News Release

3 May 2018

HSBC BANK CANADA
FIRST QUARTER 2018 FINANCIAL RESULTS

Strong performance with growth in operating income of 7%

- Strong growth in operating income of $35m, or 6.9%, from $506m as at 31 March 2017 to $541m as at 31 March 2018.

- Profit before income tax expense increased by $8m, or 3.3%, from $243m as at 31 March 2017 to $251m as at 31 March 2018.

- Profit attributable to the common shareholder decreased by $4m, or 2.3%, from $177m as at 31 March 2017 to $173m as at 31 March 2018.

- Return on average common equity[1] was 15.5% as at 31 March 2018 compared with 15.4% as at 31 March 2017.

- The cost efficiency ratio[1] decreased to 58.8% as at 31 March 2018 from 61.5% as at 31 March 2017.

- Total assets increased by $1.76bn, or 1.8%, from $96.38bn as at 31 December 2017 to $98.14bn as at 31 March 2018.

- Common equity tier 1 capital ratio was 10.1%, the tier 1 ratio was 12.0% and the total capital ratio was 14.2% compared with 10.5%, 12.4% and 14.7% as at 31 December 2017 respectively.

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

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 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.*

This news release is issued by

HSBC Bank Canada

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Overview

HSBC Bank Canada reported strong growth in operating income across all of our business lines resulting in an increase of $35m, or 7%, compared with the same period in the prior year. In Commercial Banking, there was record lending balance growth and double digit revenue growth in a number of business segments, including the Ontario region, Commercial Real Estate and in International Subsidiary Banking. In Global Banking and Markets, increased derivative sales and higher interest income drove results while in Retail Banking and Wealth Management, there was strong growth in total relationship balances.

We remain in a net recovery position on the impairment charges (now calculated as the 'change in expected credit losses'), although this has reduced from the historically high recovery levels throughout 2017.

Operating expenses increased by $7m, or 2.3%, as we continued to invest in growing our business. While profit before income tax increased by $8m, or 3.3%, it was negatively impacted by this increase in costs.

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

“Our investments and innovations to better serve our customers are continuing to drive growth, with revenue up 7% over the same period last year. In Commercial Banking, our investments led to increased loans, advances and foreign exchange revenues; in Retail Banking and Wealth Management, customers appreciate the improvements to our products and services and are rewarding us with more of their business; while in Global Banking and Markets, derivative sales and interest income were the main drivers of growth. In fact, revenue growth, coupled with credit impairment recoveries, were the main contributors to profit before taxes. Higher costs, due to our planned investments to continue building our business did affect overall results.

“As we look ahead, we will continue to bring Canada to the world and the world to Canada, building on our considerable strengths and leveraging our global network, particularly in the North American and China trade corridors, to help our customers and Canada thrive. In that vein we are particularly pleased to be recognized by The Asset Magazine as the best RMB bank in Canada for our robust suite of renminbi products and services.”

Analysis of consolidated financial results for the first quarter of 2018

Net interest income for the first quarter of 2018 was $306m, an increase of $24m, or 8.5%, compared with the same period in the prior year. Contributing to the strong growth is higher loans and advances, particularly mortgage balances, and margin improvements from the impact of the Bank of Canada interest rate increases in 2017 and early 2018. This was partly offset by lower interest recoveries on impaired loans.

Net fee income for the first quarter of 2018 was $155m, a decrease of $5m, or 3.1%, compared with the same period in the prior year. The decrease was driven by lower underwriting fees, which was partially offset by an increase in other income relating to higher sales credits, and an increase in fee expenses driven by higher investment advisory fees.

Net income from financial instruments held for trading for the first quarter of 2018 was $36m, an increase of $5m, or 16.1%, compared with the same period in the prior year. The increase is primarily due to an accounting adjustment relating to funding charges which resulted in higher net interest from trading activities of $4m compared with the same period in the prior year, with a corresponding decrease shown in net interest income.

Changes in fair value of long-term debt for the first quarter of 2018 was nil. In the prior year the bank reported a loss of $3m relating to the movement in the value of the bank’s own subordinated debentures, which were measured at fair value. On 10 April 2017 these debentures were fully redeemed in accordance with their contractual terms.

Gains less losses from financial investments were $22m, an increase of $4m, or 22.2%, compared with the same period in the prior year. The bank realized gains and losses from the disposal of financial investments measured at fair value through other comprehensive income ('FVOCI') (2017: available-for-sale) driven by balance sheet management activities. During the first quarter of 2018 we benefitted from higher gains on the disposal of financial investments arising from the re-balancing of the bank's liquid asset portfolio.

