HSBC

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HSBC BANK CANADA REPORTS
SECOND QUARTER 2017 FINANCIAL RESULTS

Strong overall performance with PBT up 36% for the quarter

- Profit before income tax expense for the quarter ended 30 June 2017 was $228m, an increase of 35.7% compared with the same period in 2016.

- Profit attributable to the common shareholder was $158m for the quarter ended 30 June 2017, an increase of 42.3% compared with the same period in 2016.

- Return on average common equity was 13.3% for the quarter ended 30 June 2017 compared with 9.8% for the same period in 2016.

- The cost efficiency ratio was 64.1% for the quarter ended 30 June 2017 compared with 57.3% for the same period in 2016.

- In its annual Awards for Excellence, *Euromoney* magazine named HSBC the 'World's Best Bank'. HSBC was also named the top bank in several other categories including 'Best Transaction Bank in North America.'

- Total assets were $95.8bn at 30 June 2017 compared with $94.7bn at 31 December 2016.

- Common equity tier 1 capital ratio was 10.5%, tier 1 ratio 12.4% and total capital ratio 14.7% at 30 June 2017.

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

This news release is issued by

HSBC Bank Canada

Overview

HSBC Bank Canada reported a profit before income tax expense of $228m for the second quarter of 2017, an increase of $60m, or 36% compared with the second quarter of 2016. The increase in profit before income tax is primarily due to recoveries of loan impairment charges from improved credit conditions mainly in the oil and gas industry compared to high impairment charges in the second quarter last year. This was partially offset by a decrease in trading revenues as a result of favorable fixed income trading activities in the prior year. Operating expenses were higher from the bank's continued investment in regulatory compliance, financial crime risk, and strategic spending to reduce future costs; as well as investments to support the growth of our businesses.

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity for the benefit of its customers and employees. Our strategic plan is focused on growing market share through expansion in Eastern Canada, increasing productivity by deepening product penetration, streamlining processes and leveraging our differentiated product suite in Global Trade and Receivable Finance (GTRF) and Global Liquidity and Cash Management (GLCM), and building on our position as the leading international bank with improved positioning in US-Canada corridor.

Global Banking and Markets generated higher event fee revenues through increased advisory and debt underwriting activities on a year to date basis by leveraging HSBC's global network on behalf of its clients.

Retail Banking and Wealth Management had 4% growth in total relationship balances, with increased sales across our products consistent with our focus on growing and serving our customer base. We continue to invest in strategic initiatives to make our bank simpler, faster and better for our customers.

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

"Our strong performance in the first half was the result of continuing improvement in our oil and gas portfolio. In the second quarter, we recorded net new money sales in Retail Banking and Wealth Management and an increase in new-to-bank clients in Commercial Banking. There has been significant growth in revenues related to our international capabilities as our clients increasingly rely on HSBC's international network to support their work with Canada's key trading partners. This is consistent with *Euromoney* naming HSBC the top bank for transaction banking in North America, and the World's Best Bank."

"In this period, we also launched a number of options to enhance the digital experience including ApplePay, mobile cheque deposit and an upgraded online investing platform for our retail customers, as well as a new foreign exchange platform for customers of our Global Banking and Markets business and Commercial Bank. We also continued to hire and expand our team across the country to support the growth of each of our lines of business. As we move into the second half of the year, we do so with great momentum and pride in what we have been able to deliver for our customers."

Analysis of consolidated financial results for the second quarter of 2017

Net interest income for the second quarter of 2017 was $285m, an increase of $5m, or 2%, compared with the second quarter of 2016. Net interest income for the first half of 2017 was $567m, an increase of $6m, or 1%, compared with the first half of 2016. The increases over comparative periods were mainly driven by margin improvements. Yields on interest earning assets have increased over comparative periods. Whereas funding costs have decreased over the same periods, most notably in debt securities and other interest-bearing liabilities.

Net fee income for the second quarter of 2017 was $165m, a decrease of $6m, or 4%, compared with the second quarter of 2016. Net fee income for the first half of 2017 was $325m, a decrease of $7m, or 2%, compared with the first half of 2016. The decrease is primarily due to lower credit facilities and account services related fees.

Net trading income for the second quarter of 2017 was $22m, a decrease of $27m, or 55%, compared with the second quarter of 2016. Net trading income for the first half of 2017 was $53m, a decrease of $63m, or 54%, compared with the first half of 2016. The quarter-end decrease is mainly driven by a fixed income trading transaction which favourably impacted trading activities and negatively impacted changes in the credit and funding valuation adjustments in the prior year. The half-year end decrease is mainly driven by fixed income trading transactions and favourable changes in the credit and funding valuation adjustments in the prior year due to the tightening of client and HSBC's own credit spreads.

