HSBC BANK CANADA
SECOND QUARTER 2012 INTERIM REPORT

- Profit attributable to common shareholders was C$186m for the quarter ended 30 June 2012, a decrease of 3% over the same period in 2011.

- Profit attributable to common shareholders was C$388m for the half-year ended 30 June 2012, an increase of 17% over the same period in 2011.

- Return on average common equity was 18.4% for the quarter ended 30 June 2012 and 19.1% for the half-year ended 30 June 2012 compared with 21.3% and 19.0% respectively for the same periods in 2011.

- The cost efficiency ratio stayed strong at 45.0% for the quarter ended 30 June 2012 and 47.7% for the half-year ended 30 June 2012 compared with 49.1% and 52.4% respectively for the same periods in 2011.

- Total assets were C$82.1bn at 30 June 2012 compared with C$81.5bn at 30 June 2011.

- Total assets under administration decreased to C$18.3bn at 30 June 2012 from C$32.3bn at 30 June 2011 primarily due to the sale of the bank's full service retail brokerage business. Excluding the impact of this sale, total assets under administration increased by C$1.0bn from 30 June 2011.

- Tier 1 capital ratio of 13.8% and a total capital ratio of 16.1% at 30 June 2012 compared to 13.3% and 16.0% respectively at 30 June 2011, and 13.4% and 16.0% respectively at 31 December 2011.

HSBC

Corporate Profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. With around 7,200 offices in over 80 countries and territories and assets of US$2,637bn at 31 March 2012, the HSBC Group is one of the world's largest banking and financial services organizations.

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DIVIDENDS AND DISTRIBUTION DATES:

Dividend record and payable dates for the bank's preferred shares for the remainder of 2012, subject to approval by the Board, are:

2012	
Record Date	Payable Date
14 September	30 September
14 December	31 December

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

Shareholder Information

Shareholder Information

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

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

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

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SHAREHOLDER CONTACT:

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

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

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Caution regarding forward-looking financial statements

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

Management's Discussion and Analysis

Financial Highlights

(in $ millions, except where otherwise stated)	Quarter ended			Half-year ended	
	30 June 2012	30 June 2011	31 March 2012	**30 June 2012**	30 June 2011
For the period (C$m)					
Profit before income tax expense	**279**	274	292	**571**	497
Net operating income before loan impairment charges and other credit risk provisions	**614**	597	681	**1,295**	1,207
Profit attributable to common shareholders	**186**	191	202	**388**	333
At period-end (C$m)					
Shareholders' equity	**5,080**	4,637	4,942		
Core tier 1 capital (2)	**3,737**	3,429	3,647		
Risk weighted assets (1)	**35,637**	34,633	36,460		
Loan and advances to customers (net of impairment allowances)	**46,126**	45,620	45,395		
Customer accounts	**47,097**	45,522	47,037		
Capital ratios (%)					
Tier 1 ratio (1)	**13.8**	13.3	13.2		
Total capital ratio (1)	**16.1**	16.0	15.6		
Core tier 1 capital ratio (2)	**10.5**	9.9	10.0		
Performance ratios (%) (2)					
Return on average common equity	**18.4**	21.3	19.9	**19.1**	19.0
Post-tax return on average total assets	**0.88**	0.92	0.98	**0.93**	0.82
Post-tax return on average risk weighted assets	**2.1**	2.2	2.3	**2.2**	2.0
Credit coverage ratios (%)					
Loan impairment charges as a percentage of total operating income	**9.6**	5.2	7.0	**8.3**	6.6
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.5**	0.2	0.4	**0.4**	0.3
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**70.7**	68.3	68.4	**70.7**	68.3
Efficiency and revenue mix ratios (%) (2)					
Cost efficiency ratio	**45.0**	49.1	50.2	**47.7**	52.4
Adjusted cost efficiency ratio	**44.8**	49.2	49.2	**47.1**	52.1
As a percentage of total operating income:					
- net interest income	**60.6**	65.3	58.4	**59.5**	64.0
- net fee income	**23.9**	27.1	21.0	**22.4**	26.9
- net trading income	**7.7**	6.0	5.9	**6.7**	6.0
Financial ratios (%) (2)					
Ratio of customer advances to customer accounts	**97.9**	100.2	96.5		
Average total shareholders' equity to average total assets	**5.9**	5.4	6.1		
Total assets under administration (C$m)					
Funds under management (3)	**17,339**	31,261	17,294		
Custodial accounts	**949**	1,039	961		
Total assets under administration	**18,288**	32,300	18,255		

1 *Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI") in accordance with the Basel II capital adequacy framework.*

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

3 *The comparative figure for the quarter ended 30 June 2011 includes funds managed in the full service retail brokerage business which was sold effective 1 January 2012 of C$15.0bn.*

Management's Discussion and Analysis (continued)

Basis of preparation of financial information

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the Management's Discussion and Analysis ("MD&A"), the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". The MD&A for the bank for the second quarter of 2012 is dated 26 July 2012.

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

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

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

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

– *Post-tax return on average risk weighted assets* – Profit attributable to common shareholders on an annualized basis divided by the average monthly balances of risk weighted assets for the period. Risk weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel II capital adequacy framework.

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

– *Adjusted cost efficiency ratio* – Cost efficiency ratio adjusted to exclude gains and losses from financial instruments designated at fair value from net operating income before loan impairment charges.

