HSBC Bank Canada

First Quarter 2017 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 our Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management businesses. Canada is a priority market for the HSBC Group - one of the world's largest banking and financial services groups with assets of US$2,416bn at 31 March 2017. HSBC serves customers worldwide through an international network of around 4,000 offices in 70 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 31 March 2017 was $243m, an increase of 54% compared with the same period in 2016.
- Profit attributable to the common shareholder was $177m for the quarter ended 31 March 2017, an increase of 67% compared with the same period in 2016.
- Return on average common equity was 15.4% for the quarter ended 31 March 2017 compared with 9.4% for the same period in 2016.
- The cost efficiency ratio was 61.5% for the quarter ended 31 March 2017 compared with 55.3% for the same period in 2016.
- Total assets were $95.7bn at 31 March 2017 compared with $94.7bn at 31 December 2016.
- Common equity tier 1 capital ratio was 10.6%, tier 1 ratio 12.6% and total capital ratio 13.5% at 31 March 2017 compared with 10.5%, 12.5% and 13.5% respectively at 31 December 2016.

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 2 May 2017, the date that our unaudited interim condensed consolidated financial statements and the MD&A for the first quarter ended 31 March 2017 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 first quarter ended 31 March 2017.

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

Management's Discussion and Analysis

Financial Summary

($ millions, except where otherwise stated)	Quarter ended	
	31 March 2017	31 March 2016
Financial performance for the period		
Total operating income	**506**	544
Profit before income tax expense	**243**	158
Profit attributable to the common shareholder	**177**	106
Basic earnings per common share ($)	**0.35**	0.21
Performance ratios (%)[1]		
Return ratios (%)[1]		
Return on average common shareholder's equity	**15.4**	9.4
Post-tax return on average total assets	**0.76**	0.46
Pre-tax return on average risk-weighted assets[2]	**2.3**	1.5
Credit coverage ratios (%)[1]		
Loan impairment charges to total operating income	**n/a**	15.6
Loan impairment charges to average gross customer advances and acceptances	**n/a**	0.7
Total impairment allowances to impaired loans and acceptances at period end	**60.7**	74.3
Efficiency and revenue mix ratios (%)[1]		
Cost efficiency ratio	**61.5**	55.3
Adjusted cost efficiency ratio	**61.1**	55.2
As a percentage of total operating income:		
- net interest income	**55.7**	51.7
- net fee income	**31.6**	29.6
- net trading income	**6.1**	12.3

	At period ended	
	31 March 2017	31 December 2016
Financial position at period-end		
Loans and advances to customers	**46,967**	46,907
Customer accounts	**54,283**	56,674
Ratio of customer advances to customer accounts (%)[1]	**86.5**	82.8
Shareholders' equity	**5,581**	5,415
Average total shareholders' equity to average total assets (%)	**5.8**	5.7
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**10.6**	10.5
Tier 1 ratio (%)	**12.6**	12.5
Total capital ratio (%)	**13.5**	13.5
Leverage ratio (%)	**4.8**	4.7
Risk-weighted assets	**42,921**	42,005

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 financial measures

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

Financial position ratios

These measures are indicators of the stability of the bank's balance sheet and the degree to which 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	
	31 March 2017	31 March 2016
	$m	$m
Net interest income	**282**	281
Net fee income	**160**	161
Net trading income	**31**	67
Net expense from financial instruments designated at fair value	**(3)**	(1)
Gains less losses from financial investments	**18**	21
Other operating income	**18**	15
Total operating income	**506**	544
Loan impairment recoveries (charges) and other credit risk provisions	**49**	(85)
Net operating income	**555**	459
Total operating expenses	**(311)**	(301)
Operating profit	**244**	158
Share of (loss)/profit in associates	**(1)**	—
Profit before income tax expense	**243**	158
Income tax expense	**(57)**	(43)
Profit for the period	**186**	115

Overview

HSBC Bank Canada reported a profit before income tax expense of $243m for the first quarter of 2017, an increase of $85m, or 54% compared with the first quarter of 2016. The increase is due to recoveries in loan impairment charges on improved credit quality in the oil and gas sector compared to the high impairment charges in the first quarter last year. This was partially offset by a decrease of $25m in trading revenues as a result of favourable changes in the credit valuation, debt valuation, and funding fair value adjustments on derivative contracts in the prior year.

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

"In the first quarter of 2017, profit before tax at HSBC Bank Canada was 54% higher than in the same quarter in 2016. This was primarily due to significant improvements in the oil and gas sector which resulted in a net recovery of loan loss provisions and was also central to a 243% increase in profit before tax in Commercial Banking. In Global Banking & Markets, although profit before tax was down 42% compared to the same period last year due to adverse credit valuation adjustments the business saw increased volume of deposits and higher advisory and debt underwriting fees. In Retail Banking and Wealth Management, cost saving initiatives and lower loan impairment charges drove a 110% increase in profit before tax. Canada is a great place to do business and we are continuing to make significant investments to grow here. In the first quarter, we expanded in key markets by hiring in Commercial Banking and Global Banking and Markets and continued our drive to make the bank simpler and more secure for our clients, introducing biometric identification to our mobile banking and preparing for the launch of additional innovations in Retail Banking and Wealth Management. We also continued to invest in efficiency improvements, as well as in risk and compliance resources and practices to protect our customers, our business and the financial system."

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the first quarter of 2017 was broadly unchanged at $282m, an increase of $1m, compared with the first quarter of 2016.

Summary of interest income by types of assets

	Quarter ended 31 March 2017			Quarter ended 31 March 2016		
	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	**560**	**1**	**0.47%**	1,044	1	0.31 %
Loans and advances to customers[4]	**45,990**	**365**	**3.17%**	47,551	342	2.90 %
Reverse repurchase agreements - non trading	**7,549**	**10**	**0.56%**	7,936	9	0.46 %
Financial investments	**23,586**	**73**	**1.26%**	23,408	65	1.12 %
Other interest-earning assets	**479**	**2**	**1.61%**	308	1	1.94 %
Total interest-earning assets	**78,164**	**451**	**2.31%**	80,247	418	2.08 %

Summary of interest expense by types of liabilities and equity

	Quarter ended 31 March 2017			Quarter ended 31 March 2016		
	Average balance $m	**Interest expense $m**	**Cost %**	Average balance $m	Interest expense $m	Cost %
Interest expense						
Deposits by banks[1]	**330**	**—**	**0.25%**	494	—	0.34 %
Financial liabilities designated at fair value - own debt issued[2]	**402**	**1**	**1.19%**	412	1	1.08 %
Customer accounts[3,4]	**49,336**	**84**	**0.68%**	48,876	60	0.50 %
Repurchase agreements - non-trading	**5,396**	**6**	**0.47%**	7,224	5	0.25 %
Debt securities in issue	**9,367**	**61**	**2.65%**	10,770	65	2.42 %
Other interest-earning liabilities	**4,428**	**17**	**1.57%**	1,228	6	1.88 %
Total interest-bearing liabilities	**69,259**	**169**	**0.98%**	69,004	137	0.79 %
Net interest income - Quarter ended 31 March		**282**			281	

1 *Includes interest-bearing bank deposits only.*

2 *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'.*

3 *Includes interest-bearing customer accounts only.*

4 *During the quarter ended 31 March 2017, certain amounts earned relating to the hedging of loans and advances were prospectively reclassified from interest expense to interest income.*

Net fee income

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Credit facilities	**72**	75
Funds under management	**45**	43
Account services	**16**	15
Credit cards	**13**	13
Corporate finance	**12**	8
Remittances	**8**	8
Brokerage commissions	**2**	1
Immigrant Investor Program	**—**	3
Insurance	**2**	2
Trade finance import/export	**2**	2
Trustee fees	**1**	1
Other	**4**	7
Fee income	**177**	178
Less: fee expense	**(17)**	(17)
Net fee income	**160**	161

Net fee income for the first quarter of 2017 was broadly unchanged at $160m, a decrease of $1m, or 1%, compared with the first quarter of 2016.

