HSBC Bank Canada

Third Quarter 2016 Interim Report

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Corporate profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management. Canada is a priority market for the HSBC Group - one of the world's largest banking and financial services groups with assets of US$2,557bn at 30 September 2016. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

Headlines

- Profit before income tax expense for the quarter ended 30 September 2016 was $138m, a decrease of 26.2% compared with the same period in 2015. Profit before income tax expense was $464m for the year to date, a decrease of 28.1% compared with the same period in 2015.
- Profit attributable to the common shareholder was $91m for the quarter ended 30 September 2016, a decrease of 28.9% compared with the same period in 2015. Profit attributable to the common shareholder was $308m for the year to date, a decrease of 31.9% compared with the same period in 2015.
- Return on average common equity was 7.7% for the quarter ended 30 September 2016 compared with 11.0% for the same period in 2015. Return on average common equity was 9.0% for the year to date compared with 13.1% for the same period in 2015.
- The cost efficiency ratio was 66.0% for the quarter ended 30 September 2016 compared with 57.5% for the same period in 2015. The cost efficiency ratio was 59.4% for the year to date compared with 55.1% for the same period in 2015.
- Total assets were $95.2bn at 30 September 2016 compared with $94.0bn at 31 December 2015.
- Common equity tier 1 capital ratio was 10.7%, tier 1 ratio 12.7% and total capital ratio 13.8% at 30 September 2016 compared with 10.1%, 12.1% and 13.5% respectively at 31 December 2015.

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 the 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 3 November 2016, the date that our unaudited interim condensed consolidated financial statements and the MD&A for the third quarter ended 30 September 2016 were approved by our Board of Directors.

The bank has prepared its unaudited interim condensed consolidated financial statements in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB'). The information in this MD&A is derived from our unaudited interim condensed 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 interim condensed consolidated financial statements for the third quarter ended 30 September 2016.

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.

Management's Discussion and Analysis

Financial Summary

($ millions, except where otherwise stated)	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
Financial performance for the period				
Total operating income	**498**	518	**1,567**	1,589
Profit before income tax expense	**138**	187	**464**	645
Profit attributable to the common shareholder	**91**	128	**308**	452
Basic earnings per common share ($)	**0.18**	0.26	**0.61**	0.91
Performance ratios (%)[1]				
Return ratios (%)[1]				
Return on average common shareholder's equity	**7.7**	11.0	**9.0**	13.1
Post-tax return on average total assets	**0.38**	0.56	**0.44**	0.66
Pre-tax return on average risk-weighted assets[2]	**1.3**	1.7	**1.5**	2.0
Credit coverage ratios (%)[1]				
Loan impairment charges to total operating income	**5.4**	6.0	**10.7**	4.5
Loan impairment charges to average gross customer advances and acceptances	**0.2**	0.3	**0.5**	0.2
Total impairment allowances to impaired loans and acceptances at period end	**58.1**	71.5	**58.1**	71.5
Efficiency and revenue mix ratios (%)[1]				
Cost efficiency ratio	**66.0**	57.5	**59.4**	55.1
Adjusted cost efficiency ratio	**65.9**	57.8	**59.3**	55.2
As a percentage of total operating income:				
- net interest income	**57.1**	55.0	**54.0**	54.2
- net fee income	**33.4**	31.9	**31.8**	32.6
- net trading income	**5.8**	9.3	**9.2**	6.5

	At period ended	
	30 September 2016	31 December 2015
Financial position at period-end		
Loans and advances to customers	**47,259**	48,378
Customer accounts	**54,914**	55,089
Ratio of customer advances to customer accounts (%)[1]	**86.1**	87.8
Shareholders' equity	**5,552**	5,376
Average total shareholders' equity to average total assets (%)	**5.8**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.7**	10.1
Tier 1 ratio (%)	**12.7**	12.1
Total capital ratio (%)	**13.8**	13.5
Leverage ratio (%)	**4.8**	4.7
Risk-weighted assets	**41,915**	42,846

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

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

Management's Discussion and Analysis (continued)

Use of non-IFRS's 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's. These are considered non-IFRS's financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS's financial measures are used throughout this document and their purposes and definitions are discussed below:

Financial position ratios

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 with average total assets (determined using month-end balances) for the period.

Return ratios

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

Return on average common shareholder's equity is calculated as 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 profit attributable to common shareholders 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 the profit before income tax expense divided by the average monthly balances of risk-weighted assets for the period. Risk-weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

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 and acceptances 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.

Efficiency and revenue mix ratios

Efficiency and revenue mix ratios are measures of the bank's efficiency in managing its operating expense to generate revenue and demonstrates the contribution of each of the primary revenue streams to total income.

Cost efficiency ratio is calculated as total operating expenses 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 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.

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

Financial performance

Summary consolidated income statement

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Net interest income	**284**	285	**845**	861
Net fee income	**166**	165	**498**	518
Net trading income	**29**	48	**145**	104
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gains less losses from financial investments	**3**	2	**30**	56
Other operating income	**17**	16	**52**	46
Total operating income	**498**	518	**1,567**	1,589
Loan impairment charges and other credit risk provisions	**(29)**	(31)	**(168)**	(70)
Net operating income	**469**	487	**1,399**	1,519
Total operating expenses	**(328)**	(298)	**(930)**	(875)
Operating profit	**141**	189	**469**	644
Share of (loss)/profit in associates	**(3)**	(2)	**(5)**	1
Profit before income tax expense	**138**	187	**464**	645
Income tax expense	**(38)**	(50)	**(128)**	(170)
Profit for the period	**100**	137	**336**	475

Overview

HSBC Bank Canada reported a profit before income tax expense of $138m for the third quarter of 2016, a decrease of $49m, or 26.2%, compared with the third quarter of 2015. Profit before income tax expense was $464m for the year to date, a decrease of $181m, or 28.1%, compared with the same period in 2015. The decreases are in part due to higher loan impairment charges largely reflecting charges related to the oil and gas sectors, increased investment in global standards, risk and compliance activities, and other strategic initiatives to deliver future savings.

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

"Against the backdrop of a global economy that most economists observe is stuck in low gear, our business remains profitable, stable, liquid and continues to demonstrate resilience. Profit before tax (PBT) is $138M, down 26% compared to the third quarter last year. However, PBT improved in each of the last three quarters and in our largest business, Commercial Banking, loan impairment charges have continued to decline. Though there are signs the oil and gas sector is stabilizing, we continue to closely manage our risk and assist our customers in coping with lower prices. For our Global Banking and Markets business, PBT for the first nine months is 7% higher than the same period last year, largely due to increased trading revenues and lending and credit activities. Retail Banking and Wealth Management benefited from growth in residential mortgages and deposits, with a key focus on revenue in a highly competitive low interest rate environment. PBT was $17m for the third quarter of 2016, a decrease of $1m, or 6%, compared with the third quarter of 2015. Our overall operating expenses for the period increased year over year as we continued to invest in enhanced compliance and making our business more efficient to drive future cost savings.

We remain focussed on building and sustaining customer relationships as we invest to grow in Canada. Commercial Banking continues to work closely with Canadian companies seeking international expansion across trade corridors with the US and Greater China; our Retail Banking and Wealth Management business is implementing digitization and branch updates to deliver simpler, faster and better service for our individual customers; and our Global Banking and Markets team increasingly supports both public and private sector customers as they deliver the country's infrastructure projects."

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the third quarter of 2016 was $284m, largely in line with the third quarter of 2015. Net interest income for the year to date was $845m, a decrease of $16m, or 1.9%, compared with the same period in 2015. The decreases over comparative periods were mainly driven by lower spreads in a competitive low interest rate environment driven by lower Bank of Canada rates, and the continued run-off of the consumer finance portfolio. This was partially offset by residential mortgage growth and higher average yield on financial investments.

Summary of interest income by types of assets

	Quarter ended 30 September 2016			Quarter ended 30 September 2015		
	Average balance $m	**Interest income $m**	**Yield %**	Average balance $m	Interest income $m	Yield %
Interest income						
Short-term funds and loans and advances to banks	**1,031**	**1**	**0.23%**	1,468	—	0.09 %
Loans and advances to customers[5]	**47,187**	**358**	**3.04%**	43,114	345	3.20 %
Reverse repurchase agreements - non trading	**9,551**	**11**	**0.47%**	6,695	10	0.60 %
Financial investments	**23,163**	**69**	**1.19%**	22,982	65	1.13 %
Other interest-earning assets	**432**	**1**	**0.52%**	532	2	0.94 %
Trading assets and financial assets designated at fair value[1]	**5,257**	**—**	**—%**	6,885	—	— %
Total interest-earning assets	**86,621**	**440**	**2.03%**	81,676	422	2.07 %
Non-interest-earning assets	**11,801**	**—**	**—%**	12,175	—	— %
Quarter ended 30 September	**98,422**	**440**	**1.79%**	93,851	422	1.80 %

Summary of interest expense by types of liabilities and equity

	Quarter ended 30 September 2016			Quarter ended 30 September 2015		
	Average balance $m	**Interest expense $m**	**Cost %**	Average balance $m	Interest expense $m	Cost %
Interest expense						
Deposits by banks[2]	**390**	**—**	**0.09%**	483	—	0.04 %
Financial liabilities designated at fair value - own debt issued[3]	**406**	**—**	**—%**	420	—	— %
Customer accounts[4]	**49,033**	**65**	**0.53%**	46,468	62	0.54 %
Repurchase agreements - non-trading	**7,170**	**8**	**0.43%**	3,792	6	0.63 %
Debt securities in issue	**10,464**	**63**	**2.40%**	11,163	64	2.27 %
Other interest-earning liabilities[5]	**2,839**	**20**	**2.79%**	3,272	5	0.62 %
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[1]	**2,880**	**—**	**—%**	2,080	—	— %
Total interest-bearing liabilities	**73,182**	**156**	**0.85%**	67,678	137	0.81 %
Non-interest bearing current accounts	**5,851**	**—**	**—%**	5,275	—	— %
Total equity and other non-interest bearing liabilities	**19,389**	**—**	**—%**	20,898	—	— %
Quarter ended 30 September	**98,422**	**156**	**0.63%**	93,851	137	0.58 %
Net interest income - Quarter ended 30 September		**284**			285	

Summary of interest income by types of assets

	Nine months ended 30 September 2016			Nine months ended 30 September 2015		
	Average balance $m	**Interest income $m**	**Yield %**	Average balance $m	Interest income $m	Yield %
Interest income						
Short-term funds and loans and advances to banks	**1,010**	**2**	**0.26%**	917	2	0.29%
Loans and advances to customers[5]	**47,746**	**1,063**	**2.97%**	42,611	1,049	3.28%
Reverse repurchase agreements - non trading	**8,517**	**30**	**0.47%**	7,436	41	0.74%
Financial investments	**23,085**	**201**	**1.16%**	21,203	186	1.17%
Other interest-earning assets	**380**	**3**	**1.05%**	360	5	1.85%
Trading assets and financial assets designated at fair value[1]	**4,696**	**—**	**—%**	6,836	—	—%
Total interest-earning assets	**85,434**	**1,299**	**2.15%**	79,363	1,283	2.36%
Non-interest-earning assets	**12,069**	**—**	**—%**	13,767	—	—%
Nine months ended 30 September	**97,503**	**1,299**	**1.78%**	93,130	1,283	1.84%

