. This was primarily due to higher operating income and a favourable change in expected credit losses, partly offset by higher operating expense.

Wealth and Personal Banking ('WPB')

Total operating income for the quarter was $217m, an increase of $10m or 4.8%. The increases were driven by strong volume growth in total relationship balances[2] and improved margins as a result of the central bank rate increase during the quarter, partly offset by lower treasury-related income.

We grew our overall and international client base as we continue to invest in our distribution channels and market-competitive products. We continue to focus on our clients' needs and digital enhancements to improve the client experience. For example, we launched the HSBC Mortgage Prequalification Calculator on our public website for clients to receive an estimate of the mortgage amount they could qualify for.

Excluding 2012 which included a one-time gain, we had record[3] profit before income tax expense for the quarter ended 31 March 2022. Profit before income tax expense for the quarter was $60m, an increase of $23m or 62%. This was primarily due to higher operating income, lower expected credit losses and lower operating expenses.

Global Banking ('GB')[4]

Total operating income for the quarter was $47m, a decrease of $13m or 22%. We continued to build on a strong pipeline into the first quarter of 2022. However, the prior year's elevated performance and the timing of transactions in the current year contributed to a decrease in advisory fees. This was partly offset by increases in income from robust capital markets and higher transaction banking activities as the central bank rate increase in the quarter which improved deposit margins.

GB 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.

As the Canadian economy continues to emerge from the pandemic, we continue to work closely with our clients to understand their unique challenges, support them as they look to return to growth and in their plans to transition to a net zero carbon economy.

Profit before income tax expense for the quarter was $23m, a decrease of $26m or 53%. This was mainly due to an increase in expected credit losses and a decrease in operating income.

Markets and Securities Services ('MSS')[4]

Total operating income for the quarter was $26m, an increase of $5m or 24%. Markets revenue increased as a result of higher rates from the central bank rate increase in the quarter and higher foreign exchange trading income.

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

As the Canadian economy continues to emerge from the pandemic, we continue to work closely with our clients to understand their unique challenges, support them as they look to return to growth and in their plans to transition to a net zero carbon economy.

Profit before income tax expense for the quarter was $13m, an increase of $4m or 44%. The increase was mainly due to higher net interest income, partly offset by an increase in operating expenses.

Corporate Centre[5]

Profit before income tax expense for the quarter was a loss of $21m, a decrease of $7m. This was primarily due to an increase in operating expenses from costs related to initiatives to support our future growth.

1. *For the quarter ended 31 March 2022 compared with the same period in the prior year (unless otherwise stated).*
2. *Total relationship balances includes lending, deposits and wealth balances.*
3. *Record for the quarter since inception of WPB as a single global business in 2011.*
4. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation.*
5. *Corporate Centre is not an operating segment of the bank. The numbers included above provides a reconciliation between operating segments and the entity results.*

In evaluating our performance, we use supplementary financial measures which have been calculated from International Financial Reporting Standards ('IFRS') figures. Following is a glossary of the relevant measures used throughout this document but not presented within the consolidated financial statements. The following supplementary financial measures include average balances and annualized income statement figures, as noted, are used throughout this document.

Return on average common shareholder's equity is calculated as annualized profit attributable to the common shareholder for the period divided by average[1] common equity.

Return on average risk-weighted assets is calculated as the annualized profit before income tax expense divided by the average[1] risk-weighted assets.

Cost efficiency ratio is calculated as total operating expenses as a percentage of total operating income.

Operating leverage ratio is calculated as the difference between the rates of change for operating income and operating expenses.

Net interest margin is net interest income expressed as an annualized percentage of average[1] interest earning assets.

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] on stage 3 assets as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances is calculated as the total allowance for expected credit losses[2] relating to stage 3 loans and advances to customers and customers' liabilities under acceptances as a percentage of stage 3 loans and advances to customers and customers' liabilities under acceptances.

Net write-offs as a percentage of average customer advances and acceptances is calculated as annualized net write-offs as a percentage of average[1] net customer advances and customers' liabilities under acceptances.

