HSBC Bank Canada

Second Quarter 2014 Interim Report

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Corporate profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. The HSBC Group serves customers worldwide from over 6,200 offices in 74 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,754bn at 30 June 2014, the HSBC Group is one of the world's largest banking and financial services organizations.

Headlines

- Profit before income tax expense for the quarter ended 30 June 2014 was $242m, an increase of 33.0% compared with the same period in 2013. Profit before income tax expense was $475m for the half year ended 30 June 2014, an increase of 5.3% compared with the same period in 2013.
- Profit attributable to the common shareholder was $172m for the quarter ended 30 June 2014, an increase of 52.2% compared with the same period in 2013. Profit attributable to the common shareholder was $332m for the half year ended 30 June 2014, an increase of 16.9% compared with the same period in 2013.
- Return on average common equity was 15.6% for the quarter ended 30 June 2014 and 15.3% for the half year ended 30 June 2014 compared with 10.6% and 13.4% respectively for the same periods in 2013.
- The cost efficiency ratio was 51.1% for the quarter ended 30 June 2014 and 51.6% for the half year ended 30 June 2014 compared with 50.1% and 47.4% respectively for the same periods in 2013.
- Total assets were $83.1bn at 30 June 2014 compared with $84.3bn at 31 December 2013.
- Common equity tier 1 capital ratio was 11.0%, tier 1 ratio 12.4% and total capital ratio 14.0% at 30 June 2014 compared with 10.8%, 13.6% and 15.5% respectively at 30 June 2013.

Contents

Management's Discussion and Analysis

Financial summary

(in $ millions, except where otherwise stated)	Quarter ended			Half-year ended	
	30 June 2014	30 June 2013	31 March 2014	**30 June 2014**	30 June 2013
Financial performance for the period ($m)					
Total operating income	**539**	531	532	**1,071**	1,115
Profit before income tax expense	**242**	182	233	**475**	451
Profit attributable to the common shareholder	**172**	113	160	**332**	284
Basic earnings per common share ($)	**0.35**	0.23	0.32	**0.67**	0.57
Financial position at period-end ($m)					
Loan and advances to customers[1]	**41,549**	41,156	41,208		
Customer accounts[1]	**49,329**	47,795	49,456		
Ratio of customer advances to customer accounts[2]	**84.2**	86.1	83.3		
Shareholders' equity	**4,791**	5,074	4,969		
Average total shareholders' equity to average total assets[2]	**5.8**	6.0	5.8		
Capital measures					
Common equity tier 1 capital ratio (%)	**11.0**	10.8	10.8		
Tier 1 ratio (%)	**12.4**	13.6	12.9		
Total capital ratio (%)	**14.0**	15.5	14.5		
Assets-to-capital multiple	**16.0**	14.5	15.3		
Risk-weighted assets ($m)	**38,629**	36,467	38,466		
Performance ratios (%)[2]					
Credit coverage ratios (%)					
Loan impairment charges to total operating income	**5.0**	15.8	4.9	**4.9**	12.6
Loan impairment charges to average gross customer advances[3]	**0.3**	0.8	0.3	**0.4**	0.7
Total impairment allowances to impaired loans at period-end[3]	**67.7**	59.5	62.0	**67.7**	59.5
Return ratios (%)					
Return on average common shareholder's equity	**15.6**	10.6	15.0	**15.3**	13.4
Post-tax return on average total assets	**0.81**	0.53	0.76	**0.79**	0.68
Pre-tax return on average risk-weighted assets[3]	**2.5**	2.0	2.5	**2.5**	2.5
Efficiency and revenue mix ratios (%)					
Cost efficiency ratio	**51.1**	50.1	51.9	**51.6**	47.4
Adjusted cost efficiency ratio	**51.0**	50.1	51.7	**51.4**	47.3
Net interest income to total operating income	**57.0**	64.0	57.7	**57.3**	60.6
Net fee income to total operating income	**29.7**	29.0	29.1	**29.4**	26.9
Net trading income to total operating income	**6.2**	8.5	7.3	**6.8**	9.1

1 *From 1 January 2014, non-trading reverse repurchase and repurchase agreements are presented as separate lines in the balance sheet. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. Comparative data have been restated accordingly. Refer to the 'Accounting matters' section of this document for further information on this change in presentation.*

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

3 *The measure has been aligned with that in use by the HSBC Group and comparative information has been restated. Refer to the 'Use of non-IFRS financial measures' section of this document for a description of the method in use to calculate the measure.*

Management's Discussion and Analysis (continued)

Basis of preparation of financial information

HSBC Bank Canada ('the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc ('HSBC Holdings'). Throughout Management's Discussion and Analysis ('MD&A'), the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. The MD&A is dated 31 July 2014, the date that our unaudited consolidated financial statements and MD&A for the second quarter of 2014 were approved by the Audit and Risk Committee of our Board of Directors.

We prepare our unaudited consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'). The information in this MD&A is derived from our unaudited consolidated financial statements or from the information used to prepare them. The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

The references to 'notes' throughout this MD&A refer to notes on the unaudited consolidated financial statements for the second quarter ended 30 June 2014.

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

Use of non-IFRS financial measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the Financial Statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS financial measures are used throughout this document and their purposes and definitions are discussed below:

Financial position at period-end

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

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

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

Credit coverage ratios

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

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

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

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

Return ratios

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

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

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

Pre-tax return on average risk-weighted assets is calculated as annualized profit attributable to the common shareholder for the period, divided by average risk-weighted assets (determined using quarter-end balances during the period).

Efficiency ratios

Efficiency ratios are measures of the bank's efficiency in managing its operating expense to generate revenue.

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

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

Revenue mix ratio

This measure demonstrates the contribution of each of the primary revenue streams to total operating income.

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

Financial performance

Condensed consolidated income statement

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net interest income	**307**	340	307	**614**	676
Net fee income	**160**	154	155	**315**	300
Net trading income	**33**	45	39	**72**	102
Net expense from financial instruments designated at fair value	**(1)**	–	(2)	**(3)**	(3)
Gains less losses from financial investments	**27**	15	19	**46**	50
Other operating income / (loss)	**13**	(23)	14	**27**	(10)
Total operating income	**539**	531	532	**1,071**	1,115
Loan impairment charges and other credit risk provisions	**(27)**	(84)	(26)	**(53)**	(140)
Net operating income	**512**	447	506	**1,018**	975
Total operating expenses	**(276)**	(266)	(276)	**(552)**	(529)
Operating profit	**236**	181	230	**466**	446
Share of profit in associates	**6**	1	3	**9**	5
Profit before income tax expense	**242**	182	233	**475**	451
Income tax expense	**(60)**	(52)	(61)	**(121)**	(132)
Profit for the period	**182**	130	172	**354**	319

Overview

HSBC Bank Canada reported a profit before income tax expense of $242m for the second quarter of 2014, an increase of $60m, or 33%, compared with the second quarter of 2013 and an increase of $9m or 4% compared with the first quarter of 2014. Profit before income tax expense for the first half of 2014 was $475m, an increase of $24m, or 5% compared with the first half of 2013.

The increase in profit before income tax expense compared with the same periods last year was primarily due to increased fees from credit and wealth products, lower loan impairment charges as a result of lower specific allowances for commercial customers and an increase in other income arising from a reduction in the fair value of investment property held for sale recorded in the second quarter of 2013. This was partially offset by lower net interest income from the continued planned run-off of the consumer finance portfolio, lower net trading income from foreign exchange products and increased operating expenses as we invest in HSBC Group's global standards as well as risk and compliance activities.

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

"The changes we have been making over the last several years have begun to show in our financial results. There is good momentum in all our business lines with increased commercial lending, residential mortgages and customer activity in Global Banking and Markets, and significant growth in funds under management. However, spread compression and the accelerated planned run-off of the consumer finance portfolio have both negatively impacted revenue. Consistent with the HSBC Group's global strategy, we continue to make strides to grow our business and make it more efficient while implementing global standards within Canada."

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the second quarter of 2014 was $307m, a decrease of $33m, or 10%, compared with the second quarter of 2013 and unchanged from the first quarter of 2014. Net interest income for the first half of 2014 was $614m, a decrease of $62m, or 9%, compared with the first half of 2013. Net interest income decreased from the comparative periods in 2013, primarily due to declining loan balances from the continued planned run-off of the consumer finance portfolio. However, compared to the first quarter of 2014, net interest income was unchanged. This resulted from increased residential mortgage lending offset by declining balances from the planned run-off of the consumer finance portfolio noted above.

Net fee income

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Credit facilities	**70**	63	68	**138**	126
Funds under management	**41**	35	37	**78**	68
Account services	**21**	22	19	**40**	42
Credit cards	**16**	16	14	**30**	30
Remittances	**8**	12	8	**16**	20
Corporate finance	**10**	11	8	**18**	16
Immigrant Investor Program	**6**	8	4	**10**	16
Brokerage commissions	**3**	4	3	**6**	8
Insurance	**3**	4	3	**6**	8
Trade finance import/export	**3**	3	2	**5**	6
Trustee fees	**1**	1	1	**2**	2
Other	**1**	2	5	**6**	5
Fee income	**183**	181	172	**355**	347
Less: fee expense	**(23)**	(27)	(17)	**(40)**	(47)
Net fee income	**160**	154	155	**315**	300

Net fee income for the second quarter of 2014 was $160m, an increase of $6m, or 4%, compared with the second quarter of 2013 and an increase of $5m, or 3%, compared with the first quarter of 2014. Net fee income for the first half of 2014 was $315m, an increase of $15m, or 5%, compared with the first half of 2013. The increase in net fee income from the same periods last year and the first quarter of 2014 was primarily due to higher fees from credit products such as standby lines of credit and banker's acceptances, as well as increased fees from wealth related products and from higher funds under management.