Summary of interest expense by types of liabilities and equity

	Nine months ended 30 September 2016			Nine months ended 30 September 2015		
	Average balance $m	**Interest expense $m**	**Cost %**	Average balance $m	Interest expense $m	Cost %
Interest expense						
Deposits by banks[2]	**535**	**1**	**0.25%**	400	1	0.33%
Financial liabilities designated at fair value - own debt issued[3]	**409**	**—**	**—%**	423	—	—%
Customer accounts[4]	**48,712**	**186**	**0.51%**	45,606	195	0.57%
Repurchase agreements - non-trading	**6,914**	**23**	**0.44%**	3,362	20	0.80%
Debt securities in issue	**10,653**	**189**	**2.37%**	11,028	193	2.33%
Other interest-earning liabilities[5]	**2,618**	**55**	**2.83%**	2,557	13	0.69%
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[1]	**2,491**	**—**	**—%**	2,788	—	—%
Total interest-bearing liabilities	**72,332**	**454**	**0.84%**	66,164	422	0.85%
Non-interest bearing current accounts	**5,725**		**—%**	5,312	—	—%
Total equity and other non-interest bearing liabilities	**19,446**		**—%**	21,654	—	—%
Nine months ended 30 September	**97,503**	**454**	**0.62%**	93,130	422	0.60%
Net interest income - Nine months ended 30 September		**845**			861	

1 *Interest income/expense on trading assets and trading liabilities are reported as 'Net trading income' in the consolidated income statement.*

2 *Includes interest-bearing bank deposits only.*

3 *Interest expense on financial assets designated at fair value is reported as 'Net income from financial instruments designated at fair value' in the consolidated income statement, other than interest on own debt which is reported in 'Interest expense'.*

4 *Includes interest-bearing customer accounts only.*

5 *During the period ended 30 September 2016, certain amounts charged and earned on other interest-earning liabilities were prospectively reclassified from interest income and fee income to interest expense.*

Management's Discussion and Analysis (continued)

Net fee income

	Quarter ended		Nine months ended	
	30 September 2016 $m	30 September 2015 $m	**30 September 2016 $m**	30 September 2015 $m
Credit facilities	**77**	76	**227**	232
Funds under management	**44**	45	**130**	128
Account services	**17**	17	**51**	54
Credit cards	**14**	15	**41**	44
Corporate finance	**10**	9	**34**	43
Remittances	**8**	8	**23**	23
Immigrant Investor Program	**4**	4	**18**	11
Insurance	**2**	2	**6**	7
Trade finance import/export	**2**	2	**6**	7
Brokerage commissions	**1**	4	**4**	11
Trustee fees	**1**	1	**4**	4
Other	**1**	3	**4**	11
Fee income	**181**	186	**548**	575
Less: fee expense	**(15)**	(21)	**(50)**	(57)
Net fee income	**166**	165	**498**	518

Net fee income for the third quarter of 2016 was $166m, largely in line with the third quarter of 2015. Net fee income for the year to date was $498m, a decrease of $20m, or 3.9%, compared with the same period in 2015. The decrease was primarily driven by decreased fees from leveraged and acquisition finance.

Net trading income

	Quarter ended		Nine months ended	
	30 September 2016 $m	30 September 2015 $m	**30 September 2016 $m**	30 September 2015 $m
Trading activities	**25**	30	**134**	72
Net interest from trading activities	**5**	13	**14**	28
Hedge ineffectiveness	**(1)**	5	**(3)**	4
Net trading income	**29**	48	**145**	104

Net trading income for the third quarter of 2016 was $29m, a decrease of $19m, or 39.6%, compared with the third quarter of 2015. The decrease was mainly driven by unfavourable changes to the Debt Valuation Adjustment ('DVA') on derivative contracts due to the tightening of HSBC's own credit spreads. Also, other comprehensive income was recycled to the income statement due to the hedge accounting criteria not having been met, negatively impacting net trading income. Net trading income for the year to date was $145m, an increase of $41m, or 39.4%, compared with the same period in 2015. The increase was mainly driven by favourable trading performance in the rates business and favourable changes to the Credit Valuation Adjustment ('CVA') on derivative contracts due to the tightening of customer credit spreads. This is partially offset by derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Other items of income

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Net (expense)/ income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gains less losses from financial investments	**3**	2	**30**	56
Other operating income	**17**	16	**52**	46
Other items of income	**19**	20	**79**	106

The bank has previously designated certain of its own subordinated debentures to be recorded at fair value. Net expense from financial instruments designated at fair value for the third quarter of 2016 was $1m compared with net income of $2m in the third quarter of 2015. Net expense from financial instruments designated at fair value for the year to date was $3m compared with net income of $4m for the same period in 2015. The net expense from financial instruments designated at fair value was caused from marginal narrowing of the bank's own credit spread which increased the fair value of these subordinated debentures. This compares with an income recorded in the prior year which arose from the widening of the bank's own credit risk.

Gains less losses from financial investments for the third quarter of 2016 were $3m, an increase of $1m, or 50.0%, compared with the third quarter of 2015. Gains less losses from financial investments for the year to date was $30m, a decrease of $26m, or 46.4%, compared with the same period in 2015. Gains on sale of available-for-sale debt securities arose from the continued rebalancing of the balance sheet management liquid assets.

Other operating income for the third quarter of 2016 was $17m, an increase of $1m, or 6.3%, compared with the third quarter of 2015. Other operating income for the year to date was $52m, an increase of $6m, or 13.0% compared with the same period in 2015. The increases were mainly due to higher inter-company activities, partially offset by losses on the sale of specific commercial loans, and non-recurring recoveries recognized in comparative periods.

Loan impairment charges and other credit risk provisions

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Individually assessed allowances	**68**	31	**217**	64
Collectively assessed releases	**(26)**	(5)	**(33)**	—
Loan impairment charges	**42**	26	**184**	64
Other credit risk provisions	**(13)**	5	**(16)**	6
Loan impairment charges and other credit risk provisions	**29**	31	**168**	70

Loan impairment charges and other credit risk provisions for the third quarter of 2016 were $29m, a decrease of $2m compared with the third quarter of 2015. Loan impairment charges and other credit risk provisions for the year to date were $168m, an increase of $98m compared with the same period in 2015. The year-to-date increases over the comparative periods largely reflect charges related to the oil and gas sectors.

Total operating expenses

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Employee compensation and benefits	**163**	167	**496**	504
General and administrative expenses	**155**	121	**404**	339
Depreciation of property, plant and equipment	**8**	7	**23**	22
Amortization of intangible assets	**2**	3	**7**	10
Total operating expenses	**328**	298	**930**	875

Management's Discussion and Analysis (continued)

Total operating expenses for the third quarter of 2016 were $328m, an increase of $30m, or 10.1%, compared with the third quarter of 2015. Total operating expenses for the year to date were $930m, an increase of $55m, or 6.3%, compared with the same period in 2015. The increases over the comparative periods were driven by continued investments in the implementation of global standards and efficiency initiatives to deliver future savings, as well as the adverse impact caused by the lower Canadian dollar on expenses denominated in foreign currencies.

Share of profit in associates

Share of profit in associates for the third quarter of 2016 was a loss of $3m, a decrease of $1m compared with the third quarter of 2015. Share of profit in associates for the year to date was a loss of $5m, a decrease of $6m compared with the same period in 2015.

Income taxes expense

The effective tax rate in the third quarter of 2016 was 28.0%, compared with 27.7% in the second quarter of 2016 and 26.7% in the third quarter of 2015. The change reflects the difference in income earned from investments in partnerships.

Movement in financial position

Summary consolidated balance sheet

	30 September 2016 $m	31 December 2015 $m
ASSETS		
Trading assets	**6,301**	3,893
Derivatives	**3,914**	4,909
Loans and advances to banks	**1,575**	1,400
Loans and advances to customers	**47,259**	48,378
Reverse repurchase agreements – non-trading	**6,265**	6,807
Financial investments	**24,136**	23,935
Customers' liability under acceptances	**4,864**	3,834
Other assets	**860**	868
Total assets	**95,174**	94,024
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**562**	2,049
Customer accounts	**54,914**	55,089
Repurchase agreements – non-trading	**5,660**	6,606
Trading liabilities	**3,799**	1,713
Derivatives	**4,242**	5,005
Debt securities in issue	**10,444**	10,896
Acceptances	**4,864**	3,834
Other liabilities	**5,137**	3,456
Total liabilities	**89,622**	88,648
Equity		
Share capital and other reserves	**2,242**	2,167
Retained earnings	**3,310**	3,209
Total equity	**5,552**	5,376
Total equity and liabilities	**95,174**	94,024

Assets

Total assets at 30 September 2016 were $95.2bn, an increase of $1.2bn from 31 December 2015. Trading assets increased by $2.4bn due to increased trading debt securities. Balance sheet management activities increased financial investments by $0.2bn and decreased reverse repurchase agreements - non-trading by $0.5bn. Loans and advances to customers decreased by $1.1bn due to lower credit facility utilization partially offset by increased new-to-bank activities. Derivatives decreased by $1.0bn mainly due to lower foreign exchange and commodity contracts partially offset by an increase in interest rate contracts. Customers' liability under acceptances increased by $1.0bn due to an increase in the volume of acceptances.

Liabilities

Total liabilities at 30 September 2016 were $89.6bn, an increase of $1.0bn from 31 December 2015. Trading liabilities increased by $2.1bn mainly due to higher securities short positions from client facilitation trades and timing of settlement. Other liabilities increased by $1.7bn largely due to a long-term borrowing. Acceptances increased by $1.0bn due to an increase in the volume of acceptances. Balance sheet management activities decreased deposits by banks and reverse repurchase agreements non-trading by $1.5bn and $0.9bn respectively. $0.5bn of debt securities matured during the period. Derivatives decreased by $0.8bn mainly due to a decrease in foreign exchange and commodity contracts partially offset by increase in interest rate contracts.

Equity

Total equity at 30 September 2016 was $5.6bn, an increase of $0.2bn from 31 December 2015, due to profits generated in the period net of dividends paid on common shares and preferred shares.

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 to publicly quoted companies.

Review of financial performance

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Net interest income	**135**	149	**407**	453
Net fee income	**80**	80	**237**	238
Net trading income	**9**	9	**24**	25
Gains less losses from financial investments	**—**	—	**3**	—
Other operating income	**3**	6	**13**	16
Total operating income	**227**	244	**684**	732
Loan impairment charges and other credit risk provisions	**(27)**	(30)	**(155)**	(60)
Net operating income	**200**	214	**529**	672
Total operating expenses	**(97)**	(109)	**(301)**	(316)
Operating profit	**103**	105	**228**	356
Share of profit in associates	**(3)**	(2)	**(5)**	1
Profit before income tax expense	**100**	103	**223**	357

Overview

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity for the benefit of its customers and employees. We continue to focus on international subsidiary banking as a driver of growth through strategic trade corridors and leverage our global trade and cash management product platforms for client acquisition and fee income.