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

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

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

– *Core tier 1 capital* – Tier 1 capital less non-controlling interests and preferred shares.

– *Core tier 1 capital ratio* – Core tier 1 capital as a percentage of risk-weighted assets.

Management's Discussion and Analysis (continued)

Overview

HSBC Bank Canada recorded profit of C$203m for the second quarter of 2012, a decrease of C$5m, or 2% compared to C$208m for the second quarter of 2011, and a decrease of C$17m, or 8%, compared to the first quarter of 2012. Profit for the first half of 2012 was C$423m, an increase of C$55m, or 15% compared to the first half of 2011. Profit attributable to common shareholders was C$186m for the second quarter of 2012, a decrease of C$5m, or 3% compared with C$191m for the second quarter of 2011, and a decrease of C$16m, or 8% compared with the first quarter of 2012. Profit attributable to common shareholders for the first half of 2012 was C$388m, an increase of C$55m, or 17%, compared with the first half of 2011.

The second quarter of 2011 included a C$47m recovery of fees paid in prior years from an HSBC affiliate. The first quarter of 2012 included a gain of C$84m related to the sale of the full service retail brokerage business offset by restructuring charges of C$36m mostly relating to the wind-down of the consumer finance business. Excluding these items adjusted for income tax, profit for the second quarter of 2012 increased by C$42m, or 26%, compared to second quarter of 2011, and increased by C$30m, or 17% compared to the first quarter of 2012. In addition, excluding these items adjusted for income tax, profit for the first half of 2012 was C$376m, an increase of C$55m, or 17%, compared to the first half of 2011. This was due to a decrease in total operating expenses related to the wind-down of the bank's consumer finance business, gains on the sale of financial investments and an increase in net trading income relating to customer foreign exchange trading.

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

"The bank's results continued to show resilience and good progress against our strategic objectives. We are focused on growing HSBC Bank Canada to best serve our customers – investing in our core businesses of Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management, improving efficiency, and driving down costs – by providing internationally connected products which meet their needs."

Analysis of Consolidated Financial Results for the Second Quarter 2012

Net interest income for the second quarter of 2012 was C$372m, a decrease of C$18m, or 5%, compared to the second quarter of 2011, and a decrease of C$26m, or 7%, compared to the first quarter of 2012. On a year-to-date basis, net interest income was C$770m for the first half of 2012, marginally lower compared to the first half of 2011. The decrease is due to pressure on net interest margin and higher cost of funding, partially offset by a growth in average loans and advances and financial investment balances.

Net fee income for the second quarter of 2012 was C$147m, a decrease of C$15m, or 9%, compared to the second quarter of 2011, and an increase of C$4m, or 3%, compared to the first quarter of 2012. On a year-to-date basis, net fee income was C$290m for the first half of 2012, a decrease of C$35m, or 11%, compared to the first half of 2011. The sale of the full service retail brokerage business resulted in reductions in fees from funds under management and brokerage commissions in the first half of 2012. Excluding 2011 fees from the full service retail brokerage business sold, net fee income increased by C$18m compared to the first half of 2011, resulting from increases in fees from credit facilities and the Immigrant Investor Program.

Management's Discussion and Analysis (continued)

The components of net fee income are as follows:

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Credit facilities	**58**	55	56	**114**	107
Funds under management	**32**	42	29	**61**	82
Account services	**23**	21	21	**44**	42
Brokerage commissions	**5**	17	4	**9**	39
Credit cards	**13**	13	13	**26**	24
Corporate finance	**5**	10	8	**13**	19
Insurance	**5**	5	5	**10**	11
Remittances	**8**	6	7	**15**	11
Trade finance import/export	**2**	2	3	**5**	6
Trustee fees	**1**	1	1	**2**	2
Immigrant Investor Program	**8**	6	15	**23**	13
Other	**8**	5	6	**14**	10
Fee income	**168**	183	168	**336**	366
Less: fee expense	**(21)**	(21)	(25)	**(46)**	(41)
Net fee income	**147**	162	143	**290**	325

Net trading income for the second quarter of 2012 was C$47m, an increase of C$11m, or 31%, compared to the second quarter of 2011, and an increase of C$7m, or 18%, compared to the first quarter of 2012. On a year-to-date basis, net trading income was C$87m for the first half of 2012, an increase of C$14m, or 19%, compared to the first half of 2011. The increase in net trading revenue is due to higher foreign exchange and derivative revenues driven by increased customer activity and market volatility. In addition, net trading income increased due to favorable mark-to-market gains arising from derivatives used to manage foreign currency denominated deposits partially offset by the impact of changes in credit spreads on the carrying value of our own debt instruments classified as trading.

Net gain/(loss) from financial instruments designated at fair value for the second quarter of 2012 was a loss of C$2m, compared to a gain of C$2m in the second quarter of 2011, and a loss of C$14m compared to the first quarter of 2012. On a year-to-date basis, net loss from financial instruments designated at fair value was C$16m for the first half of 2012, compared to C$6m for the first half of 2011. The bank designates certain subordinated debentures and other liabilities to be recorded at fair value. Gains and losses are largely as a result of the widening or narrowing of credit spreads reducing or increasing the fair value of these liabilities.