Net trading income

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Trading activities	**32**	33	33	**65**	77
Net interest income on trading activities	**1**	12	3	**4**	22
Hedge ineffectiveness	**–**	–	3	**3**	3
Net trading income	**33**	45	39	**72**	102

Net trading income for the second quarter of 2014 was $33m, a decrease of $12m, or 27% compared with the second quarter of 2013, and a decrease of $6m, or 15%, compared with the first quarter of 2014. Net trading income for the first half of 2014 was $72m, a decrease of $30m, or 29%, compared with the first half of 2013. The decrease in net trading income compared with the same periods last year was mainly due to lower spreads on foreign exchange products and the impact of debit valuation adjustments on derivative contracts due to the narrowing of our own credit spreads. The decrease in net trading income compared with the first quarter of 2014 resulted from the impact of debit valuation adjustments on derivatives.

Other items of income

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net expense from financial instruments designated at fair value	**(1)**	–	(2)	**(3)**	(3)
Gains less losses from financial investments	**27**	15	19	**46**	50
Other operating income / (loss)	**13**	(23)	14	**27**	(10)
Other items of income / (loss)	**39**	(8)	31	**70**	37

Net expense from financial instruments designated at fair value for the second quarter and first half of 2014 was $1m and $3m, with no material change from comparative periods in 2013.

Gains less losses from financial investments for the second quarter of 2014 were $27m, an increase of $12m, or 80%, compared with the second quarter of 2013 and an increase of $8m, or 42%, compared with the first quarter of 2014. Gains less losses from financial investments for the first half of 2014 was $46m, a decrease of $4m, or 8%, compared with the first half of 2013. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities. The variances from comparative periods are primarily as a result of the bank's continuous balance sheet management activities.

Other operating income for the second quarter of 2014 was $13m, $36m or 156% higher compared with the second quarter of 2013, and with no material change compared with the first quarter of 2014. Other operating income for the first half of 2014 was $27m, an increase of $37m, or 370%, compared with the first half of 2013. The increase in other operating income compared with the comparative periods in 2013 reflected the reduction in the fair value of an investment property held for sale that was recorded in the second quarter of 2013.

Loan impairment charges and other credit risk provisions

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Individually assessed allowances	**21**	70	15	**36**	110
Collectively assessed allowances	**3**	13	6	**9**	40
Loan impairment charges	**24**	83	21	**45**	150
Other credit risk provisions/(reversal of provisions)	**3**	1	5	**8**	(10)
Loan impairment charges and other credit risk provisions	**27**	84	26	**53**	140

Loan impairment charges and other credit risk provisions for the second quarter of 2014 were $27m, a decrease of $57m or 68% compared with the second quarter of 2013 and no material change from the first quarter of 2014. Loan impairment charges and other credit risk provisions for the first half of 2014 were $53m, a decrease of $87m or 62% compared with the first half of 2013. The decreases in loan impairment charges and other credit risk provisions compared with the same periods in the prior year is primarily as a result of lower specific allowances for commercial customers and the impact of reduced impairment charges resulting from the continued run-off of the consumer finance portfolio.

Total operating expenses

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Employee compensation and benefits	**152**	158	159	**311**	314
General and administrative expenses	**111**	96	104	**215**	191
Depreciation of property, plant and equipment	**9**	8	8	**17**	17
Amortization and impairment of intangible assets	**4**	4	5	**9**	7
Total operating expenses	**276**	266	276	**552**	529

Management's Discussion and Analysis (continued)

Total operating expenses for the second quarter of 2014 were $276m, an increase of $10m, or 4%, compared with the second quarter of 2013 and unchanged from first quarter of 2014. Total operating expenses the first half of 2014 was $552m, an increase of $23m, or 4%, compared with the first half of 2013. The increase in total operating expenses compared with prior year is primarily due to the continued investment in HSBC's global standards as well as risk and compliance activities.

Share of profit in associates

Share of profit in associates for the second quarter of 2014 was $6m, $5m higher than the second quarter of 2013, and $3m higher than the first quarter of 2014. Share of profit in associates for the first half of 2014 was $9m, $4m higher than the first half of 2014. The increase in share of profit was due to increase in the value of the bank's investments in private equity funds.

Income taxes expense

The effective tax rate in the second quarter of 2014 was 25.0%, compared with 28.9% in the second quarter of 2013 and 26.5% in the first quarter of 2014. Income tax expense for the second quarter and first half of 2014 includes the effect of an income tax refund, while the comparative periods in 2013 reflect the impact of a tax adjustment relating to prior periods.

Movement in financial position

Condensed consolidated balance sheet

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
ASSETS			
Trading assets	**6,525**	7,522	6,728
Derivatives	**2,139**	2,096	2,112
Loans and advances to banks	**438**	456	1,149
Loans and advances to customers	**41,549**	41,156	40,524
Reverse repurchase agreements – non-trading	**6,178**	6,989	6,161
Financial investments	**19,774**	19,841	21,814
Customer's liability under acceptances	**5,586**	4,785	4,757
Other assets	**957**	1,493	1,015
Total assets	**83,146**	84,338	84,260
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**912**	728	635
Customer accounts	**49,329**	47,795	50,926
Repurchase agreements – non-trading	**2,246**	2,562	1,487
Trading liabilities	**3,492**	4,241	4,396
Derivatives	**1,880**	1,737	1,746
Debt securities in issue	**10,829**	13,240	11,348
Acceptances	**5,586**	4,785	4,757
Other liabilities	**3,881**	3,946	3,880
Total liabilities	**78,155**	79,034	79,175
Equity			
Share capital and other reserves	**1,713**	2,272	1,959
Retained earnings	**3,078**	2,802	2,926
Non-controlling interests	**200**	230	200
Total equity	**4,991**	5,304	5,085
Total equity and liabilities	**83,146**	84,338	84,260

Assets

Total assets at 30 June 2014 were $83.1bn, down $1.1bn from 31 December 2013. Increases in commercial customer lending and residential mortgages resulted in a $1.0bn growth in loans and advances to customers as well as $0.8bn in customers' liability under acceptances. These increases were offset by declines of $2.0bn in financial investments and $0.7bn in loans and advances to banks resulting from disposals, maturities and other balance sheet management activities and $0.2bn in trading positions in government and agency bonds.

Liabilities

Total liabilities at 30 June 2014 were $78.2bn, down $1.0bn from 31 December 2013. There were increases in acceptances of $0.8bn driven by customer demand, and in non-trading repurchase agreements of $0.8bn and deposits by banks of $0.3bn both resulting from balance sheet management activities. However these were more than offset by decreases in customer accounts of $1.6bn, primarily as a result of lower commercial account balances, and trading liabilities of $0.9bn, primarily due to lower balances from pending trade settlements and short position securities. In addition, debt securities were $0.5bn lower at 30 June 2014 resulting from $1.3bn in maturing issues and $0.2bn lower in short-term funding compared with 31 December 2013, offset by a $1.0bn wholesale five year issue in May 2014.

Global lines of business

Commercial Banking

Commercial Banking offers a full range of commercial financial services and tailored solutions to customers ranging from small and medium-sized enterprises ('SMEs') to publicly quoted companies.

Review of financial performance

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net interest income	**165**	172	168	**333**	333
Net fee income	**81**	80	79	**160**	157
Net trading income	**7**	7	6	**13**	15
Gains less losses from financial investments	**16**	–	–	**16**	–
Other operating income / (loss)	**3**	(35)	6	**9**	(32)
Total operating income	**272**	224	259	**531**	473
Loan impairment charges and other credit risk provisions	**(18)**	(61)	(12)	**(30)**	(100)
Net operating income	**254**	163	247	**501**	373
Total operating expenses	**(104)**	(92)	(101)	**(205)**	(182)
Operating profit	**150**	71	146	**296**	191
Share of profit in associates	**6**	1	3	**9**	5
Profit before income tax expense	**156**	72	149	**305**	196

Overview

Profit before income tax expense was $156m for the second quarter of 2014, an increase of $84m, or 117%, compared with the second quarter of 2013 and $7m or 5% compared with the first quarter of 2014. Profit before income tax expense for the first half of 2014 was $305m, an increase of $109m, or 56% compared with the first half of 2013.

The increase in profit before income tax expense compared with the same periods last year was primarily due to an increase in other income reflecting the reduction in the fair value of an investment property held for sale that was recorded in the second quarter of 2013, lower specific loan impairment charges and gains from financial investments partially offset by higher operating expenses primarily from increased investments in HSBC's global standards, risk and compliance activities, increases in underlying business as well as the impact of adoption of a revised methodology adopted by HSBC Group for allocating functional support costs to the global lines of business. The increase in profit before income tax expense compared with first quarter in 2014 resulted primarily from gains from financial investments.

Financial performance by income and expense item

Net interest income for the second quarter of 2014 was $165m, a decrease of $7m, or 4%, compared with the second quarter of 2013 and a decrease of $3m, or 2%, compared with the first quarter of 2014. Net interest income for the first half of 2014 was $333m, unchanged compared with the first half of 2013. The decrease in net interest income compared with the same quarter last year was primarily due to recovery of interest income on impaired loans recorded in 2013.

Net fee income for the second quarter of 2014 was $81m, marginally increased over the second quarter of 2013 and the first quarter of 2014. Net fee income for the first half of 2014 was $160m an increase of $3m or 2% compared

Management's Discussion and Analysis (continued)

with the first half of 2013. The increases in net fee income over comparative figures mainly arises from higher banker's acceptances.

Net trading income for the second quarter of 2014 was $7m, little change compared with the second quarter of 2013 and the first quarter of 2014. Net trading income for the first half of 2014 was $13m, a decrease of $2m, or 13%, compared with the first half of 2013, primarily resulting from lower foreign exchange revenues.

Other operating income for the second quarter of 2014 was $3m, an increase of $38m, compared with the second quarter of 2013 and $3m lower than the first quarter of 2014. Other operating income for the first half of 2014 was $9m, an increase of $41m, compared with the first half of 2013. The increase in other operating income from the comparative periods in 2013 reflected the reduction in the fair value of an investment property held for sale that was recorded in the second quarter of 2013.

