HSBC BANK CANADA
SECOND QUARTER 2011 INTERIM REPORT

- Profit attributable to common shareholders was C$191m for the quarter ended 30 June 2011, an increase of 7.3% over the same period in 2010.

- Profit attributable to common shareholders was C$333m for the half-year ended 30 June 2011, an increase of 7.1% over the same period in 2010.

- Return on average common equity was 21.3% for the quarter ended 30 June 2011 and 19.0% for the half-year ended 30 June 2011 compared with 21.6% and 18.9% respectively for the same periods in 2010.

- The cost efficiency ratio was 50.9% for the quarter ended 30 June 2011 and 54.0% for the half-year ended 30 June 2011 compared with 48.7% and 50.3% respectively for the same periods in 2010.

- Total assets were C$81.5bn at 30 June 2011 compared with C$79.1bn at 30 June 2010.

- Total assets under administration increased to C$32.3bn at 30 June 2011 from C$29.4bn at 30 June 2010.

- Tier 1 capital ratio of 13.3% and a total capital ratio of 16.0% at 30 June 2011 compared to 13.0% and 15.6% respectively at 30 June 2010.

The world's local bank

HSBC

Second Quarter 2011 Interim Report

Contents

Caution regarding forward-looking financial statements

This document may contain forward-looking information, including statements regarding the business and anticipated actions of HSBC Bank Canada. 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. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on the bank's net interest margin may arise from actions taken by individual banks or other financial institutions acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. The factors disclosed above are not exhaustive and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition. Any forward-looking statements speak only as of the date of this document. The bank undertakes no obligation to, and expressly disclaims any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required by law.

Second Quarter 2011 Management's Discussion and Analysis

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the Management's Discussion and Analysis ("MD&A"), the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". The MD&A for the bank for the second quarter of 2011 is dated 28 July 2011.

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), which we adopted on 1 January 2011. The information in this MD&A is derived from our unaudited consolidated financial statements or from the information used to prepare them. The abbreviations "C$m" and "C$bn" represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated. Prior to the adoption of IFRS, our financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Prior period amounts have been restated on an IFRS basis and certain amounts have been reclassified to conform to the presentation adopted in the current period. Our adoption of IFRS is described in more detail in the "Transition to IFRS" section of this MD&A and in Notes 1 and 16 of the accompanying consolidated financial statements.

Financial Highlights

	Quarter ended			*Half-year ended*	
	30 June 2011	30 June 2010	31 March 2011	**30 June 2011**	30 June 2010
For the period (C$m)					
Net operating income before loan impairment charges and other credit risk provisions	**619**	690	630	**1,249**	1,303
Profit before income tax expense	**274**	282	223	**497**	506
Profit attributable to common shareholders	**191**	178	142	**333**	311
At period-end (C$m)					
Shareholders' equity	**4,637**	4,404	4,414		
Risk-weighted assets[1]	**34,633**	35,963	33,531		
Loans and advances to customers (net of impairment allowances)	**45,548**	50,016	45,959		
Customer accounts	**45,522**	44,140	44,252		
Capital ratios (%)[1]					
Tier 1 ratio	**13.3**	13.0	13.4		
Total capital ratio	**16.0**	15.6	16.2		
Performance ratios (%)[2]					
Return on average common equity	**21.3**	21.6	16.6	**19.0**	18.9
Post-tax return on average total assets	**0.92**	0.88	0.72	**0.82**	0.77
Post-tax return on average risk-weighted assets	**2.2**	2.0	1.7	**2.0**	1.7
Credit coverage ratio (%)					
Loan impairment charges as a percentage of total operating income	**5.0**	10.4	7.8	**6.4**	10.8
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.2**	0.5	0.4	**0.3**	0.5
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**68.3**	63.8	69.9	**68.3**	63.8
Efficiency and revenue mix ratios (%)[2]					
Cost efficiency ratio	**50.9**	48.7	57.0	**54.0**	50.3
Adjusted cost efficiency ratio	**47.9**	46.0	53.7	**50.8**	47.0
As a percentage of total operating income:					
- net interest income	**63.0**	59.4	60.6	**61.8**	61.7
- net fee income	**26.2**	22.9	25.9	**26.0**	23.3
- net trading income	**5.8**	8.8	5.9	**5.8**	7.4
Financial ratios (%)[2]					
Ratio of customer advances to customer accounts	**100.1**	113.3	103.9		
Average total shareholders' equity to average total assets	**5.4**	5.3	5.5		
Total assets under administration (C$m)					
Funds under management	**31,261**	27,890	32,057		
Custodial accounts	**1,039**	1,508	1,128		
Total assets under administration	**32,300**	29,398	33,185		

1 *Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI") in accordance with the Basel II capital adequacy framework. Risk-weighted assets and ratios at 30 June 2010 have not been restated for the impact of the adoption of IFRS on 1 January 2011.*

2 *These are non-IFRS amounts or non-IFRS measures. Please refer to the discussion outlining the use of non-IFRS measures in this document in the "IFRS and related non-IFRS measures used in the MD&A" section on page 7.*

Analysis of Financial Results

Overview

HSBC Bank Canada recorded profit for the period of C$208m for the second quarter of 2011, an increase of C$8m, or 4.0% compared with C$200m for the second quarter of 2010, and an increase of C$48m, or 30%, compared with the first quarter of 2011. Profit for the first half of 2011 was C$368m, an increase of C$14m, or 4.0% compared with C$354m for the first half of 2010. Profit attributable to common shareholders was C$191m for the second quarter of 2011, and C$333m for the first half of the year, increases of C$13m, or 7.3%, and C$22m, or 7.1%, respectively over the same periods in 2010, and C$49m, or 34.5%, higher than in the first quarter of 2011. This increase in profits in 2011 was primarily due to lower loan impairment charges and higher fee income, partially offset by lower net interest income and increased operating expenses.

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

"Thanks to HSBC Bank Canada's strong business fundamentals, lower loan impairment charges and higher fee income we continued to deliver solid operating results in the second quarter. Once again we focused on building on our global capabilities through the HSBC Group to meet our customer needs, and maintaining strong capital and liquidity levels."

Analysis of Consolidated Financial Results for the Second Quarter of 2011

Net interest income for the second quarter of 2011 was C$390m, compared with C$410m for the second quarter of 2010, a decrease of C$20m, or 4.9%, and was C$8m higher than the first quarter of 2011. On a year-to-date basis, net interest income was C$772m in 2011, compared with C$804m in 2010, a decrease of C$32m, or 4.0%. The decrease compared with the same periods in 2010 was primarily due to lower loan volumes, resulting from reduced commercial borrowings and consumer finance receivables, and spread compression on deposits resulting from competitive pressures, partially offset by the benefit from increases in Bank of Canada interest rates which impacted the bank's prime rate-based assets.

Net fee income. The components of net fee income are as follows:

	Quarter ended			*Half-year ended*	
	30 June 2011	30 June 2010	31 March 2011	30 June 2011	30 June 2010
Fee income					
Credit facilities	**56**	51	52	108	97
Funds under management	**42**	36	40	82	68
Account services	**22**	23	21	43	45
Brokerage commissions	**17**	17	22	39	37
Credit cards	**13**	11	11	24	21
Corporate finance	**10**	9	9	19	22
Insurance	**5**	11	6	11	17
Remittances	**6**	5	5	11	9
Trade finance import/export	**2**	3	4	6	5
Trustee fees	**1**	1	1	2	3
Other	**9**	14	12	21	23
Fee income	**183**	181	183	366	347
Less: fee expense	**(21)**	(23)	(20)	(41)	(43)
Net fee income	**162**	158	163	325	304

Net fee income for the second quarter of 2011 was C$162m, compared with C$158m for the second quarter of 2010, an increase of C$4m, or 2.5%, and was C$1m lower than in the first quarter of 2011. On a year-to-date basis, net fee income was C$325m in 2011, compared with C$304m in 2010, an increase of C$21m, or 6.9%. The increase compared to the same periods in 2010 was primarily due to higher fees from credit facilities and funds under management, partially offset by lower credit insurance income.

Analysis of Financial Results (continued)

Net trading income for the second quarter of 2011 was C$36m, compared with C$61m for the second quarter of 2010, a decrease of C$25m, or 41%, and was C$1m lower than in the first quarter of 2011. On a year-to-date basis, net trading income was C$73m in 2011, compared with C$97m in 2010, a decrease of C$24m, or 24.7%. The main factor contributing to the decrease compared to the same periods in the prior year was a C$21m recovery in the second quarter of 2010 of previously recorded losses upon the disposal of substantially all of the bank's non-bank Canadian asset-backed commercial paper ("ABCP") portfolio.

Net gain/(loss) from financial instruments designated at fair value. The bank records certain subordinated debentures, deposits and liabilities at fair value. Credit spreads continued to narrow in the second quarter of 2011, resulting in an increase in the fair value of these balances and a reduction to earnings. However, this was more than offset by a gain on the economic hedge of the interest rate risk exposure on the debt, resulting in a net gain of C$2m in the period, compared with a gain of C$13m in the same quarter in 2010. In comparison, narrowing credit spreads resulted in a loss of C$8m in the first quarter of 2011. In 2011, on a year-to-date basis, due primarily to the narrowing of credit spreads, financial instruments designated at fair value incurred a loss of C$6m, compared with a gain of C$5m in the same period in 2010.

Gains less losses from financial investments for the second quarter of 2011 were C$4m, compared with C$5m for the second quarter of 2010, and C$16m for the first quarter of 2011. On a year-to-date basis, gains less losses from financial investments were C$20m in 2011, compared with C$8m in 2010, an increase of C$12m, or 150%. The increase compared with the same periods in 2010 was due to the gains recognized in the first quarter of 2011 from the disposal of the bank's available-for-sale preferred share portfolio, combined with higher gains from the sale of certain government bonds and bank debt securities in the first and second quarters of 2011.

Other operating income for the second quarter of 2011 was C$25m, compared with C$43m for the second quarter of 2010, a decrease of C$18m, or 41.9%, and C$15m, or 37.5%, lower than the first quarter of 2011. On a year-to-date basis, other operating income was C$65m in 2011, compared with C$85m in 2010, a decrease of C$20m, or 23.5%. The decrease was primarily due to a C$17m charge in the current quarter resulting from a decrease in the fair value of certain investment properties.

Loan impairment charges and other credit risk provisions of C$31m were recorded in the second quarter of 2011 compared with C$72m for the second quarter of 2010, a decrease of C$41m, or 56.9%, and were C$18m, or 36.7%, lower than the first quarter of 2011. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$80m, compared with C$141m in 2010, a decrease of C$61m, or 43.3%. The decrease in loan impairment charges in 2011 compared with 2010 was due to lower volumes in the bank's commercial loan portfolio, reduced levels of individually assessed impairment charges, primarily in the energy, wholesale and retail trade sectors, and a release of collective impairment provisions in the retail banking, commercial and consumer finance portfolios due to improved credit quality and lower loan volumes.

Total operating expenses for the second quarter of 2011 were C$315m, compared with C$336m for the second quarter of 2010, a decrease of C$21m, or 6.3%, and were C$44m, or 12.3%, lower than the first quarter of 2011. On a year-to-date basis, total operating expenses were C$674m in 2011, compared with C$656m in 2010, an increase of C$18m, or 2.7%. Employee compensation and benefits increased by C$18m in the second quarter and C$46m in the year-to-date compared with the same periods in 2010, partially due to an increase in the post-retirement benefits expense as a result of enhancements to certain of the bank's pension plans, combined with increases in commission expenses due to higher fee revenues, higher full-time salaries and restructuring costs associated with certain efficiency-driven initiatives. Employee compensation and benefit costs were unchanged from the first quarter of 2011. General and administrative expenses decreased by C$46m in the quarter and C$36m in the year-to-date period, primarily due to a C$47m recovery of fees from an HSBC affiliate with respect to prior years. Amortization and impairment of intangible assets increased by C$8m in the quarter and by C$9m in the year-to-date period compared with the same periods in 2010 and was C$10m higher than in the first quarter of 2011 as a result of a write-off of certain internally-developed software costs.

Income tax expense. The effective tax rate in the second quarter of 2011 was 24.1%, compared with 29.1% in the second quarter of 2010 and 28.3% in the first quarter of 2011. For the year-to-date period in 2011, the effective tax rate was 26.0%, compared with 30.0% in 2010. The decrease in the current quarter and the year-to-date period was largely due to a reduction in statutory tax rates and the recovery of fees from an HSBC affiliate with respect to prior years which are not taxable.

Analysis of Financial Results (continued)

Quarterly summary of condensed statements of income (unaudited)

The following table presents a summary of quarterly consolidated results for the last eight quarters. Because our IFRS adoption is effective as of 1 January 2010, our 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, our quarterly information for 2011 and 2010 is not comparable with the quarterly information for 2009.

	Quarter ended							
	30 June 2011	31 March 2011	31 December 2010	30 September 2010	30 June 2010	31 March 2010	31 December 2009 Canadian	30 September 2009 Canadian
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP
Total revenue[1]	**619**	630	653	630	690	613	702	590
Profit for the period	**208**	160	118	146	200	154	171	122
Profit attributable to common shareholders	**191**	142	96	124	178	133	148	101
Profit attributable to preferred shareholders	**15**	15	15	16	15	15	16	15
Profit attributable to non-controlling interests	**2**	3	7	6	7	6	7	6
Basic earnings per common share	**0.38**	0.28	0.19	0.25	0.36	0.27	0.30	0.20

1 *Total revenue is reported as "net operating income before loan impairment charges and other credit risk provisions" on the consolidated income statement.*

The quarterly trends in revenue and expenses for 2009 and 2010 were disclosed on page 13 of the 2010 Annual Report and Accounts.