Gains less losses from financial investments for the second quarter of 2012 were C$28m, an increase of C$24m compared to the second quarter of 2011, and an increase of C$11m compared to the first quarter of 2012. On a year-to-date basis, net gains from the sale of financial investments were C$45m for the first half of 2012, an increase of C$25m compared to the first half of 2011. The increase in net gains from the sale of from financial investments is due to disposals of available-for-sale investments as part of our balance sheet management activities.

Other operating income for the second quarter of 2012 was C$22m, an increase of C$19m compared to the second quarter of 2011, and an increase of C$9m compared to the first quarter of 2012. On a year-to-date basis, other operating income was C$35m for the first half of 2012, an increase of C$12m compared to the first half of 2011. The increase in other operating income is due to a C$17m charge for the decline in fair value of investment property in the second quarter of 2011.

Gain on the sale of the full service retail brokerage business. The sale of the full service retail brokerage business closed effective 1 January 2012. In the first quarter of 2012, the bank recorded a gain of C$84m, net of assets written off and directly related costs. Additionally, in the first quarter of 2012 and fourth quarter of 2011, C$2m and C$14m respectively of restructuring charges were incurred either directly relating to this transaction or from actions undertaken within the business arising as a result of the decision to sell the business.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions for the second quarter of 2012 were C$59m, an increase of C$28m compared to the second quarter of 2011, and an increase of C$11m compared to the first quarter of 2012. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$107m for the first half of 2012, an increase of C$27m compared to the first half of 2011. The increase in the second quarter of 2012 is primarily due to a specific provision for a customer in the energy sector.

Total operating expenses (excluding restructuring charges) for the second quarter of 2012 were C$276m, a decrease of C$17m, or 6%, compared to the second quarter of 2011, and a decrease of C$30m, or 10%, compared to the first quarter of 2012. On a year-to-date basis, total operating expenses were C$582m for the first half of 2012, a decrease of C$50m, or 8%, compared to the first half of 2011. The decrease in total operating expenses is due to cost reductions relating to the sale of the full service retail brokerage business (C$56m) and wind-down of the bank's consumer finance business (C$27m) in the first half of 2012. Additionally, as a result of cost management initiatives, employee compensation and benefits as well as activities and expenses related to the delivery of technology services to HSBC Group companies were reduced. The reduction is partially offset by a C$47m recovery of fees paid in prior years from an HSBC affiliate in the first half of 2011.

Restructuring charges of C$36m were recognized in the first quarter of 2012 mainly relating to the provisions made for the restructuring and wind-down of the bank's consumer finance business.

Income tax expense. The effective tax rate in the second quarter of 2012 was 27.2%, compared to 24.1% in the second quarter of 2011 and 24.7% in the first quarter of 2012. The effective tax rate was 25.9% for the first half of 2012, compared to 26.0% for the first half of 2011. The increase in the second quarter of 2012 compared to the second quarter of 2011 was due to the recovery of fees from an HSBC affiliate which is not taxable. The increase in the second quarter of 2012 compared to the first quarter of 2012 was largely due to a lower effective tax rate applied to the gain on the sale of the full service retail brokerage business.

Statement of Financial Position

Total assets at 30 June 2012 were C$82.1bn, an increase of C$2.0bn from 31 December 2011, mainly due to increases of C$1.4bn in trading assets, C$1.8bn in loans and advances to customers, C$0.9bn in financial investments and C$0.4bn in acceptances offset by a decrease in loans and advances to banks of C$2.6bn. The increase in trading assets is driven by higher holdings of debt securities and trading acceptances at 30 June 2012. Loans and advances to banks decreased by C$2.6bn and loans and advances to customers increased by C$1.8bn mainly as a result of a decrease and an increase respectively in reverse repurchase agreements. Excluding the movement in reverse repurchase agreements, loans and advances to banks decreased by C$0.9bn and loans and advances to customers decreased by C$0.4bn.

Liquidity remained strong, with C$28.2bn of cash and balances at central banks, items in the course of collection from other banks, highly liquid trading assets, short term loans and advances to banks and financial investments at 30 June 2012, compared with C$28.5bn at 31 December 2011.

Total customer accounts increased to C$47.1bn at 30 June 2012 from C$46.6bn at 31 December 2011. The main increase was in fixed date personal deposits with increases also in commercial current and notice accounts. Debt securities in issue increased to C$14.0bn at 30 June 2012 from C$13.3bn at 31 December 2011, primarily due to the issuance of medium term notes of C$2.0bn during the first half of 2012. The increase was offset by the maturity of C$0.5bn of medium term notes and a decrease in funding through mortgage securitization.

Total assets under administration

Funds under management were C$17.3bn at 30 June 2012, a decrease of C$14.0bn since 30 June 2011 and a decrease of C$9.1bn since 31 December 2011. This was primarily due to the sale of the bank's full service retail brokerage business (C$15.0bn at 30 June 2011 and C$10.6bn at 31 December 2011). Excluding the full service retail brokerage business' funds under management, total assets under administration increased by C$1.0bn to C$18.3bn compared to 30 June 2011 and increased by C$1.5bn compared to 31 December 2011.