Other operating income for the first quarter of 2018 was $22m, an increase of $4m, or 22.2%, compared with the same period in the prior year. The increase was primarily due to higher income from HSBC Group entities for software development activities performed by the bank.

Change in expected credit losses for the first quarter of 2018 were a recovery of $28m, compared with loan impairment recoveries and other credit risk provisions of $49m in the same period of the prior year. The recovery in 2017 was driven by significant reversals of specific provisions in the oil and gas industry, as well as releases in collective provisions, reflecting overall improvement in credit quality.

Improvements in several sectors, most notably oil and gas services, together with recoveries related to certain construction, contracting and real estate companies led to a net recovery on non-performing loans of $46m for the first quarter of 2018. This was partially offset by a charge of $18m against performing loans due to growth in the loan portfolio as well as the application of forward looking economic guidance under IFRS 9. More information on the interpretation of IFRS 9 is available in note 1 of our unaudited interim condensed consolidated financial statements for the quarter ended 31 March 2018.

Total operating expenses for the first quarter of 2018 increased by $7m, or 2.3% compared with the same period in the prior year. The increase relates to higher strategic spending to drive future growth, which was partially offset by a one-off provision release in the quarter.

Share of profit in associates for the first quarter of 2018 was a nil compared with a loss of $1m in the first quarter of 2017. The share of profits represents changes in the value of the bank's investments in private equity funds.

Income tax expense The effective tax rate in the first quarter of 2018 was 27.1%, which is close to the statutory tax rate. The effective tax rate for the first quarter of 2017 was 23.6% due to a favourable adjustment to the prior years' provision for tax.

Business performance in the first quarter of 2018

Commercial Banking

Total operating income for the first quarter of 2018 was $226m, an increase of $10m, or 4.6%, compared with the first quarter of 2017 due to growth in loans and advances and favourable margins from Bank of Canada rate increases, higher Bankers Acceptance fees, and higher foreign exchange revenues.

We made good progress in the first quarter with record lending balance growth and double digit revenue growth in a number of business segments, including Ontario region, Commercial Real Estate and International Subsidiary Banking. There was also a 21% increase in customers rating our domestic account opening as 'excellent' between December 2017 and February 2018.

Change in expected credit losses reduced from a recovery of $39m to a recovery of $34m reflecting the continuing favourable credit conditions, particularly in the oil and gas industry. Operating expenses increased by $9m, or 9.6%, as we continued to invest in our people and technology to better serve our customers and to grow market share. As a result, profit before income tax expense was $157m, a decrease of $4m or 2.5% compared to the same period last year.

Global Banking and Markets

Total operating income for the first quarter of 2018 was $72m, an increase of $2m, or 2.9% compared with the same quarter in 2017 due to increased derivatives sales to global Rates and Foreign Exchange clients and higher interest income related to the Bank of Canada rate increases. Growth has been focused on the North American and China trade corridors as we continue to leverage HSBC's global network to meet our clients' needs.

Change in expected credit losses reduced from a recovery of $5m for the first quarter of 2017 to a recovery $3m for the first quarter of 2018. Operating expenses increase by $3m, or 8.6%, from $35m to $38m due to higher costs from risk and compliance initiatives in the current quarter. As a result profit before income tax was $37m, a decrease of $3m or 7.5%.

Retail Banking and Wealth Management

Retail Banking and Wealth Management operating income for the first quarter of 2018 was $175m, an increase of $19m, or 12.2%, compared with the same period in the prior year primarily due to higher net interest income from higher margins on deposits and volume growth on both loans and deposits.

We continued to achieve strong growth in total relationship balances (comprised of lending, deposits and wealth balances) due to strong branding, innovation and strategic investments to make our bank simpler, faster and better for our clients.

Profit before income tax expense for the first quarter of 2018 was $3m, a decrease of $18m, or 85.7%, compared with the same period in the prior year. The decrease is primarily due to the continued investment to grow our business and the higher cost base associated with offering an enhanced service model to our clients and the growth already achieved to date. For example, we continued to invest in the roll-out of retail business banking and unsecured lending, in addition to investing in Jade, an exclusive service for high-net-worth customers. We also continued to invest in digital technologies to improve customer experience. Profit before income tax was further impacted by the higher change in expected credit losses due to growth in the portfolio and the application of forward looking economic guidance under IFRS 9. These increases were partly offset by higher revenues as the business continues to grow as a result of our investments, and benefit from higher interest rates.

Corporate Centre

Operating income for the first quarter of 2018 was $68m, an increase of $4m, or 6.3%, compared with the first quarter of 2017. This was primarily due to an increase in other operating income of $5m, or 45.5%, relating to higher income from HSBC Group entities for software development activities performed by the bank. In addition, gains less losses from financial investments increased by $4m, or 22.2%, relating to the disposal of securities as part of balance sheet management activities.

