



22 February 2016

**HSBC BANK CANADA
FULL YEAR AND FOURTH QUARTER 2015 RESULTS**

- Profit before income tax expense was C\$617m for the year ended 31 December 2015, a decrease of C\$295m, or 32.3%, compared with 2014. Loss before income tax expense was C\$28m for the fourth quarter ended 31 December 2015, a decrease of C\$234m compared with the same period in 2014.
- Profit attributable to the common shareholder was C\$414m for the year ended 31 December 2015, a decrease of C\$199m, or 32.5% compared with 2014. Loss attributable to the common shareholder was C\$38m for the quarter ended 31 December 2015, a decrease of C\$156m compared with the same period in 2014.
- Return on average common equity was 9.6% for the year ended 31 December 2015 and (0.9%) for the quarter ended 31 December 2015 compared with 13.9% and 10.5% respectively for the same periods in 2014.
- The cost efficiency ratio was 58.2% for the year ended 31 December 2015 and 69.4% for the quarter ended 31 December 2015 compared with 52.2% and 53.6% respectively for the same periods in 2014.
- Total assets were C\$94.0bn at 31 December 2015 compared with C\$88.2bn at 31 December 2014.
- Our capital ratios remain stable with common equity tier 1 capital ratio at 10.1%, tier 1 ratio at 12.1% and total capital ratio of 13.5% at 31 December 2015.

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

News Release

Overview

HSBC Bank Canada reported a profit before income tax expense for 2015 of C\$617m, a decrease of C\$295m, or 32.3%, compared with 2014.

The decrease from 2014 was primarily due to: the competitive low interest rate environment; adverse credit valuation adjustments on derivative contracts as a result of widening customer credit spreads and the weakening Canadian dollar; increased loan impairment charges primarily arising from our energy portfolio; and higher operating expenses. The increase in operating expenses was mainly due to continued investment in:

- systems, people and processes to meet the highest global standards for detecting and deterring financial crime and other risk and compliance activities;
- digitisation to match customers' changing habits and deliver future savings;
- wealth services to drive revenue growth; as well as
- the impact of the weaker Canadian dollar on expenses denominated in foreign currencies.

These were partially offset by increased fee income from credit and wealth management products and capital markets fees.

In Commercial Banking, we continued to make progress in growing our business and streamlining processes, despite headwinds from sustained low energy and commodity prices as well as the low interest rate environment. New-to-bank activities increased 43% during 2015. We continuously re-priced for risk to reflect the dynamic credit profile of our customers, which helped to mitigate revenue challenges resulting from reduced business spending in current market conditions and subsequently lower utilisation of authorised credit facilities. Initiatives to streamline credit application and customer on-boarding processes helped to improve front-line productivity and increase focus on our customers' needs.

Our Global Banking and Markets business continued to leverage our global network on behalf of our customers and increased lending and credit activities. In addition, the Capital Financing business generated increased revenues across each product area.

During 2015, Retail Banking and Wealth Management continued to achieve sustainable and balanced growth in residential mortgages and deposits, and benefited from increases in wealth balances during the first half of the year. The business continues to deliver a resilient performance given that spread compression in the highly competitive low interest rate environment is impacting margins.

Commenting on the results, Sandra Stuart, President and Chief Executive Officer of HSBC Bank Canada, said: "Clearly our 2015 results reflect the macroeconomic challenges that mounted globally and in Canada particularly through the second half of the year. Despite prevailing low interest rates and other headwinds, we delivered strong results in the first half. Our results in the latter half were negatively impacted by the sharp decline in oil prices and depressed commodities. While expenses were up, this was largely due to investments to protect our business and our customers from financial crime, to deliver future savings, to meet customers' demand for digitisation and to drive revenue growth. To mitigate credit risk and minimise energy industry-related losses, we are partnering closely with our customers to help them weather this downturn. Pressures on the energy industry are expected to continue through 2016; though we are more optimistic about prospects for other sectors including exports and infrastructure.

"Customers continue to find value in the unique expertise we bring to helping internationally minded individuals and businesses manage their finances and in our global network that provides access to more than 90% of global GDP, trade and capital flows. With our strong capital base and liquid balance sheet, we will continue in 2016 to invest in the business here in Canada – managing prudently, and building for the future."

Analysis of Consolidated Financial Results for Year ended 31 December 2015

Net interest income was C\$1,143m, a decrease of C\$69m, or 5.7%, compared with 2014. This was primarily due to the impact on the commercial loan portfolio of the competitive low interest rate environment including two Bank of Canada rate cuts in 2015. Also contributing to the decrease was the impact of the continued planned run-off of both the higher yielding consumer finance and mezzanine funding portfolios. This was partially offset by increases associated with the growth in commercial loans, residential mortgages and retail deposits.