Management's Discussion and Analysis (continued)

Analysis of Consolidated Financial Results for the Second Quarter 2012 by Customer Groups

Retail Banking and Wealth Management

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Net interest income	**92**	107	105	**197**	201
Net fee income	**44**	66	42	**86**	136
Net trading income	**3**	4	3	**6**	10
Other operating income	**3**	2	2	**5**	4
Gain on the sale of the full service retail brokerage business	**–**	–	76	**76**	–
Net operating income before loan impairment charges and other credit risk provisions	**142**	179	228	**370**	351
Loan impairment charges and other credit risk provisions	**(7)**	(4)	(6)	**(13)**	(6)
Net operating income	**135**	175	222	**357**	345
Total operating expenses (excluding restructuring charges)	**(128)**	(127)	(127)	**(255)**	(283)
Restructuring charges	**–**	–	(2)	**(2)**	–
Profit before income tax expense	**7**	48	93	**100**	62

Overview

Profit before income tax expense for the second quarter of 2012 was C$7m, a decrease of C$41m compared to second quarter of 2011, and a decrease of C$86m compared to the first quarter of 2012. On a year-to-date basis, profit before income tax expense was C$100m in the first half of 2012, an increase of C$38m compared to the first half of 2011. Results for the first half of 2012 included a C$76m gain on the sale of the full service retail brokerage business and restructuring charges of C$2m. Results for the first half of 2011 included a C$28m recovery of fees from an HSBC affiliate partially offset by a C$7m write-off of internally developed software costs. Excluding the effect of these items, profit before income tax expense for the first half of 2012 was C$26m, a decrease of C$8m compared to the first half of 2011 mainly due to pressure on net interest margin.

Financial performance

Net interest income for the second quarter of 2012 was C$92m, a decrease of C$15m, or 14%, compared to the second quarter of 2011, and a decrease of C$13m, or 12%, compared to the first quarter of 2012. On a year-to-date basis, net interest income was C$197m for the first half of 2012, a decrease of C$4m, or 2%, compared to the first half of 2011. The decrease is due to pressure on net interest margin partially offset by growth in average loan balances as a result of customers taking advantage of low interest rates.

Net fee income for the second quarter of 2012 was C$44m, a decrease of C$22m compared to the second quarter of 2011, and little changed compared to the first quarter of 2012. On a year-to-date basis, net fee income was C$86m for the first half of 2012, a decrease of C$50m compared to the first half of 2011. Net fee income decreased compared to the prior year due to the sale of the full service retail brokerage business. Excluding the fee income relating to the full service retail brokerage, net fee income increased by C$3m compared to 2011 primarily due to higher revenues earned by our Immigrant Investor Program and strong growth in our asset management business.

Net trading income for the second quarter of 2012 was C$3m, little changed compared to the second quarter of 2011 and the first quarter of 2012. On a year-to-date basis, net trading income was C$6m for the first half of 2012, a decrease of C$4m compared to the first half of 2011. The decrease in net trading income is due to lower foreign exchange revenue.

Loan impairment charges and other credit risk provisions for the second quarter of 2012 were C$7m, an increase of C$3m compared to the second quarter of 2011, and an increase of C$1m compared to the first quarter of 2012. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$13m for the first half of 2012, an increase of C$7m compared to the first half of 2011. The first half of 2011 included a C$4m release of collective impairment provisions as a result of improved credit quality.

Management's Discussion and Analysis (continued)

Total operating expenses (excluding restructuring charges) for the second quarter of 2012 were C$128m, little changed compared to both the second quarter of 2011 and the first quarter of 2012. On a year-to-date basis, total operating expenses (excluding restructuring charges) were C$255m for the first half of 2012, a decrease of C$28m, or 10%, compared to the first half of 2011. Total operating expenses for the second quarter of 2011 included a C$28m recovery of fees from an HSBC affiliate while 2012 expenses were lower due to a reduction resulting from the sale of the full service retail brokerage business earlier in the year and cost reduction efforts.

Commercial Banking

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Net interest income	**177**	177	180	**357**	350
Net fee income	**72**	67	71	**143**	136
Net trading income	**8**	6	8	**16**	12
Other operating income/(expense)	**3**	(16)	1	**4**	(15)
Net operating income before loan impairment charges and other credit risk provisions	**260**	234	260	**520**	483
Loan impairment charges and other credit risk provisions	**(26)**	(6)	(11)	**(37)**	(23)
Net operating income	**234**	228	249	**483**	460
Total operating expenses	**(85)**	(80)	(92)	**(177)**	(176)
Operating profit	**149**	148	157	**306**	284
Share of profit in associates	**–**	1	1	**1**	2
Profit before income tax expense	**149**	149	158	**307**	286

Overview

Profit before income tax expense was C$149m for the second quarter of 2012, unchanged compared to the second quarter of 2011, and a decrease of C$9m compared to the first quarter of 2012. On a year-to-date basis, profit before income tax expense was C$307m in the first half of 2012, an increase of C$21m compared to the first half of 2011. Profit before income tax expense decreased compared to the first quarter of 2012 due to increased impairment provisions in the second quarter of 2012. Profit before income tax expense increased compared to the first half of 2011 due to a C$17m charge resulting from the decline in fair value of investment property in the second quarter of 2011.