Statement of Financial Position

Total assets at 30 June 2011 were C$81.5bn, an increase of C$3.4bn from 31 December 2010, primarily due to a C$1.4bn increase in trading assets and a C$1.8bn increase in financial investments. Liquidity remained strong, with C$28.4bn of cash and balances at central banks, items in the course of collection from other banks, trading assets, loans and advances to banks and financial investments at 30 June 2011, compared with C$26.1bn at 31 December 2010. Loans and advances to customers increased to C$45.5bn from C$45.2bn at 31 December 2010, primarily due to an increase in the balance of reverse repurchase agreements with customers. Excluding repurchase agreements, loans and advances to customers decreased by C$0.4bn, as our commercial customers continued to deleverage their balance sheets.

Gross impaired loans were C$718m, a decrease of C$80m compared with C$798m at 31 December 2010, and were C$216m lower than at 30 June 2010. Total impaired loans net of specific allowances for credit losses were C$515m at 30 June 2011, compared with C$571m at 31 December 2010. Total impaired loans includes C$60m (31 December 2010 – C$117m) of Consumer Finance loans, for which impairment is assessed collectively. The collective allowance applicable to Consumer Finance loans was C$89m compared with C$148m at 31 December 2010. The total collective allowance was C$332m compared with C$400m at 31 December 2010.

Total customer accounts of C$45.5bn at 30 June 2011 were unchanged from 31 December 2010.

Debt securities in issue increased to C$15.3bn at 30 June 2011 from C$14.8bn at 31 December 2010, primarily due to an increase in wholesale term deposits.

Total assets under administration

Funds under management were C$31.3bn at 30 June 2011, a C$0.2bn decrease since 31 December 2010 and a C$3.4bn increase compared with 30 June 2010. Including custody and administration balances, total assets under administration were C$32.3bn compared with C$32.8bn at 31 December 2010 and C$29.4bn at 30 June 2010.

Non-IFRS Measures

IFRS and related non-IFRS measures used in the MD&A

The bank uses both IFRS and certain non-IFRS financial measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures that have been adjusted to a basis other than IFRS do not have a standardized meaning under IFRS and are therefore unlikely to be comparable to similar measures used by other companies. The following outlines various non-IFRS measures that are regularly monitored by management:

Return on average common equity – Profit attributable to common shareholders on an annualized basis divided by average common equity, which is calculated using month-end balances of common equity for the period.

Post-tax return on average assets – Profit attributable to common shareholders on an annualized basis divided by average assets, which is calculated using average daily balances for the period.

Post-tax return on average risk weighted assets – Profit attributable to common shareholders on an annualized basis 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 II capital adequacy framework.

Cost efficiency ratio – Calculated as total operating expenses for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.

Adjusted cost efficiency ratio – Cost efficiency ratio adjusted to exclude gains and losses from financial instruments designated at fair value from net operating income before loan impairment charges and other credit risk provisions and intra-group recoveries from HSBC Group entities from both net operating income before loan impairment charges and other credit risk provisions and total operating expenses. For purposes of this adjusted ratio, intra-group revenues and expenses, which are reported on a gross basis in "other operating income" and "general and administrative expenses" in our consolidated financial statements, are reflected on a net basis, consistent with our reporting to our Parent.

Net interest income, net fee income and net trading income as a percentage of total operating income – Net interest income, net fee income and net trading income for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.

Ratio of customer advances to customer accounts – Loans and advances to customers divided by customer accounts, using period-end balances.

Average total shareholders' equity to average total assets – average shareholders' equity is calculated using month-end balances of total shareholders' equity for the period and average total assets are calculated using average daily balances for the period.

Review of Customer Group Results

Profit before income tax expense

	Quarter ended			Half-year ended	
	30 June 2011	30 June 2010	31 March 2011	**30 June 2011**	30 June 2010
Retail Banking and Wealth Management	**48**	24	14	**62**	37
Commercial Banking	**149**	143	137	**286**	296
Global Banking and Markets	**60**	77	72	**132**	126
Consumer Finance	**15**	25	8	**23**	42
Other	**2**	13	(8)	**(6)**	5
	274	282	223	**497**	506

Retail Banking and Wealth Management[1]

Overview

The Retail Banking and Wealth Management business continued to focus on becoming the leading international premium bank in Canada, offering our premium customers global connectivity through innovative products, providing them access to emerging market exposure and deepening our relationships with them through proposition based product packages and pricing.

Profit before income tax expense was C$48m for the second quarter of 2011, compared with C$24m for the second quarter of 2010 and C$14m in the first quarter of 2011. On a year-to-date basis, profit before income tax expense was C$62m in 2011, compared with C$37m in 2010. The current quarter's results include a recovery of fees from an HSBC Group affiliate with respect to prior years of C$28m, partially offset by a C$7m write-off of internally-developed software costs, while the second quarter 2010 results included a $7m recovery of previously recorded losses on non-bank ABCP. When excluding the impact of these items, the increase in quarterly and year-to-date profit is mainly due to strong sales and higher client trading volumes in the wealth management business, lower loan impairment charges due to a release of collective impairment provisions resulting from improved credit quality, and higher net interest income resulting from a re-pricing initiative and higher loan fees. These were partially offset by an increase in operating expenses resulting from higher pension and benefit costs, combined with certain restructuring costs incurred.

Financial performance

Net interest income was C$107m, an increase of C$9m, or 9.2%, compared to the second quarter of 2010 and C$13m, or 13.8%, higher than the first quarter of 2011. On a year-to-date basis, net interest income was C$201m in 2011, an increase of C$6m, or 3.1%, compared to 2010. The increases were primarily due to the re-pricing of High Rate and HSBC Advance Savings Accounts, higher mortgage penalty fees and higher revenues related to customer balances in the securities business, partially offset by lower volumes and higher funding costs.

Net fee income was C$66m, an increase of C$4m, or 6.5%, compared to the second quarter of 2010, primarily due to higher revenues from the wealth management business resulting from stronger sales and an increase in the assets under management portfolios, and lower interbank clearing fees. These were partially offset by a decrease in brokerage commissions due to lower new issue trades and trading volumes, and lower net revenues from the Global Investor Immigration Services ("GIIS") program. Lower brokerage commissions and GIIS revenues, partially offset by higher fees from funds under management and service charges, resulted in a decrease in net fee income of C$4m, or 5.7%, compared to the first quarter of 2011. On a year-to-date basis, net fee income was C$136m in 2011, an increase of C$14m, or 11.5%, compared to 2010, primarily due to higher revenues from the wealth management business, which were partially offset by a decrease in net revenues from GIIS, and lower trustee fees and service charges.

1 *In November 2010, our parent company announced that, with effect from March 2011, within the context of the customer group/global business view of HSBC Group's performance, Retail Banking and Wealth Management would be managed as a single customer group. The business comprises the former Personal Financial Services, together with Global Asset Management being transferred from Global Banking and Markets to this new single business. Commentary in this MD&A related to Retail Banking and Wealth Management reflects the change in structure, and all prior periods presented have been restated on that basis.*

Review of Customer Group Results (continued)

Net trading income was C$4m, a decrease of C$9m, or 69.2%, compared to the second quarter of 2010, and C$2m, or 33.3%, lower than the first quarter of 2011. On a year-to-date basis, net trading income was C$10m, a decrease of C$9m, or 47.4%, compared to 2010. When compared to the prior year, the primary reason for the variances was the C$7m recovery of previously recorded losses on ABCP that was recorded in 2010.

Loan impairment charges and other credit risk provisions of C$4m were C$3m, or 42.9%, lower compared to the second quarter of 2010, and C$2m higher than the first quarter of 2011. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$6m in 2011, a decrease of C$9m, or 60%, compared to 2010 due to a release of collective impairment provisions as a result of lower volumes and delinquencies and improved credit quality.

Total operating expenses were C$127m, a decrease of C$18m, or 12.4% compared to the second quarter of 2010, mainly due to the above-noted fee recovery from an HSBC Group affiliate, partially offset by the software write-off. Excluding these items, total operating expenses were C$3m higher than the same period in 2010, primarily due to certain restructuring costs incurred, but were C$8m lower than in the first quarter of 2011 primarily due to lower staff costs and commission expenses. On a year-to-date basis, total operating expenses were C$283m in 2011, a decrease of C$6m, or 2.1%, compared to 2010. Excluding the fee recovery and software write-off, total operating expenses increased by C$15m compared to the prior year-to-date period, primarily due to higher staff costs related to pension and benefits and the restructuring costs incurred.

Commercial Banking

Overview

The Commercial Banking business continued to focus on its position as the Best Bank for Small Business through our Business Direct strategy and as the Leading International Bank for business by continuing to strengthen our cross border capabilities, particularly through our investment to grow our presence in Central and Eastern Canada.

Profit before income tax expense was C$149m for the second quarter of 2011, compared with C$143m for the second quarter of 2010 and C$137m in the first quarter of 2011. On year-to-date basis, profit before income tax expense was C$286m, compared with C$296m in 2010. The current quarter's results include a recovery of fees from an HSBC Group affiliate with respect to prior years of C$17m, partially offset by a C$1m write-off of internally-developed software costs, while the second quarter 2010 results included a C$7m recovery of previously recorded losses on non-bank ABCP. When excluding the impact of these items, the decrease in quarterly profit is mainly due to a charge for a decline in the fair value of certain investment properties of C$17m in the second quarter of 2011 and lower loan volumes, partially offset by a decrease in loan impairment charges. In addition to the C$17m charge related to investment properties, the decrease in profit on a year-to-date basis was due to lower loan volumes resulting from the slow pace of the global economic recovery and continued client deleveraging, and higher operating expenses resulting from investments in our business and certain restructuring costs. These were partially offset by lower loan impairment charges due to lower individually assessed impairment charges and a release of the collective impairment resulting from improved credit quality and lower loan volumes.

Financial performance

Net interest income was C$177m, a decrease of C$13m, or 6.8%, compared to the second quarter of 2010. Net interest income decreased as loan volumes declined by 7.2% due to client deleveraging, partially offset by growth in deposits. Net interest income was C$4m, or 2.3%, higher than the first quarter of 2011, primarily due to a recovery of unpaid interest. On a year-to-date basis, net interest income was C$350m in 2011, a decrease of C$34m, or 8.9%, compared to 2010, primarily due to decreased loan volumes resulting from reduced customer demand, lower margins on deposits and increased term funding costs.

Net fee income was C$67m for the second quarter of 2011, an increase of C$4m, or 6.3%, compared to the second quarter of 2010. Net fee income decreased by C$2m, or 2.9%, compared to the first quarter of 2011 due to lower income from banker's acceptances and letters of guarantee. On a year-to-date basis, net fee income was C$136m in 2011, an increase of C$16m, or 13.3%, compared to 2010. The increases in net fee income compared to the same periods in 2010 were primarily due to higher income from banker's acceptances, letters of guarantee and stand-by commitments, due to increased volumes, partially offset by lower account service charges due to lower customer account activity.

Other operating income for the second quarter of 2011 includes a C$17m charge resulting from a decrease in the fair value of certain investment properties.

Review of Customer Group Results (continued)

Loan impairment charges and other credit risk provisions decreased by C$32m, or 84.2%, to C$6m compared to the second quarter of 2010 and decreased by C$11m, or 64.7%, compared to the first quarter of 2011. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$23m in 2011, a decrease of C$46m, or 66.7%, compared to 2010. A decrease in the loan portfolio, improved credit quality, and a reduction in non-performing loans resulted in reduced levels of individually assessed impairment charges, primarily in the energy, wholesale and retail trade sectors and a release of collectively assessed impairments due to improvements in credit quality and lower loan volumes.

Total operating expenses were C$80m, a decrease of C$6m, or 7.0%, compared with the second quarter of 2010, primarily due to the fee recovery noted above. On a year-to-date basis, total operating expenses were C$176m in 2011, an increase of C$12m, or 7.3%, compared to 2010. Excluding the fee recovery, total operating expenses for the quarter increased by C$11m compared to the second quarter of 2010, by C$1m compared to the first quarter of 2011 and by C$29m on a year-to-date basis. The increases were primarily due to investments in our business in Central and Eastern Canada, including personnel and marketing, and certain restructuring costs incurred.

Global Banking and Markets[2]

Overview

The Global Banking and Markets business continued to focus on becoming the International Bank of choice by building a client-driven franchise serving the global needs of our core clients, delivering global products to Canadian clients and Canadian products to global clients.

Profit before income tax expense was C$60m for the second quarter of 2011, compared with C$77m for the second quarter of 2010 and C$72m in the first quarter of 2011. On a year-to-date basis, profit before income tax expense was C$132m in 2011, compared with C$126m in 2010. The current quarter's results include a C$2m recovery of fees from an HSBC Group affiliate with respect to prior years, while the second quarter 2010 results included a C$7m recovery of previously recorded losses on non-bank ABCP. When excluding the impact of these items, the decrease in quarterly profit was due to lower mark-to-market accounting gains related to hedging activities and an increase in operating expenses. The increase in year-to-date profit was mainly attributable to higher net interest income from the positive impact from increases in Bank of Canada interest rates, an increase in foreign exchange trading revenue, and gains from the disposal of certain financial investments, partially offset by decreases in advisory fees and mark-to-market accounting gains.

Financial performance

Net interest income was C$40m, a decrease of C$2m, or 4.8%, from the second quarter of 2010, and C$9m, or 18.4% lower than the first quarter of 2011. On a year-to-date basis, net interest income was C$89m in 2011, an increase of C$26m, or 41.3%, compared to 2010. This reflects the increase in the Bank of Canada interest rates, the benefit of higher available-for-sale asset balances and higher client spreads related to wholesale deposits, enhanced pricing on maturing loans and increased yields on assets.

Net fee income was C$19m, an increase of C$1m, or 5.6%, compared to the second quarter of 2010, due to an increase in capital markets fees. Net fee income was C$5m, or 35.7% higher than the first quarter of 2011, mainly due to an increase in capital market transactions and credit fees from increased client activities. On a year-to-date basis, net fee income was C$33m in 2011, a decrease of C$6m, or 15.4%, compared to 2010, reflecting lower advisory fees, which were partially offset by an increase in capital markets fees.