Loan impairment charges and other credit risk provisions for the second quarter of 2014 was $18m, a decrease of $43m, or 70%, compared with the second quarter of 2013 and an increase of $6m, or 50%, compared with the first quarter of 2014. Loan impairment charges for the first half were $30m, a decrease of $70m, or 70%, compared with the first half of 2013. The decreases in loan impairment charges and other credit risk provisions compared with the same periods last year was mainly as a result of lower specific loan impairment charges and recovery of provisions in 2014. The increase in loan impairment charges over the first quarter of 2014 resulted from the benefit of a recovery of provisions recorded in that quarter.

Gains less losses from financial investments for the second quarter of 2014 included gains of $16m which were recorded on the disposal of available-for-sale securities.

Total operating expenses for the second quarter of 2014 was $104m, an increase of $12m, or 13%, compared with the second quarter of 2013 and an increase of $3m, or 3%, compared with the first quarter of 2014. Total operating expenses for the first half of 2014 was $205m, an increase of $23m, or 13%, compared with the first half of 2013. The increase in total operating expenses compared with 2013 was primarily from the bank's investment in global standards, risk and compliance increases in underlying business as well as the impact of the adoption of a revised methodology by HSBC Group for allocation of functional support costs to the global lines of business.

Share of profit in associates for the second quarter of 2014 was $6m, $5m higher than the second quarter of 2013 and $3m higher than the first quarter of 2014. Share in profit in associates for the first half of 2014 was $9m, an increase of $4m, compared with the first half of 2013. The increase in share of profit in associates was due to the increase in value of the bank's investment in private equity funds.

Global Banking and Markets

Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide.

Review of financial performance

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net interest income	**46**	40	44	**90**	82
Net fee income	**22**	20	24	**46**	38
Net trading income	**15**	25	21	**36**	62
Gains less losses from financial investments	**11**	13	19	**30**	46
Other operating income	**1**	–	–	**1**	–
Total operating income	**95**	98	108	**203**	228
Loan impairment (charges)/reversals and other credit risk	**(2)**	(2)	(1)	**(3)**	–
Net operating income	**93**	96	107	**200**	228
Total operating expenses	**(29)**	(29)	(30)	**(59)**	(58)
Profit before income tax expense	**64**	67	77	**141**	170

Overview

Profit before income tax expense was $64m for the second quarter of 2014, a decrease of $3m, or 4%, compared with the second quarter of 2013 and a decrease of $13m or 17% compared with the first quarter of 2014. Profit before income tax expense was $141m for the first half of 2014, a decrease of $29m, or 17% compared with the first half of 2013. Gains less losses from financial investments are realized as balance sheet management continues to rebalance the portfolio for risk management purposes in the low interest rate environment. The variances in profit before income tax expense compared with the same periods last year were primarily driven by lower gains on disposal from the re-balancing of the financial investments portfolio. Also contributing to the decrease in profit before income tax expense was lower spreads related to foreign exchange products.

Financial performance by income and expense item

Net interest income for the second quarter of 2014 was $46m, an increase of $6m, or 15%, compared with the second quarter of 2013 and an increase of $2m, or 5%, compared with the first quarter of 2014. Net interest income for the first half of 2014 was $90m, an increase of $8m, or 10%, compared with the first half of 2013. The increase in net interest income compared with both the same quarter last year and the prior quarter was primarily due to higher trading funding activity from reverse repurchase agreements.

Net fee income for the second quarter of 2014 was $22m, an increase of $2m, or 10%, compared with the second quarter of 2013 and a decrease of $2m or 8% compared with the first quarter of 2014. Net fee income for the first half of 2014 was $46m, an increase of $8m, or 21%, compared with the first half of 2013. The increase in net fee income compared with the same periods last year was primarily due to higher standby fees.

Net trading income for the second quarter of 2014 was $15m, a decrease of $10m, or 40%, compared with the second quarter of 2013 and a decrease of $6m, or 29%, compared with the first quarter of 2014. Net trading income for the first half of 2014 was $36m, a decrease of $26m, or 42%, compared with the first half of 2013. The decrease in net trading income compared with the same periods last year was mainly due to lower spreads related to foreign exchange products and the impact from debit valuation adjustments on derivative contracts due to the narrowing of our own credit spreads. The decrease in net trading income compared with the first quarter of 2014 was mainly due to the impact from debit valuation adjustments on derivative contracts.

Gains less losses from financial investments for the second quarter of 2014 was $11m, a decrease of $2m, or 15%, compared with the second quarter of 2013 and a decrease of $8m, or 42%, compared with the first quarter of 2014. Gains less losses from financial investments for the first half of 2014 was $30m, a decrease of $16m, or 35%, compared with the first half of 2013. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities. The variances from comparative periods are primarily as a result of the bank's continuous balance sheet management activities.

Total operating expenses for the second quarter of 2014 was $29m, unchanged compared with the second quarter of 2013 and little changed from the first quarter of 2014. Total operating expenses for the first half of 2014 was $59m, marginally increased compared with the first half of 2013.

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides banking and wealth management services for our personal customers to help them to manage their finances and protect and build their financial future.

Review of financial performance

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net interest income	**104**	134	102	**206**	275
Net fee income	**57**	54	52	**109**	105
Net trading income	**3**	7	5	**8**	11
Gains less losses from financial investments	**–**	2	–	**–**	4
Other operating income	**2**	4	2	**4**	7
Total operating income	**166**	201	161	**327**	402
Loan impairment charges and other credit risk provisions	**(7)**	(21)	(13)	**(20)**	(40)
Net operating income	**159**	180	148	**307**	362
Total operating expenses	**(135)**	(137)	(133)	**(268)**	(271)
Profit before income tax expense	**24**	43	15	**39**	91

Management's Discussion and Analysis (continued)

Profit before income tax expense

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Ongoing Retail Banking and Wealth Management business	**15**	19	9	**24**	37
Run-off consumer finance portfolio	**9**	24	6	**15**	54
Profit before income tax expense	**24**	43	15	**39**	91

Overview

Profit before income tax expense was $24m for the second quarter of 2014, a decrease of $19m, or 44%, compared with the second quarter of 2013 and an increase of $9m, or 60%, compared with the first quarter of 2014. Profit before income tax expense was $39m for the first half of 2014, a decrease of $52m, or 57% compared with the first half of 2013.

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $15m, a decrease of $4m, or 21%, compared with the second quarter of 2013 and an increase of $6m or 67% compared with the first quarter of 2014. Profit before income tax expense relating to ongoing business was $24m for the first half of 2014, a decrease of $13m, or 35% compared with the first half of 2013. Profit before income tax expense decreased from the same periods last year primarily due to lower net interest income driven by a decline in personal lending balances and a decline in net interest spread in a competitive low interest rate environment. Profit before income tax expense for the second quarter of 2014 increased over the first quarter of 2014 mainly due to increases in personal lending, particularly residential mortgages, as well as wealth fees earned.

Profit before income tax expense relating to the run-off consumer finance portfolio for the second quarter of 2014 was $9m, a decrease of $15m, or 63%, compared with the second quarter of 2013 and an increase of $3m, or 50%, compared with the first quarter of 2014. Profit before income tax expense for this business was $15m for the first half of 2014, a decrease of $39m, or 72% compared with the first half of 2013. The decrease in profit before income tax expense relating to the run-off consumer finance portfolio compared to the same periods in 2013 was primarily due to lower interest income from declining loan balances, partially offset by lower loan impairment charges from the planned run-off of the portfolio and lower operating expenses from the right sizing of operations. The increase in profit compared to the first quarter of 2014 was due to reduced impairment charges and operating costs.

Financial performance by income and expense item

Net interest income relating to ongoing business for the second quarter of 2014 was $87m, a decrease of $3m, or 4%, compared with the second quarter of 2013 and an increase of $5m, or 5%, compared with the first quarter of 2014. Net interest income relating to ongoing business for the first half of 2014 was $170m, a decrease of $14m, or 8%, compared with the first half of 2013. Net interest income decreased primarily due to a decline in personal lending balances and lower net interest spread in a competitive low interest rate environment. Net interest income for the second quarter of 2014 increased over the first quarter of 2014 mainly due to increases in personal lending, particularly residential mortgages.

Net fee income relating to ongoing business for the second quarter of 2014 was $56m, an increase of $4m, or 7%, compared with the second quarter of 2013 and an increase of $5m, or 10%, compared with the first quarter of 2014. Net fee income relating to ongoing business for the first half of 2014 was $107m, an increase of $6m, or 6%, compared with the first half of 2013. The increases in fee revenues mainly resulted from increases in sales in wealth management products.

Net trading income relating to ongoing business for the second quarter of 2014 was $3m, an decrease of $4m, or 57%, compared with the second quarter of 2013 and a decrease of $2m, or 40%, compared with the first quarter of 2014. Net trading income for the first half of 2014 was $8m, a decrease of $3m, or 27%, compared with the first half of 2013.

Loan impairment charges and other credit risk provisions relating to ongoing business for the second quarter of 2014 was $4m, a decrease of $6m, or 60%, compared with the second quarter of 2013 and a decrease of $3m, or 38%, compared with the first quarter of 2014. Loan impairment charges and other credit risk provisions relating to ongoing business for the first half of 2014 was $11m, a decrease of $8m, or 43%, compared with the first half of 2013. The decrease in loan impairment charges and other credit risk provisions is due to a reduction in collectively assessed provisions following lower loan balances.

Total operating expenses relating to ongoing business for the second quarter of 2014 was $129m, an increase of $5m, or 4%, compared with the second quarter of 2013 and an increase of $4m, or 3%, compared with the first quarter of 2014. Total operating expenses relating to ongoing business for the first half of 2014 was $255m, an increase of $9m, or 4%, compared with the first half of 2013. The increase was primarily from higher staff costs, marketing expenses relating to Premier campaigns and higher customer printing expenses as well as the bank's continued investment in global standards, isk and Compliance functions, partially offset by a reduction of allocated support costs.

Other

'Other' contains the results of movements in fair value of own debt, income and expenses related to information technology services provided to HSBC Group companies on an arm's length basis and other transactions which do not directly relate to our global lines of business.