Lower spending on strategic cost saving initiatives in the first quarter of 2018 led to a decrease in operating expenses of $28m, or 66.7%. This led to an overall increase in profit before income tax of $33m compared with the same period in the prior year.

Dividends

During the first quarter of 2018, the bank declared and paid $200m in dividends on HSBC Bank Canada common shares, an increase of $153m compared with the same quarter of the prior year, and $10m in dividends on all series of HSBC Bank Canada Class 1 preferred shares.

On 2 May 2018, the bank declared a first interim dividend of $70m and a special dividend of $400m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2018, and will be paid on or before 30 June 2018 to the shareholder of record on 15 June 2018.

On 2 May 2018, the bank also declared regular quarterly dividends for the second quarter 2018 on all series of HSBC Bank Canada Class 1 preferred shares, and will be paid in accordance with their terms in the usual manner on 30 June 2018 or the first business day thereafter to shareholders of record on 15 June 2018.

As the first interim dividend on common shares for 2018 and the quarterly dividends on preferred shares for the second quarter 2018 were declared after 31 March 2018, the amounts have not been included in the balance sheet of the bank as a liability.

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$2,652bn at 31 March 2018. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 3,900 offices in 67 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

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

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(Figures in $m, except where otherwise stated)	Quarter ended	
	31 Mar 2018[1]	31 Mar 2017
Financial performance for the period		
Total operating income	**541**	506
Profit before income tax expense	**251**	243
Profit attributable to the common shareholder	**173**	177
Basic earnings per common share ($)	**0.35**	0.35
Performance ratios (%)		
Return ratios (%)		
Return on average common shareholder's equity	**15.5**	15.4
Post-tax return on average total assets	**0.72**	0.76
Pre-tax return on average risk-weighted assets[2]	**2.2**	2.3
Credit coverage ratios (%)		
Change in expected credit losses to total operating income[3]	**n/a**	n/a
Change in expected credit losses to average gross customer advances and acceptances[3]	**n/a**	n/a
Total allowances for expected credit losses to impaired loans and acceptances at year end[3]	**59.5**	60.7
Efficiency and revenue mix ratios (%)		
Cost efficiency ratio	**58.8**	61.5
Adjusted cost efficiency ratio	**58.8**	61.1
As a percentage of total operating income:		
– net interest income	**56.6**	55.7
– net fee income	**28.7**	31.6
– net income from financial instruments held for trading	**6.7**	6.1

	At period end	
	31 Mar 2018[1]	31 Dec 2017
Financial position at period-end		
Total assets	**98,140**	96,379
Loans and advances to customers	**50,743**	50,337
Customer accounts	**55,814**	57,054
Ratio of customer advances to customer accounts (%)	**90.9**	88.2
Shareholders' equity	**5,663**	5,710
Average total shareholders' equity to average total assets (%)	**5.9**	5.9
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.1**	10.5
Tier 1 ratio (%)	**12.0**	12.4
Total capital ratio (%)	**14.2**	14.7
Leverage ratio (%)	**4.8**	4.9
Risk-weighted assets ($m)	**46,241**	45,035

1 *Effective 1 January 2018 the bank adopted IFRS 9* Financial Instruments *('IFRS 9') on a retrospective basis without restatement of prior periods. Results from prior periods are reported in accordance with IAS 39* Financial Instruments: Recognition and Measurement *('IAS 39').*

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

3 *Effective 1 January 2018 under IFRS 9 the term 'Change in expected credit losses' is used. The equivalent term prior to 1 January 2018 under IAS 39 is 'Loan impairment charges and other credit risk provisions'.The bank is in a net recovery position for both periods shown. Where this results in a negative ratio n/a is shown.*

(Figures in $m, except per share amounts)	Quarter ended	
	31 Mar 2018[1]	31 Mar 2017
Interest income	**540**	451
Interest expense	**(234)**	(169)
Net interest income	**306**	282
Fee income	**176**	177
Fee expense	**(21)**	(17)
Net fee income	**155**	160
Net income from financial instruments held for trading (2017: Net trading income)	**36**	31
Changes in fair value of long-term debt (2017: Net expense from financial instruments designated at fair value)	**—**	(3)
Gains less losses from financial investments	**22**	18
Other operating income	**22**	18
Total operating income	**541**	506
Change in expected credit losses	**28**	n/a
Loan impairment recoveries and other credit risk provisions	**n/a**	49
Net operating income	**569**	555
Employee compensation and benefits	**(182)**	(181)
General and administrative expenses	**(126)**	(121)
Depreciation of property, plant and equipment	**(8)**	(7)
Amortization of intangible assets	**(2)**	(2)
Total operating expenses	**(318)**	(311)
Operating profit	**251**	244
Share of profit/(loss) in associates	**—**	(1)
Profit before income tax expense	**251**	243
Income tax expense	**(68)**	(57)
Profit for the period	**183**	186
Profit attributable to the common shareholder	**173**	177
Profit attributable to preferred shareholders	**10**	9
Profit attributable to shareholders	**183**	186
Average number of common shares outstanding (000's)	**498,668**	498,668
Basic earnings per common share	**$ 0.35**	$ 0.35

