

Second Quarter 2017 Interim Report

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\$2,492bn at 30 June 2017. HSBC serves customers worldwide through an international network of around 3,900 offices in 67 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

Headlines

- Profit before income tax expense for the quarter ended 30 June 2017 was \$228m, an increase of 35.7% compared with the same period in 2016. Profit before income tax expense was \$471m for the half-year ended 30 June 2017, an increase of 44.5% compared with the same period in 2016.
- Profit attributable to the common shareholder was \$158m for the quarter ended 30 June 2017, an increase of 42.3% compared with the same period in 2016. Profit attributable to the common shareholder was \$335m for the half-year ended 30 June 2017, an increase of 54.4% compared with the same period in 2016.
- Return on average common equity was 13.3% for the quarter ended 30 June 2017 compared with 9.8% for the same period in 2016. Return on average common equity was 14.4% for the half-year ended 30 June 2017 compared with 9.6% for the same period in 2016.
- The cost efficiency ratio was 64.1% for the quarter ended 30 June 2017 compared with 57.3% for the same period in 2016. The cost efficiency ratio was 62.8% for the half-year ended 30 June 2017 compared with 56.3% for the same period in 2016.
- Total assets were \$95.8bn at 30 June 2017 compared with \$94.7bn at 31 December 2016.
- Common equity tier 1 capital ratio was 10.5%, tier 1 ratio 12.4% and total capital ratio 14.7% at 30 June 2017 compared with 10.5%, 12.5% and 13.5% respectively at 31 December 2016.
- In its annual Awards for Excellence, *Euromoney* magazine named HSBC the 'World's Best Bank.' HSBC was also named the top bank in several other categories including 'Best Transaction Bank in North America.'

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 27 July 2017, the date that our unaudited interim condensed consolidated financial statements and the MD&A for the second quarter ended 30 June 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 second quarter ended 30 June 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	1	Off-balance sheet arrangements	14
Use of non-IFRS's financial measures	2	Related party transactions	14
Financial performance	3	Disclosure controls and procedures and internal control	14
Movement in financial position	8	Risk management	14
Global lines of business	9	Factors that may affect future results	26
Summary quarterly performance	13	Capital	27
Accounting matters	14	Outstanding shares and securities	28
Interim Condensed Consolidated Financial Statements (unaudited)			29
Notes on the Consolidated Financial Statements (unaudited)			35
Shareholder Information			47

Management's Discussion and Analysis

Financial Summary

(\$ millions, except where otherwise stated)	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Financial performance for the period				
Total operating income.....	496	525	1,002	1,069
Profit before income tax expense	228	168	471	326
Profit attributable to the common shareholder	158	111	335	217
Basic earnings per common share (\$)	0.32	0.22	0.67	0.43
Performance ratios (%)¹				
Return ratios (%)¹				
Return on average common shareholder's equity	13.3	9.8	14.4	9.6
Post-tax return on average total assets	0.67	0.48	0.47	0.47
Pre-tax return on average risk-weighted assets ²	2.1	1.6	2.2	1.5
Credit coverage ratios (%)¹				
Loan impairment charges to total operating income	n/a	10.5	n/a	13.1
Loan impairment charges to average gross customer advances and acceptances	n/a	0.5	n/a	0.6
Total impairment allowances to impaired loans and acceptances at period end.	66.7	67.0	66.7	67.0
Efficiency and revenue mix ratios (%)¹				
Cost efficiency ratio	64.1	57.3	62.8	56.3
Adjusted cost efficiency ratio.....	64.0	57.2	62.6	56.2
As a percentage of total operating income:				
- net interest income.....	57.5	53.3	56.5	52.5
- net fee income.....	33.3	32.6	32.4	31.1
- net trading income	4.4	9.3	5.3	10.8
At period ended				
	30 June 2017	31 December 2016		
Financial position at period-end				
Loans and advances to customers	48,699	46,907		
Customer accounts	55,949	56,674		
Ratio of customer advances to customer accounts (%) ¹	87.0	82.8		
Shareholders' equity.....	5,613	5,415		
Average total shareholders' equity to average total assets (%).....	5.9	5.7		
Capital measures²				
Common equity tier 1 capital ratio (%)	10.5	10.5		
Tier 1 ratio (%).....	12.4	12.5		
Total capital ratio (%)	14.7	13.5		
Leverage ratio (%)	4.9	4.7		
Risk-weighted assets.....	44,281	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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net interest income	285	280	567	561
Net fee income	165	171	325	332
Net trading income.....	22	49	53	116
Net expense from financial instruments designated at fair value	(1)	(1)	(4)	(2)
Gains less losses from financial investments.....	3	6	21	27
Other operating income.....	22	20	40	35
Total operating income	496	525	1,002	1,069
Loan impairment recoveries (charges) and other credit risk provisions.....	46	(54)	95	(139)
Net operating income.....	542	471	1,097	930
Total operating expenses.....	(318)	(301)	(629)	(602)
Operating profit.....	224	170	468	328
Share of profit/(loss) in associates	4	(2)	3	(2)
Profit before income tax expense.....	228	168	471	326
Income tax expense.....	(60)	(47)	(117)	(90)
Profit for the period.....	168	121	354	236

Overview

HSBC Bank Canada reported a profit before income tax expense of \$228m for the second quarter of 2017, an increase of \$60m, or 36% compared with the second quarter of 2016. The increase in profit before income tax is primarily due to recoveries of loan impairment charges from improved credit conditions mainly in the oil and gas industry compared to high impairment charges in the second quarter last year. This was partially offset by a decrease in trading revenues as a result of favorable fixed income trading activities in the prior year. Operating expenses were higher from the bank's continued investment in regulatory compliance, financial crime risk, and strategic spending to reduce future costs; as well as investments to support the growth of our businesses.

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

“Our strong performance in the first half was the result of continuing improvement in our oil and gas portfolio. In the second quarter, we recorded net new money sales in Retail Banking and Wealth Management and an increase in new-to-bank clients in Commercial Banking. There has been significant growth in revenues related to our international capabilities as our clients increasingly rely on HSBC's international network to support their work with Canada's key trading partners. This is consistent with *Euromoney* naming HSBC the top bank for transaction banking in North America, and the World's Best Bank.”

“In this period, we also launched a number of options to enhance the digital experience including ApplePay, mobile cheque deposit and an upgraded online investing platform for our retail customers, as well as a new foreign exchange platform for customers of our Global Banking and Markets business and Commercial Bank. We also continued to hire and expand our team across the country to support the growth of each of our lines of business. As we move into the second half of the year, we do so with great momentum and pride in what we have been able to deliver for our customers.”

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the second quarter of 2017 was \$285m, an increase of \$5m, or 2%, compared with the second quarter of 2016. Net interest income for the first half of 2017 was \$567m, an increase of \$6m, or 1%, compared with the first half of 2016. The increases over comparative periods

were mainly driven by margin improvements. Yields on interest earning assets have increased over comparative periods. Whereas funding costs have decreased over the same periods, most notably in debt securities and other interest-bearing liabilities.

Summary of interest income by types of assets

	Quarter ended 30 June 2017			Quarter ended 30 June 2016		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
<i>Interest income</i>						
Short-term funds and loans and advances to banks	528	—	—%	774	—	—%
Loans and advances to customers ¹	46,553	379	3.26%	48,479	362	2.99%
Reverse repurchase agreements - non trading	8,983	12	0.52%	8,052	9	0.45%
Financial investments	21,798	57	1.01%	22,684	68	1.20%
Other interest-earning assets	990	4	1.62%	448	2	1.79%
Trading assets and financial assets designated at fair value ⁴	6,919	—	—%	3,991	—	—%
Total interest-earning assets	85,771	452	2.11%	84,428	441	2.09%
Non-interest-earning assets	11,391	—	—%	11,858	—	—%
Quarter ended 30 June	97,162	452	1.86%	96,286	441	1.83%

Summary of interest expense by types of liabilities and equity

	Quarter ended 30 June 2017			Quarter ended 30 June 2016		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
<i>Interest expense</i>						
Deposits by banks ⁴	319	—	—%	707	—	—%
Financial liabilities designated at fair value - own debt issued ²	40	—	—%	409	1	0.98%
Customer accounts ^{1,3}	49,320	95	0.77%	48,221	61	0.51%
Repurchase agreements - non-trading	8,122	10	0.49%	6,344	7	0.44%
Debt securities in issue	9,347	37	1.58%	10,726	63	2.35%
Other interest-earning liabilities	2,609	25	3.83%	1,729	29	6.71%
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued) ¹	3,693	—	—%	2,564	—	—%
Total interest-bearing liabilities	73,450	167	0.91%	70,700	161	0.91%
Non-interest bearing current accounts	6,090	—	—%	5,572	—	—%
Total equity and other non-interest bearing liabilities	17,622	—	—%	20,014	—	—%
Quarter ended 30 June	97,162	167	0.69%	96,286	161	0.67%
Net interest income - Quarter ended 30 June		285			280	