Net trading income was C$23m, a decrease of C$10m, or 30.3%, compared to the second quarter of 2010. The decrease was attributable to lower mark-to-market accounting gains related to hedge ineffectiveness and non-qualifying hedge valuation variances in the current period and the C$7m recovery, in the second quarter of 2010, of previously recorded losses on non-bank ABCP. Net trading income was C$2m, or 9.5%, higher than the first quarter of 2011, mainly due to increases in foreign exchange revenues due to strong customer activities. On a year-to-date basis, net trading income was C$44m in 2011, a decrease of C$12m, or 21.4%, compared to 2010 due to the recovery of non-bank ABCP losses in 2010 and lower mark-to-market accounting gains in 2011, partially offset by an increase in foreign exchange trading revenues.

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2 *The prior period results for Global Banking and Markets have been restated to reflect the transfer of the Global Asset Management business, as discussed in the Retail Banking and Wealth Management section.*

Review of Customer Group Results (continued)

Gains from financial investments of C$4m from the disposal of assets held as available-for-sale were realized in the second quarter of 2011, which was a C$1m decrease from the second quarter of 2010 and C$12m, or 75.0%, lower than the first quarter of 2011. On a year-to-date basis, gains from financial investments were C$20m in 2011, compared to C$8m in 2010. As a result of favourable market conditions, in the first quarter of 2011 a portfolio of preferred shares was sold for a gain of C$6m and, in addition, gains of C$14m were recognized on the sale of certain government and bank debt securities in the first and second quarters of 2011.

Loan impairment charges and other credit risk provisions were nil in the current quarter, prior quarter and the year-to-date period. A net recovery of C$1m was recorded in the second quarter of 2010 and C$3m for the year-to-date period, due to a release of collective impairment charges in those periods as a result of improved credit quality.

Total operating expenses were C$27m, an increase of C$4m, or 17.4%, compared to the second quarter of 2010, and C$2m, or 6.9%, lower than the first quarter of 2011. On a year-to-date basis, total operating expenses were C$56m in 2011, an increase of C$11m, or 24.4%, compared to 2010. The increase reflects certain restructuring costs incurred and an increase in branch operating cost allocations.

Consumer Finance

Overview

The primary focus of the Consumer Finance business continues to be the improvement of the sales force's productivity and managing risk and credit quality.

Profit before income tax expense was C$15m for the second quarter of 2011, compared with C$25m for the second quarter of 2010 and C$8m in the first quarter of 2011. On a year-to-date basis, profit before income tax expense was C$23m in 2011, compared to C$42m in 2010. The decline in quarterly and year-to-date profit was primarily due to a decrease in net interest income as a result of lower average receivables and a C$1m write-off of internally-developed software costs, partially offset by a decrease in loan impairment charges and a C$3m reversal of an impairment loss on available-for-sale investments recorded in the second quarter of 2011. In addition, the 2010 results included C$5m in income from the sale of certain insurance annuities in the second quarter.

Financial performance

Net interest income was C$69m, a decrease of C$12m, or 14.8%, compared with C$81m for the second quarter of 2010 and C$1m lower than the first quarter of 2011. On a year-to-date basis, net interest income was C$139m in 2011, a decrease of C$25m, or 15.2% compared to 2010. Average receivables declined by approximately C$0.5bn, or 15.8%, resulting in lower net interest income in the second quarter of 2011 and on a year-to-date basis compared with the same periods in 2010. The decline is primarily due to lower private label credit card and consumer lending receivables and the run-off from certain liquidating portfolios.

Net fee income was C$10m, a decrease of C$5m, or 33.3%, compared to the second quarter of 2010, mainly due to the insurance annuity income in 2010, as noted above. Net fee income was unchanged compared to the first quarter of 2011. On a year-to-date basis, net fee income was C$20m in 2011, a decrease of C$3m, or 13.0%, compared to 2010, also due to the insurance annuity income in 2010, partially offset by higher credit card interchange income, emanating from higher credit card transaction volumes in 2011.

Loan impairment charges and other credit risk provisions were C$21m, a decrease of C$7m, or 25%, compared to the second quarter of 2010 and C$9m, or 30.0%, lower than the first quarter of 2011. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$51m in 2011, a decrease of C$9m, or 15.0%, compared to 2010. The decrease in loan impairment charges was primarily due to lower receivables and delinquencies as a result of improved market conditions and a continued focus on improving the credit quality of the portfolios. In addition, the second quarter 2011 results include a C$3m reversal of a previously recorded impairment loss relating to credit risk on certain available-for-sale investments.

Total operating expenses were C$44m, an increase of C$1m, or 2.3%, compared to the second quarter of 2010, and C$1m, or 2.3%, higher than the first quarter of 2011. On a year-to-date basis, total operating expenses were C$87m in 2011, an increase of C$2m, or 2.4%, compared to 2010. The increase in total operating expenses was primarily due to higher marketing costs and the write-off of internally-developed software costs, partially offset by lower staff costs.

Review of Customer Group Results (continued)

Other

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include gains and losses from financial instruments designated at fair value and revenue and expense recoveries related to information technology activities performed on behalf of the HSBC Group companies. Profit before income tax expense of C$2m was recorded in Other in the second quarter of 2011, compared to profit of C$13m in the second quarter of 2010 and a loss of C$8m in the first quarter of 2011. On a year-to-date basis, a loss before income tax expense of C$6m was recorded in 2011, compared to income of C$5m in 2010. The variances are due to the impact of changes in the fair value of financial instruments designated at fair value.

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The most important risk categories that we are exposed to include capital management, credit, liquidity and funding, market, structural, and operational risks. A discussion of our risk management activities including both quantitative and qualitative factors is included on pages 26 to 47 of our 2010 Annual Report and Accounts. Unless stated, there have been no changes in our processes and no material changes in quantitative factors during the first half of 2011.

Capital Management

	30 June 2011	31 December 2010[1]
Total Tier 1 Capital	**4,605**	4,544
Total Tier 2	**919**	934
Total Tier 1 and Tier 2 capital available for regulatory purposes	**5,524**	5,478
Total risk-weighted assets	**34,633**	34,152
Actual regulatory capital ratios		
Tier 1 capital	**13.3%**	13.3%
Total capital	**16.0%**	16.0%
Actual assets to capital multiple	**13.8x**	13.3x
Minimum regulatory capital ratios required		
Tier 1 capital	**7.0 %**	7.0 %
Total capital	**10.0 %**	10.0 %

1 *Calculated based on Canadian GAAP. See "Transition to IFRS" on page 16 for a discussion of the impact of IFRS on the bank's regulatory capital.*

Impaired loans

The following table provides details of the impaired loan portfolio:

	30 June 2011	31 December 2010
Personal		
Residential mortgages	**111**	116
Other personal	**41**	35
	152	151
Consumer finance loans	**60**	117
Corporate and commercial	**506**	530
Acceptances and letters of credit	**65**	60
Total impaired loans and acceptances	**783**	858
Impairment allowance		
Individually assessed	**203**	227
Collectively assessed	**332**	400
Total impairment allowance	**535**	627
Net impaired loans and acceptances	**248**	231

Risk Management (continued)

Credit Ratings

Standard & Poor's ("S&P") and DBRS® maintain credit ratings of our debt and securities. The ratings are made within the rating agencies' normal classification system for each type of debt or security. Our credit ratings influence our ability to secure cost-efficient wholesale funding.

Investment grade ratings are unchanged from 2010 and remain among the highest assigned to the Canadian banks.

The bank's current ratings are as follows:

	S&P	DBRS
Short-term instruments	A-1+	R-1 (high)
Deposits and senior debt	AA	AA
Subordinated debt	AA-	AA (low)
Preferred shares	P-1 (Low)[1]	Pfd-2 (high)
HSBC Canada Asset Trust Securities (HSBC HaTS™)	P-1 (Low)[1]	A (low)

1 *Based on S&P's Canadian national preferred share scale. Ratings are 'A' on S&P's global preferred share scale.*

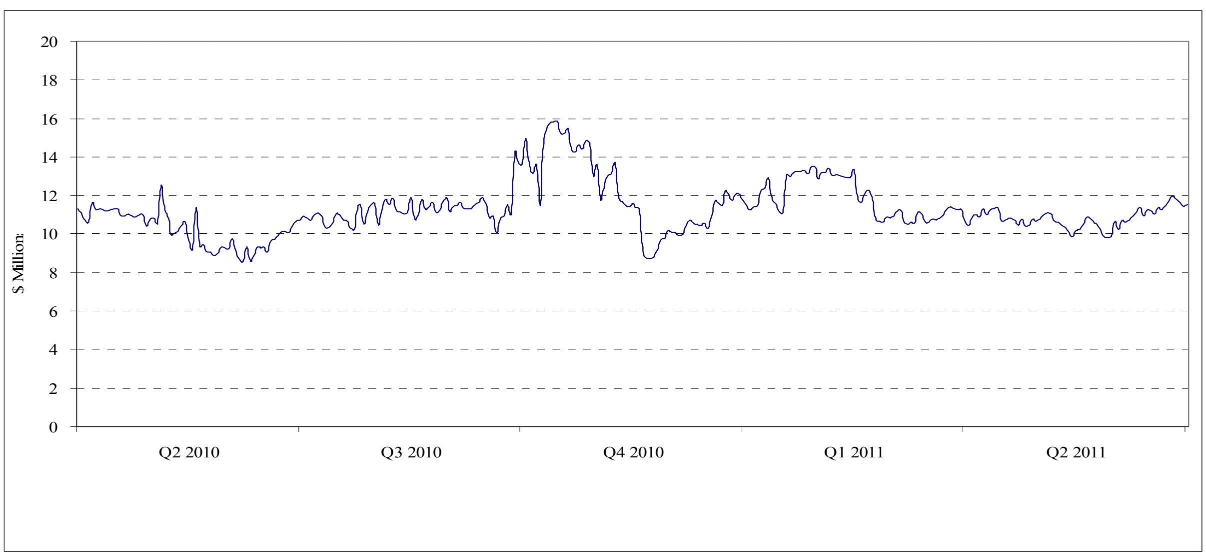
Value at Risk ("VaR")

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Information in connection with VaR is included in our 2010 Annual Report and Accounts on pages 44 and 45.

VaR disclosed in the table and graph below is the bank's total VaR for both trading and non-trading financial instruments and is within the bank's limits.

	Quarter ended	
	30 June 2011	31 December 2010
End of quarter	**12**	12
Average	**11**	12
Minimum	**10**	9
Maximum	**12**	16

Daily VaR



Transition to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board previously announced that for fiscal years commencing on or after 1 January 2011, all publicly accountable enterprises will be required to report financial results in accordance with IFRS. The purpose of adopting IFRS is to promote the comparability of world-wide financial reporting. Accordingly, all interim and annual financial reporting, including comparative figures for the bank, will be prepared in accordance with IFRS from 1 January 2011 onwards.

Pages 18 to 22 of our 2010 Annual Report and Accounts contained a discussion of the key elements of our implementation plan including: our project governance structure, implementation strategy, and the expected impact on our financial reporting and accounting policies. HSBC Holdings plc, our ultimate parent, adopted IFRS in 2005. Accordingly, for a number of years we have reported our results on an IFRS basis for inclusion in the HSBC Group's consolidated financial results, and, as a result, the impact on our business activities, financial processes and information systems, and internal controls was not significant.

Upon transition to IFRS, we have, where possible, adopted the accounting policies used by entities reporting under IFRS within the HSBC Group. These policies were disclosed in note 2 and 3 to the consolidated financial statements included in the First Quarter 2011 Interim Report. We have also changed our reporting format to be similar to other entities reporting under IFRS within the HSBC Group. Note 16 to the accompanying consolidated financial statements contains an explanation of the significant presentational reclassifications and reconciliations between the new reporting format and the previous format under Canadian GAAP for the quarter and the half-year ended 30 June 2010.

The transition to IFRS has not affected the bank's net cash flows or the underlying economics of the business, though the presentation of certain items in the statement of financial position and income statement are now changed. An explanation of how the transition to IFRS has affected our reported financial position, equity and financial performance was provided in note 17 to the consolidated financial statements included in the First Quarter 2011 Interim Report. This included a discussion of the transitional elections and exemptions under IFRS 1 and the following reconciliations as at the date of transition, 1 January 2010, and for the comparative periods of 31 March 2010 and 31 December 2010:

- net income as previously reported under Canadian GAAP to profit for the period reported under IFRS;
- total comprehensive income as previously reported under Canadian GAAP to total comprehensive income for the period reported under IFRS;
- total shareholders' equity as previously reported under Canadian GAAP to total equity under IFRS;
- reconciliations from Canadian GAAP to IFRS, including a reconciliation to the new presentation format under IFRS of the income statements and statements of financial position.

Note 16 to the accompanying consolidated financial statements includes the above reconciliations for the current comparative periods at 30 June 2010.

The net impact of the adoption of IFRS on our opening shareholders' equity at the transition date of 1 January 2010 was a decrease of C$146m, primarily resulting from changes in accounting for securitized mortgages and employee defined benefit plans. In addition, non-controlling interests of C$430m, which was presented outside of shareholders' equity under Canadian GAAP has been reclassified as a component of total equity under IFRS. Total assets were C$7.4bn higher, primarily due to the recognition of securitized mortgages that were derecognized from the balance sheet under Canadian GAAP.

The restated profit for the period for the second quarter of 2010 was C$200m on an IFRS basis, which is an increase of C$33m compared to the net income previously reported under Canadian GAAP of C$167m. For the half-year ended 30 June 2010, the restated profit for the period was C$354m, an increase of C$88m compared to the net income previously reported under Canadian GAAP of C$266m. The most significant differences between Canadian GAAP and IFRS affecting the profit for the restated and future periods are related to the change in accounting for securitized mortgages and the associated swap transactions, which were marked-to-market under Canadian GAAP but are not required to be recognized under IFRS because the assets and risk are consolidated within our financial results, and foreign exchange translation gains and losses on available-for-sale financial assets, which were recorded in other comprehensive income under Canadian GAAP but are recorded in income under IFRS.

