7 November 2016

HSBC BANK CANADA
THIRD QUARTER 2016 RESULTS

- Profit before income tax expense for the quarter ended 30 September 2016 was $138m, a decrease of 26.2% compared with the same period in 2015. Profit before income tax expense was $464m for the year to date, a decrease of 28.1% compared with the same period in 2015.
- Profit attributable to the common shareholder was $91m for the quarter ended 30 September 2016, a decrease of 28.9% compared with the same period in 2015. Profit attributable to the common shareholder was $308m for the year to date, a decrease of 31.9% compared with the same period in 2015.
- Return on average common equity was 7.7% for the quarter ended 30 September 2016 compared with 11.0% for the same period in 2015. Return on average common equity was 9.0% for the year to date compared with 13.1% for the same period in 2015.
- The cost efficiency ratio was 66.0% for the quarter ended 30 September 2016 compared with 57.5% for the same period in 2015. The cost efficiency ratio was 59.4% for the year to date compared with 55.1% for the same period in 2015.
- Total assets were $95.2bn at 30 September 2016 compared with $94.0bn at 31 December 2015.
- Common equity tier 1 capital ratio was 10.7%, tier 1 ratio 12.7% and total capital ratio 13.8% at 30 September 2016 compared with 10.1%, 12.1% and 13.5% respectively at 31 December 2015.

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

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HSBC Bank Canada

Overview

HSBC Bank Canada reported a profit before income tax expense of $138m for the third quarter of 2016, a decrease of $49m, or 26.2%, compared with the third quarter of 2015. Profit before income tax expense was $464m for the year to date, a decrease of $181m, or 28.1%, compared with the same period in 2015. The decreases are in part due to higher loan impairment charges largely reflecting charges related to the oil and gas sectors, increased investment in global standards, risk and compliance activities, and other strategic initiatives to deliver future savings.

In Commercial Banking, international subsidiary banking continued to drive growth in our strategic trade corridors and our market leading global trade and cash management platforms helped us win new clients and drove fee income. The business continues to focus on enhancing and simplifying its delivery model, improving productivity for the benefit of our customers and employees.

Global Banking and Markets increased trading revenues as well as lending and credit activities on a year to date basis by leveraging HSBC's global network on behalf of its clients.

Retail Banking and Wealth Management benefited from growth in residential mortgages and deposits during the year, with a key focus on revenue in a highly competitive low interest rate market environment.

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

"Against the backdrop of a global economy that most economists observe is stuck in low gear, our business remains profitable, stable, liquid and continues to demonstrate resilience. Profit before tax (PBT) is $138M, down 26% compared to the third quarter last year. However, PBT improved in each of the last three quarters and in our largest business, Commercial Banking, loan impairment charges have continued to decline. Though there are signs the oil and gas sector is stabilizing, we continue to closely manage our risk and assist our customers in coping with lower prices. For our Global Banking and Markets business, PBT for the first nine months is 7% higher than the same period last year, largely due to increased trading revenues and lending and credit activities. Retail Banking and Wealth Management benefited from growth in residential mortgages and deposits, with a key focus on revenue in a highly competitive low interest rate environment. PBT was $17m for the third quarter of 2016, a decrease of $1m, or 6%, compared with the third quarter of 2015. Our overall operating expenses for the period increased year over year as we continued to invest in enhanced compliance and making our business more efficient to drive future cost savings.

We remain focussed on building and sustaining customer relationships as we invest to grow in Canada. Commercial Banking continues to work closely with Canadian companies seeking international expansion across trade corridors with the US and Greater China; our Retail Banking and Wealth Management business is implementing digitization and branch updates to deliver simpler, faster and better service for our individual customers; and our Global Banking and Markets team increasingly supports both public and private sector customers as they deliver the country's infrastructure projects."

Analysis of consolidated financial results for the third quarter of 2016

Net interest income for the third quarter of 2016 was $284m, largely in line with the third quarter of 2015. Net interest income for the year to date was $845m, a decrease of $16m, or 1.9%, compared with the same period in 2015. The decreases over comparative periods were mainly driven by lower spreads in a competitive low interest rate environment driven by lower Bank of Canada rates, and the continued run-off of the consumer finance portfolio. This was partially offset by residential mortgage growth and higher average yield on financial investments.

Net fee income for the third quarter of 2016 was $166m, largely in line with the third quarter of 2015. Net fee income for the year to date was $498m, a decrease of $20m, or 3.9%, compared with the same period in 2015. The decrease was primarily driven by decreased fees from leveraged and acquisition finance.