Net trading income

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Trading activities	**26**	39
Credit valuation, debit valuation, and funding fair value adjustments	**—**	25
Net interest from trading activities	**5**	5
Hedge ineffectiveness	**—**	(2)
Net trading income	**31**	67

Net trading income for the first quarter of 2017 was $31m, a decrease of $36m, or 54%, compared with the first quarter of 2016. There were $25m of favourable changes to the credit valuation, debt valuation, and funding fair valuation adjustment in the prior year due to the tightening of client and HSBC's own credit spreads. Furthermore, trading activities decreased by $13m due to refinement of prior year valuation methodology and lower treasury bills and other trading income in the current year.

Management's Discussion and Analysis (continued)

Other items of income

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Net expense from financial instruments designated at fair value	**(3)**	(1)
Gains less losses from financial investments	**18**	21
Other operating income	**18**	15
Other items of income	**33**	35

Net expense from financial instruments designated at fair value for the first quarter of 2017 was $3m compared with net expense of $1m in the first quarter of 2016. The net expense from financial instruments designated at fair value was caused from narrowing of the bank's own credit spread.

Gains less losses from financial investments for the first quarter of 2017 were $18m, a decrease of $3m, or 14%, compared with the first quarter of 2016. Gains on sale of available-for-sale debt securities arose from the continued rebalancing of the bank's liquid assets.

Other operating income for the first quarter of 2017 was $18m, an increase of $3m, or 20%, compared with the first quarter of 2016. The increase was mainly due to higher activities with other Group entities.

Loan impairment charges and other credit risk provisions

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Individually assessed (releases)/allowances	**(37)**	77
Collectively assessed (releases)/allowances	**(10)**	6
Loan impairment (recoveries)/charges	**(47)**	83
Other credit risk provisions	**(2)**	2
Net loan impairment recoveries and other credit risk provisions	**(49)**	85

Loan impairment recoveries and other credit risk provisions for the first quarter of 2017 were $49m, a change of $134m compared with the first quarter of 2016. This net recovery over the comparative periods largely reflects improving economic conditions, primarily in the oil and gas sector, resulting in higher collateral values and improvements in credit quality. Loan impairment charges in the first quarter for 2016 were high due to credit deterioration on specific accounts in the oil and gas portfolio.

Total operating expenses

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Employee compensation and benefits	**181**	169
General and administrative expenses	**121**	122
Depreciation of property, plant and equipment	**7**	7
Amortization of intangible assets	**2**	3
Total operating expenses	**311**	301

Total operating expenses for the first quarter of 2017 were $311m, an increase of $10m, or 3%, compared with the first quarter of 2016 driven by strategic spending to reduce future costs.

Share of profit in associates

Share of profit in associates for the first quarter of 2017 was a loss of $1m, a decrease of $1m compared with the first quarter of 2016.

Income taxes expense

The effective tax rate in the first quarter of 2017 was 23%, compared with 27% in the first quarter of 2016 due to adjustment to prior years' provision for tax.

Movement in financial position

Summary consolidated balance sheet

	31 March 2017	31 December 2016
	$m	$m
ASSETS		
Cash and balances at central bank	**57**	66
Items in the course of collection from other banks	**32**	58
Trading assets	**9,158**	6,288
Derivatives	**3,061**	3,850
Loans and advances to banks	**891**	1,071
Loans and advances to customers	**46,967**	46,907
Reverse repurchase agreements – non-trading	**7,068**	5,938
Financial investments	**22,825**	25,231
Other assets	**888**	447
Prepayment and accrued income	**221**	186
Customers' liability under acceptances	**4,254**	4,322
Property, plant and equipment	**101**	104
Goodwill and intangible assets	**74**	70
Deferred taxes	**117**	119
Total assets	**95,714**	94,657
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**930**	946
Customer accounts	**54,283**	56,674
Repurchase agreements – non-trading	**7,700**	4,345
Items in the course of transmissions to other banks	**236**	82
Trading liabilities	**5,438**	3,784
Financial liabilities designated at fair value	**400**	403
Derivatives	**3,041**	3,838
Debt securities in issue	**9,341**	10,256
Other liabilities	**2,620**	2,610
Acceptances	**4,254**	4,322
Accruals and deferred income	**363**	475
Retirement benefit liabilities	**343**	342
Subordinated liabilities	**1,039**	1,039
Provisions	**112**	116
Current taxes	**33**	10
Total liabilities	**90,133**	89,242
Equity		
Common shares	**1,225**	1,225
Preferred shares	**850**	850
Other reserves	**61**	27
Retained earnings	**3,445**	3,313
Total equity	**5,581**	5,415
Total equity and liabilities	**95,714**	94,657

Management's Discussion and Analysis (continued)

Assets

Total assets at 31 March 2017 were $95.7bn, an increase of $1.1bn from 31 December 2016. Trading assets increased by $2.9bn notably due to increased trading debt securities, treasury bills, and settlement accounts. Reverse repurchase agreements - non-trading increased by $1.1bn. Other assets increased by $0.4bn primarily due a new process for interbank clearing balances. Balance sheet management activities lowered available-for-sale debt securities which decreased financial investments by $2.4bn. Derivatives decreased by $0.8bn mainly due to lower foreign exchange contracts. Loans and advances to banks decreased by $0.2bn due to lower balances with correspondent banks.

Liabilities

Total liabilities at 31 March 2017 were $90.1bn, an increase of $0.9bn from 31 December 2016. Balance sheet management activities increased repurchase agreements non-trading by $3.4bn as a result of trading activity funding requirements. Trading liabilities increased by $1.7bn primarily due to higher securities short positions from client facilitation trades and timing of settlement. Customer accounts decreased by $2.4bn notably due to lower commercial and global banking deposits, in line with the bank's expectation of seasonal fluctuations. $0.9bn of medium term debt securities matured during the period. Derivatives decreased by $0.8bn mainly due to a decrease in foreign exchange and interest rate contracts.

Equity

Total equity at 31 March 2017 was $5.6bn, an increase of $0.2bn from 31 December 2016, due to profits generated in the period net of dividends paid on common shares and preferred shares.

Global businesses

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	
	31 March 2017	31 March 2016
	$m	$m
Net interest income	**133**	139
Net fee income	**70**	74
Net trading income	**7**	7
Gains less losses from financial investments	**—**	2
Other operating income	**6**	5
Total operating income	**216**	227
Loan impairment recoveries/(charges) and other credit risk provisions	**39**	(78)
Net operating income	**255**	149
Total operating expenses	**(94)**	(102)
Profit before income tax expense	**161**	47

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 $161m for the first quarter of 2017, an increase of $114m, or 243%, compared with the first quarter of 2016, primarily due to lower loan impairment charges largely reflecting improved credit quality in the oil and gas sectors, offset partially by lower revenue as a result of lower lending balances and higher interest expense from long-term borrowings.

Management's Discussion and Analysis (continued)

Financial performance by income and expense item

Net interest income for the first quarter of 2017 was $133m, a decrease of $6m, or 4%, compared with the first quarter of 2016, mainly due to lower lending balances and higher funding costs.

Net fee income for the first quarter of 2017 was $70m, a decrease of $4m or 5%, due to lower banker's acceptance fees driven by lower balances, and lower standby fees.

Net trading income for the first quarter of 2017 was $7m, largely unchanged compared with the first quarter of 2016.

Gains less losses from financial investments for the first quarter of 2017 was nil, a decrease of $2m compared with the first quarter of 2016, as a result of the disposal of certain available-for-sale securities in 2016.

Other operating income for the first quarter of 2017 was $6m, an increase of $1m, or 20%, compared with the first quarter of 2016, driven mainly by higher inter-company recovery.