Transition to International Financial Reporting Standards ("IFRS") (continued)

Impact of IFRS on our capital adequacy requirements

The transition to IFRS did not have a material effect on the bank's regulatory capital. The regulatory capital ratios at 31 December 2010 presented on page 13 were calculated on a Canadian GAAP basis. On an IFRS basis, the bank's Tier 1 regulatory capital ratio at 31 December 2010 would have declined from 13.3% on a Canadian GAAP basis to 13.0% on an IFRS basis and the total regulatory capital ratio would have declined from 16.0% to 15.8%. We have decided not take advantage of OSFI's relief provisions to phase in the impact of IFRS in the calculation of regulatory capital on a straight-line basis over eight quarters from 1 January 2011 to 31 December 2012, as the transition did not have a material impact on our regulatory capital.

OSFI has also provided transitional provisions for the asset-to-capital multiple ("ACM"), which allows for the exclusion of assets securitized and sold through Canada Mortgage and Housing Corporation sponsored programs prior to 1 April 2010 from the calculation of ACM. We have decided to take advantage of this relief provision. As at 31 December 2010, including the impact of the transitional provision, the ACM would have increased from 13.3 on a Canadian GAAP basis to 13.6 on an IFRS basis (14.8 excluding the impact of the transitional provision). As at 30 June 2011, the ACM was 13.8 including the impact of the transitional provision and would have been 15.1 excluding the impact of the transitional provision.

Significant Accounting Policies and Critical Accounting Estimates

Accounting policies and critical accounting estimates

These unaudited interim consolidated financial statements have been prepared in accordance with IFRS. For a summary of the bank's significant accounting policies under IFRS, refer to note 2 of the consolidated financial statements included in the First Quarter 2011 Interim Report. The key assumptions and bases for estimates that are made under IFRS, and their impact on the amounts reported in the unaudited interim consolidated financial statements and notes, are summarized in note 3 of the consolidated financial statements included in the First Quarter 2011 Interim Report.

Future changes in accounting policies

At 30 June 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are effective for annual periods beginning on or after 1 January 2012. Those which are expected to have a significant effect on the bank's consolidated financial statements are discussed in note 1(f) of the accompanying consolidated financial statements. We do not expect the IASB to issue any new or revised accounting standards requiring adoption during 2011.

Other Information

Related party transactions

Related party transaction policies and practices are unchanged from those outlined on pages 24 and 25 of the 2010 Annual Report and Accounts. All transactions with related parties continue to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value. Transactions with related parties are detailed in note 14 to the accompanying consolidated financial statements.

Financial instruments, including arrangements not reflected on the Statement of Financial Position ("off-balance sheet arrangements")

During the normal course of business, the bank makes extensive use of financial instruments including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instrument contracts. The most significant off-balance sheet arrangements are guarantees and letters of credit, and derivatives, which were described on page 23 of the 2010 Annual Report and Accounts. Although the notional values of these financial instruments are not recorded on the statement of financial position, derivatives, guarantees and letters of credit are recorded at fair value. In addition, in certain circumstances, the bank provides guarantees and letters of credit facilities to borrowers. There have been no changes in the basis of calculating the fair value of financial instruments from 31 December 2010, and there have been no significant changes in the fair value of financial instruments that arose from factors other than normal economic, industry and market conditions. For financial instruments, including derivatives, valued using significant non-observable market inputs (level 3), assumptions and methodologies used in our models are continually reviewed and revised to arrive at better estimates of fair value.

Outstanding shares and securities

	At 28 July 2011	
	Number	***Amount***
HSBC Canada Asset Trust Securities (HSBC HaTS™)[1]		
- Series 2015[2]	200,000	200
Preferred Shares – Class 1		
- Series C[3]	7,000,000	175
- Series D[4]	7,000,000	175
- Series E[5]	10,000,000	250
Preferred Shares – Class 2		
- Series B[6]	86,450,000	346
		946
Common shares		
HSBC Bank Canada	498,668,000	1,225

1 *Reported in non-controlling interest in trust and subsidiary in the Consolidated Statement of Financial Position.*

2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*

3 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*

4 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*

5 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.4125 per share.*

6 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.0775 per share.*

During the second quarter of 2011, the bank declared and paid C$75m in dividends on HSBC Bank Canada common shares, compared with C$65m in the same period in 2010. The bank declared and paid C$150m in common share dividends during the half-year ended 30 June 2011 compared with C$140m in the same period in 2010.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, 31.25 cents per share on Class 1 Preferred Shares – Series D, 41.25 cents per share on Class 1 Preferred Shares – Series E and 7.75 cents per share on Class 2 Preferred Shares – Series B. Dividends will be paid on 30 September 2011, for shareholders of record on 15 September 2011.

Other Information (continued)

Further details regarding features of the bank's securities and shares, including certain restrictions regarding distributions payable for HSBC HaTS, are disclosed in notes 10 and 12 of the 2010 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares for the remainder of 2011, subject to approval by the Board, are:

2011	
Record Date	Payable Date
15 September	30 September
15 December	31 December

The payable dates for HSBC HaTS distributions in 2011 is 31 December 2011.

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at the bank and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2011 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the design and effectiveness of disclosure controls and procedures as well as the design and effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The CEO and CFO have signed certifications relating to the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 June 2011, and their responsibility for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 30 June 2011 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's Audit Committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in the Management's Discussion and Analysis in the 2010 Annual Report and Accounts, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Regulatory filings

The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's web site at www.hsbc.ca, and on the Canadian Securities Administrators' web site at www.sedar.com.

Second Quarter 2011 Consolidated Financial Statements and Notes (Unaudited)

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Consolidated Financial Statements (Unaudited)

Notes on the Consolidated Financial Statements (Unaudited)

Consolidated Financial Statements (Unaudited)

Consolidated income statement (Unaudited)

		Quarter ended			Half-year ended	
		30 June 2011	30 June 2010	31 March 2011	**30 June 2011**	30 June 2010
	Notes	**$m**	$m	$m	**$m**	$m
Interest income		**595**	576	607	**1,202**	1,146
Interest expense		**(205)**	(166)	(225)	**(430)**	(342)
Net interest income		**390**	410	382	**772**	804
Fee income		**183**	181	183	**366**	347
Fee expense		**(21)**	(23)	(20)	**(41)**	(43)
Net fee income		**162**	158	163	**325**	304
Trading income excluding net interest income		**30**	59	36	**66**	90
Net interest income on trading activities		**6**	2	1	**7**	7
Net trading income		**36**	61	37	**73**	97
Net gain/(loss) from financial instruments designated at fair value		**2**	13	(8)	**(6)**	5
Gains less losses from financial investments		**4**	5	16	**20**	8
Other operating income		**25**	43	40	**65**	85
Net operating income before loan impairment charges and other credit risk provisions		**619**	690	630	**1,249**	1,303
Loan impairment charges and other credit risk provisions	3	**(31)**	(72)	(49)	**(80)**	(141)
Net operating income		**588**	618	581	**1,169**	1,162
Employee compensation and benefits		**(208)**	(190)	(208)	**(416)**	(370)
General and administrative expenses		**(84)**	(130)	(137)	**(221)**	(257)
Depreciation of property, plant and equipment		**(9)**	(10)	(10)	**(19)**	(20)
Amortization and impairment of intangible assets		**(14)**	(6)	(4)	**(18)**	(9)
Total operating expenses		**(315)**	(336)	(359)	**(674)**	(656)
Operating profit		**273**	282	222	**495**	506
Share of profit in associates		**1**	–	1	**2**	–
Profit before income tax expense		**274**	282	223	**497**	506
Income tax expense		**(66)**	(82)	(63)	**(129)**	(152)
Profit for the period		**208**	200	160	**368**	354
Profit attributable to common shareholders		**191**	178	142	**333**	311
Profit attributable to preferred shareholders		**15**	15	15	**30**	30
Profit attributable to shareholders		**206**	193	157	**363**	341
Profit attributable to non-controlling interests		**2**	7	3	**5**	13
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668	**498,668**	498,668
Basic earnings per common share		**$ 0.38**	$ 0.36	$ 0.28	**$ 0.67**	$ 0.62

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of comprehensive income (Unaudited)

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Profit for the period	**208**	200	160	**368**	354
Other comprehensive income/(expense)					
Available-for-sale investments	**43**	44	(31)	**12**	26
– fair value gains/(losses)	**63**	67	(26)	**37**	45
– fair value gains transferred to income statement on disposal	**(4)**	(5)	(16)	**(20)**	(8)
– income taxes	**(16)**	(18)	11	**(5)**	(11)
Cash flow hedges	**72**	54	(56)	**16**	22
– fair value gains/(losses)	**99**	77	(80)	**19**	31
– income taxes	**(27)**	(23)	24	**(3)**	(9)
Actuarial gains/(losses) on defined benefit plans	**(8)**	(25)	6	**(2)**	(40)
– before income taxes	**(10)**	(34)	13	**3**	(54)
– income taxes	**2**	9	(7)	**(5)**	14
Other comprehensive income/(expense) for the period, net of tax	**107**	73	(81)	**26**	8
Total comprehensive income for the period	**315**	273	79	**394**	362
Total comprehensive income for the period attributable to:					
– shareholders	**313**	266	76	**389**	349
– non-controlling interests	**2**	7	3	**5**	13
	315	273	79	**394**	362

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of financial position (Unaudited)

	Notes	**30 June 2011 $m**	30 June 2010 $m	31 December 2010 $m
ASSETS				
Cash and balances at central bank		**66**	78	79
Items in the course of collection from other banks		**187**	123	84
Trading assets	5	**5,336**	4,000	3,947
Derivatives	6	**1,510**	1,343	1,363
Loans and advances to banks		**4,873**	3,928	5,792
Loans and advances to customers	3	**45,548**	50,016	45,218
Financial investments	7	**17,928**	14,268	16,149
Other assets		**607**	314	567
Prepayments and accrued income		**206**	184	186
Customers' liability under acceptances		**4,954**	4,593	4,372
Interest in associates		**45**	41	43
Property, plant and equipment		**114**	126	123
Goodwill and intangible assets		**85**	99	94
Total assets		**81,459**	79,113	78,017
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**1,056**	1,152	999
Customer accounts		**45,522**	44,140	45,460
Items in the course of transmission to other banks		**232**	142	101
Trading liabilities	8	**4,254**	3,457	2,764
Financial liabilities designated at fair value	9	**1,001**	915	983
Derivatives	6	**1,304**	873	1,161
Debt securities in issue		**15,280**	16,556	14,816
Other liabilities		**1,890**	1,329	1,531
Acceptances		**4,954**	4,593	4,372
Accruals and deferred income		**517**	519	583
Retirement benefit liabilities		**261**	270	267
Subordinated liabilities		**321**	333	324
Total liabilities		**76,592**	74,279	73,361
Equity				
Preferred shares		**946**	946	946
Common shares		**1,225**	1,225	1,225
Other reserves		**225**	252	197
Retained earnings		**2,241**	1,981	2,058
Total shareholders' equity		**4,637**	4,404	4,426
Non-controlling interests		**230**	430	230
Total equity		**4,867**	4,834	4,656
Total equity and liabilities		**81,459**	79,113	78,017

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of cash flows (Unaudited)

		Quarter ended			Half-year ended	
		30 June 2011	30 June 2010	31 March 2011	**30 June 2011**	30 June 2010
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**274**	282	223	**497**	506
Adjustments for:						
– non-cash items included in profit before tax	11	**63**	91	71	**134**	176
– change in operating assets	11	**789**	(393)	(1,010)	**(221)**	(470)
– change in operating liabilities	11	**1,203**	(19)	256	**1,459**	(304)
– tax paid		**(73)**	(90)	(65)	**(138)**	(204)
Net cash from/(used in) operating activities		**2,256**	(129)	(525)	**1,731**	(296)
Cash flows from investing activities						
Purchase of financial investments		**(5,234)**	(66)	(4,507)	**(9,741)**	(1,575)
Proceeds from the sale and maturity of financial investments		**3,042**	222	4,932	**7,974**	365
Purchase of property, plant and equipment		**(9)**	8	(10)	**(19)**	(11)
Net cash (used in)/from investing activities		**(2,201)**	164	415	**(1,786)**	(1,221)
Cash flows from financing activities						
Subordinated liabilities repaid		**–**	–	–	**–**	(100)
Dividends paid to shareholders		**(90)**	(80)	(90)	**(180)**	(170)
Distributions to non-controlling interests		**(2)**	(7)	(3)	**(5)**	(13)
Net cash used in financing activities		**(92)**	(87)	(93)	**(185)**	(283)
Net decrease in cash and cash equivalents		**(37)**	(52)	(203)	**(240)**	(1,800)
Cash and cash equivalents at the beginning of the period		**6,477**	4,223	6,680	**6,680**	5,971
Cash and cash equivalents at the end of the period	11	**6,440**	4,171	6,477	**6,440**	4,171

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the half-year ended 30 June 2011 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	2,171	2,058	81	116	197	4,426	230	4,656
Profit for the period	–	363	–	–	–	363	5	368
Other comprehensive income (net of tax)	–	(2)	12	16	28	26	–	26
Available-for-sale investments	–	–	12	–	12	12	–	12
Cash flow hedges	–	–	–	16	16	16	–	16
Actuarial gains/(losses) on defined benefit plans	–	(2)	–	–	–	(2)	–	(2)
Total comprehensive income for the period	–	361	12	16	28	389	5	394
Dividends to shareholders	–	(180)	–	–	–	(180)	–	(180)
Distributions to unit holders	–	–	–	–	–	–	(5)	(5)
Other movements	–	2	–	–	–	2	–	2
At 30 June	2,171	2,241	93	132	225	4,637	230	4,867

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the half-year ended 30 June 2010 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	2,171	1,842	59	146	205	4,218	430	4,648
Profit for the period	–	341	–	–	–	341	13	354
Other comprehensive income (net of tax)	–	(40)	26	22	48	8	–	8
Available-for-sale investments	–	–	26	–	26	26	–	26
Cash flow hedges	–	–	–	22	22	22	–	22
Actuarial gains/(losses) on defined benefit plans	–	(40)	–	–	–	(40)	–	(40)
Total comprehensive income for the period	–	301	26	22	48	349	13	362
Dividends to shareholders	–	(170)	–	–	–	(170)	–	(170)
Distributions to unit holders	–	–	–	–	–	–	(13)	(13)
Other movements	–	8	(1)	–	(1)	7	–	7
At 30 June	2,171	1,981	84	168	252	4,404	430	4,834

Notes on the Consolidated Financial Statements (Unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("the Parent", "HSBC"). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies. From 1 January 2011, the bank has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs").