Net trading income for the third quarter of 2016 was $29m, a decrease of $19m, or 39.6%, compared with the third quarter of 2015. The decrease was mainly driven by unfavourable changes to the Debt Valuation Adjustment ('DVA') on derivative contracts due to the tightening of HSBC's own credit spreads. Also, other comprehensive income was recycled to the income statement due to the hedge accounting criteria not having been met, negatively impacting net trading income. Net trading income for the year to date was $145m, an increase of $41m, or 39.4%, compared with the same period in 2015. The increase was mainly driven by favourable trading performance in the rates business and favourable changes to the Credit Valuation Adjustment ('CVA') on derivative contracts due to the tightening of customer credit spreads. This is partially offset by derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Gains less losses from financial investments for the third quarter of 2016 were $3m, an increase of $1m, or 50.0%, compared with the third quarter of 2015. Gains less losses from financial investments for the year to date was $30m, a decrease of $26m, or 46.4%, compared with the same period in 2015. Gains on sale of available-for-sale debt securities arose from the continued rebalancing of the balance sheet management liquid assets.

Other operating income for the third quarter of 2016 was $17m, an increase of $1m, or 6.3%, compared with the third quarter of 2015. Other operating income for the year to date was $52m, an increase of $6m, or 13.0% compared with the same period in 2015. The increases were mainly due to higher inter-company activities, partially offset by losses on the sale of specific commercial loans, and non-recurring recoveries recognized in comparative periods.

Loan impairment charges and other credit risk provisions for the third quarter of 2016 were $29m, a decrease of $2m compared with the third quarter of 2015. Loan impairment charges and other credit risk provisions for the year to date were $168m, an increase of $98m compared with the same period in 2015. The year-to-date increases over the comparative periods largely reflect charges related to the oil and gas sectors.

Total operating expenses for the third quarter of 2016 were $328m, an increase of $30m, or 10.1%, compared with the third quarter of 2015. Total operating expenses for the year to date were $930m, an increase of $55m, or 6.3%, compared with the same period in 2015. The increases over the comparative periods were driven by continued investments in the implementation of global standards and efficiency initiatives to deliver future savings, as well as the adverse impact caused by the lower Canadian dollar on expenses denominated in foreign currencies.

Share of profit in associates represents changes in the value of the bank's investment in certain private equity funds. Share of profit in associates for the third quarter of 2016 was a loss of $3m, a decrease of $1m compared with the third quarter of 2015. Share of profit in associates for the year to date was a loss of $5m, a decrease of $6m compared with the same period in 2015.

Income tax expense. The effective tax rate in the third quarter of 2016 was 28.0%, compared with 27.7% in the second quarter of 2016 and 26.7% in the third quarter of 2015. The change reflects the difference in income earned from investments in partnerships.

Movement in financial position

Total assets at 30 September 2016 were $95.2bn, an increase of $1.2bn from 31 December 2015. Trading assets increased by $2.4bn due to increased trading debt securities. Balance sheet management activities increased financial investments by $0.2bn and decreased reverse repurchase agreements - non-trading by $0.5bn. Loans and advances to customers decreased by $1.1bn due to lower credit facility utilization partially offset by increased new-to-bank activities. Derivatives decreased by $1.0bn mainly due to lower foreign exchange and commodity contracts partially offset by an increase in interest rate contracts. Customers' liability under acceptances increased by $1.0bn due to an increase in the volume of acceptances.

Total liabilities at 30 September 2016 were $89.6bn, an increase of $1.0bn from 31 December 2015. Trading liabilities increased by $2.1bn mainly due to higher securities short positions from client facilitation trades and timing of settlement. Other liabilities increased by $1.9bn largely due to a long-term borrowing. Acceptances increased by $1.0bn due to an increase in the volume of acceptances. Balance sheet management activities decreased deposits by banks and reverse repurchase agreements non-trading by $1.5bn and $0.9bn respectively. $0.5bn of debt securities matured during the period. Derivatives decreased by $0.8bn mainly due to a decrease in foreign exchange and commodity contracts partially offset by increase in interest rate contracts.

Total equity at 30 September 2016 was $5.6bn, an increase of $0.2bn from 31 December 2015, due to profits generated in the period net of dividends paid on common shares and preferred shares.

Business performance in the third quarter of 2016

Commercial Banking

Profit before income tax expense was $100m for the third quarter of 2016, a decrease of $3m, or 3%, compared with the third quarter of 2015. Profit before income tax expense for the year to date was $223m, a decrease of $134m, or 38%, compared with the same period in 2015. Profit before income tax expense for the year to date was down primarily due to increased loan impairment charges largely reflecting challenges in the oil and gas sectors, increased funding costs, lower deposit margins due to lower Bank of Canada rates, and lower loans and advances, partially offset by lower operating expenses.