Gains less losses from financial investments for the second quarter of 2017 were $3m, a decrease of $3m, or 50%, compared with the second quarter of 2016. Gains on the sale of available-for-sale debt securities arose from the continued rebalancing of the bank's liquid assets.

Net expense from financial instruments designated at fair value for the second quarter of 2017 was $1m, which remains unchanged with the second quarter of 2016. The net expense from financial instruments designated at fair value was caused by marginal narrowing of the bank's own credit spread.

Other operating income for the second quarter of 2017 was $22m, an increase of $2m, or 10%, compared with the second quarter of 2016. The increase was mainly due to higher income from other Group entities.

Loan impairment recoveries and other credit risk provisions for the second quarter of 2017 were a recovery of $46m, an improvement of $100m compared with the second quarter of 2016. Loan impairment charges and other credit risk provisions for the first half of 2017 were a recovery of $95m, an improvement of $234m compared with the first half of 2016. This net loan impairment recovery over the comparative periods largely reflects improving credit conditions, notably as individually assessed and other credit risk provisions reduced, primarily against exposures in the oil and gas, and construction industry.

Total operating expenses for the second quarter of 2017 were $318m, an increase of $17m, or 6%, compared with the second quarter of 2016. This increase reflects the ongoing implementation of our Global Standards program to enhance our financial crime risk controls and capabilities. We have maintained our transformational efforts, developing our digital and wealth capabilities, and continue to realize the benefit of our cost-savings program.

Share of profit in associates for the second quarter of 2017 was a gain of $4m, an increase of $6m compared with the second quarter of 2016. Share of profit in associates for the first half of 2017 was a gain of $3m, an increase of $5m compared with the first half of 2016.

Income tax expense. The effective tax rate in the second quarter of 2017 was 26.3%, which is close to the statutory tax rate. The effective rate for the second quarter of 2016 was 27.7%.

Business performance in the second quarter of 2017

Commercial Banking

Profit before income tax expense was $168m for the second quarter of 2017, an increase of $103m, or 158%, compared with the second quarter of 2016. Profit before income tax expense was $329m for the first half of 2017, an increase of $217m, or 194%, compared with the first half of 2016. The increases from last year were driven primarily by lower loan impairment charges as a result of improving credit conditions.

Global Banking and Markets

Profit before income tax expense was $36m for the second quarter of 2017, a decrease of $14m, or 28%, compared with the second quarter of 2016. The decrease resulted from a favorable fixed income trading transaction in the prior year and lower equity underwriting activities. This was partially offset by an improvement in loan impairment charges due to provisions taken during the prior year. Profit before income tax expense was $76m for the first half of 2017, a decrease of $43m compared to the first half of 2016. The decrease was driven by favourable fixed income trading transactions in the prior year and changes in credit and funding valuation adjustments due to the tightening of clients and HSBC's own credit. This was partially offset by higher revenues from advisory and debt underwriting activities.

Retail Banking and Wealth Management

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $10m for the second quarter of 2017, a decrease of $6m, or 38%, compared with the second quarter of 2016. There was significant growth in mortgages, deposit and wealth products products. However, the second quarter of 2016 included the sale of a small portfolio of impaired loans and the current quarter included increased costs to make our bank simpler, faster and better for our customers. Profit before income taxes relating to the ongoing business was $26m in the first half of 2017, an increase of $5m or 24%, compared with the first half of 2016, mainly driven by growth across all products and lower loan impairment charges.

Corporate Centre

Profit before income tax expense was $10m for the second quarter of 2017, a decrease of $17m, or 63%, compared with the second quarter of 2016. The decrease in profit was driven by lower net interest income, net trading income, gains from financial investments, and higher operating expenses. Net interest income decreased primarily due to lower liquidity levels and returns on available-for-sale assets. Net trading income decreased as a result of hedging ineffectiveness.

Dividends

During the second quarter of 2017, the bank declared and paid $47m in dividends on HSBC Bank Canada common shares, a decrease of $1m compared with the same quarter last year. 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 30 September 2017 for shareholders of record on 15 September 2017.

Appointment of Non–Executive Directors

Effective 4 May 2017, Judith Athaide and Michael K. Korenberg have been appointed to the HSBC Bank Canada Board of Directors succeeding Nancy McKinstry and Michael A. Grandin who have retired from the Board. Currently President and Chief Executive Officer of Cogent Group Inc., Ms Athaide is an engineer with extensive experience in the energy sector including as a director and board committee chair. Mr Korenberg was with The Jim Pattison Group for nearly 20 years, most recently as Deputy Chairman & Managing Director, and is currently Chairman of Canfor Corporation and of Wreath Group Holdings Inc.