1. *The net interest margin is calculated using daily average balances. All other financial measures use average balances that are calculated using quarter-end balances.*
2. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

(Figures in $m, except where otherwise stated)

Financial performance and position

	Quarter ended	
	31 Mar 2022	31 Mar 2021
Financial performance for the period		
Total operating income	**570**	529
Profit before income tax expense	**292**	232
Profit attributable to the common shareholder	**203**	158
Change in expected credit losses and other credit impairment charges - release	**42**	16
Operating expenses	**(320)**	(313)
Basic and diluted earnings per common share ($)	**0.37**	0.29
Financial ratios %[1]		
Return on average common shareholder's equity	**15.5**	11.2
Return on average risk-weighted assets	**2.9**	2.4
Cost efficiency ratio	**56.1**	59.2
Operating leverage ratio	**5.6**	1.2
Net interest margin	**1.28**	1.12
Change in expected credit losses to average gross loans and advances and acceptances[2]	**n/a**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	**0.01**	0.11
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances	**33.1**	32.4
Net write-offs as a percentage of average loans and advances and acceptances	**0.02**	0.06

Financial and capital measures

	At	
	31 Mar 2022	31 Dec 2021
Financial position at period end		
Total assets	**120,820**	119,853
Loans and advances to customers	**71,228**	68,699
Customer accounts	**71,436**	73,626
Ratio of customer advances to customer accounts (%)[1]	**99.7**	93.3
Common shareholder's equity	**4,843**	5,776
Capital, leverage and liquidity measures		
Common equity tier 1 capital ratio (%)[3]	**11.6**	14.0
Tier 1 ratio (%)[3]	**14.3**	16.8
Total capital ratio (%)[3]	**16.7**	19.3
Leverage ratio (%)[3]	**4.8**	5.8
Risk-weighted assets ($m)[3]	**41,512**	39,836
Liquidity coverage ratio (%)[4]	**140**	147

1. *Refer to the 'Use of supplementary financial measures' section of this document for a glossary of the measures used.*
2. *n/a is shown where the bank is in a net recovery position resulting in a negative ratio.*
3. *Capital ratios and risk weighted assets are calculated using the Office of the Superintendent of Financial Institutions Canada's ('OSFI') Capital Adequacy Requirements ('CAR') guideline, and the Leverage ratio is calculated using OSFI's Leverage Requirements ('LR') guideline. The CAR and LR guidelines are based on the Basel III guidelines.*
4. *The Liquidity coverage ratio is calculated using OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates the Basel liquidity standards. The 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 2022	31 Mar 2021
Interest income	**471**	451
Interest expense	**(134)**	(169)
Net interest income	**337**	282
Fee income	**222**	225
Fee expense	**(25)**	(29)
Net fee income	**197**	196
Net income from financial instruments held for trading	**27**	30
Gains less losses from financial investments	**2**	15
Other operating income	**7**	6
Total operating income	**570**	529
Change in expected credit losses and other credit impairment charges - release	**42**	16
Net operating income	**612**	545
Employee compensation and benefits	**(151)**	(159)
General and administrative expenses	**(142)**	(128)
Depreciation and impairment of property, plant and equipment	**(15)**	(17)
Amortization and impairment of intangible assets	**(12)**	(9)
Total operating expenses	**(320)**	(313)
Profit before income tax expense	**292**	232
Income tax expense	**(78)**	(63)
Profit for the period	**214**	169
Profit attributable to the common shareholder	**203**	158
Profit attributable to the preferred shareholder	**11**	11
Profit attributable to shareholder	**214**	169
Average number of common shares outstanding (000's)	**548,668**	548,668
Basic and diluted earnings per common share ($)	**0.37**	0.29