IFRSs comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

These consolidated financial statements of the bank and its subsidiaries have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' and IFRS 1 'First-Time Adoption of International Financial Reporting Standards' ("IFRS 1") has been applied.

In accordance with IFRSs, the bank has:

- provided comparative financial information;
- retrospectively applied all IFRSs, other than in respect of elections taken under IFRS 1;
- applied all mandatory exceptions as applicable for first-time adopters of IFRSs; and
- elected to align our reporting under IFRSs with the reporting to our Parent for consolidation purposes, as permitted by IFRS 1.

Prior to 2011, the bank's annual consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRSs. To comply with IFRSs, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements. Note 16 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position and income statement.

These interim financial statements should be read in conjunction with the bank's 2010 annual financial statements and the transitional disclosures in the bank's financial statements as at and for the three months ended 31 March 2011 including the opening balance sheet and related transitional disclosures.

(b) Presentation of information

The bank's consolidated financial statements are presented in Canadian dollars which is also its functional currency. The abbreviations "$m" represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

(c) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described in Note 3 of the interim financial statements as at and for the three months ended 31 March 2011.

(d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 June 2011. Subsidiaries are consolidated from the date the bank gains control. The acquisition method of accounting is used when subsidiaries are acquired by the bank. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities

Notes on the Consolidated Financial Statements (Unaudited) (continued)

and contingent liabilities are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregation of the consideration transferred, the amount on non-controlling interest and the fair value of the acquirer's previously held equity interest, if any, over the net of the amounts of identifiable assets acquired and liabilities assumed. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the bank are consolidated until the date that control ceases.

In the context of Special Purpose Entities ('SPE'), the following circumstances may indicate a relationship which, in substance, the bank controls and consequently consolidates a SPE:

- the activities of the SPE are being conducted on behalf of the bank according to its specific business needs so that the bank obtains the benefits from the SPE's operation;
- the bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the bank has delegated these decision-making powers;
- the bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- the bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The bank performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the bank and a SPE.

All inter-company transactions and balances are eliminated on consolidation.

The consolidated financial statements of the bank also include the attributable share of the results and reserves of associates.

In accordance with IFRS 1, the bank has chosen not to restate business combinations that took place prior to 1 January 2004, the date of transition to IFRS of its Parent.

(e) Changes in accounting policy during 2010

The bank adopted the revised IFRS 3 'Business Combinations' ("IFRS 3") and amendments to IAS 27 'Consolidated and Separate Financial Statements' ("IAS 27"). The main changes under the standards are that:

- acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred;
- all consideration transferred, including contingent consideration, is recognized and measured at fair value at the acquisition date;
- equity interests held prior to control being obtained are re-measured to fair value at the date of obtaining control, and any gain or loss is recognized in the income statement;
- an option is available, on a transaction-by-transaction basis, to measure any non-controlling (previously referred to as minority) interests in the entity acquired either at fair value, or at the non-controlling interests' proportionate share of the net identifiable assets of the entity acquired; and
- changes in a parent's ownership interest in a subsidiary that do not result in a change of control are treated as transactions between equity holders and are reported in equity.

In terms of their application to the bank, the revised IFRS 3 and amendments to IAS 27 apply prospectively to acquisitions and transactions taking place on or after 1 January 2010, and have had no significant effect on the consolidated financial statements as there have been no acquisitions subsequent to 1 January 2010.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

(f) Future accounting developments

At 30 June 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB which are not yet effective for these consolidated financial statements, the most significant of which are described below. The IASB is continuing to work on projects on revenue recognition and lease accounting, which together with IFRS 9 and the standards described below, represent wide spread and significant changes to accounting requirements over the period from 2013.

IFRS 9 'Financial Instruments' ("IFRS 9")

IFRS 9 'Financial Instruments' was described on pages 27 and 28 of the First Quarter 2011 Interim Report, including the second and third phases in the IASB's project to replace IAS 39, which address the impairment of financial assets measured at amortized cost and hedge accounting. The IASB no longer expects to finalize the replacement of IAS 39 by June 2011 since the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders. As a consequence, the IASB is consulting on its proposal to change the effective date of IFRS 9 to 1 January 2015 to facilitate the adoption of the entire replacement of IAS 39. Therefore, the bank remains unable to provide a date by which it plans to apply IFRS 9 globally and it remains impracticable to quantity the impact of IFRS 9 as at the date of publication of these financial statements.

IFRS 10 'Consolidated Financial Statements' and IFRS 12 'Disclosures of Interests in Other Entities'

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10') and IFRS 12 'Disclosures of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted, and are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities.

The bank is currently assessing the impact of these new IFRSs, but it is impracticable to quantify their impact as at the date of publication of these financial statements.

IFRS 13 'Fair Value Measurement' ("IFRS 13")

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The bank is currently assessing the impact of this new IFRS but it is impracticable to quantify its impact as at the date of publication of these financial statements.

IAS 19 'Employee Benefits' ("IAS 19")

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IAS 19 revised is required to be applied retrospectively.

The most significant amendment for the bank is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement will be presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.

Based on an initial estimate of the impact of this particular amendment on the 2010 financial statements, the change would increase pension expense in the income statement, with no effect on the pension liability. The effect on total operating expense is not expected to be material. The effect at the date of adoption will depend on market interest rates and rates of return at that time.

2 Summary of significant accounting policies and critical accounting policies

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The accounting policies the bank adopted on 1 January 2011 are disclosed in Notes 2 and 3 of the bank's interim financial statements as at and for the three months ended 31 March 2011.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

3 Loans and advances to customers

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Loans and advances to customers $m	**Loans as a % of total gross loans and advances to customers %**	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %
Personal						
Residential mortgages	**18,717**	**40.6%**	19,415	38.4%	18,923	41.3%
Other personal	**5,773**	**12.5%**	5,933	11.7%	5,905	12.9%
	24,490	**53.1%**	25,348	50.1%	24,828	54.2%
Consumer finance loans	**2,464**	**5.3%**	2,788	5.5%	2,615	5.7%
Corporate and commercial	**14,913**	**32.4%**	16,402	32.4%	14,989	32.7%
Financial						
Non-bank financial institutions[1]	**4,216**	**9.2%**	6,078	12.0%	3,413	7.4%
Total gross loans and advances to customers	**46,083**	**100.0%**	50,616	100.0%	45,845	100.0%
Less: impairment	**(535)**		(600)		(627)	
Total loans and advances to customers	**45,548**		50,016		45,218	

1 *Included within non-bank financial are reverse repurchase agreements of $3,246m (30 June 2010: $5,028m and 31 December 2010: $2,512m).*

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Movement in impairment allowances for the quarter and half-year ended

	Customers		
	Individually assessed $m	Collectively assessed $m	Total $m
At 1 April 2011	**227**	**387**	**614**
Amounts written off	**(32)**	**(78)**	**(110)**
Recoveries of loans and advances written off in previous periods	**–**	**2**	**2**
Charge to income [1]	**13**	**21**	**34**
Other movements	**(5)**	**–**	**(5)**
Quarter ended 30 June 2011	**203**	**332**	**535**
At 1 April 2010	201	426	627
Amounts written off	(40)	(56)	(96)
Recoveries of loans and advances written off in previous periods	–	2	2
Charge to income	39	33	72
Other movements	(5)	–	(5)
Quarter ended 30 June 2010	195	405	600
At 1 January 2011	227	400	627
Amounts written off	(17)	(42)	(59)
Recoveries of loans and advances written off in previous periods	–	2	2
Charge to income	21	28	49
Other movements	(4)	(1)	(5)
Quarter ended 31 March 2011	227	387	614

	Customers		
	Individually assessed $m	Collectively assessed $m	Total $m
At 1 January 2011	**227**	**400**	**627**
Amounts written off	**(49)**	**(120)**	**(169)**
Recoveries of loans and advances written off in previous periods	**–**	**4**	**4**
Charge to income [1]	**34**	**49**	**83**
Other movements	**(9)**	**(1)**	**(10)**
Half–year ended 30 June 2011	**203**	**332**	**535**
At 1 January 2010	186	446	632
Amounts written off	(50)	(115)	(165)
Recoveries of loans and advances written off in previous periods	1	3	4
Charge to income	71	70	141
Other movements	(13)	1	(12)
Half-year ended 30 June 2010	195	405	600

1 *In the second quarter, in addition to the charge to income above, 'Loan impairment charges and other credit risk provisions' as presented in the consolidated income statement includes a $3m reversal of a previously recorded impairment loss relating to credit risk on an available-for-sale investment.*

Notes on the Consolidated Financial Statements (Unaudited) (continued)

4 Employee compensation and benefits

Included within 'Employee compensation and benefits' are components of net periodic benefit cost related to the bank's pension plans and other post-employment benefits, as follows:

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Pension plans – defined benefit	**3**	3	3	**6**	6
Pension plans – defined contribution	**8**	7	12	**20**	12
Healthcare and other post retirement benefit plans	**2**	2	3	**5**	4
	13	12	18	**31**	22

Actuarial valuations for the bank's pension plans and non-pension arrangements are prepared annually. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were conducted as at 31 December 2010.

5 Trading assets

	At 30 June 2011 $m	At 30 June 2010 $m	At 31 December 2010 $m
Trading assets:			
– which may be repledged or resold by counterparties	**777**	88	532
– not subject to repledge or resale by counterparties	**4,559**	3,912	3,415
	5,336	4,000	3,947
Treasury and other eligible bills	**854**	246	557
Debt securities	**2,592**	2,218	1,712
Equity securities	**163**	37	26
Customer trading assets	**1,139**	858	553
Bankers acceptances	**588**	641	1,099
	5,336	4,000	3,947

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $77m (30 June 2010: $51m and 31 December 2010: $35m).

Notes on the Consolidated Financial Statements (Unaudited) (continued)

6 Derivatives

Fair values of derivatives by product contract type held:

	At 30 June 2011					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,028**	**–**	**1,028**	**1,056**	**–**	**1,056**
Interest rate	**204**	**278**	**482**	**157**	**91**	**248**
Gross total fair values	**1,232**	**278**	**1,510**	**1,213**	**91**	**1,304**
Total			**1,510**			**1,304**

	At 30 June 2010					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	875	–	875	731	–	731
Interest rate	154	314	468	118	24	142
Gross total fair values	1,029	314	1,343	849	24	873
Total			1,343			873

	At 31 December 2010					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	935	–	935	986	–	986
Interest rate	156	272	428	114	61	175
Gross total fair values	1,091	272	1,363	1,100	61	1,161
Total			1,363			1,161

Use of derivatives

The bank transacts derivatives for three primary purposes: to create risk management solutions for clients, for proprietary trading purposes, and to manage and hedge the bank's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in IAS 39) are held for trading. The held for trading classification includes two types of derivatives: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The bank's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being used to achieve this where necessary. When entering into derivative transactions, the bank employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

Trading derivatives

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the

Notes on the Consolidated Financial Statements (Unaudited) (continued)

expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income', except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value', together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Notional contract amounts of derivatives held for trading purposes by product type

	At 30 June 2011 $m	At 30 June 2010 $m	At 31 December 2010 $m
Foreign exchange	**56,937**	40,701	43,704
Interest rate	**175,094**	26,870	42,543
Total derivatives	**232,031**	67,571	86,247

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the reporting date; they do not represent amounts at risk.

Hedging instruments

The bank uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the bank to optimize the overall cost to the bank of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

Notional contract amounts of derivatives held for hedging purposes by product type

The notional contract amounts of these instruments indicate the nominal value of transactions outstanding at the reporting date; they do not represent amounts at risk.

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Cash flow hedge $m	**Fair value hedge $m**	Cash flow hedge $m	Fair value hedge $m	Cash flow hedge $m	Fair value hedge $m
Interest rate	**18,852**	**4,025**	11,712	331	13,485	1,465

Fair value hedges

The bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognized in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to the income statement as a yield adjustment over the remainder of the hedging period.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Fair value of derivatives designated as fair value hedges

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**9**	**36**	4	4	14	8

Gains or losses arising from the change in fair value of fair value hedges

	At 30 June 2011	At 30 June 2010	At 31 December 2010
	$m	$m	$m
Gains/(losses)			
– on hedging instruments	**(28)**	(4)	9
– on hedged items attributable to the hedged risk	**29**	4	(10)

The gains and losses on ineffective portions of fair value hedges are recognized immediately in 'Net trading income'.

Cash flow hedges

The bank's cash flow hedges consist principally of interest rate and cross-currency swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. Gains and losses are initially recognized in other comprehensive income, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of derivatives designated as cash flow hedges

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**269**	**55**	310	20	258	53

7 Financial investments

The bank's financial investments, which are classified as available-for-sale and are not subject to repledge or resale by counterparties, consist of the following:

	At 30 June 2011	At 30 June 2010	At 31 December 2010
	$m	$m	$m
Treasury and other eligible bills	**2,588**	3,317	2,898
Debt securities	**15,323**	10,933	13,234
Equity securities	**17**	18	17
Total financial investments	**17,928**	14,268	16,149

Included in debt securities are debt securities issued by banks and other financial institutions of $1,614m (30 June 2010: $1,019m and 31 December 2010: $1,265m) of which $420m (30 June 2010: $314m and 31 December 2010: $852m) are guaranteed by various governments and debt securities issued by governments of $13,548m (30 June 2010: $9,865m and 31 December 2010: $11,863m).