Global Banking and Markets

Profit before income tax expense was $64m for the third quarter of 2016, a decrease of $5m, or 7%, compared with the third quarter of 2015. The decrease from the same period in prior year was driven by decreased trading revenues from unfavourable changes to the DVA on derivative contracts due to the tightening of HSBC's own credit. Also, other comprehensive income was recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in the third quarter of 2016. This was partially offset by higher net yields on available-for-sale financial investments and higher credit, lending and transactional banking activities.

Profit before income tax expense was $262m for the year to date, an increase of $18m, or 7%, compared with the same period in 2015. The increase from the same period in 2015 was driven by favourable trading performance in the rates business and favourable changes to the CVA on derivative contracts due to the tightening of customer credit spreads. This was partially offset by derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in 2015.

Retail Banking and Wealth Management

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $11m for the third quarter of 2016, an increase of $2m, or 22%, compared with the third quarter of 2015. Profit before income tax expense relating to ongoing business was $32m for the year to date, an increase of $3m, or 10%, compared with the same period in 2015. The increases in profit before income tax expense relating to ongoing business were due to higher net interest income, partially offset by investments in strategic initiatives.

Other

Loss before income tax expense was $43m for the third quarter of 2016, an increase of $40m compared with the third quarter of 2015. Loss before income tax expense was $74m for the year to date, an increase of $59m compared with the same period in 2015. The increased losses compared with the comparative periods were mainly from investments in initiatives to deliver future savings. As well, the narrowing of credit spreads on financial instruments designated at fair value and a transitional change in the liquidity funds transfer pricing policy framework negatively impacted net interest income for the year to date.

Dividends

During the third quarter of 2016, the bank declared and paid $48m in dividends on HSBC Bank Canada common shares, a decrease of $40m 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 $197m have been declared on HSBC Bank Canada common shares and will be paid on or before 31 December 2016 to the holder of record on 3 November 2016.

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 2016 for shareholders of record on 15 December 2016.

Use of non-IFRSs financial measures

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 Financial Statements and are not defined under IFRSs. These are considered non-IFRSs financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRSs financial measures are used throughout this document and their purposes and definitions are discussed below:

Financial position ratios

These measures are indicators of the stability of the bank's balance sheet and the degree funds are deployed to fund assets.

Ratio of customer advances to customer accounts is calculated by dividing loans and advances to customers by customer accounts using period-end balances.

Average total shareholders' equity to average total assets is calculated by dividing average total shareholders' equity with average total assets (determined using month-end balances) for the period.

Return ratios

Return ratios are useful for management to evaluate profitability on equity, assets and risk-weighted assets.

Return on average common shareholder's equity is calculated as profit attributable to the common shareholder for the period divided by average common equity (determined using month-end balances during the period).

Post-tax return on average total assets is calculated as profit attributable to common shareholders for the period divided by average assets (determined using average month-end balances during the period).

Pre-tax return on average risk-weighted assets is calculated as the profit before income tax expense divided by the average monthly balances of risk-weighted assets for the period. Risk-weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

Credit coverage ratios

Credit coverage ratios are useful to management as a measure of the extent of incurred loan impairment charges relative to the bank's performance and size of its customer loan portfolio during the period.

Loan impairment charges to total operating income is calculated as loan impairment charges and other credit provisions, as a percentage of total operating income for the period.

Loan impairment charges to average gross customer advances and acceptances is calculated as annualized loan impairment charges and other credit provisions for the period as a percentage of average gross customer advances and acceptances (determined using month-end balances during the period).

Total impairment allowances to impaired loans at period-end are useful to management to evaluate the coverage of impairment allowances relative to impaired loans using period-end balances.

Efficiency and revenue mix ratios

Efficiency and revenue mix ratios are measures of the bank's efficiency in managing its operating expense to generate revenue and demonstrates the contribution of each of the primary revenue streams to total income.

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

Adjusted cost efficiency ratio is calculated similar to the cost efficiency ratio; however, total operating income excludes gains and losses from financial instruments designated at fair value, as the movement in value of the bank's own subordinated debt issues are primarily driven by changes in market rates and are not under the control of management.

Net interest income, net fee income and net trading income as a percentage of total operating income is calculated as net interest income, net fee income and net trading income divided by total operating income for the period.