Review of financial performance

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Net interest expense	**(8)**	(6)	(7)	**(15)**	(14)
Net trading income	**8**	6	7	**15**	14
Net expense from financial instruments designated at fair value	**(1)**	–	(2)	**(3)**	(3)
Other operating income	**7**	8	6	**13**	15
Total operating income	**6**	8	4	**10**	12
Total operating expenses	**(8)**	(8)	(12)	**(20)**	(18)
Profit/(loss) before income tax expense	**(2)**	–	(8)	**(10)**	(6)

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2013 for more information regarding quarterly trends in performance for 2013 and 2012.

Summary consolidated income statement

	Quarter ended							
	Jun 30 2014 $m	Mar 31 2014 $m	Dec 31 2013 $m	Sep 30 2013 $m	Jun 30 2013 $m	Mar 31 2013 $m	Dec 31 2012 $m	Sep 30 2012 $m
Total operating income	**539**	532	524	522	531	584	526	572
Profit for the period	**182**	172	182	186	130	189	154	180
Profit attributable to the common shareholder	**172**	160	164	168	113	171	136	162
Profit attributable to preferred shareholders	**8**	9	16	15	15	15	16	15
Profit attributable to non-controlling interests	**2**	3	2	3	2	3	2	3
Basic earnings per common share	**0.35**	0.32	0.33	0.34	0.23	0.34	0.27	0.33

Accounting matters

Critical accounting policies

The results of the bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. A summary of our significant accounting policies are provided in note 2.

Refer to the 'Critical accounting policies' section of our Annual Report and Accounts 2013 for accounting policies that are deemed critical to our results and financial position, in terms of materiality of the items which the policy is applied and the high degree of judgement involved, including the use of assumptions and estimation.

Changes in presentation

In the first quarter of 2014, the bank changed its presentation of reverse repurchase and repurchase agreements. Previously, these amounts were either included in loans and advances to banks as well as loans and advances to customers or deposits by banks as well as customer accounts respectively. These amounts are now presented in their own separate categories on the face of the bank's consolidated balance sheet, which is a more

Management's Discussion and Analysis (continued)

appropriate disclosure for these instruments which are not representative of typical loans and deposits. Prior period presentation was changed accordingly. There is no change in total assets and liabilities, nor is there any impact on interest income and expense. Refer to note 1 for further information relating to the change.

Changes in accounting policy

Offsetting
On 1 January 2014, the bank adopted amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The adoption did not have a material effect on the bank's consolidated financial statements and as a result comparative information was not restated.

Future accounting developments

Financial instruments
Refer to the 'Future accounting developments' section of our Annual Report and Accounts 2013 for a discussion of the International Accounting and Standards Board's ('IASB') project to replace present accounting standards on financial instruments with IFRS 9 'Financial Instruments'. In February 2014, the IASB tentatively decided that entities are required to adopt IFRS 9 for annual periods beginning on or after 1 January 2018.

Off-balance sheet arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact, but may not be recognized in our financial statements. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded in our consolidated balance sheet. These arrangements include: guarantees, letters of credit, and derivatives and are described in the 'Off-balance sheet arrangements' section of our Annual Report and Accounts 2013. Further information is disclosed in note 11.

Related Party Transactions

We enter into transactions with other HSBC affiliates as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, we share in the expertise and economies of scale provided by the HSBC Group. We provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas.

These related party transactions are on terms similar to those offered to non-related parties and are subject to formal approval procedures that have been approved by the bank's Conduct Review Committee.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer and Chief Financial Officer have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 June 2014, 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 2014 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Risk Management

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages risk on an enterprise wide level, as well as the management of reputational and operational risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to an obligation under contract. It arises principally from direct lending, trade finance and the leasing business, but also from other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

The bank's principal objectives of credit risk management are:

- to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework;
- to both partner with and challenge businesses in defining and implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages credit risk, collateral and other credit risk enhancements, as well as a more in depth explanation of our credit risk measures.

Diversification of credit risk

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Diversification of credit risk is a key concept by which we are guided.

In assessing and monitoring for credit risk concentration, we aggregate exposures by product type, industry and geographic area. Exposures are measured at exposure at default ('EAD'), which reflects drawn balances as well as an allowance for undrawn amounts of commitments and contingent exposures, and therefore would not agree to the financial statements.

Wholesale and retail credit risk exposures by product type

	EAD At 30 June 2014 $m	EAD At 31 December 2013 $m
Wholesale credit risk exposures		
Sovereign		
Drawn exposures	**20,530**	22,696
Derivatives	**215**	278
Undrawn commitments	**47**	17
Other off-balance sheet exposures	**73**	–
	20,865	22,991
Banks		
Drawn exposures	**1,961**	3,275
Derivatives	**2,655**	2,409
Repurchase type transactions	**28**	16
Other off-balance sheet exposures	**547**	469
	5,191	6,169
Corporate		
Drawn exposures	**28,172**	26,511
Undrawn commitments	**10,943**	11,703
Derivatives	**1,216**	1,278
Repurchase type transactions	**25**	133
Other off-balance sheet exposures	**3,079**	2,950
	43,435	42,575
Total wholesale credit risk exposures	**69,491**	71,735
Retail credit risk exposures		
Residential mortgages	**17,588**	17,347
Home equity lines of credit	**3,152**	4,916
Other personal loan facilities	**2,200**	2,600
Credit cards	**1,107**	1,075
Personal unsecured revolving loan facilities	**544**	1,060
Run-off consumer finance loan portfolio	**538**	670
Other small to medium enterprises loan facilities	**649**	624
Total retail credit risk exposures	**25,778**	28,292
Total wholesale and retail credit risk exposures	**95,269**	100,027

Management's Discussion and Analysis (continued)

Credit Quality of Financial Assets

The overall credit quality at 30 June 2014 was strong, primarily driven by the underlying quality of the wholesale portfolio and the bank's high quality relationships. The credit quality in our retail portfolio is also strong, in part resulting from the planned run-off of the consumer finance portfolio.

Impairment allowances and provision for credit losses

Impairment allowances

	At 30 June 2014 $m	At 31 December 2013 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances (A)	**415**	445
Collectively assessed loans and advances (B)	**41,471**	40,442
- impaired loans and advances	**82**	101
- non-impaired loans and advances	**41,389**	40,341
Total gross loans and advances to customers (C)	**41,886**	40,887
Less: impairment allowances (c)	**337**	363
- individually assessed (a)	**139**	157
- collectively assessed (b)	**198**	206
Net loans and advances to customers	**41,549**	40,524
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**33.5%**	35.3%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	**0.5%**	0.5%
Total loans and advances coverage - (c) as a percentage of (C)	**0.8%**	0.9%

Movement in impairment allowances and provision for credit losses

	Half-year ended 30 June 2014			
	Customers individually assessed $m	**Customers collectively assessed $m**	**Provision for credit losses $m**	**Total $m**
Opening balance at the beginning of the period	**157**	**206**	**61**	**424**
Movement				
Loans and advances written off net of recoveries of previously written off amounts	**(48)**	**(17)**	**–**	**(65)**
Charge to income statement	**36**	**9**	**8**	**53**
Interest recognized on impaired loans and advances	**(6)**	**–**	**–**	**(6)**
Closing balance at the end of the period	**139**	**198**	**69**	**406**

Movement in impairment allowances and provision for credit losses

	Half-year ended 30 June 2013			
	Customers individually assessed $m	Customers collectively assessed $m	Provision for credit losses $m	Total $m
Opening balance at the beginning of the period	202	217	80	499
Movement				
Loans and advances written off net of recoveries of previously written off amounts	(62)	(52)	–	(114)
Charge/(release) to income statement	110	40	(10)	140
Interest recognized on impaired loans and advances	(9)	–	–	(9)
Closing balance at the end of the period	241	205	70	516

Liquidity and funding risk

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

The objective of our liquidity and funding management strategy is to ensure that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that access to the wholesale markets is coordinated and cost-effective. There have been no material changes to our liquidity and funding management strategy as described in the 'Risk management' section of our Annual Report and Accounts 2013. We continue to monitor liquidity and funding risk within our stated risk appetite and management framework.

Advances to core funding ratio

The bank emphasizes the importance of core current accounts and savings accounts as a source of funds to finance lending to customers, and discourages reliance on short-term professional funding.

The advances to core funding ratio describes loans and advances to customers as a percentage of the total of core customer current and savings accounts and term funding with a remaining term to maturity in excess of one year. The distinction between core and non-core deposits generally means that the bank's measure of advances to core funding is more restrictive than that which could be inferred from the published financial statements.

Advances to core funding ratio

	Half-year ended	
	30 June 2014 %	31 December 2013 %
End of period	**101%**	93%
Maximum	**101%**	97%
Minimum	**93%**	93%
Average	**98%**	95%

Liquid Assets

The table below shows the estimated liquidity value (before assumed haircuts) of assets categorized as liquid used for the purpose of liquidity stress testing as set out in our internal liquidity and funding management framework.

Any unencumbered asset held as a consequence of a reverse repurchase transaction with a residual contractual maturity within the relevant stress testing horizon and unsecured interbank loans maturing within three months are not included in liquid assets, as these assets are reflected as contractual cash inflows.

Estimated liquidity value

	At 30 June 2014 $m	At 31 December 2013 $m
Level 1[1]	**16,207**	17,955
Level 2[2]	**3,624**	3,960
	19,831	21,915

1 *Includes debt securities of central governments, central banks, supranationals and multilateral development banks.*
2 *Includes debt securities of local and regional governments, public sector entities and secured covered bonds.*

Net contractual cash flows

The following table quantifies the contractual cash flows from interbank and intra-Group loans and deposits, and reverse repurchase transactions, repurchase transactions (including intergroup transactions) and short positions. These contractual cash inflows and outflows should be considered alongside the level of liquid assets and are treated as such in our internal liquidity stress testing.

Management's Discussion and Analysis (continued)

Cash flows within three months

	At 30 June 2014 $m	At 31 December 2013 $m
Interbank and intra-Group loans and deposits	**229**	855
Reverse repurchase transactions, repurchase transactions and outright short positions (including intra-Group)	**1,298**	1,057

Contingent liquidity risk arising from committed lending facilities

The bank provides commitments to various counterparts. In terms of liquidity risk, the most significant risk relates to committed lending facilities which, whilst undrawn, give rise to contingent liquidity risk, as these could be drawn during a period of liquidity stress. Commitments are given to customers and committed liquidity facilities are provided to conduits, established to enable clients to access a flexible market-based source of finance.