Net fee income was C\$683m, an increase of C\$38m, or 5.9%, over 2014. This was primarily due to higher fees from credit products such as standby lines of credit and banker's acceptances ('BAs'), as well as increased fees from higher funds under management. In addition, in 2015 there were higher fees from advisory, debt capital market and leveraged and acquisition finance activities. This was partially offset by lower fees earned from account services resulting from the introduction of low fee customer accounts, lower credit card fees due to industry wide reductions in interchange revenues and lower immigrant investor fees resulting from the cancellation of the Canadian government's Immigrant Investor Program.

Net trading income was C\$81m, a decrease of C\$65m, or 44.5%, compared with 2014. Revenues were negatively impacted by credit valuation adjustments on derivative contracts due to the widening of customer credit spreads, the weakening Canadian dollar and derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met. Net interest income on trading activities is higher mainly due to lower interest expense from short position securities resulting from a reduction in customer facilitation transactions.

Net income from financial instruments designated at fair value was C\$3m compared to a loss of C\$5m in 2014, mainly due to widening credit spreads in 2015.

Gains less losses from financial investments were C\$63m, an increase of C\$7m, or 12.5%, compared with 2014 arising on sales of available-for-sale debt securities resulting from the continued re-balancing of the balance sheet management portfolio.

Other operating income was C\$64m, an increase of C\$8m, or 14.3% compared with 2014. The increase reflects income from the sale of a small impaired loan portfolio as well as amounts received on the settlement of a longstanding legal dispute.

Loan impairment charges and other credit risk provisions were C\$234m, an increase of C\$127m, or 118.7%, compared with 2014. The increase primarily arose from increases in specific provisions as well as collective and other credit risk provisions resulting from adverse economic factors impacting the bank's energy sector customers. This was partially offset by a small reduction in the charge for collectively assessed provisions in the retail portfolio and a larger reduction for the run-off consumer finance portfolio.

Total operating expenses were C\$1,186m, an increase of C\$84m, or 7.6%, compared with 2014. As planned, operating expenses have increased due to our investment in systems, people and processes to meet the highest global standards for detecting and deterring financial crime, continued investments in digitisation to match customers' changing habits and deliver future savings, and in wealth services to drive revenue growth as well as increased investments in efficiency initiatives. In addition, expenses have also been adversely impacted by the effect of the lower Canadian dollar on expenses denominated in foreign currencies.

Share of profit in associates for 2015 reduced to C\$nil compared with income of C\$11m in 2014. The share of profit of associates represents changes in the value of the bank's investments in private equity funds.

Income tax expense. The effective tax rate was 27.8% for 2015 compared with 29.2% for 2014. The lower income tax expense resulted from the resolution and closure in the prior year of multiple tax issues covering a number of years with the Canadian tax authorities.

Consolidated Balance Sheet

Total assets at 31 December 2015 were C\$94.0bn, an increase of C\$5.8bn from 31 December 2014. Loans and advances to customers increased by C\$7.2bn. Residential mortgages increased by almost C\$1.2bn although this was partially offset by the planned run-off of the consumer finance portfolio and reductions in other personal lending. Cash management accounts increased by C\$1.3bn. Commercial loans in GB&M grew by almost C\$0.5bn, although this was partially offset by a decrease in commercial loans in CMB of C\$0.3bn resulting from the reduced economic demand driven by reductions in energy prices. Customer demand for loan facilities provided through BAs increased by about C\$0.8bn overall, but reduced market demand for the BAs meant that direct lending increased by about C\$1.2bn and reduced customers' liability under acceptances by the same amount. Part of the increase in loans and advances resulted from a change in categorisation of customers' BA loans. Previously customer BA loans, which amounted to C\$3.2bn at 31 December 2014, were categorised as trading assets. Increased liquidity resulted in growth in financial investments of C\$3.8bn. Derivatives increased by C\$0.8bn due to changes in the value of the US dollar on values of forward foreign exchange contracts with customers. Trading assets decreased by C\$5.0bn due to a reduction of client settlement accounts of C\$2.0bn and changes in categorisation of customer BA loans noted above.

Total liabilities at 31 December 2015 were C\$88.6bn, an increase of C\$5.4bn from 31 December 2014. Customer accounts increased by C\$4.2bn arising from growth in the underlying business including C\$1.3bn in cash management accounts. Repurchase agreements and deposits by banks increased by \$2.6bn and C\$1.4bn respectively as a result of balance sheet management activities. Derivatives increased by C\$1.1bn due to the effect of changes in the value of the US dollar on customers forward contracts. This was offset by decreases in trading liabilities of C\$2.5bn mainly from lower securities short positions arising from a reduction in client facilitation trading as well as lower liabilities under customer acceptances of C\$1.2bn due to reduced demand as noted above.

Total equity at 31 December 2015 was C\$5.4bn, an increase of C\$0.4bn from 31 December 2014, primarily due to an issue of C\$0.5bn in preferred shares to the Bank's parent and profits generated in the year. This was partially offset by the redemption of C\$0.2bn in HSBC Canada Asset Trust Securities which reduced non-controlling interests.