Summary of interest income by type of assets

	Half-year ended 30 June 2017			Half-year ended 30 June 2016		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
<i>Interest income</i>						
Short-term funds and loans and advances to banks	517	1	0.39%	864	1	0.23%
Loans and advances to customers ¹	46,279	744	3.22%	48,022	704	2.93%
Reverse repurchase agreements - non trading	8,706	22	0.51%	7,994	18	0.45%
Financial investments	22,687	130	1.15%	23,046	133	1.15%
Other interest-earning assets	718	6	1.67%	361	3	1.66%
Trading assets and financial assets designated at fair value ⁴	6,761	—	—%	4,412	—	—%
Total interest-earning assets	85,668	903	2.11%	84,699	859	2.03%
Non-interest-earning assets	11,310	—	—%	12,227	—	—%
Half-year ended 30 June	96,978	903	1.86%	96,926	859	1.77%

Summary of interest expense by types of liabilities and equity

	Half-year ended 30 June 2017			Half-year ended 30 June 2016		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
<i>Interest expense</i>						
Deposits by banks ⁴	316	—	—%	529	—	—%
Financial liabilities designated at fair value - own debt issued ²	220	1	0.91%	410	2	0.98%
Customer accounts ^{1,3}	49,328	178	0.72%	48,549	122	0.50%
Repurchase agreements - non-trading	6,735	17	0.50%	6,784	15	0.44%
Debt securities in issue	9,357	99	2.12%	10,748	128	2.38%
Other interest-earning liabilities	3,916	41	2.09%	2,871	31	2.16%
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued) ⁴	3,756	—	—%	2,274	—	—%
Total interest-bearing liabilities	73,628	336	0.91%	72,165	298	0.83%
Non-interest bearing current accounts	6,129	—	—%	5,661	—	—%
Total equity and other non-interest bearing liabilities	17,221	—	—%	19,100	—	—%
Half-year ended 30 June	96,978	336	0.69%	96,926	298	0.61%
Net interest income - Half-year ended 30 June		567			561	

1 During the quarter ended 30 June 2017, certain amounts earned relating to the hedging of loans and advances were prospectively reclassified from interest expense to interest income.

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 Includes interest-bearing bank deposits only.

Management's Discussion and Analysis (continued)

Net fee income

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Credit facilities	71	75	143	151
Funds under management.....	50	42	95	86
Account services.....	17	19	33	34
Credit cards.....	13	14	26	27
Corporate finance	11	17	23	24
Remittances	7	8	15	15
Brokerage commissions	2	1	4	3
Insurance	1	2	4	4
Trade finance import/export.....	2	2	4	4
Trustee fees.....	1	1	2	2
Other fees and commission	8	8	11	17
Fee income	183	189	360	367
Less: fee expense.....	(18)	(18)	(35)	(35)
Net fee income.....	165	171	325	332

Net fee income for the second quarter of 2017 was \$165m, a decrease of \$6m, or 4%, compared with the second quarter of 2016. Net fee income for the first half of 2017 was \$325m,

a decrease of \$7m, or 2%, compared with the first half of 2016. The decrease is primarily due to lower credit facilities and account services related fees.

Net trading income

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Trading activities.....	18	51	44	91
Credit valuation, debit valuation, and funding fair value adjustments	1	(10)	1	16
Net interest from trading activities	6	4	11	9
Hedge ineffectiveness	(3)	4	(3)	—
Net trading income.....	22	49	53	116

Net trading income for the second quarter of 2017 was \$22m, a decrease of \$27m, or 55%, compared with the second quarter of 2016. Net trading income for the first half of 2017 was \$53m, a decrease of \$63m, or 54%, compared with the first half of 2016. The quarter-end decrease is mainly driven by a fixed income trading transaction which favourably impacted trading activities and negatively impacted changes

in the credit and funding valuation adjustments in the prior year. The half-year end decrease is mainly driven by fixed income trading transactions and favourable changes in the credit and funding valuation adjustments in the prior year due to the tightening of client and HSBC's own credit spreads.

Other items of income

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net expense from financial instruments designated at fair value	(1)	(1)	(4)	(2)
Gains less losses from financial investments	3	6	21	27
Other operating income	22	20	40	35
Other items of income	24	25	57	60

Net expense from financial instruments designated at fair value for the second quarter of 2017 was \$1m, which remains unchanged with the second quarter of 2016. The net expense from financial instruments designated at fair value was caused by marginal narrowing of the bank's own credit spread.

Gains less losses from financial investments for the second quarter of 2017 were \$3m, a decrease of \$3m, or 50%,

compared with the second quarter of 2016. Gains on the sale of available-for-sale debt securities arose from the continued rebalancing of the bank's liquid assets.

Other operating income for the second quarter of 2017 was \$22m, an increase of \$2m, or 10%, compared with the second quarter of 2016. The increase was mainly due to higher income from other Group entities.

Loan impairment charges and other credit risk provisions

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Individually assessed (releases)/allowances.....	(3)	72	(39)	149
Collectively assessed releases	(9)	(13)	(19)	(7)
Loan impairment (recoveries)/charges	(12)	59	(58)	142
Other credit risk provisions	(34)	(5)	(37)	(3)
Net loan impairment charges and other credit risk provisions.....	(46)	54	(95)	139

Loan impairment charges and other credit risk provisions for the second quarter of 2017 were a recovery of \$46m, an improvement of \$100m compared with the second quarter of 2016. Loan impairment charges and other credit risk provisions for the first half of 2017 were a recovery of \$95m, an improvement of \$234m compared with the first half of

2016. This net loan impairment recovery over the comparative periods largely reflects improving credit conditions, notably as individually assessed and other credit risk provisions reduced, primarily against exposures in the oil and gas, and construction industry.

Total operating expenses

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Employee compensation and benefits	173	164	354	333
General and administrative expenses	133	127	254	249
Depreciation of property, plant and equipment	9	8	16	15
Amortization of intangible assets	3	2	5	5
Total operating expenses	318	301	629	602

Total operating expenses for the second quarter of 2017 were \$318m, an increase of \$17m, or 6%, compared with the second quarter of 2016. This increase reflects the ongoing implementation of our Global Standards program to enhance

our financial crime risk controls and capabilities. We have maintained our transformational efforts and continue to realize the benefits of our cost-savings program, and ongoing investments to support the growth of our business.

Management's Discussion and Analysis (continued)

Share of profit in associates

Share of profit in associates for the second quarter of 2017 was a gain of \$4m, an increase of \$6m compared with the second quarter of 2016. Share of profit in associates for the first half of 2017 was a gain of \$3m, an increase of \$5m compared with the first half of 2016.

Income taxes expense

The effective tax rate in the second quarter of 2017 was 26.3%, which is close to the statutory tax rate. The effective rate for the second quarter of 2016 was 27.7%.

Movement in financial position

Summary consolidated balance sheet

	30 June 2017	31 December 2016
	\$m	\$m
ASSETS		
Cash and balances at central bank.....	61	66
Items in the course of collection from other banks	19	58
Trading assets	8,098	6,288
Derivatives.....	3,477	3,850
Loans and advances to banks	865	1,071
Loans and advances to customers	48,699	46,907
Reverse repurchase agreements – non-trading	7,557	5,938
Financial investments	21,191	25,231
Other assets.....	1,004	447
Prepayment and accrued income	168	186
Customers' liability under acceptances	4,365	4,322
Property, plant and equipment.....	105	104
Goodwill and intangible assets.....	76	70
Deferred taxes.....	125	119
Total assets.....	95,810	94,657
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks.....	1,232	946
Customer accounts	55,949	56,674
Repurchase agreements – non-trading	6,368	4,345
Items in the course of transmissions to other banks.....	406	82
Trading liabilities.....	3,755	3,784
Financial liabilities designated at fair value	—	403
Derivatives.....	3,405	3,838
Debt securities in issue	10,103	10,256
Other liabilities	2,725	2,610
Acceptances	4,365	4,322
Accruals and deferred income.....	369	475
Retirement benefit liabilities	371	342
Subordinated liabilities.....	1,039	1,039
Provisions	72	116
Current taxes.....	38	10
Total liabilities.....	90,197	89,242
Equity		
Common shares	1,225	1,225
Preferred shares	850	850
Other reserves.....	5	27
Retained earnings	3,533	3,313
Total equity.....	5,613	5,415
Total equity and liabilities.....	95,810	94,657

Assets

Total assets at 30 June 2017 were \$95.8bn, an increase of \$1.2bn from 31 December 2016. Trading assets increased by \$1.8bn notably due to increased trading debt securities, treasury bills, and settlement accounts to facilitate client trades. Loans and advances to customers increased by \$1.8bn

primarily due to growth in our residential mortgage portfolio and commercial lending. Reverse repurchase agreements increased by \$1.6bn. Financial investments decreased by \$4bn as the bank redeployed assets to customer loans and reverse repurchase agreements.