Reflecting on the retiring directors, Ms McKinstry and Mr Grandin, Samuel Minzberg, Chairman of the Board of Directors, HSBC Bank Canada said: “We are grateful to Nancy and Michael for their contribution to the organization through these past years of substantial change at the bank. It has been a busy, dynamic period leading to our current strong position and our ambitious plans to grow in Canada. We appreciate their thoughtful deliberations and challenges, and wish them well in their new ventures.”

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$2,492bn at 30 June 2017. 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.

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Copies of HSBC Bank Canada’s Second Quarter 2017 Interim Report will be sent to shareholders in August 2017.

($ millions, except where otherwise stated)	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016
Finance performance for the period				
Total operating income	**496**	525	**1,002**	1,069
Profit before income tax expense	**228**	168	**471**	326
Profit attributable to the common shareholder	**158**	111	**335**	217
Basic earnings per common share ($)	**0.32**	0.22	**0.67**	0.43
Performance ratios (%)[1]				
Return ratios (%)[1]				
Return on average common shareholders' equity	**13.3**	9.8	**14.4**	9.6
Post-tax return on average total assets	**0.67**	0.48	**0.47**	0.47
Pre-tax return on average risk-weighted assets[2]	**2.1**	1.6	**2.2**	1.5
Credit coverage ratios (%)[1]				
Loan impairment charges to total operating income	**n/a**	10.5	**n/a**	13.1
Loan impairment charges to average gross customer advances and acceptances	**n/a**	0.5	**n/a**	0.6
Total impairment allowances to impaired loans and advances at period-end	**66.7**	67.0	**66.7**	67.0
Efficiency and revenue mix ratios (%)[1]				
Cost efficiency ratio	**64.1**	57.3	**62.8**	56.3
Adjusted cost efficiency ratio	**64.0**	57.2	**62.6**	56.2
As a percentage of total operating income:				
- net interest income	**57.5**	53.3	**56.5**	52.5
- net fee income	**33.3**	32.6	**32.4**	31.1
- net trading income	**4.4**	9.3	**5.3**	10.8

	At period ended	
	30 June 2017	31 December 2016
Financial position at period-end		
Loan and advances to customers	**48,699**	46,907
Customer accounts	**55,949**	56,674
Ratio of customer advances to customer accounts (%)[1]	**87.0**	82.8
Shareholders' equity	**5,613**	5,415
Average total shareholders' equity to average total assets (%)[1]	**5.9**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.5**	10.5
Tier 1 ratio (%)	**12.4**	12.5
Total capital ratio (%)	**14.7**	13.5
Leverage ratio (%)	**4.9**	4.7
Risk-weighted assets	**44,281**	42,005

1 *Refer to the 'Use of non-IFRS's financial measures' section of the MD&A 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 $m, except per share amounts)	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016
Interest income	**452**	441	**903**	859
Interest expense	**(167)**	(161)	**(336)**	(298)
Net interest income	**285**	280	**567**	561
Fee income	**183**	189	**360**	367
Fee expense	**(18)**	(18)	**(35)**	(35)
Net fee income	**165**	171	**325**	332
Trading income excluding net interest income	**17**	44	**43**	106
Net interest income on trading activities	**5**	5	**10**	10
Net trading income	**22**	49	**53**	116
Net expense from financial instruments designated at fair value	**(1)**	(1)	**(4)**	(2)
Gains less losses from financial investments	**3**	6	**21**	27
Other operating income	**22**	20	**40**	35
Total operating income	**496**	525	**1,002**	1,069
Loan impairment recoveries/(charges) and other credit risk provisions	**46**	(54)	**95**	(139)
Net operating income	**542**	471	**1,097**	930
Employee compensation and benefits	**(173)**	(164)	**(354)**	(333)
General and administrative expenses	**(133)**	(127)	**(254)**	(249)
Depreciation of property, plant and equipment	**(9)**	(8)	**(16)**	(15)
Amortisation and impairment of intangible assets	**(3)**	(2)	**(5)**	(5)
Total operating expenses	**(318)**	(301)	**(629)**	(602)
Operating profit	**224**	170	**468**	328
Share of profit/(loss) in associates	**4**	(2)	**3**	(2)
Profit before income tax expense	**228**	168	**471**	326
Income tax expense	**(60)**	(47)	**(117)**	(90)
Profit for the period	**168**	121	**354**	236
Profit attributable to the common shareholder	**158**	111	**335**	217
Profit attributable to preferred shareholders	**10**	10	**19**	19
Profit attributable to shareholders	**168**	121	**354**	236
Average number of common shares outstanding (000's)	**498,668**	498,668	**498,668**	498,668
Basic earnings per common share ($)	**$ 0.32**	$ 0.22	**$ 0.67**	$ 0.43