Profit before income tax expense was $100m for the third quarter of 2016, a decrease of $3m, or 3%, compared with the third quarter of 2015. Profit before income tax expense for the year to date was $223m, a decrease of $134m, or 38%, compared with the same period in 2015. Profit before income tax expense for the year to date was down primarily due to increased loan impairment charges largely reflecting challenges in the oil and gas sectors, increased funding costs, lower deposit margins due to lower Bank of Canada rates, and lower loans and advances, partially offset by lower operating expenses.

Management's Discussion and Analysis (continued)

Financial performance by income and expense item

Net interest income for the third quarter of 2016 was $135m, a decrease of $14m, or 9%, compared with the third quarter of 2015. Net interest income for the year to date was $407m, a decrease of $46m, or 10%, compared with the same period in 2015. The decreases from comparative periods were mainly due to higher funding costs, lower deposit margins driven by lower Bank of Canada rates, and lower loans and advances.

Net fee income for the third quarter of 2016 was $80m, largely unchanged compared with the third quarter of 2015. Net fee income for the year to date was $237m, a decrease of $1m compared with the same period in 2015.

Net trading income for the third quarter of 2016 was $9m, largely unchanged compared with the third quarter of 2015. Net trading income for the year to date was $24m, a decrease of $1m, or 4%, compared with the same period in 2015. The decreases were mainly driven by lower foreign exchange transaction volume.

Gains less losses from financial investments for the year to date was $3m, an increase of $3m compared with the same period in 2015. The change in gains less losses from financial investments was driven by the disposal of certain available-for-sale securities.

Other operating income for the third quarter of 2016 was $3m, a decrease of $3m, or 50%, compared with the third quarter of 2015. Other operating income for the year to date was $13m, a decrease of $3m, or 19%, compared with the same period in 2015. The decreases were mainly driven by non-recurring recoveries recognized in the comparative periods.

Loan impairment charges and other credit risk provisions for the third quarter of 2016 was $27m, a decrease of $3m, or 10%, compared with the third quarter of 2015. Loan impairment charges and other credit risk provisions for the year to date was $155m, an increase of $95m, or 158%, compared with the the same period in 2015. The changes from comparative periods reflect changes to provisions taken on the oil and gas sectors.

Total operating expenses for the third quarter of 2016 were $97m, a decrease of $12m, or 11%, compared with the third quarter of 2015. Total operating expenses for the year to date were $301m, a decrease of $15m, or 5%, compared with the same period in 2015. The decreases in operating expenses were mainly driven by lower payroll expenditures and prudent cost management.

Share of profit in associates represents changes in the value of investments in certain private equity funds. Share of profit in associates was a loss of $3m in the third quarter of 2016 compared with a loss of $2m in the third quarter of 2015. Share of profit in associates for the year to date was a loss of $5m compared with an income of $1m for the same period in 2015.

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		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Net interest income	**55**	42	**157**	133
Net fee income	**32**	29	**99**	112
Net trading income	**9**	28	**89**	42
Gains less losses from financial investments	**3**	2	**28**	56
Other operating loss	**(1)**	—	**(6)**	—
Total operating income	**98**	101	**367**	343
Loan impairment recovery/(charges) and other credit risk provisions	**1**	—	**(5)**	(2)
Net operating income	**99**	101	**362**	341
Total operating expenses	**(35)**	(32)	**(100)**	(97)
Profit before income tax expense	**64**	69	**262**	244

Overview

Global Banking and Markets increased trading revenues as well as lending and credit activities on a year to date basis by leveraging HSBC's global network on behalf of its clients.

Profit before income tax expense was $64m for the third quarter of 2016, a decrease of $5m, or 7%, compared with the third quarter of 2015. The decrease from the same period in prior year was driven by decreased trading revenues from unfavourable changes to the DVA on derivative contracts due to the tightening of HSBC's own credit. Also, other comprehensive income was recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in the third quarter of 2016. This was partially offset by higher net yields on available-for-sale financial investments and higher credit, lending and transactional banking activities.

Profit before income tax expense was $262m for the year to date, an increase of $18m, or 7%, compared with the same period in 2015. The increase from the same period in 2015 was driven by favourable trading performance in the rates business and favourable changes to the CVA on derivative contracts due to the tightening of customer credit spreads. This was partially offset by derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in 2015.

Financial performance by income and expense item

Net interest income for the third quarter of 2016 was $55m, an increase of $13m, or 31%, compared with the third quarter of 2015. Net interest income for the year to date was $157m, an increase of $24m, or 18%, compared with the same period in 2015. The increases from comparative periods were mainly due to higher net yields on financial investments.

Net fee income for the third quarter of 2016 was $32m, an increase of $3m, or 10%, compared with the third quarter of 2015. The higher fee was mainly driven by higher credit, lending and transactional banking activities. Net fee income for the year to date was $99m, a decrease of $13m, or 12%, compared with the same period in 2015. The decrease from the same period in 2015 was mainly driven by decreased fees from leveraged and acquisition finance.

Net trading income for the third quarter of 2016 was $9m, a decrease of $19m, or 68%, compared with the third quarter of 2015. The decrease from the same period in 2015 was mainly driven by unfavorable changes to the DVA on derivative contracts due to the tightening of HSBC's own credit spreads and a decrease in FX trading revenues. Also, other comprehensive income was recycled to the income statement due to the hedge accounting criteria not having been met, negatively impacting net trading income in the third quarter of 2016. Net trading income for the year to date was $89m, an increase of $47m, or 112%, compared with the same period in 2015. The increase from the same period in 2015 was mainly driven by favorable trading performance in the rates business and favorable changes to the CVA on derivative contracts due to the tightening of customer credit spreads. This was partially offset by derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Gains less losses from financial investments for the third quarter of 2016 was $3m, an increase of $1m, or 50%, compared with the third quarter of 2015. Gains less losses from financial investments were $28m for the year to date, a decrease of $28m, or 50%, compared with the same period in 2015. The decrease from the same period in the prior year was mainly driven by lower disposals of available-for-sale financial investments as part of the bank's continuous balance sheet management activities.

Other operating loss for the third quarter of 2016 was $1m, an increase of $1m, compared with the third quarter of 2015. Other operating loss for the year to date was $6m, an increase of $6m compared with the same period in 2015. The increases from comparative periods were due to losses on the sale of specific commercial loans in 2016.

Loan impairment charges and other credit risk provisions for the third quarter of 2016 were a recovery balance of $1m, a decrease of $1m compared with the third quarter of 2015. Loan impairment charges and other credit risk provisions for the year to date were $5m, an increase of $3m compared with the same period in 2015. The changes from comparative periods reflect changes to provisions taken on the oil and gas sectors.

Total operating expenses for the third quarter of 2016 were $35m, an increase of $3m, or 9%, compared with the third quarter of 2015. Total operating expenses for the year to date was $100m, an increase of $3m, or 3%, compared with

Management's Discussion and Analysis (continued)

the same period in 2015. The increases from comparative periods were mainly driven by investments in global standards, and risk and compliance activities.

Retail Banking and Wealth Management

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

Review of financial performance

	Quarter ended		Nine months ended	
	30 September 2016 $m	30 September 2015 $m	**30 September 2016 $m**	30 September 2015 $m
Net interest income	**102**	101	**305**	295
Net fee income	**54**	56	**162**	168
Net trading income	**6**	5	**16**	17
Other operating income	**3**	2	**12**	11
Total operating income	**165**	164	**495**	491
Loan impairment charges and other credit risk provisions	**(3)**	(1)	**(8)**	(8)
Net operating income	**162**	163	**487**	483
Total operating expenses	**(145)**	(145)	**(434)**	(424)
Profit before income tax expense	**17**	18	**53**	59

Profit before income tax

	Quarter ended		Nine months ended	
	30 September 2016 $m	30 September 2015 $m	**30 September 2016 $m**	30 September 2015 $m
Ongoing Retail Banking and Wealth Management business	**11**	9	**32**	29
Run-off consumer finance portfolio	**6**	9	**21**	30
Profit before income tax expense	**17**	18	**53**	59

Overview

Retail Banking and Wealth Management benefited from growth in residential mortgages and deposits during the year, with a key focus on revenue in a highly competitive low interest rate market environment. Profit before income tax expense was $17m for the third quarter of 2016, a decrease of $1m, or 6%, compared with the third quarter of 2015. Profit before income tax expense was $53m for the year to date, a decrease of $6m, or 10% compared with the same period in 2015.

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $11m for the third quarter of 2016, an increase of $2m, or 22%, compared with the third quarter of 2015. Profit before income tax expense relating to ongoing business was $32m for the year to date, an increase of $3m, or 10%, compared with the same period in 2015. The increases in profit before income tax expense relating to ongoing business were due to higher net interest income, partially offset by investments in strategic initiatives.

Profit before income tax expense relating to the run-off consumer finance portfolio for the third quarter of 2016 was $6m, a decrease of $3m, or 33%, compared with the third quarter of 2015. Profit before income tax expense relating to the run-off of consumer finance portfolio was $21m for the year to date, a decrease of $9m, or 30%, compared with the same period in 2015. The decreases in profit before income tax expense relating to the run-off consumer finance portfolio were mainly driven by lower interest income from declining loan balances.

Financial performance by income and expense item relating to the ongoing business

Net interest income for the third quarter of 2016 was $97m, an increase of $6m, or 7%, compared with the third quarter of 2015. Net interest income for the year to date was $286m, an increase of $24m, or 9%, compared with the same period in 2015. The increases over the comparative periods are mainly driven by continued growth in retail products, partially offset by tighter spreads in a competitive low interest rate environment.

Net fee income for the third quarter of 2016 was $53m, a decrease of $3m, or 5%, compared with the third quarter of 2015. Net fee income for the year to date was $161m, a decrease of $7m, or 4%, compared with the same period in 2015. Net fee income decreased over comparative periods mainly due to the market volatility impacting the wealth management products.

Net trading income for the third quarter of 2016 was $6m, an increase of $1m, or 20%, compared with the third quarter of 2015. Net trading income for the year to date was $16m, a decrease of $1m, or 6%, compared with the same period in 2015.

Other operating income for the third quarter of 2016 was $3m, an increase of $1m, or 50%, compared with the third quarter of 2015. Other operating income for the year to date was $10m, an increase of $3m, or 43%, compared with the same period in 2015, primarily driven by the sale of a small portfolio of impaired loans during the year.

Loan impairment charges and other credit risk provisions for the third quarter of 2016 was $3m and $12m for the year to date, largely unchanged compared with the same periods in 2015.

Total operating expenses for the third quarter of 2016 was $145m, an increase of $3m, or 2%, compared with the third quarter of 2015. Total operating expenses for the year to date was $429m, an increase of $16m, or 4%, compared with the same period in 2015. The increases over the comparative periods are mainly driven by increased investments in strategic initiatives.

Other

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

Review of financial performance

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Net interest expense	**(8)**	(7)	**(24)**	(20)
Net trading income	**5**	6	**16**	20
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gains less losses from financial investments	**—**	—	**(1)**	—
Other operating income	**12**	8	**33**	19
Total operating income	**8**	9	**21**	23
Total operating expenses	**(51)**	(12)	**(95)**	(38)
Loss before income tax expense	**(43)**	(3)	**(74)**	(15)

Management's Discussion and Analysis (continued)

Loss before income tax expense was $43m for the third quarter of 2016, an increase of $40m compared with the third quarter of 2015. Loss before income tax expense was $74m for the year to date, an increase of $59m compared with the same period in 2015. The increased losses compared with the comparative periods were mainly from investments in initiatives to deliver future savings. As well, the narrowing of credit spreads on financial instruments designated at fair value and a transitional change in the liquidity funds transfer pricing policy framework negatively impacted net interest income for the year to date.