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. Canada is a priority market for the HSBC Group - one of the world's largest banking and financial services groups with assets of US$2,557bn at 30 September 2016. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 4,400 offices in 71 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 2016 Interim Report will be sent to shareholders in November 2016.

($ millions, except where otherwise stated)	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
Finance performance for the period				
Total operating income	**498**	518	**1,567**	1,589
Profit before income tax expense	**138**	187	**464**	645
Profit attributable to the common shareholder	**91**	128	**308**	452
Basic earnings per common share ($)	**0.18**	0.26	**0.61**	0.91
Performance ratios (%)[1]				
Return ratios (%)[1]				
Return on average common shareholders' equity	**7.7**	11.0	**9.0**	13.1
Post-tax return on average total assets	**0.38**	0.56	**0.44**	0.66
Pre-tax return on average risk-weighted assets[2]	**1.3**	1.7	**1.5**	2.0
Credit coverage ratios (%)[1]				
Loan impairment charges to total operating income	**5.4**	6.0	**10.7**	4.5
Loan impairment charges to average gross customer advances and acceptances	**0.2**	0.3	**0.5**	0.2
Total impairment allowances to impaired loans and advances at period-end	**58.1**	71.5	**58.1**	71.5
Efficiency and revenue mix ratios (%)[1]				
Cost efficiency ratio	**66.0**	57.5	**59.4**	55.1
Adjusted cost efficiency ratio	**65.9**	57.8	**59.3**	55.2
As a percentage of total operating income:				
- net interest income	**57.1**	55.0	**54.0**	54.2
- net fee income	**33.4**	31.9	**31.8**	32.6
- net trading income	**5.8**	9.3	**9.2**	6.5

	At period ended	
	30 September 2016	31 December 2015
Financial position at period-end		
Loan and advances to customers	**47,259**	48,378
Customer accounts	**54,914**	55,089
Ratio of customer advances to customer accounts (%)[1]	**86.1**	87.8
Shareholders' equity	**5,552**	5,376
Average total shareholders' equity to average total assets (%)[1]	**5.8**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.7**	10.1
Tier 1 ratio (%)	**12.7**	12.1
Total capital ratio (%)	**13.8**	13.5
Leverage ratio (%)	**4.8**	4.7
Risk-weighted assets	**41,915**	42,846

1 *Refer to the 'Use of non-IFRS's financial measures' section of this document for a discussion of non-IFRS's financial measures.*

2 *The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy frameworks.*

(Figures in $m, except per share amounts)	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
Interest income	**440**	422	**1,299**	1,283
Interest expense	**(156)**	(137)	**(454)**	(422)
Net interest income	**284**	285	**845**	861
Fee income	**181**	186	**548**	575
Fee expense	**(15)**	(21)	**(50)**	(57)
Net fee income	**166**	165	**498**	518
Trading income excluding net interest income	**24**	35	**131**	76
Net interest income on trading activities	**5**	13	**14**	28
Net trading income	**29**	48	**145**	104
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gains less losses from financial investments	**3**	2	**30**	56
Other operating income	**17**	16	**52**	46
Total operating income	**498**	518	**1,567**	1,589
Loan impairment charges and other credit risk provisions	**(29)**	(31)	**(168)**	(70)
Net operating income	**469**	487	**1,399**	1,519
Employee compensation and benefits	**(163)**	(167)	**(496)**	(504)
General and administrative expenses	**(155)**	(121)	**(404)**	(339)
Depreciation of property, plant and equipment	**(8)**	(7)	**(23)**	(22)
Amortisation and impairment of intangible assets	**(2)**	(3)	**(7)**	(10)
Total operating expenses	**(328)**	(298)	**(930)**	(875)
Operating profit	**141**	189	**469**	644
Share of (loss)/profit in associates	**(3)**	(2)	**(5)**	1
Profit before income tax expense	**138**	187	**464**	645
Income tax expense	**(38)**	(50)	**(128)**	(170)
Profit for the period	**100**	137	**336**	475
Profit attributable to the common shareholder	**91**	128	**308**	452
Profit attributable to preferred shareholders	**9**	9	**28**	18
Profit attributable to shareholders	**100**	137	**336**	470
Profit attributable to non-controlling interest	**—**	—	**—**	5
Average number of common shares outstanding (000's)	**498,668**	498,688	**498,668**	498,668
Basic earnings per common share ($)	**0.18**	0.26	**0.62**	0.91