Loan impairment charges and other credit risk provisions for the first quarter of 2017 was a recovery of $39m, an improvement of $117m, compared with the first quarter of 2016, reflecting improved credit quality particularly in the oil and gas sector.

Total operating expenses for the first quarter of 2017 were $94m, a decrease of $8m, or 8%, compared with the first quarter of 2016, driven mainly by streamlining initiatives.

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	
	31 March 2017	31 March 2016
	$m	$m
Net interest income	**21**	16
Net fee income	**37**	33
Net trading income	**12**	55
Total operating income	**70**	104
Loan impairment recoveries/(charges) and other credit risk provisions	**5**	(3)
Net operating income	**75**	101
Total operating expenses	**(35)**	(32)
Profit before income tax expense	**40**	69

Overview

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

Profit before income tax expense was $40m for the first quarter of 2017, a decrease of $29m, or 42%, compared with the first quarter of 2016. The decrease was driven by prior year trading revenues realized from favourable changes in the credit and funding valuation adjustments due to the tightening of clients and HSBC's own credit. This was partially offset by higher revenues from advisory and debt underwriting activities.

Financial performance by income and expense item

Net interest income for the first quarter of 2017 was $21m, an increase of $5m, or 31%, compared with the first quarter of 2016. The increase is mainly generated from corporate deposits and the impact from Markets business activities.

Net fee income for the first quarter of 2017 was $37m, an increase of $4m, or 12%, compared with the first quarter of 2016. The higher fees are mainly driven by higher advisory and debt underwriting activities.

Management's Discussion and Analysis (continued)

Net trading income for the first quarter of 2017 was $12m, a decrease of $43m, or 78%, compared with the first quarter of 2016. The decrease was mainly driven by favorable changes in the credit and funding valuation adjustments in the prior year due to the tightening of client and HSBC's own credit spreads.

Loan impairment charges and other credit risk provisions for the first quarter of 2017 were a recovery of $5m, an improvement of $8m compared with the first quarter of 2016. The changes from comparative periods reflect provisions taken on the oil and gas sectors in the previous year.

Total operating expenses for the first quarter of 2017 were $35m, an increase of $3m, or 9%, compared with the first quarter of 2016. The increase was 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	
	31 March 2017	31 March 2016
	$m	$m
Net interest income	**96**	100
Net fee income	**53**	54
Net trading income	**6**	5
Other operating income	**1**	2
Total operating income	**156**	161
Loan impairment recoveries/(charges) and other credit risk provisions	**5**	(4)
Net operating income	**161**	157
Total operating expenses	**(140)**	(147)
Profit before income tax expense	**21**	10

Profit before income tax

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Ongoing Retail Banking and Wealth Management business	**16**	5
Run-off consumer finance portfolio	**5**	5
Profit before income tax expense	**21**	10

Overview

Retail Banking and Wealth Management continued to achieve sustainable and balanced growth across retail products. The first quarter also benefited from a healthy increase in wealth balances. The business continues to deliver a resilient performance given that spread compression in the highly competitive low interest rate environment is impacting margins. Investments in strategic initiatives to streamline processes and enhance the customer experience, continued throughout the first quarter. Profit before income tax expense was $21m for the first quarter of 2017, an increase of $11m, or 110%, compared with the first quarter of 2016.

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $16m for the first quarter of 2017, an increase of $11m, or 220%, compared with the first quarter of 2016. The increase in profit before income tax expense relating to ongoing business was due to lower operating expenses primarily driven by cost saving initiatives and lower loan impairment charges due to a release of collective allowances in the current period.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2017 was $5m, unchanged from the first quarter of 2016. Lower revenues due to continued run-off of the portfolio was offset by the release related to collective allowance.

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

Net interest income for the first quarter of 2017 was $92m, a decrease of $1m, or 1%, compared with the first quarter of 2016. The marginal decrease over the comparative period was mainly driven by tighter spreads in a competitive low interest rate environment.

Net fee income for the first quarter of 2017 was $53m, a decrease of $1m, or 2%, compared with the first quarter of 2016. Net fee income decreased over comparative period mainly due to lower income from credit cards.

Net trading income for the first quarter of 2017 was $6m, a $1m or 20% increase compared with the first quarter of 2016.

Other operating income for the first quarter of 2017 was $1m, a decrease of $1m or 50% compared with the first quarter...

Loan impairment charges and other credit risk provisions for the first quarter of 2017 ended in $1m recovery compared with $5m charges in the first quarter of 2016 primarily due to higher release of collective allowance and lower write-offs.

Total operating expenses for the first quarter of 2017 was $138m, a decrease of $7m, or 5%, compared with the first quarter of 2016. The decrease over the comparative period was mainly driven by cost saving initiatives.

Corporate Centre

Corporate Centre contains Balance Sheet Management, interests in associates and joint ventures, the results of movements in fair value of own debt, income related to information technology services provided to HSBC Group companies with associated recoveries and other transactions which do not directly relate to our global businesses.

Review of financial performance

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Net interest income	**32**	26
Net trading income	**6**	(1)
Net (expense)/income from financial instruments designated at fair value	**(3)**	—
Gains less losses from financial investments	**18**	19
Other operating income	**11**	8
Total operating income	**64**	52
Total operating expenses	**(42)**	(20)
Operating profit	**22**	32
Share of loss in associates	**(1)**	—
Profit before income tax expense	**21**	32

Profit before income tax expense was $21m for the first quarter of 2017, a decrease of $11m, or 34%, compared with the first quarter of 2016. The decrease in profit was driven by higher operating expenses due to investments in streamlining initiatives, partially offset by higher net interest income from balance sheet management due to higher yields earned on financial investments. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments.

Management's Discussion and Analysis (continued)

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2016 for more information regarding quarterly trends in performance for 2016 and 2015.

Summary consolidated income statement

	Quarter ended							
	Mar 31 2017 $m	Dec 31 2016 $m	Sep 30 2016 $m	Jun 30 2016 $m	Mar 31 2016 $m	Dec 31 2015 $m	Sep 30 2015 $m	Jun 30 2015 $m
Total operating income	**506**	512	498	525	544	448	518	541
Profit for the period	**186**	188	100	121	115	(28)	137	168
Profit attributable to common shareholders	**177**	178	91	111	106	(38)	128	161
Profit attributable to preferred shareholders	**9**	10	9	10	9	10	9	5
Profit attributable to non-controlling interests	**—**	—	—	—	—	—	—	2
Basic earnings per common share ($)	**0.35**	0.36	0.18	0.22	0.21	(0.08)	0.26	0.32

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 2 of our 2016 Annual Report and Accounts.

Refer to the 'Critical accounting policies' section of our 2016 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 2016 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 first quarter ended 31 March 2017.

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 31 March 2017, 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 31 March 2017 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Refer to the "Risk management" section of our 2016 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 2016 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.