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2015 for more information regarding quarterly trends in performance for 2015 and 2014.

Summary consolidated income statement

	Quarter ended							
	Sep 30 2016 $m	Jun 30 2016 $m	Mar 31 2016 $m	Dec 31 2015 $m	Sep 30 2015 $m	Jun 30 2015 $m	Mar 31 2015 $m	Dec 31 2014 $m
Total operating income	**498**	525	544	448	518	541	530	519
Profit for the period	**100**	121	115	(28)	137	168	170	125
Profit attributable to common shareholders	**91**	111	106	(38)	128	161	163	118
Profit attributable to preferred shareholders	**9**	10	9	10	9	5	4	5
Profit attributable to non-controlling interests	**—**	—	—	—	—	2	3	2
Basic earnings per common share ($)	**0.18**	0.22	0.21	(0.08)	0.26	0.32	0.33	0.24

Accounting matters

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 1 of our 2015 Annual Report and Accounts.

Refer to the 'Critical accounting policies' section of our 2015 Annual Report and Accounts 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 judgment involved, including the use of assumptions and estimation.

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 and letters of credit and are described in the 'Off-balance sheet arrangements' section of our 2015 Annual Report and Accounts.

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. Refer to note 12 of the unaudited interim condensed consolidated financial statements for the third quarter ended 30 September 2016.

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 September 2016, 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 IFRSs. There have been no changes in internal controls over financial reporting during the quarter ended 30 September 2016 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 2015 Annual Report and Accounts for a description of how the bank manages risk on an enterprise wide level, as well as the management of reputation and operational risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet 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 2015 Annual Report and Accounts 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.

Management's Discussion and Analysis (continued)

Credit risk portfolio by product type

	EAD at 30 September 2016					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Wholesale portfolio						
Sovereign	**21,715**	**405**	**7**	**158**	**70**	**22,355**
Banks	**4,226**	**9**	**47**	**692**	**879**	**5,853**
Corporate	**28,058**	**11,599**	**8**	**1,288**	**3,309**	**44,262**
Total	**53,999**	**12,013**	**62**	**2,138**	**4,258**	**72,470**
Retail portfolio						
Residential mortgages	**20,295**	**3**	**—**	**—**	**—**	**20,298**
Home equity lines of credit	**1,853**	**1,045**	**—**	**—**	**—**	**2,898**
Personal unsecured revolving loan	**244**	**216**	**—**	**—**	**—**	**460**
Other personal loan facilities	**1,486**	**179**	**—**	**—**	**2**	**1,667**
Other small to medium enterprises loan facilities	**195**	**223**	**—**	**—**	**17**	**435**
Run-off consumer loan portfolio	**170**	**—**	**—**	**—**	**—**	**170**
Retail Master Card	**345**	**—**	**—**	**—**	**—**	**345**
Total Retail	**24,588**	**1,666**	**—**	**—**	**19**	**26,273**
Total	**78,587**	**13,679**	**62**	**2,138**	**4,277**	**98,743**

	EAD at 31 December 2015					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Wholesale portfolio						
Sovereign	24,807	195	—	406	70	25,478
Banks	3,549	—	75	1,276	482	5,382
Corporate	29,568	12,995	15	1,917	3,511	48,006
Total	57,924	13,190	90	3,599	4,063	78,866
Retail portfolio						
Residential mortgages	19,239	4	—	—	—	19,243
Home equity lines of credit	1,862	1,040	—	—	—	2,902
Personal unsecured revolving loan facilities	267	224	—	—	—	491
Other personal loan facilities	1,677	186	—	—	5	1,868
Other small to medium enterprises loan facilities	228	262	—	—	18	508
Run-off consumer loan portfolio	254	—	—	—	—	254
Retail Master Card	383	—	—	—	—	383
Total Retail	23,910	1,716	—	—	23	25,649
Total	81,834	14,906	90	3,599	4,086	104,515

Credit risk portfolio by geographic area

	EAD 30 September 2016 $m	EAD 31 December 2015 $m
Sovereign		
Canada	**17,743**	20,215
United States of America	**1,969**	2,949
Other	**2,643**	2,314
	22,355	25,478
Banks		
Canada	**3,953**	2,525
United States of America	**711**	1,348
Other	**1,189**	1,509
	5,853	5,382
Corporate		
Canada		
British Columbia	**11,706**	11,856
Ontario	**11,583**	12,504
Alberta	**10,446**	11,869
Quebec	**5,912**	6,330
Saskatchewan and Manitoba	**1,718**	1,744
Atlantic provinces	**947**	816
Northwest Territories	**1**	1
United States of America	**1,401**	1,972
Other	**548**	914
	44,262	48,006
Total wholesale loan portfolio exposure	**72,470**	78,866

Loan portfolio by industry

	EAD at 30 September 2016					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Corporate						
Real Estate	**6,858**	**1,818**	**—**	**106**	**430**	**9,212**
Energy	**3,536**	**2,332**	**—**	**627**	**718**	**7,213**
Manufacturing	**3,834**	**1,736**	**—**	**57**	**347**	**5,974**
Wholesale trade	**2,367**	**1,147**	**—**	**19**	**163**	**3,696**
Services	**2,111**	**542**	**—**	**39**	**131**	**2,823**
Construction services	**1,316**	**748**	**—**	**5**	**721**	**2,790**
Transport and storage	**1,728**	**581**	**—**	**35**	**135**	**2,479**
Mining, logging and forestry	**750**	**694**	**—**	**9**	**358**	**1,811**
Finance and insurance	**859**	**572**	**8**	**265**	**103**	**1,807**
Retail trade	**1,007**	**434**	**—**	**99**	**74**	**1,614**
Business services	**1,182**	**293**	**—**	**8**	**61**	**1,544**
Automotive	**1,056**	**313**	**—**	**5**	**37**	**1,411**
Hotels and accommodation	**732**	**70**	**—**	**6**	**8**	**816**
Agriculture	**365**	**257**	**—**	**8**	**22**	**652**
Sole proprietors	**356**	**62**	**—**	**—**	**1**	**419**
Government Services	**1**	**—**	**—**	**—**	**—**	**1**
Total Corporate	**28,058**	**11,599**	**8**	**1,288**	**3,309**	**44,262**

Management's Discussion and Analysis (continued)

Loan portfolio by industry

	EAD at 31 December 2015					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Corporate						
Real Estate	6,226	1,706	—	212	471	8,615
Energy	3,886	2,894	—	721	900	8,401
Manufacturing	3,898	1,811	—	110	345	6,164
Wholesale trade	2,769	1,301	—	35	170	4,275
Services	2,318	594	—	36	138	3,086
Finance and insurance	1,382	948	15	554	161	3,060
Transport and storage	1,808	631	—	38	158	2,635
Business services	1,299	620	—	9	507	2,435
Mining, logging and forestry	959	714	—	33	353	2,059
Construction services	1,025	622	—	17	195	1,859
Retail Trade	977	406	—	94	35	1,512
Automotive	1,064	344	—	6	39	1,453
Agriculture	433	305	—	46	29	813
Hotels and accommodation	711	48	—	5	6	770
Sole proprietors	403	51	—	1	4	459
Government Services	410	—	—	—	—	410
Total Corporate	29,568	12,995	15	1,917	3,511	48,006

Energy exposures

The following table provides a breakdown of our exposure to energy industries under the AIRB approach. Of these exposures, 55% at 30 September 2016 are investment grade based on our internal risk rating (equivalent to S&P/Moody's rating of BBB-/Baa3 and higher). In light of sustained low oil prices the bank continues to review and reduce exposure while remaining selective to new opportunities.

Credit risk portfolio by product type

	EAD at 30 September 2016				
	Drawn	**Undrawn commitments**	**Derivatives**	**Other off-balance sheet exposures**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Pipelines	**928**	**537**	**497**	**14**	**1,976**
Energy services	**1,018**	**528**	**1**	**54**	**1,601**
Exploration development and production	**973**	**901**	**116**	**410**	**2,400**
Power and utilities	**397**	**174**	**5**	**194**	**770**
Transportation, refining and marketing	**220**	**192**	**8**	**46**	**466**
Total	**3,536**	**2,332**	**627**	**718**	**7,213**

	EAD at 31 December 2015				
	Drawn	Undrawn commitments	Derivatives	Other off-balance sheet exposures	Total
	$m	$m	$m	$m	$m
Pipelines	610	501	630	27	1,768
Energy services	1,322	750	1	85	2,158
Exploration development and production	1,300	1,138	46	512	2,996
Power and utilities	380	278	6	230	894
Transportation, refining and marketing	275	227	37	46	585
Total	3,887	2,894	720	900	8,401

Credit quality

Credit quality of financial assets

Although overall credit quality at 30 September 2016 remains strong, recent credit metrics has indicated some deterioration in the quality of the portfolio related to energy and related exposures. This is consistent with the significant reduction in oil and gas prices and was in accordance with our expectations. This resulted in a $305m increase in impaired loans during the nine months ended 30 September 2016, of which $145m was related to energy and related exposures offset by reductions in other sectors. The bank uses the classification as outlined in the table below to measure the quality of its loans and advances.

	Wholesale and retail lending		
Quality classification	**External credit rating**	**Internal credit rating**	**12 month probability of default %**
Strong	A– and above	CRR1 to CRR2	0-0.169
Good	BBB+ to BBB-	CCR3	0.170-0.740
Satisfactory	BB+ to B+	CCR4 to CCR5	0.741-4.914
Sub-standard	B to C	CRR6 to CRR8	4.915-99.999
Impaired	Default	CRR9 to CRR10	100

Credit quality of wholesale portfolio

	30 September 2016			31 December 2015		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**30,605**	**2,411**	**33,016**	34,860	3,295	38,155
Good	**15,632**	**5,723**	**21,355**	16,054	5,658	21,712
Satisfactory	**11,555**	**3,194**	**14,749**	12,165	3,660	15,825
Sub-standard	**1,818**	**618**	**2,436**	2,066	499	2,565
Impaired	**847**	**67**	**914**	531	78	609
	60,457	**12,013**	**72,470**	65,676	13,190	78,866

The proportion of exposures categorized as Strong or Good decreased from 75.9% at 31 December 2015 to 75.0% at 30 September 2016, while impaired loans increased from $609m to $914m. This was mainly due to deterioration in the quality of the portfolio related to energy and related exposures. This is consistent with the significant reduction in oil prices and was in accordance with our expectations.

The wholesale portfolio credit risk EAD decreased by $6.4bn in the nine months ended 30 September 2016 due to removal of the trading book portfolio from credit risk EAD following OSFI approval of Market Risk model, a reduction in Balance Sheet Management activities and a reduction in unused loan commitments.