Notes on the Consolidated Financial Statements (Unaudited) (continued)

8 Trading liabilities

	At 30 June 2011 $m	At 30 June 2010 $m	At 31 December 2010 $m
Other debt securities in issue	**154**	145	98
Customer trading liabilities	**1,881**	1,737	1,402
Other liabilities – net short positions	**2,219**	1,575	1,264
	4,254	3,457	2,764

9 Financial liabilities designated at fair value

	At 30 June 2011 $m	At 30 June 2010 $m	At 31 December 2010 $m
Debt securities in issue	**580**	505	568
Subordinated liabilities	**421**	410	415
	1,001	915	983

The carrying amount at 30 June 2011 of financial liabilities designated at fair value was $33m higher (30 June 2010: $23m higher and 31 December 2010: $25m higher) than the contractual amount at maturity. At 30 June 2011, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of $5m (30 June 2010: $25m gain and 31 December 2010: $12m gain).

10 Transfers of financial assets not qualifying for derecognition

The bank enters into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties or to SPEs. The bank securitizes mortgage backed securities through programs sponsored by the Canada Mortgage and Housing Corporation ("CMHC") and other third party programs.

Full derecognition occurs when the bank transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

The majority of financial assets that do not qualify for derecognition are: (i) mortgages converted into mortgage backed securities ("MBS") and thereafter sold and (ii) debt securities held by counterparties as collateral under repurchase agreement and (iii) equity securities lent under securities lending agreements.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

11 Notes on the statement of cash flows

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Non-cash items included in profit before tax					
Depreciation and amortization	**23**	16	14	**37**	29
Share based payment expense	**6**	6	5	**11**	12
Loan impairment charges and other credit risk provisions	**31**	66	49	**80**	129
Charge for defined benefit pension plans	**3**	3	3	**6**	6
	63	91	71	**134**	176
Change in operating assets					
Change in prepayment and accrued income	**17**	18	(37)	**(20)**	(6)
Change in net trading securities and net derivatives	**677**	53	156	**833**	539
Change in loans and advances to customers	**380**	(551)	(790)	**(410)**	(1,981)
Change in other assets	**(285)**	87	(339)	**(624)**	978
	789	(393)	(1,010)	**(221)**	(470)
Change in operating liabilities					
Change in accruals and deferred income	**(36)**	(46)	(30)	**(66)**	(54)
Change in deposits by banks	**(564)**	(1,848)	621	**57**	(1,344)
Change in customer accounts	**1,270**	1,813	(1,208)	**62**	961
Change in debt securities in issue	**51**	63	413	**464**	321
Change in financial liabilities designated at fair value	**25**	(218)	(7)	**18**	(223)
Change in other liabilities	**457**	217	467	**924**	35
	1,203	(19)	256	**1,459**	(304)
Cash and cash equivalents					
Cash and balances at central bank	**66**	78	63	**66**	78
Items in the course of collection from/(to) other banks, net	**(45)**	(19)	(75)	**(45)**	(19)
Loans and advances to banks of one month or less	**4,873**	3,928	5,590	**4,873**	3,928
T-Bills and certificates of deposits – three months or less	**1,546**	184	899	**1,546**	184
	6,440	4,171	6,477	**6,440**	4,171

12 Contractual commitments, guarantees and contingent liabilities

	At 30 June 2011 $m	At 30 June 2010 $m	At 31 December 2010 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**2,362**	2,230	2,337
Commitments			
Documentary credits and short-term trade-related transactions	**432**	303	352
Undrawn formal standby facilities, credit lines and other commitments to lend	**35,035**	34,306	34,298
	35,467	34,609	34,650
Credit and yield enhancement			
Credit and yield enhancement	**–**	14	15

The table above discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Contingent liabilities

We are subject to a number of legal proceedings arising in the normal course of our business. We do not expect the outcome of any of these proceedings, in aggregate, to have a material effect on our consolidated financial position or our results of operations.

13 Segment analysis

We manage and report our operations according to our main customer groups. Various estimate and allocation methodologies are used in the preparation of the customer groups' financial information. We allocate expenses directly related to earning revenues to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to customer groups using appropriate allocation formulas. Customer group net interest income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Global Banking and Markets.

A description of each customer group is as follows:

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides services to individuals by offering a comprehensive range of financial products and services, which include retail banking, asset management, full service and discount brokerage and trust and advisory services.

In November 2010, our parent company announced that within the context of the customer group/global business view of HSBC Group's performance, Retail Banking and Wealth Management would be managed as a single global business. The business is the existing Personal Financial Services, with Global Asset Management moving from Global Banking and Markets to this new single business. This change has been reflected in our second quarter 2011 results and prior periods have been restated.

Commercial Banking

Commercial Banking meets the needs of Canadian commercial and corporate clients by offering commercial and corporate banking, asset management, merchant banking, treasury and trade finance.

Global Banking and Markets

Global Banking and Markets provides a comprehensive range of financial services to an international group of HSBC's large multinational clients as well as client sales, service and distribution, statement of financial position management, and proprietary trading. The focus is on entities that have a need for global value added products by offering the following services: corporate banking, asset management, mergers and acquisitions ("M&A") advisory, treasury and trade finance.

Consumer Finance

Consumer finance provides Canadian customers a wide range of consumer finance products including real estate secured loans, unsecured personal loans, specialty insurance products and private label credit cards to retail merchants.

Other

Activities or transactions which do not relate directly to the business segments are reported in 'Other'. The main items reported under 'Other' include financial instruments classified as trading under the fair value option and revenue and expense recoveries related to information technology activities performed on behalf of the HSBC Group companies.

The accounting policies of the segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Analysis by customer group

Profit/(loss) before income tax expense

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Retail Banking and Wealth Management					
Net interest income	**107**	98	94	**201**	195
Net fee income	**66**	62	70	**136**	122
Net trading income	**4**	13	6	**10**	19
Other operating income	**2**	3	2	**4**	5
Net operating income before loan impairment charges and other credit risk provisions	**179**	176	172	**351**	341
Loan impairment charges and other credit risk provisions	**(4)**	(7)	(2)	**(6)**	(15)
Net operating income	**175**	169	170	**345**	326
Total operating expenses	**(127)**	(145)	(156)	**(283)**	(289)
Profit before income tax expense	**48**	24	14	**62**	37
Commercial Banking					
Net interest income	**177**	190	173	**350**	384
Net fee income	**67**	63	69	**136**	120
Net trading income	**6**	14	6	**12**	21
Other operating income	**(16)**	–	1	**(15)**	4
Net operating income before loan impairment charges and other credit risk provisions	**234**	267	249	**483**	529
Loan impairment charges and other credit risk provisions	**(6)**	(38)	(17)	**(23)**	(69)
Net operating income	**228**	229	232	**460**	460
Total operating expenses	**(80)**	(86)	(96)	**(176)**	(164)
Operating profit	**148**	143	136	**284**	296
Share of profit in associates	**1**	–	1	**2**	–
Profit before income tax expense	**149**	143	137	**286**	296
Global Banking and Markets					
Net interest income	**40**	42	49	**89**	63
Net fee income	**19**	18	14	**33**	39
Net trading income	**23**	33	21	**44**	56
Gains less losses from financial investments	**4**	5	16	**20**	8
Other operating income	**1**	1	1	**2**	2
Net operating income before loan impairment charges and other credit risk provisions	**87**	99	101	**188**	168
Loan impairment charges and other credit risk provisions	**–**	1	–	**–**	3
Net operating income	**87**	100	101	**188**	171
Total operating expenses	**(27)**	(23)	(29)	**(56)**	(45)
Profit before income tax expense	**60**	77	72	**132**	126

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Profit/(loss) before income tax expense

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Consumer Finance					
Net interest income	**69**	81	70	**139**	164
Net fee income	**10**	15	10	**20**	23
Gains less losses from financial investments	**–**	–	–	**–**	(1)
Other operating income	**1**	–	1	**2**	1
Net operating income before loan impairment charges and other credit risk provisions	**80**	96	81	**161**	187
Loan impairment charges and other credit risk provisions	**(21)**	(28)	(30)	**(51)**	(60)
Net operating income	**59**	68	51	**110**	127
Total operating expenses	**(44)**	(43)	(43)	**(87)**	(85)
Profit before income tax expense	**15**	25	8	**23**	42
Other					
Net interest expense	**(3)**	(1)	(4)	**(7)**	(2)
Net trading income	**3**	1	4	**7**	1
Net gain/(loss) from financial instruments designated at fair value	**2**	13	(8)	**(6)**	5
Gains less losses from financial investments	**–**	–	–	**–**	1
Other operating income	**37**	39	35	**72**	73
Net operating income	**39**	52	27	**66**	78
Total operating expenses	**(37)**	(39)	(35)	**(72)**	(73)
Profit/(loss) before income tax expense	**2**	13	(8)	**(6)**	5

Other information about the profit/(loss) for the quarter

	Retail Banking and Wealth Management $m	**Commercial Banking $m**	**Global Banking and Markets $m**	**Consumer Finance $m**	**Other $m**	**Total $m**
Quarter ended 30 June 2011						
Net operating income:	**175**	**228**	**87**	**59**	**39**	**588**
External	**190**	**219**	**81**	**59**	**39**	**588**
Inter-segment	**(15)**	**9**	**6**	**–**	**–**	**–**
Quarter ended 30 June 2010						
Net operating income:	169	229	100	68	52	618
External	179	225	94	68	52	618
Inter-segment	(10)	5	5	–	–	–
Quarter ended 31 March 2011						
Net operating income:	170	232	101	51	27	581
External	192	225	86	51	27	581
Inter-segment	(22)	7	15	–	–	–

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Other information about the profit/(loss) for the half-year ended

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Half-year ended 30 June 2011						
Net operating income:	**345**	**460**	**188**	**110**	**66**	**1,169**
External	**382**	**444**	**167**	**110**	**66**	**1,169**
Inter-segment	**(37)**	**16**	**21**	**–**	**–**	**–**
Half-year ended 30 June 2010						
Net operating income:	326	460	171	127	78	1,162
External	339	446	172	127	78	1,162
Inter-segment	(13)	14	(1)	–	–	–

Statement of financial position information

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
At 30 June 2011						
Loans and advances to customers (net)	**24,485**	**14,295**	**5,630**	**2,375**	**(1,237)**	**45,548**
Customers' liability under acceptances	**–**	**4,165**	**789**	**–**	**–**	**4,954**
Total assets	**25,466**	**19,314**	**35,496**	**2,531**	**(1,348)**	**81,459**
Customer accounts	**25,270**	**17,478**	**2,808**	**1,237**	**(1,271)**	**45,522**
Acceptances	**–**	**4,165**	**789**	**–**	**–**	**4,954**
Total liabilities	**35,436**	**22,352**	**17,500**	**2,161**	**(857)**	**76,592**
At 30 June 2010						
Loans and advances to customers (net)	25,405	16,154	6,670	2,635	(848)	50,016
Customers' liability under acceptances	–	3,732	861	–	–	4,593
Total assets	26,758	20,399	30,037	2,813	(894)	79,113
Customer accounts	25,857	16,267	2,027	849	(860)	44,140
Acceptances	–	3,732	861	–	–	4,593
Total liabilities	37,082	20,793	14,386	2,468	(450)	74,279
At 31 December 2010						
Loans and advances to customers (net)	24,839	14,741	3,790	2,468	(620)	45,218
Customers' liability under acceptances	–	3,468	904	–	–	4,372
Total assets	25,792	18,908	31,392	2,618	(693)	78,017
Customer accounts	26,259	17,503	1,709	622	(633)	45,460
Acceptances	–	3,468	904	–	–	4,372
Total liabilities	37,235	21,689	12,399	2,257	(219)	73,361

Notes on the Consolidated Financial Statements (Unaudited) (continued)

14 Related party transactions

The ultimate Parent company of the bank is HSBC Holdings plc, which is incorporated in England. The bank's related parties include the Parent, fellow subsidiaries, and key management personnel.

Transactions between HSBC Bank Canada and fellow HSBC Holdings plc subsidiaries:

	Quarter ended			Half-year ended	
	30 June 2011 $m	30 June 2010 $m	31 March 2011 $m	**30 June 2011 $m**	30 June 2010 $m
Total revenues	**45**	53	42	**87**	97
Total expenses	**2**	38	41	**43**	74

The above outstanding balances arose from the ordinary course of business and on similar terms, including interest rates and security, as for comparable transactions with third party counterparties.

During the quarter the bank recovered $47m from a fellow HSBC Holdings plc subsidiary related to previously paid expenses.

The bank capitalized intercompany charges related to software of $5m (30 June 2010: nil and 31 March 2011: $3m).

15 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 30 June 2011 consolidated financial statements.

16 Transition to IFRS

The accounting policies referenced in note 2 have been consistently applied in preparing the interim financial statements for all periods presented. The transition has not affected the bank's net cash flows or the underlying economics of its business, though the recognition and classification of certain items in the statement of financial position and income statement are now changed. An explanation of how the transition to IFRS has affected the bank's financial performance, financial position and cash flows is set out below.

The bank has changed its reporting format to be similar to other entities reporting under IFRS within the HSBC Group. These changes are referenced as 'presentational re-classifications' in (b) and (c) below.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

(a) Reconciliations of net income, total comprehensive income and total equity under Canadian GAAP to IFRS

The bank previously prepared its primary financial statements under Canadian GAAP, which differs in certain significant respects from IFRSs.