Credit risk portfolio by product type

	EAD at 31 March 2017					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Wholesale portfolio						
Sovereign	**20,068**	**638**	**—**	**173**	**2**	**20,881**
Banks	**3,996**	**—**	**58**	**965**	**922**	**5,941**
Corporate	**27,674**	**12,050**	**10**	**1,148**	**3,137**	**44,019**
Total	**51,738**	**12,688**	**68**	**2,286**	**4,061**	**70,841**
Retail portfolio						
Residential mortgages	**19,938**	**3**	**—**	**—**	**—**	**19,941**
Home equity lines of credit	**1,780**	**1,027**	**—**	**—**	**—**	**2,807**
Personal unsecured revolving loan	**227**	**210**	**—**	**—**	**—**	**437**
Other personal loan facilities	**1,355**	**179**	**—**	**—**	**2**	**1,536**
Other small to medium enterprises loan facilities	**178**	**209**	**—**	**—**	**15**	**402**
Run-off consumer loan portfolio	**134**	**—**	**—**	**—**	**—**	**134**
Retail Master Card	**321**	**—**	**—**	**—**	**—**	**321**
Total Retail	**23,933**	**1,628**	**—**	**—**	**17**	**25,578**
Total	**75,671**	**14,316**	**68**	**2,286**	**4,078**	**96,419**

Management's Discussion and Analysis (continued)

	EAD at 31 December 2016					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Wholesale portfolio						
Sovereign	22,652	240	1	162	73	23,128
Banks	3,788	11	67	1,133	819	5,818
Corporate	27,549	12,373	27	1,176	3,324	44,449
Total	53,989	12,624	95	2,471	4,216	73,395
Retail portfolio						
Residential mortgages	19,835	3	—	—	—	19,838
Home equity lines of credit	1,807	1,029	—	—	—	2,836
Personal unsecured revolving loan facilities	237	213	—	—	—	450
Other personal loan facilities	1,406	168	—	—	1	1,575
Other small to medium enterprises loan facilities	188	219	—	—	16	423
Run-off consumer loan portfolio	151	—	—	—	—	151
Retail Master Card	353	—	—	—	—	353
Total Retail	23,977	1,632	—	—	17	25,626
Total	77,966	14,256	95	2,471	4,233	99,021

Wholesale loan portfolio by geographic area

	EAD	EAD
	31 March 2017	31 December 2016
	$m	$m
Sovereign		
Canada	**16,568**	18,709
United States of America	**1,480**	2,096
Other	**2,833**	2,323
	20,881	23,128
Banks		
Canada	**3,765**	3,270
United States of America	**755**	855
Other	**1,421**	1,693
	5,941	5,818
Corporate		
Canada		
British Columbia	**12,189**	12,094
Ontario	**11,633**	11,559
Alberta	**9,439**	10,098
Quebec	**5,908**	6,143
Saskatchewan and Manitoba	**1,753**	1,765
Atlantic provinces	**960**	894
United States of America	**1,538**	1,362
Other	**599**	534
	44,019	44,449
Total wholesale loan portfolio exposure	**70,841**	73,395

Wholesale loan portfolio by industry

	EAD at 31 March 2017					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Corporate						
Real Estate	**7,001**	**1,963**	**—**	**85**	**433**	**9,482**
Energy	**2,898**	**2,406**	**—**	**552**	**604**	**6,460**
Manufacturing	**4,108**	**1,709**	**—**	**51**	**363**	**6,231**
Wholesale trade	**2,157**	**1,235**	**—**	**18**	**164**	**3,574**
Services	**2,115**	**549**	**—**	**22**	**138**	**2,824**
Construction services	**1,183**	**860**	**—**	**3**	**672**	**2,718**
Transport and storage	**1,799**	**539**	**—**	**15**	**141**	**2,494**
Finance and insurance	**907**	**762**	**10**	**290**	**72**	**2,041**
Mining, logging and forestry	**790**	**704**	**—**	**6**	**332**	**1,832**
Retail Trade	**985**	**421**	**—**	**81**	**77**	**1,564**
Automotive	**1,078**	**280**	**—**	**3**	**42**	**1,403**
Business services	**979**	**319**	**—**	**10**	**72**	**1,380**
Agriculture	**604**	**191**	**—**	**10**	**17**	**822**
Hotels and accommodation	**694**	**58**	**—**	**2**	**9**	**763**
Sole proprietors	**376**	**53**	**—**	**—**	**1**	**430**
Government Services	**—**	**1**	**—**	**—**	**—**	**1**
Total Corporate	**27,674**	**12,050**	**10**	**1,148**	**3,137**	**44,019**

Wholesale loan portfolio by industry

	EAD at 31 December 2016					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Corporate						
Real Estate	6,993	1,998	—	76	432	9,499
Energy	3,004	2,437	—	610	735	6,786
Manufacturing	3,960	1,710	—	66	350	6,086
Wholesale trade	2,112	1,235	—	19	171	3,537
Services	2,115	519	—	23	132	2,789
Transport and storage	1,764	561	—	14	142	2,481
Construction services	1,182	818	—	2	717	2,719
Finance and insurance	809	638	27	242	82	1,798
Mining, logging and forestry	745	692	—	11	353	1,801
Retail Trade	1,023	412	—	84	80	1,599
Business services	1,231	345	—	11	62	1,649
Automotive	1,027	322	—	4	40	1,393
Hotels and accommodation	707	59	—	2	8	776
Agriculture	502	197	—	12	19	730
Sole proprietors	375	60	—	—	1	436
Government Services	—	370	—	—	—	370
Total Corporate	27,549	12,373	27	1,176	3,324	44,449

Management's Discussion and Analysis (continued)

Energy exposures

The following table provides a breakdown of our exposure to energy companies under the AIRB approach. Of these exposures, 49% at 31 March 2017 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 closely monitor and manage energy exposures within its risk appetite.

Credit risk portfolio by product type

	EAD at 31 March 2017				
	Drawn	**Undrawn commitments**	**Derivatives**	**Other off-balance sheet exposures**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Pipelines	**778**	**617**	**468**	**21**	**1,884**
Energy services	**933**	**524**	**1**	**46**	**1,504**
Exploration development and production	**642**	**775**	**65**	**306**	**1,788**
Power and utilities	**346**	**286**	**7**	**182**	**821**
Transportation, refining and marketing	**199**	**204**	**11**	**49**	**463**
Total	**2,898**	**2,406**	**552**	**604**	**6,460**

	EAD at 31 December 2016				
	Drawn	Undrawn commitments	Derivatives	Other off-balance sheet exposures	Total
	$m	$m	$m	$m	$m
Pipelines	693	614	509	20	1,836
Energy services	960	554	1	50	1,565
Exploration development and production	807	873	78	421	2,179
Power and utilities	333	191	5	201	730
Transportation, refining and marketing	211	205	17	43	476
Total	3,004	2,437	610	735	6,786

Credit quality

Credit quality of financial assets

Overall credit quality at 31 March 2017 remains strong, recent credit metrics indicates improvements in the quality of the portfolio related to energy and related exposures. This resulted in a $143m decrease in wholesale impaired loans during the three months ended 31 March 2017, of which $119m 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

	31 March 2017			31 December 2016		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**28,969**	**2,925**	**31,894**	31,526	2,647	34,173
Good	**15,134**	**5,861**	**20,995**	15,200	5,913	21,113
Satisfactory	**11,980**	**3,338**	**15,318**	11,732	3,431	15,163
Sub-standard	**1,550**	**508**	**2,058**	1,643	585	2,228
Impaired	**521**	**55**	**576**	670	48	718
	58,154	**12,687**	**70,841**	60,771	12,624	73,395

The proportion of exposures categorized as Strong or Good remain broadly unchanged at 75%, while impaired loans decreased from $718m at 31 December 2016 to $576m at 31 March 2017. This was mainly due to improvement in the quality of the portfolio related to energy and related exposures.

Credit quality of retail portfolio

	31 March 2017			31 December 2016		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**10,215**	**1**	**10,216**	10,448	1	10,449
Good	**10,863**	**1,120**	**11,983**	10,655	1,141	11,796
Satisfactory	**2,250**	**464**	**2,714**	2,257	453	2,710
Sub-standard	**567**	**43**	**610**	577	36	613
Impaired	**55**	**—**	**55**	57	—	57
	23,950	**1,628**	**25,578**	23,994	1,631	25,625

The portfolio was generally stable with the proportion of exposures categorized as Strong or Good remaining broadly unchanged at 87%, while impaired loans declined from $57m at 31 December 2016 to $55m at 31 March 2017.

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.