Management's Discussion and Analysis (continued)

Credit quality of retail portfolio

	30 September 2016			31 December 2015		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**10,565**	**1**	**10,566**	10,010	2	10,012
Good	**11,088**	**1,175**	**12,263**	10,989	1,231	12,220
Satisfactory	**2,281**	**455**	**2,736**	2,211	434	2,645
Sub-standard	**613**	**35**	**648**	638	49	687
Impaired	**60**	**—**	**60**	85	—	85
	24,607	**1,666**	**26,273**	23,933	1,716	25,649

The portfolio was generally stable with the proportion of exposures categorized as Strong or Good increasing from 86.7% at 31 December 2015 to 86.9% at 30 September 2016, while impaired loans declined from $85m to $60m.

Mortgages and home equity lines of credit

The bank's mortgage and home equity lines of credit portfolios are considered to be low-risk since the majority are secured by a first charge against the underlying real estate. The tables below detail how the bank mitigates risk further by diversifying the geographical markets in which it operates as well as benefiting from borrower default insurance. In addition the bank maintains strong underwriting and portfolio monitoring standards to ensure the quality of its portfolio is maintained.

	30 September 2016						
	Residential mortgages					**HELOC[2]**	
Insurance and geographic distribution[1]	**Insured[3]**		**Uninsured**		**Total**	**Uninsured**	
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**807**	**6**	**11,949**	**94**	**12,756**	**886**	**100**
Western Canada[4]	**222**	**18**	**1,033**	**82**	**1,255**	**237**	**100**
Ontario	**620**	**10**	**5,292**	**90**	**5,912**	**622**	**100**
Quebec and Atlantic provinces	**153**	**14**	**968**	**86**	**1,121**	**107**	**100**
Total at 30 September 2016	**1,802**	**9**	**19,242**	**91**	**21,044**	**1,852**	**100**

	30 June 2016						
	Residential mortgages					HELOC[2]	
Insurance and geographic distribution[1]	Insured[3]		Uninsured		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	874	7	11,829	93	12,703	908	100
Western Canada[4]	236	18	1,058	82	1,294	248	100
Ontario	666	11	5,223	89	5,889	617	100
Quebec and Atlantic provinces	164	14	967	86	1,131	109	100
Total at 30 June 2016	1,940	9	19,077	91	21,017	1,882	100

Amortization period[5]	**Residential mortgages**				
	Less than 20 years	**20 - 24 years**	**25- 29 years**	**30 - 34 years**	**35 years and greater**
Total at 30 September 2016	**24%**	**34%**	**41%**	**1%**	**—%**
Total at 30 June 2016	24%	34%	41%	1%	—%

For the three months ended:

Average loan-to-value ratios of new originations[6, 7]

	30 September 2016	
	Residential mortgages	HELOC
	%	%
British Columbia	57	48
Western Canada[4]	60	53
Ontario	60	54
Quebec and Atlantic provinces	60	58
Total at 30 September 2016	**58**	**51**
Total at 30 June 2016	59	53

1 Geographic location is determined by the address of the originating branch.

2 HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.

3 Insured mortgages are protected from potential losses caused by borrower default through the purchase of insurance coverage, either from the Canadian Housing and Mortgage Corporation or other accredited private insurers.

4 Western Canada excludes British Columbia.

5 Amortization period is based on the remaining term of residential mortgages.

6 All new loans and home equity lines of credit were originated by the bank; there were no acquisitions during the period.

7 Loan-to-value ratios are simple averages, based on property values at the date of mortgage origination.

Potential impact of an economic downturn on residential mortgage loans and home equity lines of credit

The bank performs stress testing on its Retail portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macroeconomic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan to Value in the portfolio and risk mitigation strategies in place.

Days past due but not impaired loans and advances

The aging analysis below includes past due loans on which collective impairment allowances have been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

	30 September 2016	31 December 2015
	$m	$m
Up to 29 days	415	920
30-59 days	73	200
60-89 days	22	113
90-179 days	—	30
Over 180 days	—	7
	510	1,270

Management's Discussion and Analysis (continued)

Impaired loans and allowances for credit losses

When impairment losses occur, we reduce the carrying amount of loans through the use of an allowance account with a charge to income. The allowance for credit losses consists of both individually assessed and collectively assessed allowances, each of which is reviewed on a regular basis. The allowance for credit losses reduces the gross value of an asset to its net carrying value.

An allowance is maintained for credit losses which, in management's opinion, is considered adequate to absorb all incurred credit-related losses in our portfolio, of both on, and off-balance sheet items, including deposits with other regulated financial institutions, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates that may be susceptible to significant change. This includes the amount and timing of expected future cash flows and incurred losses for loans that are not individually identified as being impaired.

Individually significant accounts are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used to determine that there is objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past-due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realization.

Individually assessed impairment allowances are recorded on these individual accounts on an account-by-account basis to reduce their carrying value to estimated realizable amount.

The collectively assessed impairment allowance is our best estimate of incurred losses in the portfolio for those individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant. In determining an appropriate level of collectively assessed impairment, we apply the following methodologies:

- *Business and government* - For these loans, the underlying credit metrics including Probability of Default ('"PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), for each customer are derived from the bank's internal rating system as a basis for the collectively assessed impairment allowance. In order to reflect the likelihood of a loss event not being identified and assessed, an emergence period assumption is applied which reflects the period between a loss occurring and its identification. The emergence period is estimated by management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The emergence period is assessed empirically on a periodic basis and may vary over time as these factors change. The bank also incorporates a quantitative management judgment framework which includes internal and external indicators, to establish an overall collective impairment allowance consistent with recent loss experience and uncertainties in the environment.
- *Residential mortgages* - Historic average loss rates are used to determine the collective provision for these portfolios. Management may consider other current information should they believe that these historic loss rates do not fully reflect incurred losses in these portfolios.
- *Consumer finance and other consumer loans* - Analysis of historical delinquency movements by product type is used as the basis for the collectively assessed impairment allowance for these loan portfolios. By tracking delinquency movement among pools of homogeneous loans, an estimate of incurred losses in each pool is determined. These estimates can be amended should management believe they do not fully reflect incurred losses. This judgemental adjustment employs an established framework and references both internal and external indicators of credit quality.

In addition to the methodologies outlined above, the balance of the collectively assessed impairment allowance is also analyzed as a function of risk-weighted assets and referenced to the allowances held by our peer group.

Impaired financial assets

	EAD 30 September 2016 $m	EAD 31 December 2015 $m
Impaired wholesale portfolio[1]		
Energy	**399**	254
Transportation and storage	**134**	6
Real estate	**88**	62
Construction services	**69**	18
Wholesale trade	**35**	48
Manufacturing	**109**	56
Business services	**25**	81
Mining, logging and forestry	**16**	19
Agriculture	**3**	5
Services	**8**	21
Automotive	**1**	12
Hotels and accommodation	**8**	7
Retail trade	**14**	14
Sole proprietors	**4**	5
Finance and insurance	**1**	1
Total impaired wholesale portfolio	**914**	609
Impaired retail portfolio		
Residential mortgages	**47**	54
Other retail loans	**13**	31
Total impaired retail portfolio	**60**	85
Total impaired financial assets	**974**	694

1 *Includes $149m (2015: $193m) of impaired acceptances, letters of credit and guarantees*

Management's Discussion and Analysis (continued)

Impairment allowances

	30 September 2016 $m	31 December 2015 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances[1] (A)	**835**	502
Collectively assessed loans and advances (B)	**46,990**	48,387
- impaired loans and advances[1]	**39**	48
- non-impaired loans and advances	**46,951**	48,339
Total gross loans and advances to customers (C)	**47,825**	48,889
Less: impairment allowances (c)	**566**	511
-individually assessed (a)	**350**	253
- collectively assessed (b)	**216**	258
Net loans and advances to customers	**47,259**	48,378
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**41.9%**	50.3%
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)	**1.2%**	1.0%

1 *Includes restructured loans with a higher credit quality than 'impaired' and for which there is insufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, or the absence of other indicators of impairment.*

Movement in impairment allowances and provision for credit losses

	Nine months ended 30 September 2016				Nine months ended 30 September 2015			
	Customers individually assessed $m	Customers collectively assessed $m	Other credit risk provisions $m	Total $m	Customers individually assessed $m	Customers collectively assessed $m	Other credit risk provisions $m	Total $m
Opening balance at the beginning of the period	**253**	**258**	**105**	**616**	170	192	76	438
Movement								
Loans and advances written off net of recoveries of previously written off amounts[1]	**(105)**	**(10)**		**(115)**	(33)	(9)	—	(42)
Charge to income	**217**	**(32)**	**(17)**	**168**	64	—	6	70
Other movements	**(15)**	**—**		**(15)**	(7)	—	—	(7)
Closing balance at the end of the period	**350**	**216**	**88**	**654**	194	183	82	459

1 Recovered $7m (2015: $27m) of loans and advances written off in prior periods

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.

Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk management

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our 2015 Annual Report and Accounts continues to apply. As described therein, from 1 January 2016 the bank, in line with HSBC Group, implemented a new internal liquidity and funding risk management framework. The new internal framework uses the external liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds additional metrics, limits and overlays to address the risks that the bank considers are not adequately reflected by the external regulatory framework.

We continue to monitor liquidity and funding risk within our stated risk appetite and management framework.

Liquid assets

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorised as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets [1,2]

	30 September 2016	31 December 2015
Level 1	**21,566**	21,543
Level 2a	**4,116**	2,959
Level 2b	**90**	98
	25,772	24,600

1 The liquid asset balances stated here are as at the above dates (spot rate) and are unweighted and therefore do not match the liquid asset balances stated in the LCR ratio calculations which are the average for the quarter and are weighted.

2 As described herein, effective 1 January 2016, the bank implemented a new internal liquidity and funding risk management framework which uses the external LCR regulatory framework. The categorization of liquid assets presented above is based on OSFI LCR regulations. Prior period numbers have been re-stated to be in line with this new liquidity framework.

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards effective 1 January 2015, the bank is required to maintain a LCR above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 30 September 2016, the bank was compliant with both.

The bank's OSFI LCR is summarized in the following table. For the quarter ended 30 September 2016, the bank's average LCR of 150% is calculated as the ratio of the stock of High-Quality Liquid Assets (HQLA) to the total net stressed cash outflows over the next 30 calendar days. The average LCR increased this quarter over the average for the previous quarter as a result of higher HQLA from lower loan balances and lower cash outflows for derivative exposures in the current quarter.

OSFI liquidity coverage ratio[1]

Average for the three months ended[1]	**30 September 2016**	30 June 2016
Total HQLA[2] ($m)	**24,830**	24,439
Total net cash outflows[2] ($m)	**16,551**	16,883
Liquidity coverage ratio (%)	**150**	145

1 The data in this table has been calculated using averages of the three month-end figures in the quarter. Consequently, the LCR is an average ratio for the three months of the quarter and might not equal the LCR ratios calculated dividing total weighted HQLA by total weighted net cash outflows.

2 These are weighted values and are calculated after the application of the weights prescribed under the OSFI LAR Guideline for HQLA and cash inflows and outflows.

Management's Discussion and Analysis (continued)

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, which will adversely affect our income or the value of our assets and liabilities

Market risk management is independent of the business and is responsible for establishing the policies, procedures and limits that align with the risk appetite of the bank. 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 2015 Annual Report and Accounts 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.