1 *Effective 1 January 2018 the bank adopted IFRS 9 on a retrospective basis without restatement of prior periods. Results from prior periods are reported in accordance with IAS 39.*

(Figures in $m)	31 Mar 2018[1]	31 Dec 2017
ASSETS		
Cash and balances at central bank	**69**	411
Items in the course of collection from other banks	**20**	25
Trading assets	**6,094**	5,373
Other financial assets mandatorily measured at fair value through profit or loss	**9**	n/a
Derivatives	**3,354**	3,675
Loans and advances to banks	**550**	1,221
Loans and advances to customers	**50,743**	50,337
Reverse repurchase agreements – non-trading	**5,504**	6,153
Financial investments	**23,519**	22,913
Other assets	**2,250**	899
Prepayments and accrued income	**297**	213
Customers' liability under acceptances	**5,374**	4,801
Current tax assets	**46**	44
Property, plant and equipment	**107**	106
Goodwill and intangible assets	**96**	90
Deferred taxes	**108**	118
Total assets	**98,140**	96,379
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**971**	1,696
Customer accounts	**55,814**	57,054
Repurchase agreements – non-trading	**8,821**	4,604
Items in the course of transmission to other banks	**246**	299
Trading liabilities	**2,799**	3,701
Derivatives	**3,349**	3,516
Debt securities in issue	**10,613**	10,820
Other liabilities	**2,691**	2,217
Acceptances	**5,381**	4,801
Accruals and deferred income	**365**	475
Retirement benefit liabilities	**327**	346
Subordinated liabilities	**1,039**	1,039
Provisions	**45**	61
Current tax liabilities	**16**	40
Total liabilities	**92,477**	90,669
Equity		
Common shares	**1,225**	1,225
Preferred shares	**850**	850
Other reserves	**(108)**	(61)
Retained earnings	**3,696**	3,696
Total equity	**5,663**	5,710
Total liabilities and equity	**98,140**	96,379

1 *Effective 1 January 2018 the bank adopted IFRS 9 on a retrospective basis without restatement of prior periods. Results from prior periods are reported in accordance with IAS 39.*

(Figures in $m)	Quarter ended	
	31 Mar 2018[1]	31 Mar 2017
Commercial Banking		
Net interest income	**139**	133
Net fee income	**74**	70
Net income from financial instruments held for trading (2017: Net trading income)	**9**	7
Other operating income	**4**	6
Total operating income	**226**	216
Change in expected credit losses	**34**	n/a
Loan impairment recoveries and other credit risk provisions	**n/a**	39
Net operating income	**260**	255
Total operating expenses	**(103)**	(94)
Profit before income tax expense	**157**	161
Global Banking and Markets		
Net interest income	**23**	21
Net fee income	**29**	37
Net income from financial instruments held for trading (2017: Net trading income)	**20**	12
Total operating income	**72**	70
Change in expected credit losses	**3**	n/a
Loan impairment recoveries and other credit risk provisions	**n/a**	5
Net operating income	**75**	75
Total operating expenses	**(38)**	(35)
Profit before income tax expense	**37**	40
Retail Banking and Wealth Management		
Net interest income	**114**	96
Net fee income	**52**	53
Net income from financial instruments held for trading (2017: Net trading income)	**7**	6
Other operating income	**2**	1
Total operating income	**175**	156
Change in expected credit losses	**(9)**	n/a
Loan impairment recoveries and other credit risk provisions	**n/a**	5
Net operating income	**166**	161
Total operating expenses	**(163)**	(140)
Profit before income tax expense	**3**	21
Corporate Centre		
Net interest income	**30**	32
Net income from financial instruments held for trading (2017: Net trading income)	**—**	6
Changes in fair value of long-term debt (2017: Net expense from financial instruments designated at fair value)	**—**	(3)
Gains less losses from financial investments	**22**	18
Other operating income	**16**	11
Total operating income	**68**	64
Total operating expenses	**(14)**	(42)
Operating profit	**54**	22
Share of profit/(loss) in associates	**—**	(1)
Profit before income tax expense	**54**	21

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