The table below shows the level of undrawn commitments outstanding to conduits and customers for the five largest single facilities and the largest market sector.

The bank's contractual undrawn exposures monitored under the contingent liquidity risk structure

	At 30 June 2014 $m	At 31 December 2013 $m
Commitments to conduits		
Total lines	**245**	1,035
Largest individual lines	**194**	765
Commitments to customers		
Five largest	**1,686**	1,553
Largest market sector	**3,577**	3,644

Sources of funding

Current accounts and savings deposits, payable on demand or on short notice, form a significant part of our funding. We place considerable importance on maintaining the stability and growth of these deposits, which provide a diversified pool of funds.

We also access professional markets in order to maintain a presence in local money markets and to optimize the funding of asset maturities not naturally matched by core deposit funding. As part of our wholesale funding arrangements, we have a number of programs for fundraising activities, so that undue reliance is not placed on any one source of funding.

No reliance is placed on unsecured money market wholesale funding as a source of core funding. Only wholesale funding with a residual term to maturity of one year or greater is counted towards the core funding base. In addition, our stress testing assumptions require an equivalent amount of liquid assets to be held against wholesale funding maturing within the relevant stress testing horizon.

Encumbered assets

In the normal course of business, the bank will pledge or otherwise encumber assets. The pledging of assets will occur to meet the bank's payments and settlement system obligations, as security in a repurchase transaction, to support secured debt instruments or as margining requirements. Limits are in place to control such pledging.

The bank actively monitors its pledging positions. Encumbered assets are not counted towards the bank's liquid assets used for internal stress testing scenarios. We further estimate the impact of credit rating downgrade triggers, and exclude the estimated impact from liquid assets within the bank's liquidity stress testing scenarios.

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.

The objective of market risk management is to identify, measure and control market risk exposures in order to optimize return on risk and to remain within the bank's risk appetite.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages market risk as well as a more in depth explanation of our market risk measures.

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.

VaR disclosed in the table and graph below is the bank's total VaR for both trading and non-trading books and remained within the bank's limits. The increase in VaR during July 2013 was due to a temporary widening in credit spreads effecting credit VaR.

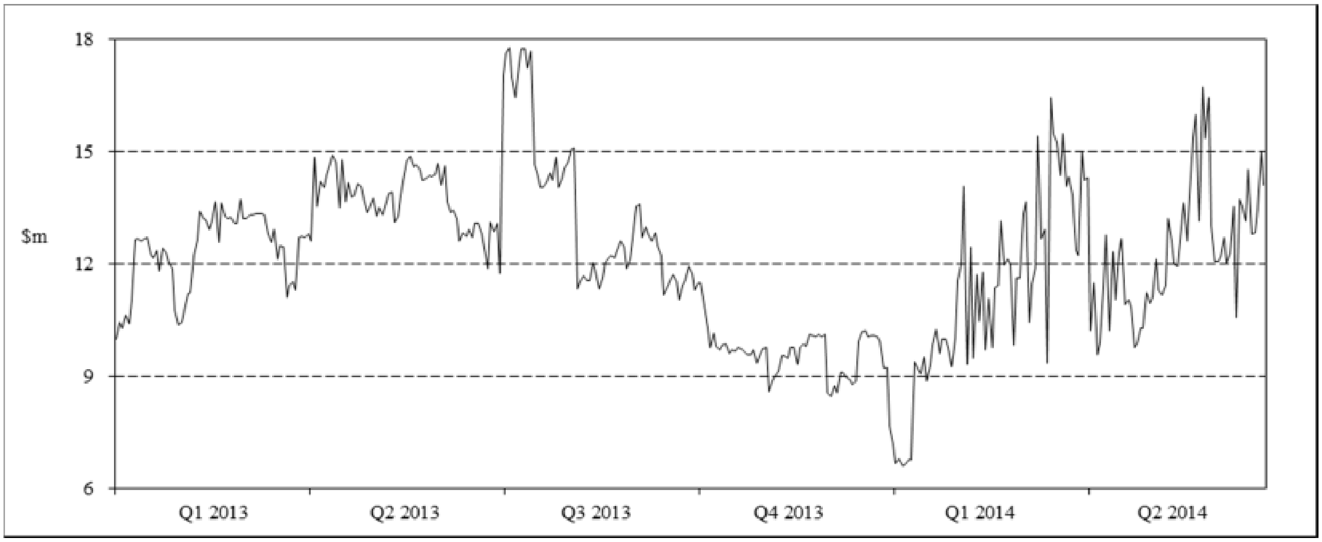
VAR by risk type for trading activities[1] (figures in $m)	Foreign exchange and commodity	Interest rate	Equity	Credit Spread	Portfolio diversification[2]	Total[3]
First half of 2014						
At period end	**0.0**	**0.2**	**0.0**	**1.3**	**(0.2)**	**1.3**
Average	**0.1**	**0.4**	**0.0**	**1.0**	**(0.4)**	**1.1**
Minimum	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**0.6**
Maximum	**0.4**	**1.2**	**0.1**	**2.4**	**0.0**	**2.4**
First half of 2013						
At period end	0.2	0.9	0.0	1.3	(0.8)	1.6
Average	0.1	1.1	0.0	1.9	(0.9)	2.2
Minimum	0.0	0.5	0.0	0.8	0.0	1.1
Maximum	0.3	1.9	0.2	4.1	0.0	4.1

Notes:
1 Trading portfolios comprise positions arising from the market-making and warehousing of customer derived positions.
2 Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VAR by individual risk type and the combined total VAR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.
3 The total VAR is non-additive across risk types due to diversification effects.

Non-trading value at risk ($m)	Half Year Ended **30 June 2014**	30 June 2013
At period end	**14**	12
Average	**11**	13
Minimum	**7**	11
Maximum	**16**	15

Management's Discussion and Analysis (continued)

Daily Total VaR



Factors that may affect future results

The risk management section in the MD&A describes the most significant risks to which the bank is exposed and if not managed appropriately could have a material impact on our future financial results. Refer to the 'Factors that may affect future results' section of our Annual Report and Accounts 2013 for a description of additional factors which may affect future financial results.

Capital

Our objective in the management of capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory requirements.

Refer to the 'Capital' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below, with the exception of the assets-to-capital multiple, are presented under a Basel III 'all-in' basis, which applies certain Basel III regulatory adjustments from 1 January 2013 and phases out non-qualifying capital instruments over 10 years starting 1 January 2013. The assets-to-capital multiple is presented under a Basel III 'transitional' basis, which phases in Basel III regulatory adjustments over 4 years starting 1 January 2014 and phases out non-qualifying capital instruments over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the half year ended 30 June 2014.

Regulatory capital ratios

Actual regulatory capital ratios and capital limits

	30 June 2014	31 December 2013
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**11.0%**	11.0%
Tier 1 capital ratio	**12.4%**	13.2%
Total capital ratio	**14.0%**	15.0%
Assets-to-capital multiple	**16.0x**	15.1x
Required regulatory capital limits		
Minimum Common equity tier 1 capital ratio	**7.0%**	7.0%
Minimum Tier 1 capital ratio[1]	**8.5%**	8.5%
Minimum Total capital ratio	**10.5%**	10.5%

1 *The minimum Tier 1 capital ratio limit is effective from 1 January 2014.*

Regulatory capital

Regulatory capital and risk weighted assets

	30 June 2014 $m	31 December 2013 $m
Tier 1 capital	**4,786**	4,857
Common equity tier 1 capital	**4,236**	4,057
Gross common equity[1]	**4,441**	4,285
Regulatory adjustments	**(205)**	(228)
Additional tier 1 eligible capital[2]	**550**	800
Tier 2 capital[3]	**616**	677
Total capital available for regulatory purposes	**5,402**	5,534
Total risk-weighted assets	**38,629**	36,862

1 *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2 *Includes directly issued capital instruments and instruments issued by a subsidiary subject to phase out.*
3 *Includes directly issued capital instruments subject to phase out and collective allowances.*

Outstanding Shares and Securities

Outstanding shares and securities

	At 31 July 2014		
	Dividend or distribution[1] $ per share or security	Number of issued shares and securities Thousands	Carrying value $m
Common shares		498,668	1,225
Preferred Shares			
Class 1, Series C	0.31875	7,000	175
Class 1, Series D	0.3125	7,000	175
			350
HSBC HaTS™ - Series 2015[2]	25.75		200

1 *Cash dividends on preferred shares are non-cumulative and are payable quarterly. Cash distributions on HSBC HaTS™ are non-cumulative and are payable semi-annually.*
2 *Presented as non-controlling interests in the consolidated balance sheet.*

During the second quarter of 2014, the bank declared and paid $80m in dividends on HSBC Bank Canada common shares, a decrease of $10m compared with the same quarter last year. The bank declared and paid $160m in dividends on common shares during the first half of 2014, a decrease of $20m from the same period in 2013.

On 30 June 2014, the bank redeemed its Class 1 Preferred Shares Series E for cash at par.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. Dividends will be paid on 30 September 2014, to shareholders of record on 15 September 2014.