Total VaR increased from September 2015 to September 2016 due to inclusion of more granular risks into the VaR calculation and an increase in both trading and non-trading activities. The VaR model has been enhanced to capture interest rate basis risks. Over the same period, the average trading VaR increased by $0.4m due to an increase in interest rate risk, but the range (difference between max and min) has decreased. Over the same period, the average non-trading VaR increased by $15.3m due to an increase in interest rate and credit risk, as well as the recategorization of Bankers' Acceptances from trading to non-trading.

VaR by risk type for trading activities[1]

	Foreign exchange and commodity	**Interest rate**	**Equity**	**Credit Spread**	**Portfolio diversification[2]**	**Total[3]**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
January - September 2016						
At period end	**—**	**1.3**	**—**	**0.7**	**(0.4)**	**1.6**
Average	**0.1**	**1.4**	**—**	**0.8**	**(0.6)**	**1.7**
Minimum	**—**	**0.5**	**—**	**0.2**		**1.0**
Maximum	**0.5**	**2.4**	**—**	**1.3**		**2.5**

	Foreign exchange and commodity	Interest rate	Equity	Credit Spread	Portfolio diversification[2]	Total[3]
	$m	$m	$m	$m	$m	$m
January - September 2015						
At period end	0.1	0.5	—	1.0	(0.7)	0.9
Average	0.3	0.6	—	1.1	(0.7)	1.3
Minimum	—	0.2	—	0.7		0.7
Maximum	1.1	1.9	0.4	2.8		2.8

1 Trading portfolios comprise positions arising from the market-making and warehousing of customer derived positions.

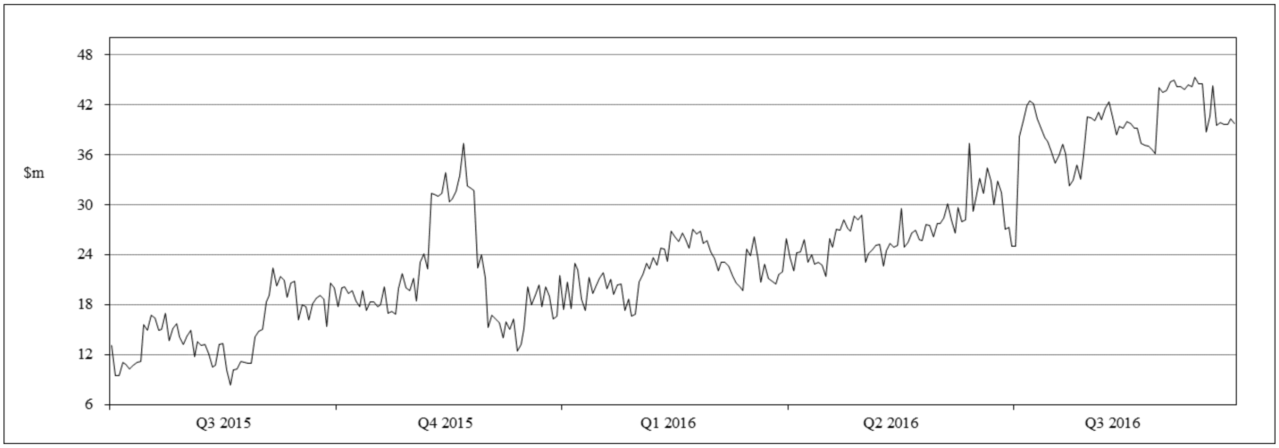
2 Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together 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. Some small differences in figures presented are due to rounding.

3 The total VaR is non-additive across risk types due to diversification effects.

Non-trading VaR

	Nine months ended	
	30 September 2016	30 September 2015
	$m	$m
At period end	**39.0**	20.1
Average	**29.2**	13.9
Minimum	**15.3**	8.7
Maximum	**46.0**	22.3

Total daily VaR



Structural interest rate risk

Structural interest rate risk arises primarily out of differences in the term to maturity or repricing of our assets and liabilities, both on- and off-balance sheet.

Refer to the 'Structural Interest Rate Risk' section of our 2015 Annual Report and Accounts for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

Sensitivity of structural interest rate risk in the non-trading portfolio

At 30 September

	2016		2015	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
Impact as a result of 100 basis point change in interest rate:				
Increase	**(275)**	**99**	(263)	88
Decrease	**389**	**(105)**	328	(59)

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 2015 Annual Report and Accounts for a description of additional factors which may affect future financial results.

Management's Discussion and Analysis (continued)

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 2015 Annual Report and Accounts for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below are presented under a Basel III 'all-in' basis, which applies Basel III regulatory adjustments from 1 January 2013, however phases out of non-qualifying capital instruments over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 30 September 2016.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

	30 September 2016	31 December 2015
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**10.7%**	10.1%
Tier 1 capital ratio	**12.7%**	12.1%
Total capital ratio	**13.8%**	13.5%
Leverage ratio	**4.8%**	4.7%
Required regulatory capital limits		
Minimum common equity tier 1 capital ratio	**7.0%**	7.0%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimum total capital ratio	**10.5%**	10.5%

Regulatory capital

Regulatory capital and risk weighted assets

	30 September 2016	31 December 2015
	$m	$m
Tier 1 capital	**5,331**	5,178
Common equity tier 1 capital	**4,481**	4,328
Gross common equity[1]	**4,702**	4,526
Regulatory adjustments	**(221)**	(198)
Additional tier 1 eligible capital[2]	**850**	850
Tier 2 capital[3]	**452**	585
Total capital available for regulatory purposes	**5,783**	5,763
Total risk-weighted assets	**41,915**	42,846

1 Includes common share capital, retained earnings and accumulated other comprehensive income.

2 Includes capital instruments subject to phase out.

3 Includes directly issued capital instruments subject to phase out and collective allowances.

Outstanding shares

	At 31 October 2016		
	Dividend[1]	Number of issued shares	**Carrying value**
	$ per share	000's	**$m**
Common shares		496,688	**1,225**
Class 1 preferred shares			
Series C	0.31875	7,000	**175**
Series D	0.3125	7,000	**175**
Series G	0.25	20,000	**500**
			850

1 *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*

During the third quarter of 2016, the bank declared and paid $48m in dividends on HSBC Bank Canada common shares, a decrease of $40m compared with the same quarter last year, and $9m in dividends on all series of HSBC Bank Canada Class 1 preferred shares, consistent with the same quarter last year.

Common share dividends of $197m have been declared on HSBC Bank Canada common shares and will be paid on or before 31 December 2016 to the holder of record on 3 November 2016.

Regular quarterly dividends have been declared on all series of HSBC Bank Canada Class 1 preferred shares in the amounts per share noted above and will be paid on 31 December 2016 for shareholders of record on 15 December 2016.

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Financial Statements and Notes on the Financial Statements

Consolidated income statement (unaudited)

		Quarter ended		Nine months ended	
		30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	Notes	**$m**	$m	**$m**	$m
Interest income		**440**	422	**1,299**	1,283
Interest expense		**(156)**	(137)	**(454)**	(422)
Net interest income		**284**	285	**845**	861
Fee income		**181**	186	**548**	575
Fee expense		**(15)**	(21)	**(50)**	(57)
Net fee income		**166**	165	**498**	518
Trading income excluding net interest income		**24**	35	**131**	76
Net interest income on trading activities		**5**	13	**14**	28
Net trading income		**29**	48	**145**	104
Net (expense)/income from financial instruments designated at fair value		**(1)**	2	**(3)**	4
Gains less losses from financial investments		**3**	2	**30**	56
Other operating income		**17**	16	**52**	46
Total operating income		**498**	518	**1,567**	1,589
Loan impairment charges and other credit risk provisions		**(29)**	(31)	**(168)**	(70)
Net operating income		**469**	487	**1,399**	1,519
Employee compensation and benefits	2	**(163)**	(167)	**(496)**	(504)
General and administrative expenses		**(155)**	(121)	**(404)**	(339)
Depreciation of property, plant and equipment		**(8)**	(7)	**(23)**	(22)
Amortization of intangible assets		**(2)**	(3)	**(7)**	(10)
Total operating expenses		**(328)**	(298)	**(930)**	(875)
Operating profit		**141**	189	**469**	644
Share of (loss)/profit in associates		**(3)**	(2)	**(5)**	1
Profit before income tax expense		**138**	187	**464**	645
Income tax expense		**(38)**	(50)	**(128)**	(170)
Profit for the period		**100**	137	**336**	475
Profit attributable to the common shareholder		**91**	128	**308**	452
Profit attributable to preferred shareholders		**9**	9	**28**	18
Profit attributable to shareholders		**100**	137	**336**	470
Profit attributable to non-controlling interests		**—**	—	**—**	5
Average number of common shares outstanding (000's)		**498,668**	498,668	**498,668**	498,668
Basic earnings per common share		**$ 0.18**	$ 0.26	**$ 0.62**	$ 0.91

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

Consolidated statement of comprehensive income (unaudited)

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Profit for the period	**100**	137	**336**	475
Other comprehensive income/(expense)				
Available-for-sale investments[1]	**29**	(75)	**92**	(83)
– fair value gains/(losses)	**42**	(100)	**154**	(56)
– fair value losses transferred to income statement on disposal	**(3)**	(2)	**(30)**	(56)
– income (recovery)/taxes	**(10)**	27	**(32)**	29
Cash flow hedges[1]	**(8)**	4	**(17)**	49
– fair value gains/(losses)	**11**	(362)	**(9)**	(489)
– fair value (losses)/gains transferred to income statement	**(23)**	368	**(14)**	556
– income taxes/(recovery)	**4**	(2)	**6**	(18)
Remeasurement of defined benefit plans[2]	**6**	(2)	**(63)**	(4)
– before income taxes	**7**	(4)	**(86)**	(6)
– income taxes	**(1)**	2	**23**	2
Other comprehensive loss for the period, net of tax	**27**	(73)	**12**	(38)
Total comprehensive income for the period	**127**	64	**348**	437
Total comprehensive income for the period attributable to:				
– shareholders	**127**	64	**348**	432
– non-controlling interests	**—**	—	**—**	5
	127	64	**348**	437

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

Consolidated balance sheet (unaudited)

	Notes	30 September 2016 $m	31 December 2015 $m
ASSETS			
Cash and balances at central bank		**51**	65
Items in the course of collection from other banks		**68**	73
Trading assets	4	**6,301**	3,893
Derivatives	5	**3,914**	4,909
Loans and advances to banks		**1,575**	1,400
Loans and advances to customers		**47,259**	48,378
Reverse repurchase agreements – non-trading		**6,265**	6,807
Financial investments	6	**24,136**	23,935
Other assets		**347**	365
Prepayments and accrued income		**232**	194
Customers' liability under acceptances		**4,864**	3,834
Property, plant and equipment		**97**	110
Goodwill and intangible assets		**65**	61
Total assets		**95,174**	94,024
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		**562**	2,049
Customer accounts		**54,914**	55,089
Repurchase agreements – non-trading		**5,660**	6,606
Items in the course of transmission to other banks		**159**	219
Trading liabilities	7	**3,799**	1,713
Financial liabilities designated at fair value	8	**405**	414
Derivatives	5	**4,242**	5,005
Debt securities in issue		**10,444**	10,896
Other liabilities	15	**3,735**	1,822
Acceptances		**4,864**	3,834
Accruals and deferred income		**427**	474
Retirement benefit liabilities		**372**	288
Subordinated liabilities	13	**39**	239
Total liabilities		**89,622**	88,648
Equity			
Preferred shares		**850**	850
Common shares		**1,225**	1,225
Other reserves		**167**	92
Retained earnings		**3,310**	3,209
Total equity		**5,552**	5,376
Total equity and liabilities		**95,174**	94,024