(Figures in $m)	**30 June 2017**	31 December 2016
ASSETS		
Cash and balances at central bank	**61**	66
Items in the course of collection from other banks	**19**	58
Trading assets	**8,098**	6,288
Derivatives	**3,477**	3,850
Loans and advances to banks	**865**	1,071
Loans and advances to customers	**48,699**	46,907
Reverse repurchase agreements – non-trading	**7,557**	5,938
Financial investments	**21,191**	25,231
Other assets	**1,004**	447
Prepayments and accrued income	**168**	186
Customers' liability under acceptances	**4,365**	4,322
Property, plant and equipment	**105**	104
Goodwill and intangible assets	**76**	70
Deferred assets	**125**	119
Total assets	**95,810**	94,657
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**1,232**	946
Customer accounts	**55,949**	56,674
Repurchase agreements – non-trading	**6,368**	4,345
Items in the course of transmission to other banks	**406**	82
Trading liabilities	**3,755**	3,784
Financial liabilities designated at fair value	**—**	403
Derivatives	**3,405**	3,838
Debt securities in issue	**10,103**	10,256
Other liabilities	**2,725**	2,610
Acceptances	**4,365**	4,322
Accruals and deferred income	**369**	475
Retirement benefit liabilities	**371**	342
Subordinated liabilities	**1,039**	1,039
Provisions	**72**	116
Current taxes	**38**	10
Total liabilities	**90,197**	89,242
Equity		
Common shares	**1,225**	1,225
Preferred shares	**850**	850
Other reserves	**5**	27
Retained earnings	**3,533**	3,313
Total equity	**5,613**	5,415
Total equity and liabilities	**95,810**	94,657

(Figures in $m)	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016
Commercial Banking				
Net interest income	**130**	125	**263**	264
Net fee income	**71**	72	**141**	146
Net trading income	**10**	8	**17**	15
Gains less losses from financial investments	**—**	—	**—**	2
Other operating income	**5**	5	**11**	10
Total operating income	**216**	210	**432**	437
Loan impairment recoveries/(charges) and other credit risk provisions	**47**	(47)	**86**	(125)
Net operating income	**263**	163	**518**	312
Total operating expenses	**(95)**	(98)	**(189)**	(200)
Profit before income tax expense	**168**	65	**329**	112
Global Banking and Markets				
Net interest income	**25**	20	**46**	36
Net fee income	**37**	45	**74**	78
Net trading income	**6**	28	**18**	83
Gains less losses from financial investments	**—**	(1)	**—**	(1)
Other operating loss	**—**	(5)	**—**	(5)
Total operating income	**68**	87	**138**	191
Loan impairment recoveries/(charges) and other credit risk provisions	**—**	(6)	**5**	(9)
Net operating income	**68**	81	**143**	182
Total operating expenses	**(32)**	(31)	**(67)**	(63)
Profit before income tax expense	**36**	50	**76**	119
Retail Banking and Wealth Management				
Net interest income	**104**	103	**200**	203
Net fee income	**57**	54	**110**	108
Net trading income	**5**	5	**11**	10
Gain less losses from financial investments	**1**	—	**1**	—
Other operating income	**1**	7	**2**	9
Total operating income	**168**	169	**324**	330
Loan impairment recoveries/(charges) and other credit risk provisions	**(1)**	(1)	**4**	(5)
Net operating income	**167**	168	**328**	325
Total operating expenses	**(153)**	(142)	**(293)**	(289)
Profit before income tax expense	**14**	26	**35**	36
Corporate Centre				
Net interest income	**26**	32	**58**	58
Net trading income	**1**	8	**7**	8
Net (expense)/income from financial instruments designated at fair value	**(1)**	(1)	**(4)**	(2)
Gains less losses from financial investments	**2**	7	**20**	26
Other operating income	**16**	13	**27**	21
Total operating income	**44**	59	**108**	111
Total operating expenses	**(38)**	(30)	**(80)**	(50)
Operating profit	**6**	29	**28**	61
Share of gain/(loss) in associates	**4**	(2)	**3**	(2)
Profit before income tax expense	**10**	27	**31**	59