Financial Statements (unaudited)

Consolidated income statement

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Interest income	**484**	534	483	**967**	1,051
Interest expense	**(177)**	(194)	(176)	**(353)**	(375)
Net interest income	**307**	340	307	**614**	676
Fee income	**183**	181	172	**355**	347
Fee expense	**(23)**	(27)	(17)	**(40)**	(47)
Net fee income	**160**	154	155	**315**	300
Trading income excluding net interest income	**32**	33	36	**68**	80
Net interest income on trading activities	**1**	12	3	**4**	22
Net trading income	**33**	45	39	**72**	102
Net expense from financial instruments designated at fair value	**(1)**	–	(2)	**(3)**	(3)
Gains less losses from financial investments	**27**	15	19	**46**	50
Other operating income/(expense)	**13**	(23)	14	**27**	(10)
Total operating income	**539**	531	532	**1,071**	1,115
Loan impairment charges and other credit risk provisions	**(27)**	(84)	(26)	**(53)**	(140)
Net operating income	**512**	447	506	**1,018**	975
Employee compensation and benefits	**(152)**	(158)	(159)	**(311)**	(314)
General and administrative expenses	**(111)**	(96)	(104)	**(215)**	(191)
Depreciation of property, plant and equipment	**(9)**	(8)	(8)	**(17)**	(17)
Amortization and impairment of intangible assets	**(4)**	(4)	(5)	**(9)**	(7)
Total operating expenses	**(276)**	(266)	(276)	**(552)**	(529)
Operating profit	**236**	181	230	**466**	446
Share of profit in associates	**6**	1	3	**9**	5
Profit before income tax expense	**242**	182	233	**475**	451
Income tax expense	**(60)**	(52)	(61)	**(121)**	(132)
Profit for the period	**182**	130	172	**354**	319
Profit attributable to common shareholders	**172**	113	160	**332**	284
Profit attributable to preferred shareholders	**8**	15	9	**17**	30
Profit attributable to shareholders	**180**	128	169	**349**	314
Profit attributable to non-controlling interests	**2**	2	3	**5**	5
Average number of common shares outstanding (000's)	**498,688**	498,668	498,668	**498,668**	498,668
Basic earnings per common share	**$ 0.35**	$ 0.23	$ 0.32	**$ 0.67**	$ 0.57

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Profit for the period	**182**	130	172	**354**	319
Other comprehensive income/(loss)					
Available-for-sale investments[1]	**6**	(89)	12	**18**	(92)
– fair value gains/(losses)	**35**	(104)	35	**70**	(71)
– fair value gains transferred to income statement on disposal	**(27)**	(15)	(19)	**(46)**	(50)
– income taxes	**(2)**	30	(4)	**(6)**	29
Cash flow hedges[1]	**(17)**	(86)	3	**(14)**	(88)
– fair value gains/(losses)	**88**	(78)	(33)	**55**	43
– fair value (gains)/losses transferred to income statement	**(111)**	(37)	37	**(74)**	(161)
– income taxes	**6**	29	(1)	**5**	30
Actuarial losses on defined benefit plans[2]	**(9)**	8	(11)	**(20)**	4
– before income taxes	**(11)**	7	(15)	**(26)**	2
– income taxes	**2**	1	4	**6**	2
Other comprehensive (loss)/ income for the period, net of tax	**(20)**	(167)	4	**(16)**	(176)
Total comprehensive income for the period	**162**	(37)	176	**338**	143
Total comprehensive income for the period attributable to:					
– shareholders	**160**	(39)	173	**333**	138
– non-controlling interests	**2**	2	3	**5**	5
	162	(37)	176	**338**	143

1 *Other comprehensive income/(loss) items that can be reclassified into income.*
2 *Other comprehensive income/(loss) items that cannot be reclassified into income.*

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated balance sheet

	Notes	**30 June 2014 $m**	30 June 2013 $m	31 December 2013 $m
ASSETS				
Cash and balances at central bank		**66**	66	165
Items in the course of collection from other banks		**87**	110	107
Trading assets	*4*	**6,525**	7,522	6,728
Derivatives	*5*	**2,139**	2,096	2,112
Loans and advances to banks		**438**	456	1,149
Loans and advances to customers		**41,549**	41,156	40,524
Reverse repurchase agreements – non-trading	*9*	**6,178**	6,989	6,161
Financial investments	*6*	**19,774**	19,841	21,814
Other assets		**418**	892	332
Prepayments and accrued income		**189**	218	206
Customers' liability under acceptances		**5,586**	4,785	4,757
Property, plant and equipment		**132**	137	137
Goodwill and intangible assets		**65**	70	68
Total assets		**83,146**	84,338	84,260
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**912**	728	635
Customer accounts		**49,329**	47,795	50,926
Repurchase agreements – non-trading	*9*	**2,246**	2,562	1,487
Items in the course of transmission to other banks		**219**	149	53
Trading liabilities	*7*	**3,492**	4,241	4,396
Financial liabilities designated at fair value	*8*	**429**	428	428
Derivatives	*5*	**1,880**	1,737	1,746
Debt securities in issue		**10,829**	13,240	11,348
Other liabilities		**2,202**	2,258	2,338
Acceptances		**5,586**	4,785	4,757
Accruals and deferred income		**499**	487	551
Retirement benefit liabilities		**293**	295	271
Subordinated liabilities		**239**	329	239
Total liabilities		**78,155**	79,034	79,175
Equity				
Common shares		**1,225**	1,225	1,225
Preferred shares		**350**	946	600
Other reserves		**138**	101	134
Retained earnings		**3,078**	2,802	2,926
Total shareholders' equity		**4,791**	5,074	4,885
Non-controlling interests		**200**	230	200
Total equity		**4,991**	5,304	5,085
Total equity and liabilities		**83,146**	84,338	84,260

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated statement of cash flows

		Quarter ended			Half-year ended	
		30 June 2014	30 June 2013	31 March 2014	**30 June 2014**	30 June 2013
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**242**	182	233	**475**	451
Adjustments for:						
– non-cash items included in profit before tax	*10*	**48**	98	47	**95**	172
– change in operating assets	*10*	**(1,088)**	2,048	(772)	**(1,860)**	463
– change in operating liabilities	*10*	**858**	(498)	(1,278)	**(420)**	1,720
– tax paid		**(75)**	(44)	(71)	**(146)**	(133)
Net cash (used in)/from operating activities		**(15)**	1,786	(1,841)	**(1,856)**	2,673
Cash flows from investing activities						
Purchase of financial investments		**(3,974)**	(4,588)	(3,291)	**(7,265)**	(8,764)
Proceeds from the sale and maturity of financial investments		**3,776**	4,630	5,547	**9,323**	9,242
Purchase of property, plant and equipment		**(13)**	(9)	(8)	**(21)**	(19)
Purchase of intangibles		**(1)**	–	(3)	**(4)**	–
Net cash (used in)/from investing activities		**(212)**	33	2,245	**2,033**	459
Cash flows from financing activities						
Dividends paid to shareholders		**(88)**	(105)	(89)	**(177)**	(210)
Distributions to non-controlling interests		**(2)**	(2)	(3)	**(5)**	(5)
Redemption of preferred shares		**(250)**	–	–	**(250)**	–
Net cash used in financing activities		**(340)**	(107)	(92)	**(432)**	(215)
Net (decrease)/increase in cash and cash equivalents		**(567)**	1,712	312	**(255)**	2,917
Cash and cash equivalents at the beginning of the period		**2,208**	2,958	1,896	**1,896**	1,753
Cash and cash equivalents at the end of the period	*10*	**1,641**	4,670	2,208	**1,641**	4,670

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of changes in equity for the half-year ended 30 June 2014

			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	1,825	2,926	35	99	134	4,885	200	5,085
Profit for the period	–	349	–	–	–	349	5	354
Other comprehensive income (net of tax)	–	(20)	18	(14)	4	(16)	–	(16)
Available-for-sale investments	–	–	18	–	18	18	–	18
Cash flow hedges	–	–	–	(14)	(14)	(14)	–	(14)
Actuarial losses on defined benefit plans	–	(20)	–	–	–	(20)	–	(20)
Total comprehensive income for the period	–	329	18	(14)	4	333	5	338
Redemption on preferred shares	(250)	–	–	–	–	(250)	–	(250)
Dividends paid on common shares	–	(160)	–	–	–	(160)	–	(160)
Dividends paid on preferred shares	–	(17)	–	–	–	(17)	–	(17)
Distributions to unit holders	–	–	–	–	–	–	(5)	(5)
At 30 June	1,575	3,078	53	85	138	4,791	200	4,991

Consolidated statement of changes in equity for the half-year ended 30 June 2013

			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	2,694	121	160	281	5,146	230	5,376
Profit for the period	–	314	–	–	–	314	5	319
Other comprehensive income (net of tax)	–	4	(92)	(88)	(180)	(176)	–	(176)
Available-for-sale investments	–	–	(92)	–	(92)	(92)	–	(92)
Cash flow hedges	–	–	–	(88)	(88)	(88)	–	(88)
Actuarial losses on defined benefit plans	–	4	–	–	–	4	–	4
Total comprehensive income for the period	–	318	(92)	(88)	(180)	138	5	143
Dividends paid on common shares	–	(180)	–	–	–	(180)	–	(180)
Dividends paid on preferred shares	–	(30)	–	–	–	(30)	–	(30)
Distributions to unit holders	–	–	–	–	–	–	(5)	(5)
At 30 June	2,171	2,802	29	72	101	5,074	230	5,304

The accompanying notes and the 'Risk Management' and 'Capital' sections within Management's Discussion and Analysis form an integral part of these financial statements.

Notes on 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 ('HSBC Holdings'). Throughout these interim unaudited consolidated financial statements ('financial statements') the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. These financial statements should be read in conjunction with the bank's 2013 annual consolidated financial statements, which are both prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and Section 308 (4) of the Bank Act.

The financial statements are prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting'.

b *Presentation of information*

The financial statements are presented in Canadian dollars which is also the bank's functional currency. The abbreviation '$m' represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted. Certain prior period amounts have been restated to conform with the current period presentation.

From 1 January 2014, HSBC has chosen to present non-trading reverse repurchase and repurchase agreements separately on the face of the balance sheet. Previously they were presented on an aggregate basis together within 'Loans and advances to banks', 'Loans and advances to customers', 'Deposits by banks', and 'Customer accounts'. The separate presentation aligns disclosure of reverse repurchase and repurchase agreements with market practice and provide more meaningful information in relation to loans and advances. Further explanation is provided in Note 9 on the financial statements. Comparative periods have been presented accordingly. There is no other effect of this change in presentation.

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 judgment 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 judgment is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described in Note 2 on the consolidated financial statements of the bank's Annual Report and Accounts 2013.

d *Consolidation*

The financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 June 2014. The method adopted by the bank to consolidate its subsidiaries is described in Note 1(d) on the consolidated financial statement of the bank's Annual Report and Accounts 2013.