Reconciliation of net income as previously reported under Canadian GAAP to profit for the period reported under IFRS

	Ref	Quarter ended 30 June 2010 $m	Half-year ended 30 June 2010 $m
Net income under Canadian GAAP		167	266
Adjustments to net income:			
Derecognition of securitized financial assets	**i**	33	114
Employee defined benefit plans	**ii**	2	4
Treatment of foreign exchange on available-for-sale securities	**iii**	28	8
Hedge accounting	**v**	(22)	(8)
Tax	**vi**	(11)	(38)
Other	**vii**	(4)	(5)
Non-controlling interests [1]		7	13
Total adjustments to net income		33	88
Profit under IFRS		200	354

1 *Under Canadian GAAP, non-controlling interest distributions are an expense through the consolidated income statement; however under IFRS, non-controlling interest is a component of equity.*

Reconciliation of total comprehensive income as previously reported under Canadian GAAP to total comprehensive income for the period reported under IFRS

	Ref	Quarter ended 30 June 2010 $m	Half-year ended 30 June 2010 $m
Total comprehensive income under Canadian GAAP		271	319
Difference in net income		33	88
Adjustments to other comprehensive income:			
Derecognition of securitized financial assets	**i**	(1)	(2)
Employee defined benefit plans	**ii**	(34)	(54)
Treatment of foreign exchange on available-for-sale securities	**iii**	(28)	(8)
Designation of debt securities held with other financial institutions	**iv**	–	(3)
Hedge accounting	**v**	22	8
Tax	**vi**	11	14
Other	**vii**	(1)	–
Total adjustments to other comprehensive income		(31)	(45)
Total comprehensive income under IFRS		273	362

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Reconciliation of total shareholders' equity as previously reported under Canadian GAAP to total equity under IFRS

	Ref	At 30 June 2010 $m
Total shareholders' equity under Canadian GAAP		4,516
Adjustments to shareholders' equity:		
Derecognition of securitized financial assets	**i**	7
Employee defined benefit plans	**ii**	(232)
Treatment of foreign exchange on available-for-sale securities [1]	**iii**	–
Designation of debt securities held with other financial institutions	**iv**	10
Hedge accounting	**v**	–
Tax	**vi**	67
Other	**vii**	36
Total adjustments to shareholders' equity		(112)
Non-controlling interests [2]		430
Total equity under IFRS		4,834

1 *Reclassification entry between retained earnings and other comprehensive income.*
2 *Under Canadian GAAP, non-controlling interests is not presented as a component of total shareholders equity; however, under IFRS non-controlling interests is presented as a component of total equity.*

i) **Derecognition of securitized financial assets** (IAS 39 Financial Instruments)

The bank securitizes National Housing Act – mortgage backed securities ("MBS") through programs sponsored by the CMHC. The programs involve a two step process through which insured mortgages are converted into MBS and thereafter sold.

The bank sells the MBS to the Canada Housing Trust ("CHT") through the Canada Mortgage Bond ("CMB") and Insured Mortgage Purchase Program. Under Canadian GAAP, the features of the transaction meet the derecognition criteria included within AcG-12 Transfer of Receivables. Therefore, the transaction is accounted for as a sale with derecognition of the MBS from the statement of financial position and the recognition of a gain or loss in the income statement. Under IFRS, the terms of the transaction do not meet the derecognition criteria included within IAS 39 because the pass-through test is not met. The pass-through test requires that the bank has no obligation to pay amounts to the transferee unless the transferor collects equivalent amounts from the original assets. Therefore, the transaction is accounted for as a secured borrowing with the underlying mortgages of the securitized MBS on the statement of financial position and a liability is recognized for the funding received with no recognition of gains or losses on transfer.

As part of the securitization of MBS as mentioned above, the bank is obligated to enter into certain derivative transactions to isolate the CHT from prepayment risk on mortgages in the program. The derivatives represent a contractual obligation to pay a coupon to the CMB holders and right to collect the MBS cash flows and are classified as swaps. Under Canadian GAAP, the derivatives are recognized and classified as held for trading with fair value adjustments recognized in the income statement. Under IFRS, the derivatives are not required to be recognized to avoid double-counting with the securitized assets that are not derecognized.

Under Canadian GAAP the bank recognizes a servicing liability and related income in respect of retained interests. The liability represents future costs of fulfilling our servicing obligation relating to securitized and sold MBS. Under IFRS, the bank continues to recognize a full interest in the underlying securitized mortgages and therefore does not recognize the servicing liability and related income.

In addition to the above programs, the bank also securitizes mortgages to a third party. The same accounting treatment applies to these transactions as for the sale of MBS.

The net effect of these securitization transactions on transition to IFRS is a decrease to Canadian GAAP shareholders' equity which represents the elimination of life-to-date securitization gains and losses subsequent to 1 January 2004 and servicing income realized under Canadian GAAP, less an adjustment for interest income and expense that would have otherwise been recognized under IFRS and the elimination of mark-to-market adjustments on the related derivatives. In

Notes on the Consolidated Financial Statements (Unaudited) (continued)

addition, it includes the impact of the elimination of fair value revaluation adjustments on the recognized MBS classified as available-for-sale securities under Canadian GAAP, which are excluded from other comprehensive income ("OCI") under IFRS. At 30 June 2010, the net effect of these securitization transactions is to increase Canadian GAAP shareholders' equity.

ii) Employee defined benefit plans (IAS 19 Employee Benefits)

On transition from Canadian GAAP to IFRS on 1 January 2010 as well as at 30 June 2010, the bank has recognized a reduction in Canadian GAAP retained earnings due to differences in accounting treatment of defined benefit plans between Canadian GAAP and IFRS. The most significant portion of this reduction in shareholders' equity is due to a change in the way the bank has recognized actuarial gains and losses.

Under Canadian GAAP, the bank deferred the recognition of actuarial gains and losses to future years. Previously actuarial gains and losses outside a 10% corridor were recognized in the income statement over the effective average remaining service lives of employees using the "corridor method". The bank has aligned its accounting policy with that of its Parent where the "corridor method" is not used. Accordingly the bank has chosen an accounting policy to recognize all actuarial gains and losses immediately in OCI. Therefore all previously net unrecognized actuarial gains at 1 January 2010 on transition to IFRS have been recognized through retained earnings via the statement of comprehensive income, which has the effect of aligning the bank's accounting policy to that of its Parent from 1 January 2004 to date. Profit under IFRS has increased as a result of reversing amortization of net actuarial losses and past vested service costs previously recorded under Canadian GAAP.

A number of additional differences between Canadian GAAP and IFRS exist relating to the accounting for defined benefit plans. The areas of difference which impacted the bank on transition included the calculation and treatment of the valuation allowance, the treatment of the transitional obligation recognized under Canadian GAAP, and the treatment of amendments to benefits and settlements. In addition, the bank utilized a 30 September measurement date under Canadian GAAP, however under IFRS the bank utilizes a 31 December measurement date in accordance with IFRS.

iii) Treatment of foreign exchange on available-for-sale debt securities (IAS 39 Financial Instruments)

The bank owns certain foreign currency denominated available-for-sale debt securities. Under Canadian GAAP, foreign exchange gains or losses on these debt securities are recognized in OCI, whereas under IFRS foreign exchange adjustments to these debt securities are recognized in the income statement. Due to the recognition of foreign exchange gains, profit under IFRS increased relative to profit under Canadian GAAP in the comparative periods presented. There is no impact on shareholders' equity as the adjustment to cumulative foreign exchange losses of $91m at 30 June 2010 results in a decrease to retained earnings, offset by a corresponding increase to OCI.

iv) Designation of debt securities held with other financial institutions (IAS 39 Financial Instruments)

The bank classified certain debt securities held with other financial institutions as loans and receivables which are measured at amortized cost under Canadian GAAP. Under IFRS, the debt securities are designated as available-for-sale and measured at fair value, with changes in fair value recorded in OCI. The recognition of interest income has not changed, and accordingly for the comparative periods presented, there was no difference in profit under IFRS and Canadian GAAP relating to this adjustment.

v) Hedge accounting (IAS 39 Financial Instruments)

The bank has designated and formally documented hedging relationships under both Canadian GAAP and IFRS individually. Although the vast majority of hedging relationships qualify under both Canadian GAAP and IFRS, certain Canadian GAAP hedging relationships are not allowed under IFRS and vice versa. Therefore in the transition to IFRS, certain hedging relationships designated under Canadian GAAP will no longer qualify for hedge accounting under IFRS, while certain hedging relationships that will no longer qualify under Canadian GAAP, can be accounted for as hedges under IFRS. In addition, different risks are being hedged in the documented cash flow hedging relationships under both Canadian GAAP and IFRS resulting in different levels of hedge ineffectiveness.

The net effect of these changes is to increase OCI with a corresponding decrease to retained earnings reflects the net additional hedging relationships established under IFRS and ineffectiveness adjustments. There is no impact on total shareholders' equity. The impact on profits for the periods presented relate to recording of differences in measuring hedge ineffectiveness and the recording of the effective portion of fair value changes relating to net additional hedging relationships established under IFRS.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

vi) Tax (IAS 12 Income taxes)

Deferred tax liabilities and assets are generally recognized in respect of all temporary differences except where expressly prohibited, subject to an assessment of the recoverability of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The tax adjustments to profit and OCI reflect the tax impact of the IFRS transitional adjustments.

vii) Other

In addition to the above noted differences, we have identified other less significant differences relating to goodwill, share-based payments and other insignificant items. The net impact of these adjustments is an increase to Canadian GAAP shareholders' equity as at 30 June 2010.

(b) Reconciliation of the bank's income statements

i) Change in reporting format:

The bank has changed its reporting format to be consistent with other entities reporting under IFRS within the HSBC Group. In general, the revised reporting format consolidates line items that were previously presented as individual line items.

'Fee income' summarizes certain fee income items which were previously individually presented. 'Trading income excluding net interest revenue' includes 'Foreign exchange', 'Trading revenue' and 'Other mark-to-market non-interest revenue' which were presented as individual line items under Canadian GAAP. 'Net interest income on trading activities' was previously included within 'Net interest income'.

Certain expense line items which were formerly presented under 'Non-interest expenses' have been re-categorized and reclassified within 'Total operating expenses'. Certain fee expenses previously included under 'Non-interest expenses' have been reclassified to 'Fee expense'.

Distributions to unit holders of non-controlling interests

Under IFRS, non-controlling interests is presented as a component of total shareholders' equity; however, under Canadian GAAP non-controlling interests is presented outside of shareholders' equity. Therefore under IFRS, distributions to unit holders of non-controlling interests are distributed directly out of retained earnings and are not recognized in the consolidated income statement as under Canadian GAAP.

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Consolidated income statement for the quarter ended 30 June 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Interest income	517	(10)	507	Interest income
Interest expense	124	(8)	116	Interest expense
Net interest income	393	(2)	391	Net interest income
Deposit and payment service charges	28	(28)		
Credit fees	49	(49)		
Capital market fees	27	(27)		
Investment administration fees	36	(36)		
		177	177	Fee income
		19	19	Fee expense
			158	Net fee income
		20	20	Trading income excluding net interest income
		2	2	Net interest income on trading activities
			22	Net trading income
		13	13	Net gain from financial instruments designated at fair value
		5	5	Gains less losses from financial investments
Foreign exchange	13	(13)		
Trade finance	5	(5)		
Trading revenue	46	(46)		
Gains on available-for-sale and other securities	6	(6)		
Securitization income	12	(12)		
Other	74	(19)	55	Other operating income
Other mark-to-market	(25)	25		
Non-interest revenue	271			
Total revenue	**664**	**(20)**	**644**	**Net operating income before loan impairment charges and other credit risk provisions**
		66	66	Loan impairment charges and other credit risk provisions
			578	**Net operating income**
Salaries and employee benefits	188	–	188	Employee compensation and benefits
		131	131	General and administrative expenses
Premises and equipment	47	(47)		
		10	10	Depreciation of property, plant and equipment
Other	118	(118)		
		5	5	Amortization of intangible assets
Non-interest expenses	**353**	**(19)**	**334**	**Total operating expenses**
Net operating income before provision for credit losses	**311**	**(67)**	**244**	**Operating profit**
Provision for credit losses	66	(66)		
		1	1	Share of profit in associates
Income before provision for income taxes	**245**	**–**	**245**	**Profit before income tax expense**
Provision for income taxes	71	–	71	Income tax expense
Non-controlling interest in income of trust	7	(7)		
Net income	**167**	**7**	**174**	**Profit for the period**
		(7)	(7)	Distribution to non-controlling interests

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Consolidated income statement for the half-year ended 30 June 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Interest income	1,029	(20)	1,009	Interest income
Interest expense	256	(14)	242	Interest expense
Net interest income	773	(6)	767	Net interest income
Deposit and payment service charges	55	(55)		
Credit fees	94	(94)		
Capital market fees	59	(59)		
Investment administration fees	69	(69)		
		338	338	Fee income
		34	34	Fee expense
			304	Net fee income
		(54)	(54)	Trading loss excluding net interest income
		7	7	Net interest income on trading activities
			(47)	Net trading loss
		7	7	Net gain from financial instruments designated at fair value
		8	8	Gains less losses from financial investments
Foreign exchange	24	(24)		
Trade finance	11	(11)		
Trading revenue	66	(66)		
Gain on available-for-sale and other securities	9	(9)		
Securitization income	50	(50)		
Other	137	(3)	134	Other operating income
Other mark-to-market	(137)	137		
Non-interest revenue	437			
Total revenue	**1,210**	**(37)**	**1,173**	**Net operating income before loan impairment charges and other credit risk provisions**
		129	129	Loan impairment charges and other credit risk provisions
			1,044	**Net operating income**
Salaries and employee benefits	365	–	365	Employee compensation and benefits
		259	259	General and administrative expenses
Premises and equipment	89	(89)		
		20	20	Depreciation of property, plant and equipment
Other	234	(234)		
		8	8	Amortization of intangible assets
Non-interest expenses	**688**	**(36)**	**652**	**Total operating expenses**
Net operating income before provision for credit losses	**522**	**(130)**	**392**	**Operating profit**
Provision for credit losses	129	(129)		
		1	1	Share of profit in associates
Income before provision for income taxes	**393**	**–**	**393**	**Profit before income tax expense**
Provision for income taxes	114	–	114	Income tax expense
Non-controlling interest in income of trust	13	(13)		
Net income	**266**	**13**	**279**	**Profit for the period**
		(13)	(13)	Distribution to non-controlling interests