Liabilities

Total liabilities at 30 June 2017 were \$90.2bn, an increase of \$1.0bn from 31 December 2016. Repurchase agreements increased by \$2.0bn to fund the increase in our trading assets portfolio. Customer accounts decreased by \$0.7bn mainly due to lower commercial deposits in line with the bank's expectation of seasonal fluctuations, and reduction of money market term deposits that matured during the period.

Equity

Total equity at 30 June 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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net interest income.....	130	125	263	264
Net fee income.....	71	72	141	146
Net trading income.....	10	8	17	15
Gains less losses from financial investments.....	—	—	—	2
Other operating income.....	5	5	11	10
Total operating income.....	216	210	432	437
Loan impairment recoveries/(charges) and other credit risk provisions ...	47	(47)	86	(125)
Net operating income.....	263	163	518	312
Total operating expenses.....	(95)	(98)	(189)	(200)
Profit before income tax expense.....	168	65	329	112

Overview

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity for the benefit of its customers and employees. Our strategic plan is focused on growing market share through expansion in Eastern Canada, increasing productivity by deepening product penetration, streamlining processes and leveraging our differentiated product suite in Global Trade and Receivable Finance (GTRF) and Global Liquidity and Cash Management (GLCM), and building on our position as the leading international bank with improved positioning in US-Canada corridor.

Profit before income tax expense was \$168m for the second quarter of 2017, an increase of \$103m, or 158%, compared with the second quarter of 2016. Profit before income tax expense was \$329m for the first half of 2017, an increase of \$217m, or 194%, compared with the first half of 2016. The increases from last year were driven primarily by lower loan impairment charges as a result of improving credit conditions.

Management's Discussion and Analysis (continued)

Financial performance by income and expense item

Net interest income for the second quarter of 2017 was \$130m, an increase of \$5m, or 4%, compared with the second quarter of 2016, mainly due to higher outstanding loans and advances, as well as interest recovered from a number of impaired loans that are no longer in default. Net interest income for the first half of 2017 was \$263m, largely unchanged from the previous year.

Net fee income for the second quarter of 2017 was \$71m, broadly unchanged compared to the second quarter of 2016. Net fee income for the first half of 2017 was \$141m, a decrease of \$5m or 3%, driven mainly by lower standby fees collected on undrawn credit facilities.

Net trading income for the second quarter of 2017 was \$10m, an increase of \$2m or 25%. Net trading income for the first half of 2017 was \$17m, an increase of \$2m or 13%. The increases from prior year were driven by higher foreign exchange income.

Gains less losses from financial investments for the second quarter of 2017 was nil.

Other operating income for the second quarter of 2017 was unchanged from the second quarter of 2016. Other

operating income for the first half of 2017 was \$11m, \$1m higher than the first half of 2016, as a result of higher inter-company recovery.

Loan impairment charges and other credit risk provisions for the second quarter of 2017 comprised a recovery of \$47m, an improvement of \$94m, compared with the second quarter of 2016. This was driven mainly by improving credit conditions, notably as individually assessed and other credit risk provisions were reduced, primarily against exposures in the oil and gas, and construction industry. Loan impairment charges and other credit risk provisions for the first half of 2017 comprised a recovery of \$86m, an improvement of \$211m, compared with the first half of 2017, driven by improving credit conditions.

Total operating expenses for the second quarter of 2017 were \$95m, a decrease of \$3m, or 3%, compared with the second quarter of 2016. Total operating expenses for the first half of 2017 were \$189m, a decrease of \$11m, or 5% from the first half of 2016. The decreases were driven primarily by cost-saving initiatives in Technology and Operations.

Global Banking and Markets

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

Review of financial performance

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net interest income	25	20	46	36
Net fee income	37	45	74	78
Net trading income.....	6	28	18	83
Gains less losses from financial investments.....	—	(1)	—	(1)
Other operating loss	—	(5)	—	(5)
Total operating income	68	87	138	191
Loan impairment recoveries/(charges) and other credit risk provisions...	—	(6)	5	(9)
Net operating income.....	68	81	143	182
Total operating expenses.....	(32)	(31)	(67)	(63)
Profit before income tax expense.....	36	50	76	119

Overview

Global Banking and Markets generated higher event fee revenues through increased advisory and debt 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 \$36m for the second quarter of 2017, a decrease of \$14m, or 28%, compared with the second quarter of 2016. The decrease resulted from a favorable fixed income trading transaction in the prior year and lower equity underwriting activities. This was

partially offset by an improvement in loan impairment charges due to provisions taken during the prior year. Profit before income tax expense was \$76m for the first half of 2017, a decrease of \$43m compared to the first half of 2016. The decrease was driven by favourable fixed income trading transactions in the prior year and changes in 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 second quarter of 2017 was \$25m, an increase of \$5m, or 25%, compared with the second quarter of 2016. Net interest income for the first half of 2017 was \$46m, an increase of \$10m or 28%, compared with the first half of 2016. The increases are mainly generated from corporate deposits and the impact from Markets business activities.

Net fee income for the second quarter of 2017 was \$37m, a decrease of \$8m, or 18%, compared with the second quarter of 2016. Net fee income for the first half of 2017 was \$74m, a decrease of \$4m, or 5% compared with the first half of 2016. The decreases are due to lower equity underwriting activities in both periods, partially offset over the half year by an increase in advisory and debt underwriting activities.

Net trading income for the second quarter of 2017 was \$6m, a decrease of \$22m, or 79%, compared with the second

quarter of 2016. The decrease is due to a favorable fixed income trading transaction in the prior year. Net trading income for the first half of 2017 was \$18m, a decrease of \$65m, or 78% compared with the first half of 2016. The decreases are mainly driven by fixed income trading transactions and 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.

Other operating losses for the second quarter of 2017 were nil, an improvement of \$5m compared with the second quarter of 2016. The losses were incurred in the prior year from the sale of specific client loans.

Loan impairment charges and other credit risk provisions for the second quarter of 2017 were nil, an improvement of \$6m compared with the second quarter of 2016. Loan impairment charges in the first half of 2017 comprised a recovery of \$5m, an improvement of \$14m compared with the first half of 2016. The changes are favourable notably because the comparative period included charges against exposures in the oil and gas sector.

Total operating expenses for the second quarter of 2017 were \$32m, an increase of \$1m, or 3%, compared with the second quarter of 2016. Total operating expenses for the first half of 2017 were \$67m, an increase of \$4m or 6%. The increases are 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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net interest income	104	103	200	203
Net fee income	57	54	110	108
Net trading income	5	5	11	10
Gain less losses from financial investments	1	—	1	—
Other operating income	1	7	2	9
Total operating income	168	169	324	330
Loan impairment recoveries/(charges) and other credit risk provisions....	(1)	(1)	4	(5)
Net operating income	167	168	328	325
Total operating expenses	(153)	(142)	(293)	(289)
Profit before income tax expense	14	26	35	36

Management's Discussion and Analysis (continued)

Profit before income tax

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Ongoing Retail Banking and Wealth Management business.....	10	16	26	21
Run-off consumer finance portfolio.....	4	10	9	15
Profit before income tax expense.....	14	26	35	36

Overview

Retail Banking and Wealth Management had 4% growth in total relationship balances, with increased sales across our products consistent with our focus on growing and serving our customer base. We continue to invest in strategic initiatives to make our bank simpler, faster and better for our customers. Profit before income tax expense was \$14m for the second quarter of 2017, a decrease of \$12m, or 46%, compared with the second quarter of 2016, due to the impact of the shrinking run-off consumer finance business. Profit before income tax expense was \$35m for the first half of 2017, a decrease of \$1m or 3%, compared with the first half of 2016.