Notes on the Financial Statements (unaudited) (continued)

e *Future accounting developments*

Future accounting developments have been disclosed in Note 1(f) on the consolidated financial statements of the bank's Annual Report and Accounts 2013. In February 2014, the International Accounting and Standards Board tentatively decided that entities are required to adopt IFRS 9 'Financial Instruments' for annual periods beginning on or after 1 January 2018.

2 Summary of significant accounting policies

Except as set out below, there have been no significant changes to the accounting policies of the bank from those as disclosed in Note 2 on the consolidated financial statements of the bank's Annual Report and Accounts 2013.

IAS 32 – Offsetting

On 1 January 2014, the bank adopted Amendments to IAS 32 'Financial Instruments: Presentation' in connection with the offsetting of financial assets and financial liabilities. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32. The adoption did not have a material effect on the bank's financial statements and as a result comparative information was not restated.

3 Post-employment 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 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Pension plans – defined benefit	**5**	5	5	**10**	10
Pension plans – defined contribution	**8**	6	7	**15**	13
Healthcare and other post-employment benefit plans	**3**	3	3	**6**	6
	16	14	15	**31**	29

Actuarial valuations for the bank's registered defined pension plans are prepared annually and for non-registered plans and other retirement compensation arrangements triennially. The most recent actuarial valuations of the registered defined benefit pension plans for funding purposes were conducted as at 31 December 2013.

4 Trading assets

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
Trading assets:			
– Not subject to repledge or resale by counterparties	**6,231**	6,777	6,294
– Which may be repledged or resold by counterparties	**294**	745	434
	6,525	7,522	6,728
Canadian and provincial government bonds[1]	**1,449**	2,666	2,086
Debt securities	**496**	647	442
Total debt securities	**1,945**	3,313	2,528
Bankers acceptances	**2,471**	2,952	2,848
Customer trading assets	**1,431**	998	876
Treasury and other eligible bills	**463**	154	467
Trading assets from other banks	**164**	104	9
Equity securities	**51**	1	–
	6,525	7,522	6,728

1 *Includes government guaranteed bonds.*

5 Derivatives

For a detailed description of the type and use of derivatives by the bank, please refer to the bank's accounting policies disclosed in Note 2 and Note 11 of the bank's Annual Report and Accounts 2013.

Fair values of derivatives by product contract type held

	At 30 June 2014					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,161**	**260**	**1,421**	**1,143**	**63**	**1,206**
Interest rate	**518**	**144**	**662**	**463**	**155**	**618**
Commodity	**56**	**–**	**56**	**56**	**–**	**56**
Gross total fair values	**1,735**	**404**	**2,139**	**1,662**	**218**	**1,880**

	At 30 June 2013					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	1,090	280	1,370	1,082	20	1,102
Interest rate	470	211	681	419	171	590
Commodity	45	–	45	45	–	45
Gross total fair values	1,605	491	2,096	1,546	191	1,737

	At 31 December 2013					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	1,077	288	1,365	1,030	93	1,123
Interest rate	492	220	712	453	135	588
Commodity	35	–	35	35	–	35
Gross total fair values	1,604	508	2,112	1,518	228	1,746

Trading derivatives

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

	At 30 June 2014	At 30 June 2013	At 31 December 2013
	$m	$m	$m
Foreign exchange	**93,375**	70,165	87,334
Interest rate	**48,900**	38,855	37,745
Commodity	**330**	463	567
Total derivatives	**142,605**	109,483	125,646

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.

Notes on the Financial Statements (unaudited) (continued)

Hedging instruments

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

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Interest rate	**18,896**	**11,927**	23,303	5,591	17,477	9,035
Foreign exchange	**2,978**	**–**	2,629	–	3,116	–
Total derivatives	**21,874**	**11,927**	25,932	5,591	20,593	9,035

Fair value of derivatives designated as fair value hedges

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**18**	**99**	37	71	60	69

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

	Quarter ended			Half-year ended	
	30 June 2014	30 June 2013	31 March 2014	**30 June 2014**	30 June 2013
	$m	$m	$m	**$m**	$m
Gains/(losses)					
On hedging instruments	**(50)**	46	(38)	**(88)**	60
On hedged items attributable to the hedged risk	**50**	(48)	37	**87**	(61)

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

Fair value of derivatives designated as cash flow hedges

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**259**	**62**	280	20	288	93
Interest rate	**126**	**56**	174	101	160	66

6 Financial investments

	At 30 June 2014	At 30 June 2013	At 31 December 2013
	$m	$m	$m
Financial investments			
– Not subject to repledge or resale by counterparties	**18,539**	19,425	20,468
– Which may be subject to repledge or resale by counterparties	**1,235**	416	1,346
	19,774	19,841	21,814
Available-for-sale			
Canadian and Provincial Government bonds[1]	**14,650**	13,523	16,534
International Government bonds[1]	**2,924**	2,569	3,248
Debt securities issued by banks and other financial institutions	**1,474**	2,306	1,224
Treasury bills and other eligible bills	**723**	1,440	799
Other securities	**3**	3	9
	19,774	19,841	21,814

1 *Includes government guaranteed bonds*

7 Trading liabilities

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
Other liabilities – net short positions	**2,634**	2,503	3,617
Customer trading liabilities	**655**	1,367	442
Trading liabilities due to other banks	**184**	339	300
Other debt securities in issue	**19**	32	37
	3,492	4,241	4,396

8 Financial liabilities designated at fair value

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
Subordinated debentures	**429**	428	428

The carrying amount at 30 June 2014 of financial liabilities designated at fair value was $29m higher (30 June 2013: $28m higher; 31 December 2013: $28m higher) than the contractual amount at maturity. At 30 June 2014, the cumulative amount of change in fair value attributable to changes in credit risk was $2m gain (30 June 2013: $4m gain; 31 December 2013: $2m gain).

9 Non-trading reverse repurchase and repurchase agreements

Non-trading reverse repurchase agreements and repurchase agreements which are measured at amortised cost, are presented as separate lines in the balance sheet. This separate presentation has been adopted effective 1 January 2014 and comparatives restated accordingly. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. The extent to which reverse repos and repos represents loans to/from customers and banks is set out below.

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
Assets			
Banks	**992**	3,199	333
Customers	**5,186**	3,790	5,828
Reverse repurchase agreements – non-trading	**6,178**	6,989	6,161
Liabilities			
Banks	**1,132**	852	569
Customers	**1,114**	1,710	918
Repurchase agreements – non-trading	**2,246**	2,562	1,487

Notes on the Financial Statements (unaudited) (continued)

10 Notes on the statement of cash flows

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Non-cash items included in profit before tax					
Depreciation and amortization	**13**	8	13	**26**	17
Share based payment expense	**3**	1	3	**6**	5
Loan impairment charges and other credit risk provisions	**27**	84	26	**53**	140
Charge for defined benefit pension plans	**5**	5	5	**10**	10
	48	98	47	**95**	172
Change in operating assets					
Change in prepayment and accrued income	**24**	9	(7)	**17**	(53)
Change in net trading securities and net derivatives	**(2,438)**	601	1,912	**(526)**	58
Change in loans and advances to customers	**(368)**	772	(710)	**(1,078)**	1,161
Change in reverse repurchase agreements – non-trading	**1,752**	202	(1,110)	**642**	(674)
Change in other assets	**(58)**	464	(857)	**(915)**	(29)
	(1,088)	2,048	(772)	**(1,860)**	463
Change in operating liabilities					
Change in accruals and deferred income	**(17)**	(29)	(35)	**(52)**	(41)
Change in deposits by banks	**267**	(500)	10	**277**	(428)
Change in customer accounts	**(127)**	727	(1,470)	**(1,597)**	1,501
Change in repurchase agreements – non-trading	**209**	443	550	**759**	(466)
Change in debt securities in issue	**509**	(480)	(1,028)	**(519)**	1,260
Change in financial liabilities designated at fair value	**(1)**	(10)	2	**1**	(8)
Change in other liabilities	**18**	(649)	693	**711**	(98)
	858	(498)	(1,278)	**(420)**	1,720
Cash and cash equivalents					
Cash and balances at central bank	**66**	66	71	**66**	66
Items in the course of transmission to other banks, net	**(132)**	(39)	(20)	**(132)**	(39)
Loans and advances to banks of one month or less	**438**	456	1,188	**438**	456
Reserve repurchase agreements with banks of one month or less	**992**	3,200	810	**992**	3,200
T-Bills and certificates of deposits – three months or less	**277**	987	159	**277**	987
	1,641	4,670	2,208	**1,641**	4,670
Interest					
Interest paid	**212**	227	161	**373**	349
Interest received	**512**	553	479	**991**	1,010

11 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2014 $m	At 30 June 2013 $m	At 31 December 2013 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**4,195**	3,541	3,940
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**36,133**	34,679	34,588
Documentary credits and short-term trade-related transaction	**567**	596	540
	36,700	35,275	35,128

1 *Based on original contractual maturity.*

Legal and regulatory proceedings

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 balance sheet or our results of operations.

12 Segment analysis

We manage and report our operations according to our main global lines of business. Information on each business line is included in Management's Discussion and Analysis and the Annual Report and Accounts 2013. Various estimate and allocation methodologies are used in the preparation of the global lines of business' 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 global lines of business using appropriate allocation formulas. Global lines of business net interest income reflects internal funding charges and credits on the global lines of business' 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 the Global Banking and Markets.