Financial performance

Net interest income for the second quarter of 2012 was C$177m unchanged compared to the second quarter of 2011, and a decrease of C$3m, or 2%, compared to the first quarter of 2012. On a year-to-date basis, net interest income was C$357m for the first half of 2012, an increase of C$7m, or 2%, compared to the first half of 2011. The movement is largely due to higher average loan balances driven by increased customer demand, partially offset by pressure on net interest margin.

Net fee income for the second quarter of 2012 was C$72m, an increase of C$5m, or 7%, compared to the second quarter of 2011, and marginally increased compared to the first quarter of 2012. On a year-to-date basis, net fee income was C$143m for the first half of 2012, an increase of C$7m, or 5%, compared to the first half of 2011. The increase in net fee income is due to higher fees from account services activity and credit facilities driven by increased customer activity.

Net trading income for the second quarter of 2012 was C$8m, an increase of C$2m compared to the second quarter of 2011, and unchanged compared to the first quarter of 2012. On a year-to-date basis, net trading income was C$16m for the first half of 2012, an increase of C$4m compared to the first half of 2011. The increase in net trading income is due to increase in customer foreign exchange transactions.

Other operating income/(expense) for the second quarter of 2012 was C$3m, an increase of C$19m compared to the second quarter of 2011, and an increase of C$2m compared to the first quarter of 2012. On a year-to-date basis, other operating income/(expense) was C$4m for the first half of 2012, an increase of C$19m compared to the first half of 2011. The increase in other operating income/(expense) is due to a C$17m charge resulting from the decline in fair value of investment property in the second quarter of 2011.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions for the second quarter of 2012 were C$26m, an increase of C$20m compared to the second quarter of 2011, and an increase of C$15m compared to the first quarter of 2012. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$37m for the first half of 2012, an increase of C$14m compared to the first half of 2011. The increase is primarily due to specific exposure provisions in the second quarter of 2012.

Total operating expenses for the second quarter of 2012 were C$85m, an increase of C$5m, or 6%, compared to the second quarter of 2011, and a decrease of C$7m, or 8%, compared to the first quarter of 2012. On a year-to-date basis, total operating expenses were C$177m for the first half of 2012, little changed compared to the first half of 2011. The increase compared to the second quarter of 2011 is due to a C$18m recovery of fees from an HSBC affiliate in 2011 partially offset by cost reduction efforts during 2012.

Global Banking and Markets

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Net interest income	**40**	40	46	**86**	89
Net fee income	**19**	19	19	**38**	33
Net trading income	**28**	23	22	**50**	44
Gains less losses from financial investments	**28**	4	17	**45**	20
Other operating income/(expense)	**2**	1	(1)	**1**	2
Gain on the sale of the full service retail brokerage business	**–**	–	8	**8**	–
Net operating income	**117**	87	111	**228**	188
Total operating expenses	**(33)**	(27)	(25)	**(58)**	(56)
Profit before income tax expense	**84**	60	86	**170**	132

Overview

Profit before income tax expense was C$84m for the second quarter of 2012, an increase of C$24m compared to the second quarter of 2011 and marginally changed compared to the first quarter of 2012. On a year-to-date basis, profit before income tax expense was C$170m in the first half of 2012, an increase of C$38m compared to the first half of 2011. The increase in profit before income tax expense is due to gains on the disposal of financial investments and higher net trading income driven by higher foreign exchange and derivative revenues as well as favourable mark-to-market gains arising from derivatives used to manage foreign currency denominated deposits.

Financial performance

Net interest income for the second quarter of 2012 was C$40m, unchanged compared to the second quarter of 2011, and a decrease of C$6m, or 13%, compared to the first quarter of 2012. On a year-to-date basis, net interest income was C$86m for the first half of 2012, a decrease of C$3m, or 3%, compared to the first half of 2011. The decrease is due to lower returns on financial investments.

Net fee income for the second quarter of 2012 was C$19m, unchanged compared to the second quarter of 2011 and the first quarter of 2012. On a year-to-date basis, net fee income was C$38m, an increase of C$5m, or 15%, compared to the first half of 2011. The increase was driven by higher debt underwriting and derivative sales fees.

Net trading income for the second quarter of 2012 was C$28m, an increase of C$5m, or 22% compared to the second quarter of 2011, and an increase of C$6m, or 27% compared to the first quarter of 2012. The increase in the quarter is due to higher foreign exchange revenues driven by increased customer activity and the bank taking advantage of market volatility and favourable mark-to-market gains arising from derivatives used to manage foreign currency denominated deposits. On a year-to-date basis, net trading income was C$50m for the first half of 2012, an increase of C$6m, or 14%, compared to the first half of 2011. This increase is due to favourable mark-to-market gains arising from derivatives used to manage foreign currency denominated deposits partially offset by the impact of changes in credit spreads on the carrying value of our own debt instruments classified as trading.

Management's Discussion and Analysis (continued)

Gains less losses from financial investments for the second quarter of 2012 was C$28m, an increase of C$24m compared to the second quarter of 2011, and an increase of C$11m compared to the first quarter of 2012. On a year-to-date basis, gains less losses from financial investments was C$45m for the first half of 2012, an increase of C$25m compared to the first half of 2011. The increase in gains less losses from financial investments is due to an increase in disposals of available-for-sale investments from our balance sheet management activities.