	31 March 2017						
	Residential mortgages					**HELOC[2]**	
Insurance and geographic distribution[1]	**Insured[3]**		**Uninsured**		**Total**	**Uninsured**	
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**736**	**6%**	**11,706**	**94%**	**12,442**	**852**	**100%**
Western Canada[4]	**214**	**18%**	**995**	**82%**	**1,209**	**226**	**100%**
Ontario	**603**	**10%**	**5,306**	**90%**	**5,909**	**603**	**100%**
Quebec and Atlantic provinces	**148**	**14%**	**942**	**86%**	**1,090**	**99**	**100%**
Total at 31 March 2017	**1,701**	**8%**	**18,949**	**92%**	**20,650**	**1,780**	**100%**

Management's Discussion and Analysis (continued)

Insurance and geographic distribution[1]	31 December 2016						
	Residential mortgages					HELOC[2]	
	Insured[3]		Uninsured		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	843	7	11,589	93	12,432	871	100
Western Canada[4]	225	19	985	81	1,210	228	100
Ontario	665	11	5,150	89	5,815	602	100
Quebec and Atlantic provinces	155	14	946	86	1,101	106	100
Total at 31 December 2016	1,888	9	18,670	91	20,558	1,807	100

Amortization period[5]	**Residential mortgages**			
	Less than 20 years	**20 - 24 years**	**25- 29 years**	**30 - 34 years**
Total at 31 March 2017	**24%**	**33%**	**42%**	**1%**
Total at 31 December 2016	24%	33%	42%	1%

For the three months ended:

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

	31 March 2017	
	Residential mortgages	**HELOC**
	%	**%**
British Columbia	**56%**	**49%**
Western Canada[4]	**67%**	**61%**
Ontario	**59%**	**50%**
Quebec and Atlantic provinces	**60%**	**57%**
Total at 31 March 2017	**58%**	**51%**
Total at 31 December 2016	58%	50%

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.

	31 March 2017	31 December 2016
	$m	$m
Up to 29 days	**461**	675
30-59 days	**98**	61
60-89 days	**14**	56
90-179 days	**10**	5
Over 180 days	**—**	0
	583	797

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's Discussion and Analysis (continued)

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 31 March 2017 $m	EAD 31 December 2016 $m
Impaired wholesale portfolio[1]		
Energy	**151**	270
Transportation and storage	**114**	136
Real estate	**57**	68
Construction services	**85**	65
Wholesale trade	**22**	26
Manufacturing	**100**	104
Business services	**22**	24
Mining, logging and forestry	**2**	3
Agriculture	**2**	2
Services	**6**	6
Automotive	**1**	1
Hotels and accommodation	**6**	6
Retail trade	**3**	3
Sole proprietors	**4**	4
Finance and insurance	**1**	1
Total impaired wholesale portfolio	**576**	719
Impaired retail portfolio		
Residential mortgages	**57**	70
Other retail loans	**33**	25
Total impaired retail portfolio	**90**	95
Total impaired financial assets	**666**	814

1 *Includes $147m (2016: $148m) of impaired acceptances, letters of credit and guarantees*

Impairment allowances

	31 March 2017	31 December 2016
	$m	$m
Gross loans and advances to customers		
Individually assessed impaired loans and advances[1] (A)	**527**	648
Collectively assessed loans and advances (B)	**46,805**	46,698
- impaired loans and advances[1]	**33**	36
- non-impaired loans and advances	**46,772**	46,662
Total gross loans and advances to customers (C)	**47,332**	47,346
Less: impairment allowances (c)	**365**	439
-individually assessed (a)	**190**	252
- collectively assessed (b)	**175**	187
Net loans and advances to customers	**46,967**	46,907
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**36.1%**	38.9%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	**0.4%**	0.4%
Total loans and advances coverage - (c) as a percentage of (C)	**0.8%**	0.9%

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

	Quarter ended 31 March 2017				Quarter ended 31 March 2016			
	Customers individually assessed	Customers collectively assessed	Other credit risk provisions	Total	Customers individually assessed	Customers collectively assessed	Other credit risk provisions	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Opening balance at the beginning of the period	**252**	**187**	**89**	**528**	253	258	105	616
Movement								
Loans and advances written off net of recoveries of previously written off amounts[1]	**(19)**	**(2)**	**—**	**(21)**	(75)	(2)	—	(77)
Charge to income	**(36)**	**(10)**	**(2)**	**(48)**	77	6	2	85
Other movements	**(7)**	**—**	**—**	**(7)**	(6)	—	—	(6)
Closing balance at the end of the period	**190**	**175**	**87**	**452**	249	262	107	618

1 Recovered $4m (2016: $7m) of loans and advances written off in prior periods

Management's Discussion and Analysis (continued)

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 2016 Annual Report and Accounts continues to apply. The bank's internal liquidity and funding risk management framework uses 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 categorized 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.

Our liquid assets decreased $3.9 billion from 31 December 2016, primarily due to seasonal attrition of commercial deposits and maturity of debt securities.

Liquid assets [1,]

	31 March 2017	31 December 2016
Level 1	**19,499**	24,320
Level 2a...................	**4,629**	3,964
Level 2b	**250**	35
	24,378	28,319

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.

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards effective 1 January 2016, 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 31 March 2017, the bank was compliant with both.

The bank calculates NSFR according to Basel Committee on Banking Supervision ('BCBS') publication number 295, pending its implementation in Europe and Canada expected in 2019. The NSFR requires banks to maintain a stable funding profile relative to the composition of their assets and off-balance sheet activities and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The bank's OSFI LCR is summarized in the following table. For the quarter ended 31 March 2017, the bank's average LCR of 149% 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 decreased this quarter over the average for the previous quarter as a result of lower HQLA mainly driven by seasonal attrition of commercial deposits and maturity of debt securities.

OSFI liquidity coverage ratio[1]

Average for the three months ended[1]	**31 March 2017**	31 December 2016
Total HQLA[2]($m)	**25,120**	27,310
Total net cash outflows[2] ($m)	**16,864**	17,110
Liquidity coverage ratio (%)	**149**	160

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.

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 2016 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 March 2016 to March 2017 due to increase in interest rate risk in the non-trading activities. Over the same period, the average trading VaR decreased by $0.6m due to a decrease in interest rate and credit risk and the range (difference between max and min) has decreased. Over the same period, the average non-trading VaR increased by $11m due to an increase in interest rate, 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 - March 2017						
At period end	**—**	**1.8**	**—**	**0.4**	**(0.2)**	**2.0**
Average	**—**	**1.2**	**—**	**0.4**	**(0.4)**	**1.3**
Minimum	**—**	**0.8**	**—**	**0.2**		**0.9**
Maximum	**0.1**	**2.0**	**—**	**1.7**		**2.0**

	Foreign exchange and commodity	Interest rate	Equity	Credit Spread	Portfolio diversification[2]	Total[3]
	$m	$m	$m	$m	$m	$m
January - March 2016						
At period end	—	2.1	—	0.9	(0.7)	2.2
Average	0.1	1.6	—	1.0	(0.8)	1.9
Minimum	—	1.2	—	0.6		1.3
Maximum	0.5	2.4	—	1.2		2.5

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.*

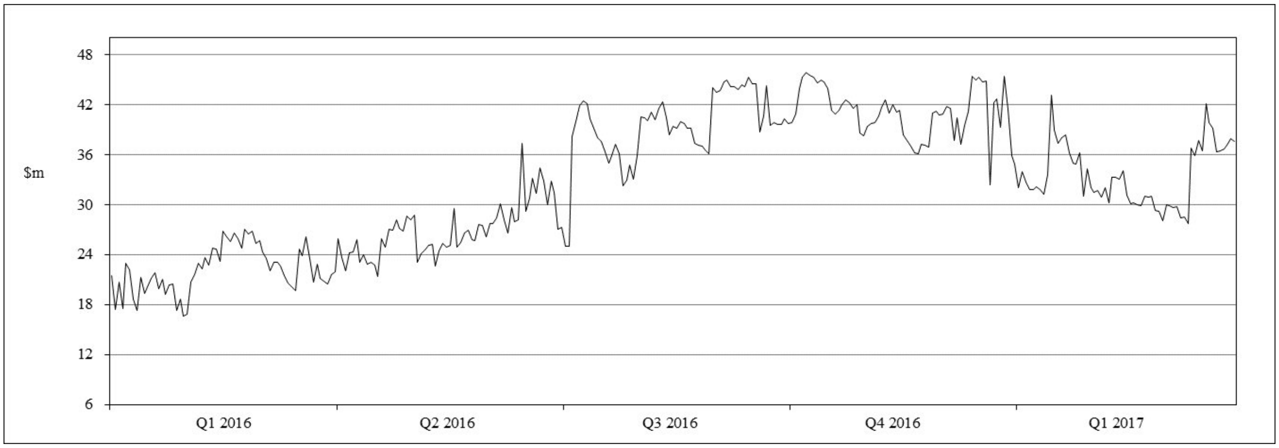
3 *The total VaR is non-additive across risk types due to diversification effects.*

Management's Discussion and Analysis (continued)

Non-trading VaR

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
At period end	**37**	22
Average	**33**	22
Minimum	**28**	17
Maximum	**42**	27

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 2016 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 31 March			
	2017		2016	
	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	**(312)**	**87**	(261)	96
Decrease	**309**	**(88)**	392	(80)

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 2016 Annual Report and Accounts for a description of additional factors which may affect future financial results.