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Commercial Banking					
Net interest income	**165**	172	168	**333**	333
Net fee income	**81**	80	79	**160**	157
Net trading income	**7**	7	6	**13**	15
Gain less losses from financial investments	**16**	–	–	**16**	–
Other operating income/(expense)	**3**	(35)	6	**9**	(32)
Total operating income	**272**	224	259	**531**	473
Loan impairment charges and other credit risk provisions	**(18)**	(61)	(12)	**(30)**	(100)
Net operating income	**254**	163	247	**501**	373
Total operating expenses	**(104)**	(92)	(101)	**(205)**	(182)
Operating profit	**150**	71	146	**296**	191
Share of profit in associates	**6**	1	3	**9**	5
Profit before income tax expense	**156**	72	149	**305**	196

Notes on the Financial Statements (unaudited) (continued)

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Global Banking and Markets					
Net interest income	**46**	40	44	**90**	82
Net fee income	**22**	20	24	**46**	38
Net trading income	**15**	25	21	**36**	62
Gain less losses from financial investments	**11**	13	19	**30**	46
Other operating income	**1**	–	–	**1**	–
Total operating income	**95**	98	108	**203**	228
Loan impairment charges and other credit risk provisions	**(2)**	(2)	(1)	**(3)**	–
Net operating income	**93**	96	107	**200**	228
Total operating expenses	**(29)**	(29)	(30)	**(59)**	(58)
Profit before income tax expense	**64**	67	77	**141**	170
Retail Banking and Wealth Management					
Net interest income	**104**	134	102	**206**	275
Net fee income	**57**	54	52	**109**	105
Net trading income	**3**	7	5	**8**	11
Gain less losses from financial investments	**–**	2	–	**–**	4
Other operating income	**2**	4	2	**4**	7
Total operating income	**166**	201	161	**327**	402
Loan impairment charges and other credit risk provisions	**(7)**	(21)	(13)	**(20)**	(40)
Net operating income	**159**	180	148	**307**	362
Total operating expenses	**(135)**	(137)	(133)	**(268)**	(271)
Profit before income tax expense	**24**	43	15	**39**	91
Other					
Net interest expense	**(8)**	(6)	(7)	**(15)**	(14)
Net trading income	**8**	6	7	**15**	14
Net expense from financial instruments designated at fair value	**(1)**	–	(2)	**(3)**	(3)
Other operating income	**7**	8	6	**13**	15
Net operating income	**6**	8	4	**10**	12
Total operating expenses	**(8)**	(8)	(12)	**(20)**	(18)
Loss before income tax expense	**(2)**	–	(8)	**(10)**	(6)

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

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Other $m	Total $m
Quarter ended 30 June 2014					
Net operating income:	**254**	**93**	**159**	**6**	**512**
External	**245**	**76**	**185**	**6**	**512**
Inter-segment	**9**	**17**	**(26)**	**–**	**–**
Quarter ended 30 June 2013					
Net operating income:	163	96	180	8	447
External	160	72	207	8	447
Inter-segment	3	24	(27)	–	–
Quarter ended 31 March 2014					
Net operating income:	247	107	148	4	506
External	234	97	171	4	506
Inter-segment	13	10	(23)	–	–
Half-year ended 30 June 2014					
Net operating income:	501	200	307	10	1,018
External	479	174	355	10	1,018
Inter-segment	22	26	(48)	–	–
Half-year ended 30 June 2013					
Net operating income:	373	228	362	12	975
External	367	178	418	12	975
Inter-segment	6	50	(56)	–	–

Notes on the Financial Statements (unaudited) (continued)

Statement of balance sheet information

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Other $m	Total $m
At 30 June 2014					
Loans and advances to customers	**16,765**	**1,482**	**23,302**	**–**	**41,549**
Customers' liability under acceptances	**4,809**	**777**	**–**	**–**	**5,586**
Total assets	**29,076**	**27,040**	**26,604**	**426**	**83,146**
Customer accounts	**21,014**	**5,158**	**23,157**	**–**	**49,329**
Acceptances	**4,809**	**777**	**–**	**–**	**5,586**
Total liabilities	**26,287**	**25,684**	**25,758**	**426**	**78,155**
At 30 June 2013					
Loans and advances to customers	15,861	1,252	24,043	–	41,156
Customers' liability under acceptances	3,933	852	–	–	4,785
Total assets	27,627	30,620	25,693	398	84,338
Customer accounts	20,255	6,326	21,214	–	47,795
Acceptances	3,933	852	–	–	4,785
Total liabilities	24,676	29,496	24,464	398	79,034
At 31 December 2013					
Loans and advances to customers	15,881	1,203	23,440	–	40,524
Customers' liability under acceptances	3,941	816	–	–	4,757
Total assets	29,282	28,107	26,471	400	84,260
Customer accounts	21,986	6,185	22,755	–	50,926
Acceptances	3,941	816	–	–	4,757
Total liabilities	26,436	26,921	25,418	400	79,175

13 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings plc including other companies in the HSBC Group. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Transactions between the bank and HSBC Holdings including other companies in the HSBC Holdings Group

	Quarter ended			Half-year ended	
	30 June 2014 $m	30 June 2013 $m	31 March 2014 $m	**30 June 2014 $m**	30 June 2013 $m
Income Statement					
Interest income	**11**	13	12	**23**	30
Interest expense	**(3)**	(7)	(2)	**(5)**	(18)
Fee income	**3**	2	4	**7**	6
Fee expense	**(1)**	(3)	(1)	**(2)**	(4)
Other operating income	**11**	13	10	**21**	24
General and administrative expenses	**(28)**	(24)	(27)	**(55)**	(49)

14 Fair values of financial instruments

Control framework

Bases of valuing assets and liabilities measured at fair value

The table below provides an analysis of the fair value hierarchy which has been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements.

	Valuation techniques			
	Level 1 Quoted market price $m	**Level 2 Observable inputs $m**	**Level 3 Significant unobservable inputs $m**	**Total $m**
At 30 June 2014				
Assets				
Trading assets	**2,157**	**4,368**	**–**	**6,525**
Derivatives	**–**	**2,116**	**23**	**2,139**
Financial investments: available-for-sale	**17,109**	**2,665**	**–**	**19,774**
Liabilities				
Trading liabilities	**2,500**	**984**	**8**	**3,492**
Financial liabilities designated at fair value	**–**	**429**	**–**	**429**
Derivatives	**–**	**1,857**	**23**	**1,880**
At 30 June 2013				
Assets				
Trading assets	3,997	3,525	–	7,522
Derivatives	–	2,044	52	2,096
Financial investments: available-for-sale	16,928	2,912	1	19,841
Liabilities				
Trading liabilities	3,689	543	9	4,241
Financial liabilities designated at fair value	–	428	–	428
Derivatives	–	1,685	52	1,737
At 31 December 2013				
Assets				
Trading assets	2,754	3,974	–	6,728
Derivatives	–	2,078	34	2,112
Financial investments: available-for-sale	19,143	2,671	–	21,814
Liabilities				
Trading liabilities	3,470	917	9	4,396
Financial liabilities designated at fair value	–	428	–	428
Derivatives	–	1,712	34	1,746

Non-financial assets measured at fair value include pension plan assets. The majority of pension plan assets are considered Level 1 with an insignificant amount in Level 2 or Level 3. The fair value of these assets is $523m, (30 June 2013: $432m; 31 December 2013: $486m) which has been recorded as a reduction of the related pension plan obligation.

Notes on the Financial Statements (unaudited) (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

	Assets		Liabilities	
	Available-for-sale $m	**Derivatives $m**	**Held for trading $m**	**Derivatives $m**
At 1 January 2014	**–**	**34**	**9**	**34**
Total gains or losses recognized in profit or loss	**–**	**(3)**	**–**	**(3)**
Settlements	**–**	**–**	**(1)**	**–**
Transfer out	**–**	**(8)**	**–**	**(8)**
At 30 June 2014	**–**	**23**	**8**	**23**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**–**	**(4)**	**–**	**(4)**
	Available-for-sale $m	Derivatives $m	Held for trading $m	Derivatives $m
At 1 January 2013	9	5	49	7
Total gains or losses recognized in profit or loss	2	49	–	47
Issues	–	–	15	–
Settlements	(10)	–	–	–
Transfer out	–	(2)	(55)	(2)
At 30 June 2013	1	52	9	52
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	–	49	–	47

During the second quarter in 2014 and 2013, there were no significant transfers between Level 1 and 2.

For a detailed description of fair value and the classification of financial instruments by the bank, please refer to the bank's accounting policies disclosed in Note 2 and Note 24 of the bank's Annual Report and Accounts 2013.

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Assets						
Loans and advances to banks	**438**	**438**	3,656	3,656	1,149	1,149
Loans and advances to customers	**41,549**	**41,656**	44,946	45,029	40,524	40,592
Reverse repurchase agreements	**6,178**	**6,178**	6,989	6,989	6,161	6,161
Liabilities						
Deposits by banks	**912**	**912**	1,579	1,579	635	635
Customer accounts	**49,329**	**49,383**	49,505	49,575	50,926	51,001
Repurchase agreements	**2,246**	**2,246**	2,562	2,562	1,487	1,487
Debt securities in issue	**10,829**	**10,988**	13,240	13,397	11,348	11,498
Subordinated liabilities	**239**	**235**	329	299	239	236

Further discussion of the bank’s liquidity and funding management can be found in the audited sections of ‘Risk management’ within Management’s Discussion and Analysis of the Annual Report and Accounts 2013.

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 2014 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 31 July 2014 and authorized for issue.

Shareholder Information

PRINCIPAL ADDRESSES:

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Sharon Wilks (416) 868-3878
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OTHER AVAILABLE INFORMATION:
The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's website and on the Canadian Securities Administrators' web site at www.sedar.com.

HSBC BANK CANADA SECURITIES ARE LISTED ON THE TORONTO STOCK EXCHANGE:

HSBC Bank Canada
Class 1 Preferred Shares – Series C (HSB.PR.C)
Class 1 Preferred Shares – Series D (HSB.PR.D)

SHAREHOLDER CONTACT:

For change of address, shareholders are requested to write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address.

Other shareholder inquiries may be directed to Shareholder Relations by writing to:

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Email: shareholder_relations@hsbc.ca

Shareholder Relations:
Chris Young (604) 642-4389
Harry Krentz (604) 641-1013

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
9th Floor, 100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253

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

2014	
Record Date	Payable Date
15 September	30 September
15 December	31 December

2015	
Record Date	Payable Date
13 March	31 March
15 June	30 June

Distribution dates on our HSBC HaTS are 30 June and 31 December.

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