Total operating expenses for the second quarter of 2012 were C$33m, an increase of C$6m compared to the second quarter of 2011, and an increase of C$8m compared to the first quarter of 2012. On a year-to-date basis, total operating expenses were C$58m for the first half of 2012, an increase of C$2m compared to the first half of 2011.

Consumer Finance

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Net interest income	**72**	69	73	**145**	139
Net fee income	**12**	10	11	**23**	20
Other operating income	**–**	1	2	**2**	2
Net operating income before loan impairment charges and other credit risk provisions	**84**	80	86	**170**	161
Loan impairment charges and other credit risk provisions	**(26)**	(21)	(31)	**(57)**	(51)
Net operating income	**58**	59	55	**113**	110
Total operating expenses (excluding restructuring charges)	**(22)**	(44)	(38)	**(60)**	(87)
Restructuring charges	**–**	–	(34)	**(34)**	–
Profit/(loss) before income tax expense	**36**	15	(17)	**19**	23

Overview

In March 2012, HSBC Financial Corporation Limited announced the winding down of the consumer finance business in Canada and, except for existing commitments, ceased origination of loans. Accordingly, C$34m in restructuring costs were incurred in the first quarter of 2012 relating to employee severance, pension curtailment and changes in benefits plans, uneconomic contracts, onerous leases and impairment of fixed assets including leasehold improvements.

Profit before income tax expense was C$36m for the second quarter of 2012, an increase of C$21m compared to the second quarter of 2011, and an increase of C$53m compared to the first quarter of 2012. On a year-to-date basis, profit before income tax expense was C$19m in the first half of 2012, a decrease of C$4m compared to the first half of 2011. The first quarter of 2012 included a restructuring charge of C$34m for provisions made related to the wind-down of the consumer finance business. Total operating expenses decreased significantly in the second quarter of 2012 due to reduced staff and associated expenses, infrastructure charges and other overhead expenses as a result of the wind-down of the business.

Financial performance

Net interest income for the second quarter of 2012 was C$72m, an increase of C$3m, or 4%, compared to the second quarter of 2011, and marginally decreased compared to the first quarter of 2012. On a year-to-date basis, net interest income was C$145m for the first half of 2012, an increase of C$6m, or 4%, compared to the first half of 2011. The decrease compared to the first quarter of 2012 is due to the decrease in customer activity in loans and advances as a result of the wind-down of the business. The increase compared to 2011 is primarily due to a reduction in funding costs partially offset by lower average loan balances.

Net fee income for the second quarter of 2012 was C$12m, an increase of C$2m compared to the second quarter of 2011, and an increase of C$1m compared to the first quarter of 2012. On a year-to-date basis, net fee income was C$23m for the first half of 2012, an increase of C$3m, or 15%, compared to the first half of 2011. The increase in net fee income is due to lower guarantee fees paid as a result of decreased medium term financing.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions for the second quarter of 2012 were C$26m, an increase of C$5m, or 24%, compared to the second quarter of 2011, and a decrease of C$5m, or 16%, compared to the first quarter of 2012. On a year-to-date basis, loan impairment charges and other credit risk provisions were C$57m for the first half of 2012, an increase of C$6m, or 12%, compared to the first half of 2011. The second quarter of 2011 included a C$3m reversal of a prior period impairment loss on available-for-sale financial investments due to an increase in fair value. The decrease compared to the first quarter of 2012 and increase compared to the first half of 2011 was due to an upward adjustment in collective provisions driven by heightened risk profiles estimated to be present within loan portfolios.

Total operating expenses (excluding restructuring charges) for the second quarter of 2012 were C$22m, a decrease of C$22m compared to the second quarter of 2011, and a decrease of C$16m compared to the first quarter of 2012. On a year-to-date basis, total operating expenses (excluding restructuring charges) were C$60m for the first half of 2012, a decrease of C$27m, or 31%, compared to the first half of 2011. The decrease in total operating expenses is due to reduced staff and associated expenses, infrastructural charges and other overhead expenses as a result of the wind-down of the business.

Other

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Net interest expense	**(9)**	(3)	(6)	**(15)**	(7)
Net fee income	**8**	3	7	**15**	7
Net gain/(loss) from financial instruments designated at fair value	**(2)**	2	(14)	**(16)**	(6)
Other operating income	**14**	15	9	**23**	30
Net operating income/(expense)	**11**	17	(4)	**7**	24
Total operating expenses	**(8)**	(15)	(24)	**(32)**	(30)
Profit/(loss) before income tax expense	**3**	2	(28)	**(25)**	(6)

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include gains and losses from the impact of changes in credit spreads on financial instruments designated at fair value, revenue and expense related to information technology services provided to HSBC Group companies on an arm's length basis. Profit before income tax expense for the second quarter of 2012 was C$3m, compared with C$2m for the second quarter of 2011 and a loss of C$28m in the first quarter of 2012. On a year-to-date basis, profit before income tax expense was a loss of C$25m for the first half of 2012, compared with a loss of C$6m in the first half of 2011. The variances from comparative periods are primarily due to the impact of the items noted above.