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was \$10m for the second quarter of 2017, a decrease of \$6m, or 38%, compared with the second quarter of 2016. There

was significant growth in mortgages, deposit and wealth products. However, the second quarter of 2016 included the sale of a small portfolio of impaired loans and the current quarter includes increased investments as above. Profit before income taxes relating to the ongoing business was \$26m in the first half of 2017, an increase of \$5m or 24%, compared with the first half of 2016, mainly driven by growth across all products and lower loan impairment charges.

Profit before income tax expense relating to the run-off consumer finance portfolio for the second quarter of 2017 and for the first half of 2017, was \$4m and \$9m respectively, a decrease of \$6m or 60% and a decrease of \$6m or 40% compared with the relevant periods in 2016. The decreases over the comparative periods were mainly driven by lower interest income from declining loan balances and a gain on sale of a small portfolio of impaired loans in the second quarter of 2016.

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

Net interest income for the second quarter of 2017 was \$100m, an increase of \$4m, or 4%, compared with the second quarter of 2016. Net interest income for the first half of 2017 was \$192m, an increase of \$3m, or 2%, compared with the first half of 2016. The increases over the comparative periods were mainly driven by volume growth in mortgages deposits and wealth products.

Net fee income for the second quarter of 2017 was \$59m, an increase of \$5m, or 9%, compared with the second quarter of 2016. Net fee income for the first half of 2017 was \$111m, an increase of \$3m, or 3%, compared with the first half of 2016. Net fee income increased over comparative periods mainly due to higher assets under management, partly offset by lower income from credit cards.

Net trading income for the second quarter of 2017 was \$6m, a \$1m, or 20%, increase compared with the second quarter of 2016. Net trading income for the first half of 2017 was \$12m, a \$2m, or 20%, increase compared with the first half of 2016.

Other operating income for the second quarter of 2017 was \$1m, a decrease of \$4m, or 80%, compared with the second

quarter of 2016. Other operating income for the first half of 2017 was \$3m, a decrease of \$5m, or 71%, compared with the first half of 2016. The decreases over the comparative periods were mainly driven by a gain on sale of a small portfolio of impaired loans in the second quarter of 2016.

Loan impairment charges and other credit risk provisions for the second quarter of 2017 were \$1m, unchanged from the second quarter of 2016. Loan impairment charges and other credit risk provisions for the first half of 2017 comprised a recovery of \$4m, compared to a charge of \$5m in the same period in 2016, notably due to improving credit conditions and release of collectively assessed provisions.

Total operating expenses for the second quarter of 2017 were \$152m, an increase of \$12m, or 9%, compared with the second quarter of 2016, primarily driven by investments in strategic initiatives to grow our business in Canada and make our bank simpler, faster and better for our customers. Total operating expenses for the first half of 2017 were \$290m, a decrease of \$5m, or 2%, compared with the first half of 2016, primarily driven by cost savings from streamlining processes, partly offset by investments as above.

Corporate Centre

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

Review of financial performance

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Net interest income.....	26	32	58	58
Net trading income	1	8	7	8
Net (expense)/income from financial instruments designated at fair value	(1)	(1)	(4)	(2)
Gains less losses from financial investments	2	7	20	26
Other operating income	16	13	27	21
Total operating income.....	44	59	108	111
Total operating expenses	(38)	(30)	(80)	(50)
Operating profit	6	29	28	61
Share of loss in associates	4	(2)	3	(2)
Profit before income tax expense	10	27	31	59

Profit before income tax expense was \$10m for the second quarter of 2017, a decrease of \$17m, or 63%, compared with the second quarter of 2016. The decrease in profit was driven by lower net interest income, net trading income, gains from

financial investments, and higher operating expenses. Net interest income decreased primarily due to lower liquidity levels and returns on available-for-sale assets. Net trading income decreased as a result of hedging ineffectiveness.

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							
	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total operating income	496	506	512	498	525	544	448	518
Profit for the period.....	168	186	188	100	121	115	(28)	137
Profit attributable to common shareholders.....	158	177	178	91	111	106	(38)	128
Profit attributable to preferred shareholders	10	9	10	9	10	9	10	9
Profit attributable to non-controlling interests....	—	—	—	—	—	—	—	—
Basic earnings per common share (\$)..	0.32	0.35	0.36	0.18	0.22	0.21	(0.08)	0.26

Management's Discussion and Analysis (continued)

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 second quarter ended 30 June 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 30 June 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 30 June 2017 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Risk management

Refer to the "Risk management" section of our 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 30 June 2017					
	Drawn \$m	Undrawn \$m	Repurchase type transactions \$m	Derivatives \$m	Other off- balance sheet \$m	Total \$m
Wholesale portfolio						
Sovereign	18,588	644	8	149	2	19,391
Banks	3,777	28	258	1,253	918	6,234
Corporate	28,626	11,989	65	1,068	3,087	44,835
Total.....	50,991	12,661	331	2,470	4,007	70,460
Retail portfolio						
Residential mortgages	20,817	4	—	—	—	20,821
Home equity lines of credit	1,770	1,026	—	—	—	2,796
Personal unsecured revolving loan	224	207	—	—	—	431
Other personal loan facilities.....	1,277	177	—	—	1	1,455
Other small to medium enterprises loan facilities.....	178	270	—	—	15	463
Run-off consumer loan portfolio	121	—	—	—	—	121
Retail Master Card.....	338	—	—	—	—	338
Total Retail	24,725	1,684	—	—	16	26,425
Total.....	75,716	14,345	331	2,470	4,023	96,885

Management's Discussion and Analysis (continued)

	EAD at 31 December 2016					
	Drawn \$m	Undrawn \$m	Repurchase type transactions \$m	Derivatives \$m	Other off- balance sheet \$m	Total \$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 30 June 2017 \$m	EAD 31 December 2016 \$m
Sovereign		
Canada	15,583	18,709
United States of America	1,133	2,096
Other	2,675	2,323
	19,391	23,128
Banks		
Canada	3,995	3,270
United States of America	774	855
Other	1,465	1,693
	6,234	5,818
Corporate		
Canada		
British Columbia	12,244	12,094
Ontario	11,899	11,559
Alberta	9,126	10,098
Quebec	6,533	6,143
Saskatchewan and Manitoba	1,762	1,765
Atlantic provinces	1,026	894
United States of America	1,563	1,362
Other	682	534
	44,835	44,449
Total wholesale loan portfolio exposure.....	70,460	73,395

Wholesale loan portfolio by industry

EAD at 30 June 2017						
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off- balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Corporate						
Real Estate.....	7,763	1,997	—	71	419	10,250
Energy.....	2,788	2,410	—	456	609	6,263
Manufacturing	4,108	1,697	—	40	384	6,229
Wholesale trade	2,236	1,123	—	32	195	3,586
Services	2,119	532	—	27	131	2,809
Construction services	1,146	793	—	31	599	2,569
Transport and storage	1,765	483	—	39	139	2,426
Finance and insurance	960	705	65	283	77	2,090
Mining, logging and forestry.....	737	842	—	7	340	1,926
Retail Trade	1,374	387	—	62	77	1,900
Business services.....	1,044	308	—	10	51	1,413
Automotive.....	1,023	273	—	3	41	1,340
Agriculture.....	500	311	—	6	18	835
Hotels and accommodation	682	73	—	1	5	761
Sole proprietors	381	55	—	1	1	438
Total Corporate.....	28,626	11,989	65	1,069	3,086	44,835

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 30 June 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 30 June 2017				
	Drawn	Undrawn commitments	Derivatives	Other off-balance sheet exposures	Total
	\$m	\$m	\$m	\$m	\$m
Pipelines	735	634	383	21	1,773
Energy services.....	871	495	0	44	1,410
Exploration development and production	594	808	64	316	1,782
Power and utilities	358	238	7	184	787
Transportation, refining and marketing.....	230	235	2	44	511
Total.....	2,788	2,410	456	609	6,263

	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 30 June 2017 remains strong, recent credit metrics indicates improvements in the quality of the portfolio related to energy and related exposures. This resulted in a \$233m decrease in wholesale impaired loans

during the three months ended 30 June 2017, of which \$133m was related to energy and related exposures, in addition to reductions in other sectors. The bank uses the classification as outlined in the table below to measure the quality of its loans and advances.