(Figures in $m)	At 31 Mar 2022	31 Dec 2021
ASSETS		
Cash and balances at central banks	**9,241**	13,955
Items in the course of collection from other banks	**10**	9
Trading assets	**3,682**	2,907
Other financial assets mandatorily measured at fair value through profit or loss	**18**	18
Derivatives	**3,645**	2,773
Loans and advances to banks	**1,437**	1,659
Loans and advances to customers	**71,228**	68,699
Reverse repurchase agreements – non-trading	**7,496**	9,058
Financial investments	**16,347**	14,969
Other assets	**3,349**	1,377
Prepayments and accrued income	**221**	186
Customers' liability under acceptances	**3,338**	3,548
Current tax assets	**215**	148
Property, plant and equipment	**325**	263
Goodwill and intangible assets	**183**	181
Deferred tax assets	**85**	103
Total assets	**120,820**	119,853
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**1,414**	1,313
Customer accounts	**71,436**	73,626
Repurchase agreements – non-trading	**7,441**	8,044
Items in the course of transmission to other banks	**324**	253
Trading liabilities	**3,083**	3,598
Derivatives	**4,019**	2,978
Debt securities in issue	**16,754**	14,339
Other liabilities	**5,464**	3,517
Acceptances	**3,346**	3,556
Accruals and deferred income	**308**	401
Retirement benefit liabilities	**233**	267
Subordinated liabilities	**1,011**	1,011
Provisions	**44**	74
Total liabilities	**114,877**	112,977
Equity		
Common shares	**1,125**	1,725
Preferred shares	**1,100**	1,100
Other reserves	**(383)**	(23)
Retained earnings	**4,101**	4,074
Total shareholder's equity	**5,943**	6,876
Total liabilities and equity	**120,820**	119,853

(Figures in $m)	Quarter ended	
	31 Mar 2022	31 Mar 2021
Commercial Banking		
Net interest income	**162**	127
Non-interest income	**118**	112
Total operating income	**280**	239
Change in expected credit losses charges - release	**40**	8
Net operating income	**320**	247
Total operating expenses	**(103)**	(96)
Profit before income tax expense	**217**	151
Wealth and Personal Banking		
Net interest income	**141**	128
Non-interest income	**76**	79
Total operating income	**217**	207
Change in expected credit losses charges - release/(charge)	**4**	(3)
Net operating income	**221**	204
Total operating expenses	**(161)**	(167)
Profit before income tax expense	**60**	37
Global Banking[1]		
Net interest income	**25**	22
Non-interest income	**22**	38
Total operating income	**47**	60
Change in expected credit losses charges - (charge)/release	**(2)**	11
Net operating income	**45**	71
Total operating expenses	**(22)**	(22)
Profit before income tax expense	**23**	49
Markets and Securities Services[1]		
Net interest income	**9**	5
Non-interest income	**17**	16
Net operating income	**26**	21
Total operating expenses	**(13)**	(12)
Profit before income tax expense	**13**	9
Corporate Centre[2]		
Non-interest income	**—**	2
Net operating income	**—**	2
Total operating expenses	**(21)**	(16)
Profit/(loss) before income tax expense	**(21)**	(14)

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation.*
2. *Corporate Centre is not an operating segment of the bank. The numbers included above provides a reconciliation between operating segments and the entity results.*

Retirement of Non-Executive Director

Having fulfilled her term, Beth Horowitz will leave the HSBC Bank Canada Board effective 30 June 2022, after 13 years. Beth was a member of the Audit, Risk and Conduct Review Committee (and predecessor committees) and chaired the Board's ad hoc Nomination Committee, leading the recruitment process for several non-executive directors.

Reflecting on her service, Samuel Minzberg, Chairman of the Board of Directors, HSBC Bank Canada, said: "We are grateful to Beth for her financial services expertise and her extensive contributions to the organization over many years, including as a champion of diversity and inclusion initiatives that led to gender-balance at the bank's Board and Executive Committee. Her deep financial services experience, passionate advocacy and thoughtful counsel have made an invaluable contribution to our ongoing success. We wish her well in her continued service with other boards."

The Board maintains its gender parity following the appointment of Fiona Macfarlane and Andrea Nicholls to the Board earlier this year.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc ('HSBC Group'), is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances here and internationally through four businesses: Commercial Banking, Wealth and Personal Banking, Global Banking[1], and Markets and Securities Services[1]. HSBC Group has committed to becoming net-zero in its operations and financed emissions and is working with our customers to accelerate the transition to a low carbon economy.

HSBC Holdings plc, the parent company of HSBC Bank Canada is headquartered in London, UK. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$3,022bn at 31 March 2022, 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

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1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation.*

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 2021 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, treasury risk (inclusive of capital management, liquidity and funding risk and interest rate 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, inflation, 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 including transition and physical risk impacts, 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 the highly competitive and active employment market continues to prove 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, terrorist acts and geopolitical events. Refer to the ‘Factors that may affect future results’ section of the Management's Discussion and Analysis in our Annual Report and Accounts 2021 for a description of these risk factors, as well as the ‘Impact of COVID-19 and our response’ section of our Annual Report and Accounts 2021. 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.*