Quarterly summary of Condensed Consolidated Statements of Income (unaudited)

The following table presents a summary of quarterly consolidated results for the last eight quarters:

	Quarter ended							
	30 June 2012 $m	31 March 2012 $m	31 December 2011 $m	30 September 2011 $m	30 June 2011 $m	31 March 2011 $m	31 December 2010 $m	30 September 2010 $m
Total revenue [1]	**614**	681	562	653	597	610	633	605
Profit for the period	**203**	220	135	201	208	160	118	146
Profit attributable to common shareholders	**186**	202	118	182	191	142	96	124
Profit attributable to preferred shareholders	**15**	15	15	16	15	15	15	16
Profit attributable to non-controlling interests	**2**	3	2	3	2	3	7	6
Basic earnings per common share	**0.37**	0.41	0.24	0.36	0.38	0.28	0.19	0.25

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

The quarterly trends in revenue and expenses for 2011 and 2010 were disclosed on pages 24 and 25 of the Annual Report and Accounts for 2011.

Management's Discussion and Analysis (continued)

Critical Accounting Policies and Impact of Estimates and Judgements

There have been no changes in the accounting policies that are deemed critical to the bank's results and financial position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgement including the use of assumptions and estimates. Critical accounting policies and impact of estimates and judgements are disclosed on pages 25 to 28 of the bank's Annual Report and Accounts for 2011.

Off-Balance Sheet Arrangements

During the normal course of business, the bank makes extensive use of financial instruments including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instrument contracts. These arrangements were described on page 29 of the Annual Report and Accounts for 2011. There have been no changes in the basis of calculating the fair value of financial instruments from 31 December 2011, and there have been no significant changes in the fair value of financial instruments that arose from factors other than normal economic, industry and market conditions. For financial instruments, including derivatives, valued using significant non-observable market inputs (level 3), assumptions and methodologies used in our models are continually reviewed and revised to arrive at better estimates of fair value.

Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the bank and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2012 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the design and effectiveness of disclosure controls and procedures as well as the design and effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The CEO and CFO have signed certifications relating to the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 June 2012, and their responsibility for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 30 June 2012 that have materially affected or are reasonably likely to affect internal control over financial reporting.

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

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in the Management's Discussion and Analysis in the Annual Report and Accounts for 2011, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Management's Discussion and Analysis (continued)

Related Party Transactions

Related party transaction policies and practices are unchanged from those outlined on page 31 of the Annual Report and Accounts for 2011. All transactions with related parties continue to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value. Transactions with related parties are detailed in note 12 to the accompanying consolidated financial statements.

Outstanding Shares and Securities

	At 26 July 2012	
	Number	**Amount ($m)**
HSBC Canada Asset Trust Securities (HSBC HaTS™)[1]		
- Series 2015[2]	200,000	200
Preferred Shares – Class 1		
- Series C[3]	7,000,000	175
- Series D[4]	7,000,000	175
- Series E[5]	10,000,000	250
Preferred Shares – Class 2		
- Series B[6]	86,450,000	346
		946
Common shares		
HSBC Bank Canada	498,668,000	1,225

1 *Reported in non-controlling interests in the Consolidated Statement of Financial Position.*
2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*
3 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*
4 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*
5 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.4125 per share.*
6 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.0775 per share.*

During the second quarter of 2012, the bank declared and paid C$82m in dividends on HSBC Bank Canada common shares, an increase of C$7m from the same period in 2011. The bank declared and paid C$165m in common shares during the half-year ended 30 June 2012, an increase of C$15 from the same period in 2011.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, 31.25 cents per share on Class 1 Preferred Shares – Series D, 41.25 cents per share on Class 1 Preferred Shares – Series E and 7.75 cents per share on Class 2 Preferred Shares – Series B. Dividends will be paid on 30 September 2012, for shareholders of record on 14 September 2012.

Management's Discussion and Analysis (continued)

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The most important risk categories that we are exposed to include capital management, credit, liquidity and funding, market, structural, and operational risk. A discussion of our risk management activities including both quantitative and qualitative factors is included on pages 32 to 54 of our 2011 Annual Report and Accounts. There have been no changes in our processes and no material changes in quantitative factors during the first half of 2012.

Capital Management

	30 June 2012 $m	31 December 2011 $m
Total tier 1 capital	**4,913**	4,731
Total tier 2	**836**	906
Total tier 1 and tier 2 capital available for regulatory purposes	**5,749**	5,637
Core tier 1 capital	**3,737**	3,555
Total risk-weighted assets	**35,637**	35,322
Actual regulatory capital ratios		
Tier 1 capital	**13.8 %**	13.4 %
Total capital	**16.1 %**	16.0 %
Core tier 1 capital	**10.5 %**	10.1 %
Assets to capital multiple	**13.3 x**	13.1 x
Minimum regulatory capital ratios required		
Tier 1 capital	**7.0 %**	7.0 %
Total capital	**10.0 %**	10.0 %
Maximum assets to capital multiple allowed	**20.0 x**	20.0 x

Credit Risk

Loan portfolio diversity

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. Examples of concentration risk would include geographic, industry and environmental factors. Therefore, diversification of credit risk is a key concept by which we are guided.

In assessing the risks of our credit portfolio, we aggregate all exposure types that result in credit risk.