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

Credit quality of wholesale portfolio

	30 June 2017			31 December 2016		
	EAD Drawn	EAD Undrawn	EAD Total	EAD Drawn	EAD Undrawn	EAD Total
	\$m	\$m	\$m	\$m	\$m	\$m
Strong	28,317	2,758	31,075	31,526	2,647	34,173
Good	16,066	6,090	22,156	15,200	5,913	21,113
Satisfactory	11,654	3,190	14,844	11,732	3,431	15,163
Sub-standard	1,358	542	1,900	1,643	585	2,228
Impaired	404	81	485	670	48	718
	57,799	12,661	70,460	60,771	12,624	73,395

The proportion of exposures categorized as Strong or Good remain broadly unchanged at 76%, while impaired loans decreased from \$718m at 31 December 2016 to

\$485m at 30 June 2017. This was mainly due to improvement in the quality of the portfolio related to energy and related exposures.

Credit quality of retail portfolio

	30 June 2017			31 December 2016		
	EAD Drawn	EAD Undrawn	EAD Total	EAD Drawn	EAD Undrawn	EAD Total
	\$m	\$m	\$m	\$m	\$m	\$m
Strong	11,295	2	11,297	10,449	1	10,450
Good	10,562	1,176	11,738	10,655	1,141	11,796
Satisfactory	2,297	468	2,765	2,257	453	2,710
Sub-standard	528	38	566	577	36	613
Impaired	59	—	59	57	—	57
	24,741	1,684	26,425	23,995	1,631	25,626

The portfolio was generally stable with the proportion of exposures categorized as Strong or Good remaining broadly

unchanged at 87%, while impaired loans increased from \$57m at 31 December 2016 to \$59m at 30 June 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.

Insurance and geographic distribution ¹	30 June 2017						
	Residential mortgages					HELOC ²	
	Insured ³		Uninsured		Total	Uninsured	
	\$m	%	\$m	%	\$m	\$m	%
British Columbia	649	5	12,138	95	12,787	863	100
Western Canada ⁴	209	17	1,028	83	1,237	218	100
Ontario	537	8	5,843	92	6,380	590	100
Quebec and Atlantic provinces	144	13	974	87	1,118	98	100
Total at 30 June 2017	1,539	7	19,983	93	21,522	1,769	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 30 June 2017	23%	33%	44%	0%
Total at 31 December 2016	24%	33%	42%	1%

For the three months ended:

Average loan-to-value ratios of new originations^{6,7}

	30 June 2017	
	Residential mortgages %	HELOC %
British Columbia	58	50
Western Canada ⁴	66	58
Ontario	61	54
Quebec and Atlantic provinces	64	59
Total at 30 June 2017	61	53
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.

	30 June 2017	31 December 2016
	\$m	\$m
Up to 29 days.....	456	675
30-59 days	78	61
60-89 days	59	56
90-179 days	1	5
Over 180 days.....	1	—
	595	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; and
- 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

Management's Discussion and Analysis (continued)

information should they believe that these historic loss rates do not fully reflect incurred losses in these portfolios.

- *Consumer finance and other consumer loans* - Analysis of historical delinquency movements by product type is used as the basis for the collectively assessed impairment allowance for these loan portfolios. By tracking delinquency movement among pools of homogeneous loans, an estimate of incurred losses in each pool is

determined. These estimates can be amended should management believe they do not fully reflect incurred losses. This judgmental adjustment employs an established framework and references both internal and external indicators of credit quality.

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

Impaired financial assets

	EAD 30 June 2017 \$m	EAD 31 December 2016 \$m
Impaired wholesale portfolio ¹		
Energy.....	137	270
Transportation and storage	60	136
Real estate.....	88	68
Construction services	61	65
Wholesale trade	4	26
Manufacturing	89	104
Business services.....	22	24
Mining, logging and forestry.....	2	3
Agriculture.....	1	2
Services	5	6
Automotive.....	1	1
Hotels and accommodation	1	6
Retail trade	2	3
Sole proprietors	3	4
Finance and insurance	9	1
Total impaired wholesale portfolio.....	485	719
Impaired retail portfolio		
Residential mortgages	60	70
Other retail loans	31	25
Total impaired retail portfolio	91	95
Total impaired financial assets	576	814

¹ Includes \$49m (2016: \$148m) of impaired acceptances, letters of credit and guarantees

Impairment allowances

	30 June 2017 \$m	31 December 2016 \$m
Gross loans and advances to customers		
Individually assessed impaired loans and advances ¹ (A)	439	648
Collectively assessed loans and advances (B)	48,598	46,698
- impaired loans and advances ¹	31	36
- non-impaired loans and advances	48,567	46,662
Total gross loans and advances to customers (C)	49,037	47,346
Less: impairment allowances (c)	338	439
-individually assessed (a)	173	252
- collectively assessed (b)	165	187
Net loans and advances to customers	48,699	46,907
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	39.4%	38.9%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	0.3%	0.4%
Total loans and advances coverage - (c) as a percentage of (C)	0.7%	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

	Half-year ended 30 June 2017				Half-year ended 30 June 2016			
	Customers individually assessed \$m	Customers collectively assessed \$m	Other credit risk provisions \$m	Total \$m	Customers individually assessed \$m	Customers collectively assessed \$m	Other credit risk provisions \$m	Total \$m
Opening balance at the beginning of the period.....	252	187	89	528	253	258	105	616
Movement.....								
Loans and advances written off net of recoveries of previously written off amounts ¹	(29)	(3)	(2)	(34)	(82)	(7)	—	(89)
Charge to income.....	(39)	(19)	(37)	(95)	149	(7)	(3)	139
Other movements	(11)			(11)	(10)	—	—	(10)
Closing balance at the end of the period.....	173	165	50	388	310	244	102	656

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 the 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 \$4.5 billion from 31 December 2016, primarily due to growth in loans, seasonal attrition of commercial deposits, maturity of debt securities and larger encumbrances.

Liquid assets ¹

	30 June 2017	31 December 2016
Level 1	19,102	24,320
Level 2a	4,523	3,964
Level 2b	153	35
	23,778	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 2015, the bank is required to maintain a LCR above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 30 June 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 30 June 2017, the bank's average LCR of 143% 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 as explained above.

OSFI liquidity coverage ratio ¹

Average for the three months ended ¹	30 June 2017	31 March 2017
Total HQLA ² (\$m)	23,487	25,120
Total net cash outflows ² (\$m)	16,440	16,864
Liquidity coverage ratio (%)	143	149

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.

VaR by risk type for trading activities¹

	Foreign exchange and commodity \$m	Interest rate \$m	Equity \$m	Credit Spread \$m	Portfolio diversification ² \$m	Total ³ \$m
January - June 2017						
At period end.....	—	1.1	—	0.7	(0.5)	1.6
Average.....	—	1.3	—	0.5	(0.4)	1.8
Minimum.....	—	0.8	—	0.2		1.0
Maximum.....	0.1	2.5	—	1.7		2.5
January - June 2016						
At period end.....	—	1.2	—	0.8	(0.4)	1.6
Average.....	0.1	1.5	—	0.9	(0.7)	1.8
Minimum.....	—	0.5	—	0.6		1.0
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.

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.

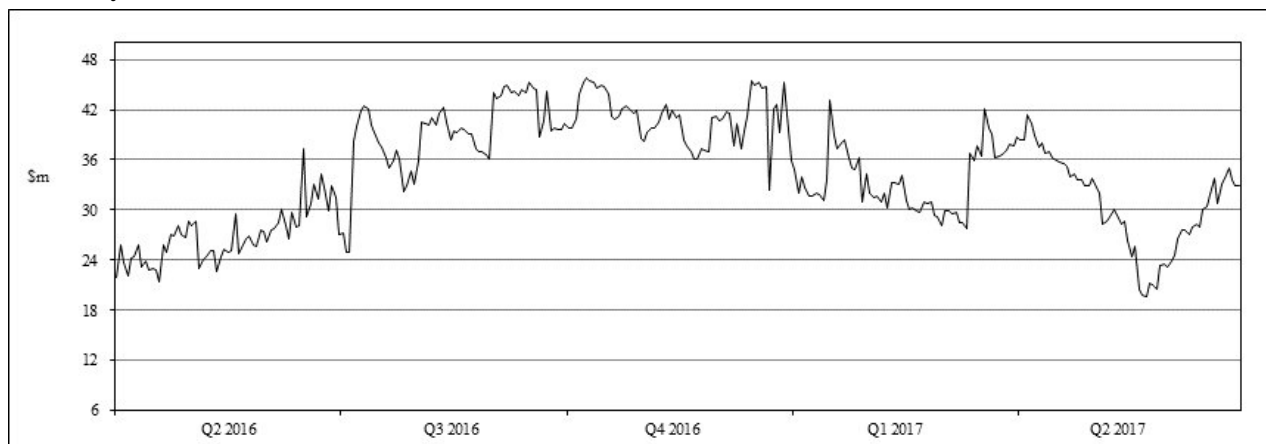
Total average VaR increased from June 2016 to June 2017 due to increase in interest rate risk offset slightly by a decrease in credit risk in the non-trading activities. Over the same period, the average trading VaR decreased by \$0.4m due to a decrease in interest rate and credit risk and the range (difference between max and min) has increased. Over the same period, the average non-trading VaR increased by \$7m mainly due to an increase in interest rate risk.