Capital

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

Refer to the 'Capital' section of our 2016 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 31 March 2017.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

	31 March 2017	31 December 2016
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**10.6%**	10.5%
Tier 1 capital ratio	**12.6%**	12.5%
Total capital ratio	**13.5%**	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

	31 March 2017	31 December 2016
	$m	$m
Tier 1 capital	**5,402**	5,241
Common equity tier 1 capital	**4,552**	4,391
Gross common equity[1]	**4,731**	4,564
Regulatory adjustments	**(179)**	(173)
Additional tier 1 eligible capital[2]	**850**	850
Tier 2 capital[3]	**382**	445
Total capital available for regulatory purposes	**5,784**	5,686
Total risk-weighted assets	**42,921**	42,005

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.

Management's Discussion and Analysis (continued)

Outstanding shares

	At 30 April 2017		
	Dividend[1]	Number of issued shares	Carrying value
	$ per share	000's	$m
Common shares		498,668	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 first quarter of 2017, the bank declared and paid $47m in dividends on HSBC Bank Canada common shares, a decrease of $1m compared with the same quarter last year. Regular quarterly dividends have been declared on all series of HSBC Bank Canada Class 1 Preferred Shares in the amounts per share noted above and will be paid on 30 June 2017 for shareholders of record on 15 June 2017.

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Financial Statements and Notes on the Financial Statements

Consolidated income statement (unaudited)

	Notes	Quarter ended 31 March 2017 $m	Quarter ended 31 March 2016 $m
Interest income		**451**	418
Interest expense		**(169)**	(137)
Net interest income		**282**	281
Fee income		**177**	178
Fee expense		**(17)**	(17)
Net fee income		**160**	161
Trading income excluding net interest income		**26**	62
Net interest income on trading activities		**5**	5
Net trading income		**31**	67
Net expense from financial instruments designated at fair value		**(3)**	(1)
Gains less losses from financial investments		**18**	21
Other operating income		**18**	15
Total operating income		**506**	544
Loan impairment recoveries/(charges) and other credit risk provisions		**49**	(85)
Net operating income		**555**	459
Employee compensation and benefits	2	**(181)**	(169)
General and administrative expenses		**(121)**	(122)
Depreciation of property, plant and equipment		**(7)**	(7)
Amortization of intangible assets		**(2)**	(3)
Total operating expenses		**(311)**	(301)
Operating profit		**244**	158
Share of (loss)/profit in associates		**(1)**	—
Profit before income tax expense		**243**	158
Income tax expense		**(57)**	(43)
Profit for the period		**186**	115
Profit attributable to the common shareholder		**177**	106
Profit attributable to preferred shareholders		**9**	9
Profit attributable to shareholders		**186**	115
Average number of common shares outstanding (000's)		**498,668**	498,668
Basic earnings per common share		**$ 0.35**	$ 0.21

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	
	31 March 2017	31 March 2016
	$m	$m
Profit for the period	**186**	115
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments[1]	**33**	(8)
– fair value gains	**63**	10
– fair value losses transferred to income statement on disposal	**(18)**	(21)
– income (recovery)/taxes	**(12)**	3
Cash flow hedges[1]	**1**	6
– fair value (losses)/gains	**(35)**	81
– fair value gains/(losses) transferred to income statement	**36**	(72)
– income taxes/(recovery)	**—**	(3)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans[2]	**(1)**	(22)
– before income taxes	**(1)**	(30)
– income taxes	**—**	8
Own Credit Risk	**3**	—
– before income taxes	**3**	—
– income taxes	**—**	—
Other comprehensive income/(loss) for the period, net of tax	**36**	(24)
Total comprehensive income for the period	**222**	91
Total comprehensive income for the period attributable to:		
– shareholders	**222**	91
	222	91

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	31 March 2017 $m	31 December 2016 $m
ASSETS			
Cash and balances at central bank		**57**	66
Items in the course of collection from other banks		**32**	58
Trading assets	4	**9,158**	6,288
Derivatives	5	**3,061**	3,850
Loans and advances to banks		**891**	1,071
Loans and advances to customers		**46,967**	46,907
Reverse repurchase agreements – non-trading		**7,068**	5,938
Financial investments	6	**22,825**	25,231
Other assets		**888**	447
Prepayments and accrued income		**221**	186
Customers' liability under acceptances		**4,254**	4,322
Property, plant and equipment		**101**	104
Goodwill and intangible assets		**74**	70
Deferred taxes		**117**	119
Total assets		**95,714**	94,657
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		**930**	946
Customer accounts		**54,283**	56,674
Repurchase agreements – non-trading		**7,700**	4,345
Items in the course of transmission to other banks		**236**	82
Trading liabilities	7	**5,438**	3,784
Financial liabilities designated at fair value	8	**400**	403
Derivatives	5	**3,041**	3,838
Debt securities in issue		**9,341**	10,256
Other liabilities		**2,620**	2,610
Acceptances		**4,254**	4,322
Accruals and deferred income		**363**	475
Retirement benefit liabilities		**343**	342
Subordinated liabilities	13	**1,039**	1,039
Provisions		**112**	116
Current taxes		**33**	10
Total liabilities		**90,133**	89,242
Equity			
Common shares		**1,225**	1,225
Preferred shares		**850**	850
Other reserves		**61**	27
Retained earnings		**3,445**	3,313
Total equity		**5,581**	5,415
Total equity and liabilities		**95,714**	94,657

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)

		Quarter ended	
		31 March 2017	31 March 2016
	Notes	**$m**	$m
Cash flows from operating activities			
Profit before tax		**243**	158
Adjustments for:			
– non-cash items included in profit before tax	10	**(33)**	101
– change in operating assets	10	**(2,846)**	820
– change in operating liabilities	10	**(134)**	(2,403)
– tax paid		**(45)**	(29)
Net cash used in operating activities		**(2,815)**	(1,353)
Cash flows from investing activities			
Purchase of financial investments		**(2,352)**	(4,664)
Proceeds from the sale and maturity of financial investments		**4,792**	6,003
Purchase of intangibles and property, plant and equipment		**(12)**	(6)
Net cash from investing activities		**2,428**	1,333
Cash flows from financing activities			
Redemption of subordinated liabilities		**—**	(200)
Dividends paid to shareholders		**(56)**	(57)
Net cash used in financing activities		**(56)**	(257)
Decrease in cash and cash equivalents		**(443)**	(277)
Cash and cash equivalents at the beginning of the period		**1,650**	1,983
Cash and cash equivalents at the end of the period	10	**1,207**	1,706
Interest			
Interest paid		**(198)**	(146)
Interest received		**419**	363

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)