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

Consolidated statement of cash flows (unaudited)

		Nine months ended	
		30 September 2016	30 September 2015
	Notes	**$m**	$m
Cash flows from operating activities			
Profit before tax		**464**	645
Adjustments for:			
– non-cash items included in profit before tax	10	**217**	123
– change in operating assets	10	**(35)**	(648)
– change in operating liabilities	10	**(160)**	5,854
– tax paid		**(93)**	(179)
Net cash from operating activities		**393**	5,795
Cash flows from investing activities			
Purchase of financial investments		**(14,225)**	(16,938)
Proceeds from the sale and maturity of financial investments		**14,116**	11,584
Purchase of intangibles and property, plant and equipment		**(20)**	(28)
Net cash used in investing activities		**(129)**	(5,382)
Cash flows from financing activities			
Redemption of subordinated liabilities	13	**(200)**	—
Redemption of non-controlling interest trust units		**—**	(200)
Distributions to non-controlling interests		**—**	(5)
Dividends paid to shareholders		**(172)**	(282)
Issuance of preferred shares		**—**	500
Net cash (used in)/from financing activities		**(372)**	13
(Decrease)/Increase in cash and cash equivalents		**(108)**	426
Cash and cash equivalents at the beginning of the period		**1,983**	2,337
Cash and cash equivalents at the end of the period	10	**1,875**	2,763

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

Consolidated statement of changes in equity (unaudited)

			Other reserves					
	Share capital[1]	**Retained earnings**	**Available-for-sale fair value reserve**	**Cash flow hedging reserve**	**Total other reserves**	**Total shareholders' equity**	**Non-controlling interests**	**Total equity**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 January 2016	**2,075**	**3,209**	**(33)**	**125**	**92**	**5,376**	**—**	**5,376**
Profit for the period		**336**	**—**	**—**	**—**	**336**	**—**	**336**
Other comprehensive income/(loss), net of tax	**—**	**(63)**	**92**	**(17)**	**75**	**12**	**—**	**12**
Available-for-sale investments	**—**	**—**	**92**	**—**	**92**	**92**	**—**	**92**
Cash flow hedges	**—**	**—**	**—**	**(17)**	**(17)**	**(17)**	**—**	**(17)**
Remeasurement of defined liability/ asset	**—**	**(63)**	**—**	**—**	**—**	**(63)**	**—**	**(63)**
Total comprehensive income for the period	**—**	**273**	**92**	**(17)**	**75**	**348**	**—**	**348**
Dividends paid on common shares	**—**	**(144)**	**—**	**—**	**—**	**(144)**	**—**	**(144)**
Dividends paid on preferred shares	**—**	**(28)**	**—**	**—**	**—**	**(28)**	**—**	**(28)**
At 30 September 2016	**2,075**	**3,310**	**59**	**108**	**167**	**5,552**	**—**	**5,552**

			Other reserves					
	Share capital	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Total other reserves	Total shareholders' equity	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2015	1,575	3,108	56	61	117	4,800	200	5,000
Profit for the period	—	470	—	—	—	470	5	475
Other comprehensive income/(loss), net of tax	—	(4)	(83)	49	(34)	(38)	—	(38)
Available-for-sale investments	—	—	(83)	—	(83)	(83)	—	(83)
Cash flow hedges	—	—	—	49	49	49	—	49
Remeasurement of defined liability/ asset	—	(4)	—	—	—	(4)	—	(4)
Total comprehensive income for the period	—	466	(83)	49	(34)	432	5	437
Dividends paid on common shares	—	(264)	—	—	—	(264)	—	(264)
Dividends paid on preferred shares	—	(18)	—	—	—	(18)	—	(18)
Distributions to unit holders	—	—	—	—	—	—	(5)	(5)
Redemption of HaTS	—	—	—	—	—	—	(200)	(200)
Issuance of preferred shares	500	—	—	—	—	500	—	500
At 30 September 2015	2,075	3,292	(27)	110	83	5,450	—	5,450

1 *Share capital is comprised of common shares $1,225m and preferred shares $850m.*

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

Notes on the Consolidated Financial Statements (unaudited)

1 Basis of preparation and significant accounting policies

HSBC Bank Canada (‘the bank’, ‘we’, ‘our’) is an indirectly wholly-owned subsidiary of HSBC Holdings plc. (‘the Parent’, ‘HSBC Holdings’, 'HSBC Group'). Throughout these interim condensed consolidated financial statements (‘Financial Statements’), the ‘HSBC Group’ means the Parent and its subsidiary companies.

a *Compliance with International Financial Reporting Standards*

The Financial Statements have been prepared in accordance with International Accounting Standard (‘IAS’) 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (‘IASB’) and should be read in conjunction with the bank’s 2015 annual consolidated financial statements. The bank’s 2015 annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) and accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada (‘OSFI’), as required under Section 308(4) of the Bank Act.

IFRSs comprise accounting standards as issued or adopted by the IASB and its predecessor body as well as interpretations issued or adopted by the IFRS Interpretations Committee and its predecessor body.

b *Future accounting developments*

Future accounting developments have been disclosed in Note 1(b) on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

c *Changes to the presentation of the Financial Statements and notes on the Financial Statements*

There have been no changes to the presentation of the Financial Statements and notes on the Financial Statements.

d *Presentation of information*

The Financial Statements are presented in Canadian dollars, the bank’s functional currency. The abbreviation ‘$m’ represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

e *Critical accounting estimates and assumptions*

The preparation of financial information requires the use of estimates and judgments about future conditions. Management’s selection of accounting policies which contain critical estimates and judgments include: collective impairment provision for loans and advances, accounting and valuation of certain financial instruments, deferred tax assets and measurement of defined benefit obligations. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of these items, it is possible that the outcomes in future reporting periods could differ from those on which management’s estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the Financial Statements. These items are described further in the ‘Critical accounting policies’ section of the Management’s Discussion and Analysis of the bank’s 2015 Annual Report and Accounts.

f *Consolidation*

The Financial Statements comprise the consolidated financial statements of the bank and its subsidiaries as at 30 September 2016. The method adopted by the bank to consolidate its subsidiaries is described in Note 1(e) on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

g *Significant accounting policies*

There have been no significant changes to the bank’s significant accounting policies which are disclosed in Note 1 (f) to (i) and within the respective notes on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

2 Employee compensation and benefits

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

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Pension plans – defined benefit	**4**	4	**12**	13
Pension plans – defined contribution	**9**	8	**27**	26
Healthcare and other post retirement benefit plans	**3**	3	**10**	10
	16	15	**49**	49

3 Segment analysis

We manage and report our operations according to the following global lines of business: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management. 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 global lines of business 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. The offset of the net impact of these charges and credits is reflected in Global Banking and Markets.

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Commercial Banking				
Net interest income	**135**	149	**407**	453
Net fee income	**80**	80	**237**	238
Net trading income	**9**	9	**24**	25
Gains less losses from financial instruments	**—**	—	**3**	—
Other operating income	**3**	6	**13**	16
Total operating income	**227**	244	**684**	732
Loan impairment charges and other credit risk provisions	**(27)**	(30)	**(155)**	(60)
Net operating income	**200**	214	**529**	672
Total operating expenses	**(97)**	(109)	**(301)**	(316)
Operating profit	**103**	105	**228**	356
Share of (loss)/profit in associates	**(3)**	(2)	**(5)**	1
Profit before income tax expense	**100**	103	**223**	357

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

	Quarter ended		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Global Banking and Markets				
Net interest income	**55**	42	**157**	133
Net fee income	**32**	29	**99**	112
Net trading income	**9**	28	**89**	42
Gains less losses from financial investments	**3**	2	**28**	56
Other operating loss	**(1)**	—	**(6)**	—
Total operating income	**98**	101	**367**	343
Loan impairment recoveries/(charges) and other credit risk provisions	**1**	—	**(5)**	(2)
Net operating income	**99**	101	**362**	341
Total operating expenses	**(35)**	(32)	**(100)**	(97)
Profit before income tax expense	**64**	69	**262**	244
Retail Banking and Wealth Management				
Net interest income	**102**	101	**305**	295
Net fee income	**54**	56	**162**	168
Net trading income	**6**	5	**16**	17
Other operating income	**3**	2	**12**	11
Total operating income	**165**	164	**495**	491
Loan impairment charges and other credit risk provisions	**(3)**	(1)	**(8)**	(8)
Net operating income	**162**	163	**487**	483
Total operating expenses	**(145)**	(145)	**(434)**	(424)
Profit before income tax expense	**17**	18	**53**	59
Other				
Net interest expense	**(8)**	(7)	**(24)**	(20)
Net trading income	**5**	6	**16**	20
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	**(3)**	4
Gain less losses from financial investments	**—**	—	**(1)**	—
Other operating income	**12**	8	**33**	19
Net operating income	**8**	9	**21**	23
Total operating expenses	**(51)**	(12)	**(95)**	(38)
Loss before income tax expense	**(43)**	(3)	**(74)**	(15)

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

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Other	Total
	$m	$m	$m	$m	$m
Quarter ended 30 September 2016					
Net operating income:	**200**	**99**	**162**	**8**	**469**
External	**203**	**77**	**178**	**11**	**469**
Inter-segment	**(3)**	**22**	**(16)**	**(3)**	**—**
Quarter ended 30 September 2015					
Net operating income:	214	101	163	9	487
External	207	91	180	9	487
Inter-segment	7	10	(17)	—	—
Nine month ended 30 September 2016					
Net operating income:	**529**	**361**	**487**	**22**	**1,399**
External	**533**	**307**	**528**	**31**	**1,399**
Inter-segment	**(4)**	**54**	**(41)**	**(9)**	**—**
Nine month ended 30 September 2015					
Net operating income:	672	341	483	23	1,519
External	645	309	542	23	1,519
Inter-segment	27	32	(59)	—	—

Balance sheet information

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Other	Intersegment	Total
	$m	$m	$m	$m	$m	$m
At 30 September 2016						
Loans and advances to customers and acceptances	**23,177**	**4,093**	**24,853**	**—**	**—**	**52,123**
Total assets	**29,210**	**45,410**	**29,596**	**402**	**(9,444)**	**95,174**
Customer accounts	**21,959**	**6,686**	**26,269**	**—**	**—**	**54,914**
Acceptances	**3,615**	**1,249**	**—**	**—**	**—**	**4,864**
Total liabilities	**26,137**	**43,743**	**28,784**	**402**	**(9,444)**	**89,622**
At 31 December 2015						
Loans and advances to customers and acceptances	24,522	3,563	24,127	—	—	52,212
Total assets	28,801	50,161	28,669	411	(14,018)	94,024
Customer accounts	22,684	6,774	25,631	—	—	55,089
Acceptances	2,794	1,040	—	—	—	3,834
Total liabilities	25,828	48,537	27,890	411	(14,018)	88,648

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

4 Trading assets

	30 September 2016	31 December 2015
	$m	$m
Trading assets:		
not subject to repledge or resale by counterparties	**3,031**	2,651
which may be repledged or resold by counterparties	**3,270**	1,242
	6,301	3,893
Canadian and Provincial Government bonds[1]	**4,893**	2,247
Debt securities	**355**	778
Total debt securities	**5,248**	3,025
Customer trading assets	**521**	226
Treasury and other eligible bills	**419**	642
Trading assets from other banks	**105**	—
Equity securities	**8**	—
	6,301	3,893

1 *Including 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 11 of the bank's 2015 Annual Report and Accounts.