Management's Discussion and Analysis (continued)

Non-trading VaR

	Half-year ended	
	30 June 2017	30 June 2016
	\$m	\$m
At period end	33	27
Average	32	25
Minimum	20	17
Maximum	42	37

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 30 June			
	2017		2016	
	Economic value of equity \$m	Earnings at risk \$m	Economic value of equity \$m	Earnings at risk \$m
Impact as a result of 100 basis point change in interest rate:				
Increase	(232)	118	(233)	112
Decrease	197	(134)	359	(99)

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 30 June 2017.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

	30 June 2017	31 December 2016
Actual regulatory capital ratios		
Common equity tier 1 capital ratio.....	10.5%	10.5%
Tier 1 capital ratio	12.4%	12.5%
Total capital ratio.....	14.7%	13.5%
Leverage ratio.....	4.9%	4.7%
Required regulatory capital limits		
Minimum common equity tier 1 capital ratio.....	7.0%	7.0%
Minimum tier 1 capital ratio.....	8.5%	8.5%
Minimum total capital ratio.....	10.5%	10.5%

Regulatory capital

Regulatory capital and risk weighted assets

	30 June 2017	31 December 2016
	\$m	\$m
Tier 1 capital.....	5,479	5,241
Common equity tier 1 capital	4,629	4,391
Gross common equity ¹	4,762	4,564
Regulatory adjustments	(133)	(173)
Additional tier 1 eligible capital ²	850	850
Tier 2 capital ³	1,042	445
Total capital available for regulatory purposes	6,521	5,686
Total risk-weighted assets.....	44,281	42,005

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

² Includes capital instruments subject to phase out.

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

Management's Discussion and Analysis (continued)

Outstanding shares

	At 27 July 2017		
	Dividend ¹ \$ per share	Number of issued shares 000's	Carrying value \$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
			<u>850</u>

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

During the second 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, and \$9m in dividends on all series of HSBC Bank Canada Class 1 preferred shares, consistent with the same quarter last year.

Common share dividends of \$47m have been declared on HSBC Bank Canada common shares and will be paid on or before 30 September 2017 to the holder of record on 27 July 2017.

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 September 2017 to shareholders of record on 15 September 2017.

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Financial Statements and Notes on the Financial Statements

	Page
Financial Statements	
Consolidated income statement	30
Consolidated statement of comprehensive income	31
Consolidated balance sheet	32
Consolidated statement of cash flows	33
Consolidated statement of changes in equity	34
Notes on the Financial Statements	
1 Basis of preparation	35
2 Employee compensation and benefits	36
3 Segment analysis	36
4 Trading assets	39
5 Derivatives	39
6 Financial investments	41
7 Trading liabilities	42
8 Financial liabilities designated at fair value	42
9 Fair values of financial instruments	42
10 Notes on the statement of cash flows	44
11 Contingent liabilities, contractual commitments and guarantees	45
12 Related party transactions	45
13 Subordinated liabilities	46
14 Legal proceedings and regulatory matters	46
15 Events after the reporting period	46

Consolidated income statement (unaudited)

	Quarter ended		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	Notes	\$m	\$m	\$m
Interest income.....	452	441	903	859
Interest expense.....	(167)	(161)	(336)	(298)
Net interest income.....	285	280	567	561
Fee income.....	183	189	360	367
Fee expense.....	(18)	(18)	(35)	(35)
Net fee income.....	165	171	325	332
Trading income excluding net interest income.....	17	44	43	106
Net interest income on trading activities.....	5	5	10	10
Net trading income.....	22	49	53	116
Net expense from financial instruments designated at fair value.....	(1)	(1)	(4)	(2)
Gains less losses from financial investments.....	3	6	21	27
Other operating income.....	22	20	40	35
Total operating income.....	496	525	1,002	1,069
Loan impairment recoveries/(charges) and other credit risk provisions.....	46	(54)	95	(139)
Net operating income.....	542	471	1,097	930
Employee compensation and benefits.....	2 (173)	(164)	(354)	(333)
General and administrative expenses.....	(133)	(127)	(254)	(249)
Depreciation of property, plant and equipment.....	(9)	(8)	(16)	(15)
Amortization of intangible assets.....	(3)	(2)	(5)	(5)
Total operating expenses.....	(318)	(301)	(629)	(602)
Operating profit.....	224	170	468	328
Share of profit/(loss) in associates.....	4	(2)	3	(2)
Profit before income tax expense.....	228	168	471	326
Income tax expense.....	(60)	(47)	(117)	(90)
Profit for the period.....	168	121	354	236
Profit attributable to the common shareholder.....	158	111	335	217
Profit attributable to preferred shareholders.....	10	10	19	19
Profit attributable to shareholders.....	168	121	354	236
Average number of common shares outstanding (000's).....	498,668	498,668	498,668	498,668
Basic earnings per common share.....	\$ 0.32	\$ 0.22	\$ 0.67	\$ 0.43

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		Half-year ended	
	30 June 2017 \$m	30 June 2016 \$m	30 June 2017 \$m	30 June 2016 \$m
Profit for the period.....	168	121	354	236
Other comprehensive income/(expense)				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Available-for-sale investments.....	(13)	71	20	63
– fair value (losses)/gains.....	(15)	102	48	112
– fair value gains transferred to income statement on disposal	(3)	(6)	(21)	(27)
– income recoveries/(taxes)	5	(25)	(7)	(22)
Cash flow hedges	(43)	(15)	(42)	(9)
– fair value gains/(losses).....	37	(101)	2	(20)
– fair value (gains)/losses transferred to income statement	(95)	81	(59)	9
– income recoveries	15	5	15	2
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(20)	(47)	(21)	(69)
– before income taxes	(28)	(63)	(29)	(93)
– income recoveries	8	16	8	24
Own credit risk.....	—	—	3	—
– before income taxes	—	—	3	—
– income taxes.....	—	—	—	—
Other comprehensive (loss)/income for the period, net of tax	(76)	9	(40)	(15)
Total comprehensive income for the period attributable to shareholders	92	130	314	221

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)

		30 June 2017	31 December 2016
	Notes	\$m	\$m
ASSETS			
Cash and balances at central bank		61	66
Items in the course of collection from other banks		19	58
Trading assets	4	8,098	6,288
Derivatives	5	3,477	3,850
Loans and advances to banks		865	1,071
Loans and advances to customers		48,699	46,907
Reverse repurchase agreements – non-trading		7,557	5,938
Financial investments	6	21,191	25,231
Other assets		1,004	447
Prepayments and accrued income		168	186
Customers' liability under acceptances		4,365	4,322
Property, plant and equipment		105	104
Goodwill and intangible assets		76	70
Deferred taxes		125	119
Total assets		<u>95,810</u>	<u>94,657</u>
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		1,232	946
Customer accounts		55,949	56,674
Repurchase agreements – non-trading		6,368	4,345
Items in the course of transmission to other banks		406	82
Trading liabilities	7	3,755	3,784
Financial liabilities designated at fair value	8	—	403
Derivatives	5	3,405	3,838
Debt securities in issue		10,103	10,256
Other liabilities		2,725	2,610
Acceptances		4,365	4,322
Accruals and deferred income		369	475
Retirement benefit liabilities		371	342
Subordinated liabilities	13	1,039	1,039
Provisions		72	116
Current taxes		38	10
Total liabilities		<u>90,197</u>	<u>89,242</u>
Equity			
Common shares		1,225	1,225
Preferred shares		850	850
Other reserves		5	27
Retained earnings		3,533	3,313
Total equity		<u>5,613</u>	<u>5,415</u>
Total equity and liabilities		<u>95,810</u>	<u>94,657</u>

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)