	Share capital[1]	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total shareholders' equity	Total equity
	$m	$m	$m	$m	$m	$m	$m
At 1 January 2017	**2,075**	**3,313**	**(30)**	**57**	**27**	**5,415**	**5,415**
Profit for the period	—	**186**	—	—	—	**186**	**186**
Other comprehensive income/(loss), net of tax	—	**2**	**33**	**1**	**34**	**36**	**36**
Available-for-sale investments	—	—	**33**	—	**33**	**33**	**33**
Cash flow hedges	—	—	—	**1**	**1**	**1**	**1**
Remeasurement of defined benefit liability/asset	—	**(1)**	—	—	—	**(1)**	**(1)**
Own Credit Risk	—	**3**	—	—	—	**3**	**3**
Total comprehensive income for the period	—	**188**	**33**	**1**	**34**	**222**	**222**
Dividends paid on common shares	—	**(47)**	—	—	—	**(47)**	**(47)**
Dividends paid on preferred shares	—	**(9)**	—	—	—	**(9)**	**(9)**
At 31 March 2017	**2,075**	**3,445**	**3**	**58**	**61**	**5,581**	**5,581**

	Share capital	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total shareholders' equity	Total equity
	$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	—	115	—	—	—	115	115
Other comprehensive income/(loss), net of tax	—	(22)	(8)	6	(2)	(24)	(24)
Available-for-sale investments	—	—	(8)	—	(8)	(8)	(8)
Cash flow hedges	—	—	—	6	6	6	6
Remeasurement of defined benefit liability/asset	—	(22)	—	—	—	(22)	(22)
Total comprehensive income for the period	—	93	(8)	6	(2)	91	91
Dividends paid on common shares	—	(48)	—	—	—	(48)	(48)
Dividends paid on preferred shares	—	(9)	—	—	—	(9)	(9)
Shares issued under employee plan	—	1	—	—	—	1	1
At 31 March 2016	2,075	3,246	(41)	131	90	5,411	5,411

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 2016 audited annual consolidated financial statements. The bank's 2016 audited 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 2016 annual consolidated financial statements of the bank's 2016 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 2016 Annual Report and Accounts.

f *Consolidation*

The Financial Statements comprise the consolidated financial statements of the bank and its subsidiaries as at 31 March 2017. The method adopted by the bank to consolidate its subsidiaries is described in Note 2(a) of the 2016 annual consolidated financial statements of the bank's 2016 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 2 (a) to (o) of the 2016 annual consolidated financial statements of the bank's 2016 Annual Report and Accounts, except as noted below.

IFRS 9 is applicable effective 1 January 2018. However, it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. Accordingly, the bank revised the presentation of fair value gains and losses relating to the entity's own credit risk on certain liabilities in the consolidated financial statements effective 1 January 2017. In accordance with the transitional requirements of IFRS 9, comparatives have not been restated. Adoption increased retained earnings by $2.7m with the opposite effect on other comprehensive income, with no effect on net assets.

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	
	31 March 2017	31 March 2016
	$m	$m
Pension plans – defined benefit	**5**	4
Pension plans – defined contribution	**9**	9
Healthcare and other post retirement benefit plans	**3**	3
	17	16

3 Segment analysis

We manage and report our operations according to four operating segments: three global businesses and a corporate centre. The three global businesses are Commercial Banking, Global Banking and Markets, Retail Banking and Wealth Management. Various estimate and allocation methodologies are used in the preparation of the segment financial information. We allocate expenses directly related to earning revenues to the segment that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated using appropriate formulas. Segments' net interest income reflects internal funding charges and credits on the global businesses' 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 Corporate Centre.

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Commercial Banking		
Net interest income	**133**	139
Net fee income	**70**	74
Net trading income	**7**	7
Gains less losses from financial instruments	**—**	2
Other operating income	**6**	5
Total operating income	**216**	227
Loan impairment charges and other credit risk provisions	**39**	(78)
Net operating income	**255**	149
Total operating expenses	**(94)**	(102)
Profit before income tax expense	**161**	47

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Global Banking and Markets		
Net interest income	**21**	16
Net fee income	**37**	33
Net trading income	**12**	55
Total operating income	**70**	104
Loan impairment recoveries/(charges) and other credit risk provisions	**5**	(3)
Net operating income	**75**	101
Total operating expenses	**(35)**	(32)
Profit before income tax expense	**40**	69
Retail Banking and Wealth Management		
Net interest income	**96**	100
Net fee income	**53**	54
Net trading income	**6**	5
Other operating income	**1**	2
Total operating income	**156**	161
Loan impairment charges and other credit risk provisions	**5**	(4)
Net operating income	**161**	157
Total operating expenses	**(140)**	(147)
Profit before income tax expense	**21**	10
Corporate Centre		
Net interest income	**32**	26
Net trading income	**6**	(1)
Net expense from financial instruments designated at fair value	**(3)**	—
Gain less losses from financial investments	**18**	19
Other operating income	**11**	8
Net operating income	**64**	52
Total operating expenses	**(42)**	(20)
Operating profit	**22**	32
Share of loss in associates	**(1)**	—
Profit before income tax expense	**21**	32

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

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

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	$m	$m	$m	$m
Quarter ended 31 March 2017					
Net operating income:	**255**	**75**	**161**	**64**	**555**
External	**258**	**72**	**168**	**57**	**555**
Inter-segment	**(3)**	**3**	**(7)**	**7**	**—**
Quarter ended 31 March 2016					
Net operating income:	149	101	157	52	459
External	147	89	168	55	459
Inter-segment	2	12	(11)	(3)	—

Balance sheet information

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Intersegment	Total
	$m	$m	$m	$m	$m	$m
At 31 March 2017						
Loans and advances to customers and acceptances	**19,624**	**3,127**	**24,216**	**—**	**—**	**46,967**
Customers' liability under acceptances	**2,749**	**1,505**	**—**	**—**	**—**	**4,254**
Total assets	**26,243**	**25,000**	**30,096**	**26,494**	**(12,119)**	**95,714**
Customer accounts	**20,260**	**5,077**	**26,984**	**1,962**	**—**	**54,283**
Acceptances	**2,749**	**1,505**	**—**	**—**	**—**	**4,254**
Total liabilities	**23,249**	**23,793**	**29,303**	**25,907**	**(12,119)**	**90,133**
At 31 December 2016						
Loans and advances to customers and acceptances	19,351	3,299	24,257	—	—	46,907
Customers' liability under acceptances	2,810	1,512	—	—	—	4,322
Total assets	27,741	21,634	29,817	29,276	(13,811)	94,657
Customer accounts	21,659	6,130	26,705	2,180	—	56,674
Acceptances	2,810	1,512	—	—	—	4,322
Total liabilities	24,902	19,876	28,999	29,276	(13,811)	89,242

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

4 Trading assets

	31 March 2017 $m	31 December 2016 $m
Trading assets:		
Not subject to repledge or resale by counterparties	**4,021**	2,399
Which may be repledged or resold by counterparties	**5,137**	3,889
	9,158	6,288
Canadian and Provincial Government bonds[1]	**6,077**	5,173
Debt securities	**1,161**	319
Total debt securities	**7,238**	5,492
Customer trading assets	**778**	301
Treasury and other eligible bills	**1,027**	421
Trading assets from other banks	**105**	72
Equity securities	**10**	2
	9,158	6,288

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 2 of the bank's 2016 Annual Report and Accounts.