Notes on the Consolidated Financial Statements (Unaudited) (continued)

ii) Reconciliation of Canadian GAAP and IFRS

Adjustments to conform the bank's Canadian GAAP income statement to its accounting policies under IFRS are set out below:

Consolidated income statement for the quarter ended 30 June 2010

	Canadian GAAP $m	Derecognition of securitized financial assets $m	Employee defined benefit plans $m	Treatment of foreign exchange available-for-sale securities $m	Hedge accounting $m	Tax [1] $m	Other $m	IFRS $m
Interest income	507	65	–	–	–	–	4	576
Interest expense	(116)	(48)	–	–	(2)	–	–	(166)
Net interest income	391	17	–	–	(2)	–	4	410
Fee income	177	–	–	–	–	–	4	181
Fee expense	(19)	–	–	–	–	–	(4)	(23)
Net fee income	158	–	–	–	–	–	–	158
Trading income excluding net interest income	20	29	–	28	(20)	–	2	59
Net interest income on trading activities	2	–	–	–	–	–	–	2
Net trading income	22	29	–	28	(20)	–	2	61
Net gain from financial instruments designated at fair value	13	–	–	–	–	–	–	13
Gains less losses from financial investments	5	–	–	–	–	–	–	5
Other operating income	55	(13)	–	–	–	–	1	43
Net operating income before loan impairment charges and other credit risk provisions	644	33	–	28	(22)	–	7	690
Loan impairment charges and other credit risk provisions	(66)	–	–	–	–	–	(6)	(72)
Net operating income	578	33	–	28	(22)	–	1	618
Employee compensation and benefits	(188)	–	2	–	–	–	(4)	(190)
General and administrative expenses	(131)	–	–	–	–	–	1	(130)
Depreciation of property, plant and equipment	(10)	–	–	–	–	–	–	(10)
Amortization and impairment of intangibles	(5)	–	–	–	–	–	(1)	(6)
Total operating expenses	(334)	–	2	–	–	–	(4)	(336)
Operating profit	244	33	2	28	(22)	–	(3)	282
Share of profit in associates	1	–	–	–	–	–	(1)	–
Profit before income tax expense	245	33	2	28	(22)	–	(4)	282
Income tax expense	(71)					(11)		(82)
Profit for the period [2]	174	33	2	28	(22)	(11)	(4)	200

1 *The tax effect of all adjustments are presented in the tax column.*

2 *Under Canadian GAAP, non-controlling interest distributions are an expense through the consolidated income statement; however, under IFRS, non-controlling interest is a component of shareholders' equity.*

Notes on the Consolidated Financial Statements (Unaudited) (continued)

Consolidated income statement for the half-year ended 30 June 2010

	Canadian GAAP $m	Derecognition of securitized financial assets $m	Employee defined benefit plans $m	Treatment of foreign exchange available-for-sale securities $m	Hedge accounting $m	Tax [1] $m	Other $m	IFRS $m
Interest income	1,009	110	–	–	–	–	27	1,146
Interest expense	(242)	(84)	–	–	(4)	–	(12)	(342)
Net interest income	767	26	–	–	(4)	–	15	804
Fee income	338	–	–	–	–	–	9	347
Fee expense	(34)	–	–	–	–	–	(9)	(43)
Net fee income	304	–	–	–	–	–	–	304
Trading income excluding net interest income	(54)	138	–	8	(4)	–	2	90
Net interest income on trading activities	7	–	–	–	–	–	–	7
Net trading income	(47)	138	–	8	(4)	–	2	97
Net gain from financial instruments designated at fair value	7	–	–	–	–	–	(2)	5
Gains less losses from financial investments	8	–	–	–	–	–	–	8
Other operating income	134	(50)	–	–	–	–	1	85
Net operating income before loan impairment charges and other credit risk provisions	1,173	114	–	8	(8)	–	16	1,303
Loan impairment charges and other credit risk provisions	(129)	–	–	–	–	–	(12)	(141)
Net operating income	1,044	114	–	8	(8)	–	4	1,162
Employee compensation and benefits	(365)	–	4	–	–	–	(9)	(370)
General and administrative expenses	(259)	–	–	–	–	–	2	(257)
Depreciation of property, plant and equipment	(20)	–	–	–	–	–	–	(20)
Amortization and impairment of intangibles	(8)	–	–	–	–	–	(1)	(9)
Total operating expenses	(652)	–	4	–	–	–	(8)	(656)
Operating profit	392	114	4	8	(8)	–	(4)	506
Share of profit in associates	1	–	–	–	–	–	(1)	–
Profit before income tax expense	393	114	4	8	(8)	–	(5)	506
Income tax expense	(114)					(38)		(152)
Profit for the period [2]	279	114	4	8	(8)	(38)	(5)	354

1 *The tax effect of all adjustments are presented in the tax column.*
2 *Under Canadian GAAP, non-controlling interest distributions are an expense through the consolidated income statement; however, under IFRS, non-controlling interest is a component of shareholders' equity.*

Notes on the Consolidated Financial Statements (Unaudited) (continued)

(c) Reconciliation of the bank's statements of financial position

i) Change in reporting format:

The new statement of financial position presentation groups assets and liabilities together according to their financial instrument classification under IAS 39.

Significant presentational reclassifications of line items include:

Assets
- Under the revised format 'Trading assets' include financial assets classified as held for trading through the income statement that were previously presented as 'Deposits with regulated financial institutions', 'Securities: Trading', 'Loans' and 'Other assets'.
- 'Loans and advances to banks' and 'Loans and advances to customers' include securities purchased under reverse repurchase agreements which were previously presented under 'Securities purchased under reverse repurchase agreements'.
- 'Financial Investments' include financial assets classified as available-for-sale that were previously presented as 'Securities: Available-for-sale' and includes certain items previously presented in 'Deposits with regulated financial institutions'

Liabilities
- 'Trading liabilities' under the revised format include financial liabilities classified as held for trading that were previously presented as 'Deposits', 'Securities sold short' and certain items presented in 'Interest bearing liabilities of subsidiaries, other than deposits' and certain items presented in 'Other liabilities'.
- 'Debt securities in issue' include debts for which transferrable certificates have been issued that were previously presented as 'Deposits' and 'Interest bearing liabilities of subsidiaries, other than deposits'.
- 'Interest bearing liabilities of subsidiaries, other than deposits' under the previous format has been reclassified to 'Trading liabilities', 'Financial liabilities designated at fair value' or 'Debt securities in issue' as appropriate.
- 'Securities sold under repurchase agreements' under the previous format have been presented as 'Deposits by banks' where the counterparty is a financial institution and 'Customer accounts' where the counterparty is a not a financial institution.

The reclassifications described below were made due to presentational requirements under IFRS:

Non-controlling interests
- Under IFRS, non-controlling interests is presented as a component of total shareholders' equity; however, under Canadian GAAP non-controlling interests was presented outside of shareholders' equity.

Debt securities held with other financial institutions
- Certain debt securities held with other financial institutions were classified as loans and receivables and formerly presented as 'Deposits held with regulated financial institutions' under Canadian GAAP. Under IFRS, these securities are designated as available-for-sale and presented as 'Financial investments'.

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Notes on the Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of financial position at 30 June 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
ASSETS				**ASSETS**
Cash and non-interest deposits with Bank of Canada and other banks	588	(510)	78	Cash and balances at central bank
Deposits with regulated financial institutions	1,222	(1,222)		
		123	123	Items in the course of collection from other banks
Securities: Available-for-sale	13,276	(13,276)		
Securities: Held-for-trading	2,450	(2,450)		
Securities: Other	40	(40)		
		4,000	4,000	Trading assets
		1,349	1,349	Derivatives
Securities purchased under reverse repurchase agreements	8,374	(8,374)		
		3,928	3,928	Loans and advances to banks
Loans	37,652	4,499	42,151	Loans and advances to customers
		14,221	14,221	Financial investments
Customers' liability under acceptances	4,593	(4,593)		
Derivatives	1,349	(1,349)		
Land, buildings and equipment	125	(125)		
Other assets	1,825	(1,496)	329	Other assets
		471	471	Prepayments and accrued income
		4,593	4,593	Customers' liability under acceptances
		40	40	Interests in associates
		125	125	Property, plant and equipment
		86	86	Goodwill and intangibles
Total assets	**71,494**	**–**	**71,494**	**Total assets**
LIABILITIES AND EQUITY				**LIABILITIES AND EQUITY**
		1,312	1,312	Deposits by banks
Deposits	51,786	(6,818)	44,968	Customer accounts
		142	142	Items in course of transmission to other banks
		3,457	3,457	Trading liabilities
		915	915	Financial liabilities designated at fair value
		1,030	1,030	Derivatives
		7,689	7,689	Debt securities in issue
		1,464	1,464	Other liabilities
Acceptances	4,593	–	4,593	Acceptances
		521	521	Accruals and deferred income
Interest bearing liabilities of subsidiaries, other than deposits	2,359	(2,359)		
Derivatives	1,030	(1,030)		
Securities sold under repurchase agreements	1,411	(1,411)		
Securities sold short	1,572	(1,572)		
Other liabilities	3,055	(3,055)		
		124	124	Retirement benefit liabilities
		333	333	Subordinated debentures
Non-controlling interest in trust and subsidiary	430	(430)		
Total liabilities	**66,236**	**312**	**66,548**	**Total liabilities**
Subordinated debentures	742	(742)		
Shareholders' equity:				Equity:
Preferred shares	946	–	946	Preferred shares
Common shares	1,225	–	1,225	Common shares
Contributed surplus	10	(10)		
Retained earnings	2,209	10	2,219	Retained earnings
Accumulated other comprehensive income	126	–	126	Other reserves
		430	430	Non-controlling interests
Total equity	**4,516**	**430**	**4,946**	**Total equity**
Total equity and liabilities	**71,494**	**–**	**71,494**	**Total equity and liabilities**

Notes on the Consolidated Financial Statements (Unaudited) (continued)

ii) Reconciliation of Canadian GAAP and IFRS

Adjustments to conform the bank's Canadian GAAP statement of financial position to its accounting policies under IFRS are set out below:

Consolidated statement of financial position at 30 June 2010

	Canadian GAAP $m	Derecognition of securitized financial assets $m	Employee defined benefit plans $m	Treatment of foreign exchange available-for-sale securities $m	Designation of debt securities held with other financial institutions $m	Hedge accounting $m	Tax [1] $m	Other $m	IFRS $m
ASSETS									
Cash and balances at central bank	78	–	–	–	–	–	–	–	78
Items in the course of collection from other banks	123	–	–	–	–	–	–	–	123
Trading assets	4,000	–	–	–	–	–	–	–	4,000
Derivatives	1,349	(6)	–	–	–	–	–	–	1,343
Loans and advances to banks	3,928	–	–	–	–	–	–	–	3,928
Loans and advances to customers	42,151	7,849	–	–	–	–	–	16	50,016
Financial investments	14,221	37	–	–	10	–	–	–	14,268
Other assets	329	(86)	(2)	–	–	–	66	7	314
Prepayments and accrued income	471	(203)	(84)	–	–	–	–	–	184
Customers' liability under acceptances	4,593	–	–	–	–	–	–	–	4,593
Interests in associates	40	–	–	–	–	–	1	–	41
Property, plant and equipment	125	–	–	–	–	–	–	1	126
Goodwill and intangibles	86	–	–	–	–	–	–	13	99
Total assets	71,494	7,591	(86)	–	10	–	67	37	79,113
LIABILITIES AND EQUITY									
Liabilities									
Deposits by banks	1,312	(160)	–	–	–	–	–	–	1,152
Customer accounts	44,968	(828)	–	–	–	–	–	–	44,140
Items in the course of transmission to other banks	142	–	–	–	–	–	–	–	142
Trading liabilities	3,457	–	–	–	–	–	–	–	3,457
Financial liabilities designated at fair value	915	–	–	–	–	–	–	–	915
Derivatives	1,030	(157)	–	–	–	–	–	–	873
Debt securities in issue	7,689	8,867	–	–	–	–	–	–	16,556
Other liabilities	1,464	(138)	–	–	–	–	–	3	1,329
Acceptances	4,593	–	–	–	–	–	–	–	4,593
Accruals and deferred income	521	–	–	–	–	–	–	(2)	519
Retirement benefit liabilities	124	–	146	–	–	–	–	–	270
Subordinated liabilities	333	–	–	–	–	–	–	–	333
Total liabilities	66,548	7,584	146	–	–	–	–	1	74,279
Equity									
Preferred shares	946	–	–	–	–	–	–	–	946
Common shares	1,225	–	–	–	–	–	–	–	1,225
Other reserves	126	(1)	–	91	10	74	(52)	4	252
Retained earnings	2,219	8	(232)	(91)	–	(74)	119	32	1,981
Total shareholders' equity	4,516	7	(232)	–	10	–	67	36	4,404
Non controlling interests	430	–	–	–	–	–	–	–	430
Total equity	4,946	7	(232)	–	10	–	67	36	4,834
Total equity and liabilities	71,494	7,591	(86)	–	10	–	67	37	79,113

1 *The tax effect of all adjustments are presented in the tax column.*

Notes on the Consolidated Financial Statements (Unaudited) (continued)

(d) Impact of transition to IFRS on the Statement of Cash Flows

Under Canadian GAAP, the bank defined cash and cash equivalents as cash and balances at central banks.

Under IFRS, the bank has aligned its policy with Group and has defined cash and cash equivalents as cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, items in the course of collection from or in transmission to other banks and certificates of deposit. As a result, the bank has included additional “cash equivalents” which are defined as short term highly liquid investments, held for the purpose of meeting short-term cash commitments rather than investment, that are both convertible to known amounts of cash, and so near their maturity that they present an insignificant risk of changes in value. The inclusion of cash equivalents in the definition of reported cash flows had no significant effect on the net cash flows for the reported periods.

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