	Notes	Half-year ended	
		30 June 2017	30 June 2016
		\$m	\$m
Cash flows from operating activities			
Profit before tax		471	326
Adjustments for:			
– non-cash items included in profit before tax	10	(61)	171
– change in operating assets	10	(5,936)	743
– change in operating liabilities	10	1,410	(1,983)
– tax paid		(92)	(56)
Net cash used in operating activities		<u>(4,208)</u>	<u>(799)</u>
Cash flows from investing activities			
Purchase of financial investments		(3,084)	(9,223)
Proceeds from the sale and maturity of financial investments		7,151	10,759
Purchase of intangibles and property, plant and equipment		(28)	(16)
Net cash from investing activities		<u>4,039</u>	<u>1,520</u>
Cash flows from financing activities			
Redemption of subordinated liabilities	8, 13	(1,400)	(200)
Issuance of subordinated liabilities	13	1,000	—
Dividends paid to shareholders		(113)	(115)
Net cash used in financing activities		<u>(513)</u>	<u>(315)</u>
Decrease in cash and cash equivalents		(682)	406
Cash and cash equivalents at the beginning of the period		<u>1,650</u>	<u>1,983</u>
Cash and cash equivalents at the end of the period	10	<u>968</u>	<u>2,389</u>
Interest			
Interest paid		(378)	(303)
Interest received		922	870

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

Consolidated statement of changes in equity (unaudited)

	Other reserves					
	Share capital ¹	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Total other reserves	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 January 2017	2,075	3,313	(30)	57	27	5,415
Profit for the period.....	—	354	—	—	—	354
Other comprehensive loss/(income), net of tax.....	—	(18)	20	(42)	(22)	(40)
Available-for-sale investments.....	—	—	20	—	20	20
Cash flow hedges.....	—	—	—	(42)	(42)	(42)
Remeasurement of defined benefit liability/asset.....	—	(21)	—	—	—	(21)
Own credit risk.....	—	3	—	—	—	3
Total comprehensive income for the period.....	—	336	20	(42)	(22)	314
Dividends paid on common shares.....	—	(94)	—	—	—	(94)
Dividends paid on preferred shares.....	—	(19)	—	—	—	(19)
Shares issued under employee plan.....	—	(3)	—	—	—	(3)
At 30 June 2017	2,075	3,533	(10)	15	5	5,613

	Other reserves					
	Share capital	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Total other reserves	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 January 2016.....	2,075	3,209	(33)	125	92	5,376
Profit for the period.....	—	236	—	—	—	236
Other comprehensive income/(loss), net of tax.....	—	(69)	63	(9)	54	(15)
Available-for-sale investments.....	—	—	63	—	63	63
Cash flow hedges.....	—	—	—	(9)	(9)	(9)
Remeasurement of defined benefit liability/asset.....	—	(69)	—	—	—	(69)
Total comprehensive income for the period.....	—	167	63	(9)	54	221
Dividends paid on common shares.....	—	(96)	—	—	—	(96)
Dividends paid on preferred shares.....	—	(19)	—	—	—	(19)
Shares issued under employee plan.....	—	2	—	—	—	2
At 30 June 2016	2,075	3,263	30	116	146	5,484

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(c) 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 30 June 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 'Financial liabilities designated at fair value' 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 at transition by \$2.7m and decreased

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

during the period profit before tax by \$2.7m with the opposite effect on other comprehensive income, with no effect on net assets. The bank redeemed this financial liability in full in April 2017.

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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Pension plans – defined benefit	4	4	9	8
Pension plans – defined contribution	9	9	18	18
Healthcare and other post retirement benefit plans	4	3	7	6
	17	16	34	32

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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
<i>Commercial Banking</i>				
Net interest income	130	125	263	264
Net fee income	71	72	141	146
Net trading income.....	10	8	17	15
Gains less losses from financial instruments	—	—	—	2
Other operating income.....	5	5	11	10
Total operating income	216	210	432	437
Loan impairment recoveries/(charges) and other credit risk provisions	47	(47)	86	(125)
Net operating income.....	263	163	518	312
Total operating expenses.....	(95)	(98)	(189)	(200)
Profit before income tax expense.....	168	65	329	112

	Quarter ended		Half-year ended	
	30 June 2017 \$m	30 June 2016 \$m	30 June 2017 \$m	30 June 2016 \$m
<i>Global Banking and Markets</i>				
Net interest income	25	20	46	36
Net fee income	37	45	74	78
Net trading income.....	6	28	18	83
Gains less losses from financial investments.....	—	(1)	—	(1)
Other operating loss	—	(5)	—	(5)
Total operating income	68	87	138	191
Loan impairment (charges)/recoveries and other credit risk provisions	—	(6)	5	(9)
Net operating income	68	81	143	182
Total operating expenses.....	(32)	(31)	(67)	(63)
Profit before income tax expense.....	36	50	76	119
<i>Retail Banking and Wealth Management</i>				
Net interest income.....	104	103	200	203
Net fee income.....	57	54	110	108
Net trading income	5	5	11	10
Gain less losses from financial investments	1	—	1	—
Other operating income	1	7	2	9
Total operating income.....	168	169	324	330
Loan impairment (charges)/recoveries and other credit risk provisions	(1)	(1)	4	(5)
Net operating income	167	168	328	325
Total operating expenses	(153)	(142)	(293)	(289)
Profit before income tax expense	14	26	35	36
<i>Corporate Centre</i>				
Net interest income.....	26	32	58	58
Net trading income	1	8	7	8
Net expense from financial instruments designated at fair value.....	(1)	(1)	(4)	(2)
Gain less losses from financial investments	2	7	20	26
Other operating income	16	13	27	21
Net operating income	44	59	108	111
Total operating expenses	(38)	(30)	(80)	(50)
Operating profit	6	29	28	61
Share of profit/(loss) in associates.....	4	(2)	3	(2)
Profit before income tax expense	10	27	31	59

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

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

	Commercial Banking \$m	Global Banking and Markets \$m	Retail Banking and Wealth Management \$m	Corporate Centre \$m	Total \$m
Quarter ended 30 June 2017					
Net operating income:	263	68	167	44	542
External	268	78	170	26	542
Inter-segment	(5)	(10)	(3)	18	—
Quarter ended 30 June 2016					
Net operating income:	163	81	168	59	471
External	166	91	183	31	471
Inter-segment	(3)	(10)	(15)	28	—
Half-year ended 30 June 2017					
Net operating income:	518	143	328	108	1,097
External	528	161	340	68	1,097
Inter-segment	(10)	(18)	(12)	40	—
Half-year ended 30 June 2016					
Net operating income:	312	182	325	111	930
External	313	200	351	66	930
Inter-segment	(1)	(18)	(26)	45	—

Balance sheet information

	Commercial Banking \$m	Global Banking and Markets \$m	Retail Banking and Wealth Management \$m	Corporate Centre \$m	Intersegment \$m	Total \$m
At 30 June 2017						
Loans and advances to customers and acceptances.....	22,698	5,348	25,018	—	—	53,064
Total assets.....	26,253	23,548	30,899	24,506	(9,396)	95,810
Customer accounts	20,029	6,630	27,510	1,780	—	55,949
Acceptances.....	2,672	1,693	—	—	—	4,365
Total liabilities.....	23,258	22,262	30,017	24,056	(9,396)	90,197
At 31 December 2016						
Loans and advances to customers and acceptances.....	22,161	4,811	24,257	—	—	51,229
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

4 Trading assets

	30 June 2017	31 December 2016
	\$m	\$m
Trading assets:		
Not subject to repledge or resale by counterparties	4,554	2,399
Which may be repledged or resold by counterparties	3,544	3,889
	8,098	6,288
Canadian and Provincial Government bonds ¹	5,111	5,173
Debt securities.....	649	319
Total debt securities	5,760	5,492
Customer trading assets	1,061	301
Treasury and other eligible bills.....	1,111	421
Trading assets from other banks	145	72
Equity securities.....	21	2
	8,098	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 30 June 2017					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange	1,963	51	2,014	1,929	116	2,045
Interest rate	1,328	122	1,450	1,237	112	1,349
Commodity	11	—	11	11	—	11
Equity	2	—	2	—	—	—
Gross total fair values.....	3,304	173	3,477	3,177	228	3,405
	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

	30 June 2017	31 December 2016
	\$m	\$m
Foreign exchange	114,856	126,781
Interest rate	229,027	190,272
Commodity	188	344
Equity	10	17
	344,081	317,414

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

	30 June 2017		31 December 2016	
	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	\$m	\$m	\$m	\$m
Foreign exchange	2,262	—	2,008	—
Interest rate	4,959	13,409	5,173	16,938

Fair value of derivatives designated as fair value hedges

	30 June 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m
Interest rate	100	83	130	136

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

	30 June 2017	31 December 2016
	\$m	\$m
Gains/(losses)		
- on hedging instruments	36	78
- on hedged items attributable to the hedged risk	(37)	(76)

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

Fair value of derivatives designated as cash flow hedges

	30 June 2017		31 December 2016	
	Assets \$m	Liabilities \$m	Assets \$m	Liabilities \$m
Foreign exchange	51	116	45	131
Interest rate.....	22	29	48	6

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

	30 June 2017	31 December 2016
	\$m	\$m
Losses due to hedge ineffectiveness	(1)	(3)

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

6 Financial investments

	30 June 2017 \$m	31 December 2016 \$m
Financial investments		
Not subject to repledge or resale by counterparties	20,131	24,314
Which may be repledged or resold by counterparties.....	1,060	917
	21,191	25,231
Available-for-sale		
Canadian and Provincial Government bonds ¹	14,342	17,901
International Government bonds ¹	3,374	4,117
Debt securities issued by banks and financial institutions.....	3,216	2,859
Treasury and eligible bills.....	243	295
Other securities	16	59
	21,191	25,231

¹ Includes government guaranteed bonds.