Fair values of derivatives by product contract type held

	At 31 March 2017					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,825**	**31**	**1,856**	**1,796**	**165**	**1,961**
Interest rate	**1,056**	**135**	**1,191**	**942**	**127**	**1,069**
Commodity	**11**	**—**	**11**	**11**	**—**	**11**
Equity	**3**	**—**	**3**	**—**	**—**	**—**
Gross total fair values	**2,895**	**166**	**3,061**	**2,749**	**292**	**3,041**

	At 31 December 2016					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	2,467	45	2,512	2,433	131	2,564
Interest rate	1,133	178	1,311	1,108	142	1,250
Commodity	24	—	24	24	—	24
Equity	3	—	3	—	—	—
Gross total fair values	3,627	223	3,850	3,565	273	3,838

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

Trading derivatives

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

	31 March 2017	31 December 2016
	$m	$m
Foreign exchange	**109,706**	128,789
Interest rate	**212,026**	212,383
Commodity	**279**	344
Equity	**14**	17
	322,025	341,533

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

Hedging instruments

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

	31 March 2017		31 December 2016	
	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	$m	$m	$m
Foreign exchange	**2,337**	**—**	2,056	—
Interest rate	**4,759**	**13,715**	10,027	15,485

Fair value of derivatives designated as fair value hedges

	31 March 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Interest rate	**94**	**122**	130	136

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

	31 March 2017	31 December 2016
	$m	$m
Gains/(losses)		
- on hedging instruments	**4**	78
- on hedged items attributable to the hedged risk	**(4)**	(76)

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

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

Fair value of derivatives designated as cash flow hedges

	31 March 2017		31 December 2016	
	Assets	**Liabilities**	Assets	Liabilities
	$m	**$m**	$m	$m
Foreign exchange	**31**	**165**	45	131
Interest rate	**41**	**5**	48	6

6 Financial investments

	31 March 2017	31 December 2016
	$m	$m
Financial investments		
Not subject to repledge or resale by counterparties	**21,804**	24,314
Which may be repledged or resold by counterparties	**1,021**	917
	22,825	25,231
Available-for-sale		
Canadian and Provincial Government bonds[1]	**15,357**	17,901
International Government bonds[1]	**3,755**	4,117
Debt securities issued by banks and financial institutions	**3,263**	2,859
Treasury and eligible bills	**442**	295
Other securities	**8**	59
	22,825	25,231

1 *Includes government guaranteed bonds.*

7 Trading liabilities

	31 March 2017	31 December 2016
	$m	$m
Other liabilities – net short positions	**4,399**	3,589
Customer trading liabilities	**830**	152
Trading liabilities due to other banks	**209**	43
	5,438	3,784

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

8 Financial liabilities designated at fair value

	31 March 2017	31 December 2016
	$m	$m
Subordinated debentures	**400**	403

The carrying amount at 31 March 2017 of financial liabilities designated at fair value was $0m higher (31 December 2016: $3m higher) than the contractual amount at maturity. At 31 March 2017, the cumulative amount of change in fair value attributable to changes in credit risk was $0.2m gain (31 December 2016: $3m loss).

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 31 March 2017				
Assets				
Trading assets	**7,415**	**1,743**	**—**	**9,158**
Derivatives	**—**	**3,060**	**1**	**3,061**
Financial investments: available-for-sale	**18,230**	**4,595**	**—**	**22,825**
Liabilities				
Trading liabilities	**4,055**	**1,381**	**2**	**5,438**
Financial liabilities at fair value	**—**	**400**	**—**	**400**
Derivatives	**—**	**3,040**	**1**	**3,041**
At 31 December 2016				
Assets				
Trading assets	5,488	800	—	6,288
Derivatives	—	3,849	1	3,850
Financial investments: available-for-sale	21,396	3,835	—	25,231
Liabilities				
Trading liabilities	3,370	411	3	3,784
Financial liabilities at fair value	—	403	—	403
Derivatives	—	3,837	1	3,838

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

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 2017	**1**	**3**	**1**
Settlements	**—**	**(1)**	**—**
At 31 March 2017	**1**	**2**	**1**
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 2016	—	6	—
Settlements	—	(1)	—
At 31 March 2016	—	5	—
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

During 2017 and 2016, 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 2016 Annual Report and Accounts.

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

	31 March 2017		31 December 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$m	**$m**	$m	$m
Assets				
Loans and advances to banks	**891**	**891**	1,071	1,071
Loans and advances to customers	**46,967**	**47,006**	46,907	46,931
Reverse repurchase agreements	**7,068**	**7,068**	5,938	5,938
Liabilities				
Deposits by banks	**930**	**930**	946	946
Customer accounts	**54,283**	**54,308**	56,674	56,706
Repurchase agreements	**7,700**	**7,700**	4,345	4,345
Debt securities in issue	**9,341**	**9,494**	10,256	10,361
Subordinated liabilities	**1,039**	**1,023**	1,039	1,024

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

10 Notes on the statement of cash flows

	Quarter ended	
	31 March 2017	31 March 2016
	$m	$m
Non-cash items included in profit before tax		
Depreciation and amortization	**9**	10
Share-based payment expense	**2**	2
Loan impairment (recoveries)/charges and other credit risk provisions	**(49)**	85
Charge for defined benefit pension plans	**5**	4
	(33)	101
Change in operating assets		
Change in prepayment and accrued income	**(35)**	(60)
Change in net trading securities and net derivatives	**(1,091)**	(23)
Change in loans and advances to customers	**(11)**	420
Change in reverse repurchase agreements - non-trading	**(1,336)**	972
Change in other assets	**(373)**	(489)
	(2,846)	820
Change in operating liabilities		
Change in accruals and deferred income	**(112)**	(96)
Change in deposits by banks	**(16)**	(454)
Change in customer accounts	**(2,391)**	(1,259)
Change in repurchase agreements – non-trading	**3,355**	(826)
Change in debt securities in issue	**(915)**	(357)
Change in financial liabilities designated at fair value	**(3)**	(3)
Change in other liabilities	**(52)**	592
	(134)	(2,403)

Cash and cash equivalents

	At 31 March 2017	At 31 March 2016
	$m	$m
Cash and balances at central bank	**57**	54
Items in the course of collection from other banks, net	**(204)**	(187)
Loans and advances to banks of one month or less	**891**	1,038
Reverse repurchase agreements with banks of one month or less	**237**	640
T-Bills and certificates of deposits – three months or less	**226**	161
	1,207	1,706

11 Contingent liabilities, contractual commitments and guarantees

	31 March 2017	31 December 2016
	$m	$m
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security	**5,631**	5,780
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**38,551**	38,493
Documentary credits and short-term trade-related transactions	**459**	483
	39,010	38,976

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	
	31 March 2017	31 March 2016
	$m	$m
Income Statement		
Interest income	**1**	4
Interest expense	**(6)**	(6)
Fee income	**7**	4
Fee expense	**(1)**	(1)
Other operating income	**16**	11
General and administrative expenses	**(37)**	(42)

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

13 Subordinated liabilities

Subordinated debt and 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	**31 March 2017**	31 December 2016
Interest rate (%)		**$m**	$m
Issued to Group			
3 month Canadian Dollar Offered Rate plus 1.735[1]	2023	**1,000**	1,000
Issued to third parties			
4.8[2]	2022	**400**	403
30 day bankers' acceptance rate plus 0.50%	2083	**39**	39
Total debt and debentures		**1,439**	1,442
Less: designated at fair value		**(400)**	(403)
Debt and debentures at amortized cost		**1,039**	1,039

1 *The interest rate was fixed at 2.6576% until March 2017 and thereafter interest is payable at an annual rate equal to the 3 month Canadian Dollar Offered Rate plus 1.735%*

2 *The interest rate was 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 debt and debentures are designated as held for trading under the fair value option. On 10 April 2017 the bank has, in accordance with their terms, redeemed the debentures at 100% of their principal amount plus accrued interest to the redemption date. The redemption was financed out of the general corporate funds of the bank.*

14 Legal proceedings and regulatory matters

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

15 Events after the reporting period

Except as noted in Note 13 Subordinated liabilities, there have been no other material events after the reporting period which would require disclosure or adjustment to the 31 March 2017 consolidated financial statements.

These financial statements were approved by the Board of Directors on 2 May 2017 and authorized for issue.

Shareholder Information

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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.

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TRANSFER AGENT AND REGISTRAR

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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 June	30 June
15 September	30 September
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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