(Figures in $m)	**30 September 2016**	31 December 2015
ASSETS		
Cash and balances at central bank	**51**	65
Items in the course of collection from other banks	**68**	73
Trading assets	**6,301**	3,893
Derivatives	**3,914**	4,909
Loans and advances to banks	**1,575**	1,400
Loans and advances to customers	**47,259**	48,378
Reverse repurchase agreements – non-trading	**6,265**	6,807
Financial investments	**24,136**	23,935
Other assets	**347**	365
Prepayments and accrued income	**232**	194
Customers' liability under acceptances	**4,864**	3,834
Property, plant and equipment	**97**	110
Goodwill and intangible assets	**65**	61
Total assets	**95,174**	94,024
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**562**	2,049
Customer accounts	**54,914**	55,089
Repurchase agreements – non-trading	**5,660**	6,606
Items in the course of transmission to other banks	**159**	219
Trading liabilities	**3,799**	1,713
Financial liabilities designated at fair value	**405**	414
Derivatives	**4,242**	5,005
Debt securities in issue	**10,444**	10,896
Other liabilities	**3,735**	1,822
Acceptances	**4,864**	3,834
Accruals and deferred income	**427**	474
Retirement benefit liabilities	**372**	288
Subordinated liabilities	**39**	239
Total liabilities	**89,622**	88,648
Equity		
Preferred shares	**850**	850
Common shares	**1,225**	1,225
Other reserves	**167**	92
Retained earnings	**3,310**	3,209
Total equity	**5,552**	5,376
Total equity and liabilities	**95,174**	94,024

	Nine months ended	
	30 September 2016	30 September 2015
Cash flows generated from/(used in):		
Operating activities	**393**	5,795
Investing activities	**(129)**	(5,382)
Financing activities	**(372)**	13
Net (decrease)/increase in cash and cash equivalents	**(108)**	426
Cash and cash equivalents, beginning of period	**1,983**	2,337
Cash and cash equivalents, end of period	**1,875**	2,763
Represented by:		
Cash and balances at central bank	**51**	59
Items in the course of transmission to other banks, net	**(91)**	(135)
Loans and advances to banks of one month or less	**1,575**	1,373
Reverse repurchase agreements with banks of one month or less	**265**	493
Treasury bills and certificates of deposits of three months or less	**75**	973
Cash and cash equivalents, end of period	**1,875**	2,763

(Figures in $m)	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
Commercial Banking				
Net interest income	**135**	149	**407**	453
Net fee income	**80**	80	**237**	238
Net trading income	**9**	9	**24**	25
Gains less losses from financial investments	**—**	—	**3**	—
Other operating income	**3**	6	**13**	16
Total operating income	**227**	244	**684**	732
Loan impairment charges and other credit risk provisions	**(27)**	(30)	**(155)**	(60)
Net operating income	**200**	214	**529**	672
Total operating expenses	**(97)**	(109)	**(301)**	(316)
Operating profit	**103**	105	**228**	356
Share of (loss)/profit in associates	**(3)**	(2)	**(5)**	1
Profit before income tax expense	**100**	103	**223**	357
Global Banking and Markets				
Net interest income	**55**	42	**157**	133
Net fee income	**32**	29	**99**	112
Net trading income	**9**	28	**89**	42
Gains less losses from financial investments	**3**	2	**28**	56
Other operating loss	**(1)**	—	**(6)**	—
Total operating income	**98**	101	**367**	343
Loan impairment recovery/(charges) and other credit risk provisions	**1**	—	**(5)**	(2)
Net operating income	**99**	101	**362**	341
Total operating expenses	**(35)**	(32)	**(100)**	(97)
Profit before income tax expense	**64**	69	**262**	**244**
Retail Banking and Wealth Management				
Net interest income	**102**	101	**305**	295
Net fee income	**54**	56	**162**	168
Net trading income	**6**	5	**16**	17
Other operating income	**3**	2	**12**	11
Total operating income	**165**	164	**495**	491
Loan impairment charges and other credit risk provisions	**(3)**	(1)	**(8)**	(8)
Net operating income	**162**	163	**487**	483
Total operating expenses	**(145)**	(145)	**(434)**	(424)
Profit before income tax expense	**17**	18	**53**	59
Other				
Net interest expense	**(8)**	(7)	**(24)**	(20)
Net trading income	**5**	6	**16**	20
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gains less losses from financial investments	**—**	—	**(1)**	—
Other operating income	**12**	8	**33**	19
Net operating income	**8**	9	**21**	23
Net operating expenses	**(51)**	(12)	**(95)**	(38)
Loss before income tax expense	**(43)**	(3)	**(74)**	(15)