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

7 Trading liabilities

	30 June 2017	31 December 2016
	\$m	\$m
Other liabilities – net short positions.....	2,961	3,589
Customer trading liabilities	754	152
Trading liabilities due to other banks	40	43
	<u>3,755</u>	<u>3,784</u>

8 Financial liabilities designated at fair value

On 10 April 2017 the bank has, in accordance with their terms, fully 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. Please refer to Note 13 for more information on the subordinated debentures. As of 31 December 2016, the carrying amount of financial liabilities designated at fair value was \$403m and was \$3m higher than the contractual amount at maturity while the cumulative amount of change in fair value attributable to changes in credit risk was \$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			Total \$m
	Level 1 Quoted market price \$m	Level 2 using observable inputs \$m	Level 3 with significant unobservable inputs \$m	
At 30 June 2017				
Assets				
Trading assets.....	6,111	1,987	—	8,098
Derivatives	—	3,477	—	3,477
Financial investments: available-for-sale	17,181	4,010	—	21,191
Liabilities				
Trading liabilities	2,683	1,071	1	3,755
Derivatives	—	3,405	—	3,405
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

During 2017 and 2016, there were no significant transfers between Level 1 and 2.

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

	Assets		Liabilities	
	Derivatives	Held for trading	Derivatives	
	\$m	\$m	\$m	\$m
At 1 January 2017	1	3	1	
Settlements	(1)	(2)	(1)	
At 30 June 2017	—	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	\$m
At 1 January 2016	—	6	—	
Settlements	—	(2)	—	
Transfer in	2	—	2	
At 30 June 2016	2	4	2	
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—	

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:

	30 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$m	\$m	\$m	\$m
Assets				
Loans and advances to banks	865	865	1,071	1,071
Loans and advances to customers	48,699	48,730	46,907	46,931
Reverse repurchase agreements	7,557	7,557	5,938	5,938
Liabilities				
Deposits by banks	1,232	1,232	946	946
Customer accounts	55,949	55,975	56,674	56,706
Repurchase agreements	6,368	6,368	4,345	4,345
Debt securities in issue	10,103	10,190	10,256	10,361
Subordinated liabilities	1,039	1,036	1,039	1,024

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

10 Notes on the statement of cash flows

	Half-year ended	
	30 June 2017	30 June 2016
	\$m	\$m
<i>Non-cash items included in profit before tax</i>		
Depreciation and amortization.....	21	20
Share-based payment expense.....	4	3
Loan impairment (recoveries)/charges and other credit risk provisions.....	(95)	140
Charge for defined benefit pension plans.....	9	8
	(61)	171
<i>Change in operating assets</i>		
Change in prepayment and accrued income.....	18	4
Change in net trading securities and net derivatives.....	(1,889)	315
Change in loans and advances to customers.....	(1,697)	204
Change in reverse repurchase agreements - non-trading.....	(1,794)	1,010
Change in other assets.....	(574)	(790)
	(5,936)	743
<i>Change in operating liabilities</i>		
Change in accruals and deferred income.....	(106)	(65)
Change in deposits by banks.....	286	(1,074)
Change in customer accounts.....	(725)	(37)
Change in repurchase agreements – non-trading.....	2,023	(2,762)
Change in debt securities in issue.....	(150)	(444)
Change in financial liabilities designated at fair value.....	(3)	(6)
Change in other liabilities.....	85	2,405
	1,410	(1,983)
<i>Cash and cash equivalents</i>		
	At 30 June 2017	At 30 June 2016
	\$m	\$m
Cash and balances at central bank.....	61	620
Items in the course of collection from other banks, net.....	(387)	(166)
Loans and advances to banks of one month or less.....	865	1,480
Reverse repurchase agreements with banks of one month or less.....	268	285
T-Bills and certificates of deposits – three months or less.....	161	170
	968	2,389

11 Contingent liabilities, contractual commitments and guarantees

	30 June 2017	31 December 2016
	\$m	\$m
Guarantees and other contingent liabilities		
Guarantees and irrevocable letters of credit pledged as collateral security.....	5,513	5,780
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend.....	38,574	38,493
Documentary credits and short-term trade-related transactions.....	541	483
	39,115	38,976

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		Half-year ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	\$m	\$m	\$m	\$m
Income Statement				
Interest income.....	9	3	10	7
Interest expense.....	(20)	(9)	(26)	(15)
Fee income.....	8	5	15	10
Fee expense.....	(4)	(1)	(5)	(3)
Other operating income.....	19	17	35	27
General and administrative expenses.....	(40)	(39)	(77)	(81)

During the quarter, the bank has concurrently redeemed from and issued to the HSBC Group its subordinated debt of \$1bn. Please refer to note 13 for details.

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:

	Year of Maturity	Carrying amount	
		30 June 2017 \$m	31 December 2016 \$m
<i>Interest rate (%)</i>			
Issued to Group			
3 month Canadian Dollar Offered Rate plus 1.920 ¹	2028	1,000	—
3 month Canadian Dollar Offered Rate plus 1.735 ²	2023	—	1,000
Issued to third parties			
4.8 ³	2022	—	403
30 day bankers' acceptance rate plus 0.50.....	2083	39	39
Total debt and debentures.....		1,039	1,442
Less: designated at fair value.....		—	(403)
Debt and debentures at amortized cost.....		1,039	1,039

- The interest is payable at an annual rate equal to the 3 month Canadian Dollar Offered Rate plus 1.92%. The subordinated debt was issued on 5 June 2017 and includes non-viability contingency capital (NVCC) provisions, necessary for the instrument to qualify as Tier 2 regulatory capital under Basel III. In the event that OSFI determines that a regulatory defined non-viability trigger event has occurred, NVCC provisions require the full and permanent write off of the subordinated debt.*
- The interest rate was fixed at 2.6576% until March 2017 and thereafter interest was payable at an annual rate equal to the 3 month Canadian Dollar Offered Rate plus 1.735%. On 5 June 2017 the bank redeemed this liability to the Group at 100% of its principal amount plus accrued interest to the redemption date. The redemption was financed out of the general corporate funds of the bank.*
- The interest rate was fixed at 4.8% until April 2017 and thereafter interest was payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%. These debt and debentures were 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

There have been no material events after the reporting period which would require disclosure or adjustment to the 30 June 2017 consolidated financial statements.

These financial statements were approved by the Board of Directors on 27 July 2017 and authorized for issue.

Shareholder Information

PRINCIPAL ADDRESSES

Vancouver:

HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: (604) 685-1000
Fax: (604) 641-3098

Toronto:

HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J1S9

Media Inquiries:

English: (416) 868-3878 or
(604) 641-1905
English or French (416) 868-8282

Website

www.hsbc.ca

Social Media

Twitter: @HSBC_CA
Facebook: @HSBCCanada

HSBC BANK CANADA SECURITIES ARE LISTED ON TORONTO STOCK EXCHANGE

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

SHAREHOLDER CONTACT

For change of address, shareholders are requested to contact their brokers.

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

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

HSBC Bank Canada
Shareholder Relations -
Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
Canada V5M 0B2
Email: shareholder_relations@hsbc.ca

TRANSFER AGENT AND REGISTRAR

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

DIVIDEND DATES

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

<i>Record Date</i>	<i>Payable Date</i>
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.

© Copyright HSBC Bank Canada 2017

All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Canada.

Published by HSBC Bank Canada, Vancouver, BC.

Printed by RP Graphics Group Limited, Mississauga, ON