Fair values of derivatives by product contract type held

	At 30 September 2016					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**2,238**	**—**	**2,238**	**2,153**	**258**	**2,411**
Interest rate	**1,435**	**221**	**1,656**	**1,410**	**404**	**1,814**
Commodity	**17**	**—**	**17**	**17**		**17**
Equity	**3**	**—**	**3**	**—**	**—**	**—**
Gross total fair values	**3,693**	**221**	**3,914**	**3,580**	**662**	**4,242**

	At 31 December 2015					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	3,729	—	3,729	3,637	190	3,827
Interest rate	827	286	1,113	841	276	1,117
Commodity	61	—	61	61	—	61
Equity	6	—	6	—	—	—
Gross total fair values	4,623	286	4,909	4,539	466	5,005

Trading derivatives

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

	30 September 2016	31 December 2015
	$m	$m
Foreign exchange	**131,605**	137,005
Interest rate	**170,395**	53,356
Commodity	**198**	91
Equities	**20**	67
	302,218	190,519

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 Consolidated Financial Statements (unaudited) (continued)

Hedging instruments

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

	30 September 2016		31 December 2015	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m
Foreign exchange	**1,720**	**—**	2,056	—
Interest rate	**6,276**	**15,994**	10,027	15,485

Fair value of derivatives designated as fair value hedges

	30 September 2016		31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities
	$m	**$m**	$m	$m
Interest rate	**84**	**378**	104	258

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

	30 September 2016	31 December 2015
	$m	$m
Gains/(losses)		
- on hedging instruments	**(46)**	30
- on hedged items attributable to the hedged risk	**45**	(30)

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

	30 September 2016		31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities
	$m	**$m**	$m	$m
Foreign exchange	**—**	**258**	—	190
Interest rate	**137**	**26**	182	18

6 Financial investments

	30 September 2016	31 December 2015
	$m	$m
Financial investments		
Not subject to repledge or resale by counterparties	**22,294**	20,325
Which may be repledged or resold by counterparties	**1,842**	3,610
	24,136	23,935
Available-for-sale		
Canadian and Provincial Government bonds[1]	**16,723**	16,752
International Government bonds[1]	**3,729**	4,729
Debt securities issued by banks and financial institutions	**2,767**	2,139
Treasury and eligible bills	**859**	279
Other securities	**58**	36
	24,136	23,935

1 *Includes government guaranteed bonds.*

7 Trading liabilities

	30 September 2016	31 December 2015
	$m	$m
Other liabilities – net short positions	**3,027**	1,571
Customer trading liabilities	**735**	134
Trading liabilities due to other banks	**32**	—
Other debt securities in issue	**5**	8
	3,799	1,713

8 Financial liabilities designated at fair value

	30 September 2016	31 December 2015
	$m	$m
Subordinated debentures	**405**	414

The carrying amount at 30 September 2016 of financial liabilities designated at fair value was $5m higher (31 December 2015: $14m higher) than the contractual amount at maturity. At 30 September 2016, the cumulative amount of change in fair value attributable to changes in credit risk was $1.5m gain (31 December 2015: nil).

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

9 Fair values of financial instruments

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 Financial Statements.

	Valuation techniques			
	Level 1 Quoted market price	Level 2 using observable inputs	Level 3 with significant unobservable inputs	Total
	$m	$m	$m	$m
At 30 September 2016				
Assets				
Trading assets	**5,271**	**1,030**	**—**	**6,301**
Derivatives	**—**	**3,912**	**2**	**3,914**
Financial investments: available-for-sale	**19,904**	**4,232**	**—**	**24,136**
Liabilities				
Trading liabilities	**2,776**	**1,019**	**4**	**3,799**
Financial liabilities at fair value	**—**	**405**	**—**	**405**
Derivatives	**—**	**4,240**	**2**	**4,242**
At 31 December 2015				
Assets				
Trading assets	2,770	1,123	—	3,893
Derivatives	—	4,909	—	4,909
Financial investments: available-for-sale	21,204	2,731	—	23,935
Liabilities				
Trading liabilities	1,235	472	6	1,713
Financial liabilities at fair value	—	414	—	414
Derivatives	—	5,005	—	5,005

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

	Assets	**Liabilities**	
	Derivatives	**Held for trading**	**Derivatives**
	$m	**$m**	**$m**
At 1 January 2016	**—**	**6**	**—**
Settlements	**—**	**(2)**	**—**
Transfer in	**2**	**—**	**2**
At 30 September 2016	**2**	**4**	**2**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**—**	**—**	**—**

	Assets	Liabilities	
	Derivatives	Held for trading	Derivatives
	$m	$m	$m
At 1 January 2015	40	6	40
Total gains or losses recognized in profit or loss	2	—	2
Transfer out	(98)	—	(98)
Transfer in	56	—	56
At 30 September 2015	—	6	—
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

During 2016 and 2015, 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 24 of the bank's 2015 Annual Report and Accounts.

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

	30 September 2016		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$m	**$m**	$m	$m
Assets				
Loans and advances to banks	**1,575**	**1,575**	1,400	1,400
Loans and advances to customers	**47,259**	**47,271**	48,378	48,444
Reverse repurchase agreements	**6,265**	**6,265**	6,807	6,807
Liabilities				
Deposits by banks	**562**	**562**	2,049	2,049
Customer accounts	**54,914**	**54,955**	55,089	55,121
Repurchase agreements	**5,660**	**5,660**	6,606	6,606
Debt securities in issue	**10,444**	**10,603**	10,896	10,960
Subordinated liabilities	**39**	**24**	239	217

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

10 Notes on the statement of cash flows

	Nine months ended	
	30 September 2016	30 September 2015
	$m	$m
Non-cash items included in profit before tax		
Depreciation and amortization	**30**	32
Share-based payment expense	**7**	8
Loan impairment charges and other credit risk provisions	**168**	70
Charge for defined benefit pension plans	**12**	13
	217	123
Change in operating assets		
Change in prepayment and accrued income	**(38)**	(71)
Change in net trading securities and net derivatives	**(261)**	220
Change in loans and advances to customers	**951**	(1,759)
Change in reverse repurchase agreements - non-trading	**372**	638
Change in other assets	**(1,059)**	324
	(35)	(648)
Change in operating liabilities		
Change in accruals and deferred income	**(47)**	(68)
Change in deposits by banks	**(1,487)**	1,378
Change in customer accounts	**(175)**	994
Change in repurchase agreements – non-trading	**(946)**	3,217
Change in debt securities in issue	**(452)**	793
Change in financial liabilities designated at fair value	**(9)**	(8)
Change in other liabilities	**2,956**	(452)
	(160)	5,854
Interest		
Interest paid	**456**	492
Interest received	**1,264**	1,222

Cash and cash equivalents

	At 30 September 2016	At 30 September 2015
	$m	$m
Cash and balances at central bank	**51**	59
Items in the course of collection from other banks, net	**(91)**	(135)
Loans and advances to banks of one month or less	**1,575**	1,373
Reverse repurchase agreements with banks of one month or less	**265**	493
T-Bills and certificates of deposits – three months or less	**75**	973
	1,875	2,763

11 Contingent liabilities, contractual commitments and guarantees

	30 September 2016	31 December 2015
	$m	$m
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	**5,828**	5,585
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**36,882**	39,951
Documentary credits and short-term trade-related transactions	**453**	557
	37,335	40,508

1 *Based on original contractual maturity.*

12 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings 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		Nine months ended	
	30 September 2016	30 September 2015	**30 September 2016**	30 September 2015
	$m	$m	**$m**	$m
Income Statement				
Interest income	**3**	5	**10**	25
Interest expense	**(12)**	(3)	**(27)**	(7)
Fee income	**3**	2	**12**	11
Fee expense	**(1)**	(1)	**(4)**	(3)
Other operating income	**16**	10	**43**	29
General and administrative expenses	**(43)**	(37)	**(124)**	(96)

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

13 Subordinated liabilities

Subordinated debentures, which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors, comprise:

		Carrying amount	
	Year of Maturity	**30 September 2016**	31 December 2015
Interest rate (%)		**$m**	$m
Issued to third parties			
4.94[1]	2021	—	200
4.80[2]	2022	**405**	414
30 day bankers' acceptance rate plus 0.50%	2083	**39**	39
Total debentures		**444**	653
Less: designated at fair value		**(405)**	(414)
Debentures at amortized cost		**39**	239

1 *On 18 January 2016, the bank announced its intention to redeem all $200m of its 4.94% subordinated debentures. In accordance with the terms, it was redeemed at 100% of their principal amount plus accrued interest to the redemption date. The redemption occurred on 16 March 2016.*

2 *Interest rate is fixed at 4.8% until April 2017 and thereafter interest is payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%. These debentures are designated as held for trading under the fair value option.*

14 Legal proceedings and regulatory matters

The bank is subject to a number of legal proceedings arising in the normal course of our business. The bank does not expect the outcome of any of these proceedings, in aggregate, to have a material effect on its consolidated balance sheet or its consolidated income statement.

15 Other liabilities

	30 September 2016	31 December 2015
	$m	$m
Mortgages sold with recourse	**1,787**	1,634
Loans payable [1]	**1,312**	—
Accounts payable	**138**	47
Provisions and other non-financial liabilities	**467**	125
Share based payment liability	**8**	9
Current tax	**23**	7
	3,735	1,822

1 *During the second quarter, HBCA entered into two USD borrowing agreements with the HSBC Group.*

16 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 30 September 2016 consolidated financial statements.

These financial statements were approved by the Board of Directors on 3 November 2016 and authorized for issue.

Shareholder Information

PRINCIPAL ADDRESSES:

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Canada V6C 3E9
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www.hsbc.ca

HSBC BANK CANADA SECURITIES ARE LISTED ON 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 contact their brokers.

For general information, please write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address or by e-mail to service@computershare.com.

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

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Shareholder Relations -
Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
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Email: shareholder_relations@hsbc.ca

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
8th Floor, 100 University Avenue
Toronto, Ontario
Canada M5J 2Y1
Tel: 1 (800) 564-6253

DIVIDEND DATES:

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

Record Date	*Payable Date*
15 December	31 December

Designation of eligible dividends:
For the purposes of the *Income Tax Act* (Canada), and any similar provincial legislation, HSBC Bank Canada advises that all of its dividends paid to Canadian residents in 2006 and subsequent years are eligible dividends unless indicated otherwise.

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