The following is an analysis of the constituents of our portfolio:

	30 June 2012 $m	31 December 2011 $m
Loans included in financial statements, net of impairment allowances	**46,126**	44,357
Impairment allowances (1)	**446**	464
Less: Reverse repos and stock borrowing balances with customers	**(2,691)**	(1,050)
Short term settlements	**(52)**	–
Customers' liability under acceptances	**4,459**	4,059
Trading acceptances	**2,375**	1,975
Guarantees and irrevocable letters of credit pledged as collateral security	**2,945**	2,641
Documentary credits and short-term trade related transaction	**377**	294
Total loans	**53,985**	52,740
Impaired loans and other impaired credit exposures (2)	**(743)**	(732)
Total performing loans	**53,242**	52,008

1 *Excludes $79m (31 December 2011: $73m) in collective impairment allowances relating to off-balance sheet credit instruments, which have been reclassified to 'Other liabilities'.*
2 *Includes $12m (31 December 2011: $54m) of impaired acceptances and letters of credit.*

Management's Discussion and Analysis (continued)

Performing loan portfolio

	30 June 2012		31 December 2011	
	$m	**%**	$m	%
Business and government loans [1]	**26,633**	**50.0**	25,092	48.3
Residential mortgages	**19,011**	**35.7**	18,951	36.4
Consumer finance loans	**2,238**	**4.2**	2,441	4.7
Other consumer loans	**5,360**	**10.1**	5,524	10.6
Total performing loans	**53,242**	**100.0**	52,008	100.0

1 *Includes $469m (31 December 2011: $454m) of construction and other loans secured by mortgages over residential property.*

Credit Quality of Financial Assets

The credit quality of financial assets remains broadly unchanged at 30 June 2012 compared with 31 December 2011. The increase in impaired financial assets is mainly due to a specific impairment of a customer in the energy sector.

Impaired loan portfolio

	30 June 2012 $m	31 December 2011 $m
Business and government		
Real estate	**245**	256
Manufacturing	**40**	41
Trade	**60**	68
Services	**88**	95
Energy	**61**	22
Other	**47**	51
	541	533
Residential mortgages	**105**	103
Consumer finance loans	**60**	59
Other consumer loans	**37**	37
Total impaired loans, acceptances and letters of credit [1]	**743**	732
Specific allowances	**189**	208
Collective allowances	**257**	256
	446	464
Collective impairment allowances relating to off-balance sheet credit instruments (included in 'Other liabilities)	**79**	73
Total allowances for credit losses	**525**	537
Net impaired loans, acceptances and letters of credit	**218**	195
Allowance as percentage of total impaired loans, acceptances and letters of credit	**70.7 %**	73.4 %

1 *Includes $12m (31 December 2011: $54m) of impaired acceptances and letters of credit*

Management's Discussion and Analysis (continued)

Movement in impairment allowances

	Customers		
	Individually assessed $m	Collectively assessed [1] $m	Total $m
Quarter ended 30 June 2012			
At 1 April 2012	**204**	**335**	**539**
Amounts written off	**(40)**	**(29)**	**(69)**
Recoveries of loans and advances written off in previous periods	**–**	**(1)**	**(1)**
Charge to income	**28**	**31**	**59**
Other movements	**(3)**	**–**	**(3)**
At 30 June 2012	**189**	**336**	**525**
Quarter ended 30 June 2011			
At 1 April 2011	227	387	614
Amounts written off	(32)	(78)	(110)
Recoveries of loans and advances written off in previous periods	–	2	2
Charge to income	13	21	34
Other movements	(5)	–	(5)
At 30 June 2011	203	332	535
Quarter ended 31 March 2012			
At 1 January 2012	208	329	537
Amounts written off	(12)	(30)	(42)
Recoveries of loans and advances written off in previous periods	–	1	1
Charge to income	13	35	48
Other movements	(5)	–	(5)
At 31 March 2012	204	335	539
Half-year ended 30 June 2012			
At 1 January 2012	**208**	**329**	**537**
Amounts written off	**(52)**	**(59)**	**(111)**
Charge to income	**41**	**66**	**107**
Other movements	**(8)**	**–**	**(8)**
At 30 June 2012	**189**	**336**	**525**
Half-year ended 30 June 2011			
At 1 January 2011	227	400	627
Amounts written off	(49)	(120)	(169)
Recoveries of loans and advances written off in previous periods	–	4	4
Charge to income	34	49	83
Other movements	(9)	(1)	(10)
At 30 June 2011	203	332	535

1 *Includes $79m (30 June 2011: $72m; 31 March 2012: $72m) in collectively assessed impairment allowances relating to off-balance sheet credit instruments which have been reclassified to 'Other liabilities'.*

Management's Discussion and Analysis (continued)

Exposures to Europe

The bank's exposure to Europe and in particular the eurozone remains well controlled within the bank's overall exposure to credit risk. Exposures to the eurozone increased by C$34m compared to the position at 31 December 2011 mainly due to increases of C$22m in corporate exposures with Spain, C$13m in financial institution exposures with Italy and C$10m with core eurozone countries offset by a decrease of C$9m in financial institutions exposures with Portugal. Exposures to other European countries outside of the eurozone increased by C$221m mainly as a result of an increase financial institutions exposures in the United Kingdom of which the counterparty is HSBC Holdings.

Exposures to eurozone countries

	30 June 2012				31 December 2011			
	Corporate $m	**Financial institutions(1) $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions(1) $m	Sovereign $m	Total $m
Core countries								
Germany	**–**	**185**	**–**	**185**	–	71	–	71
France	**358**	**13**	**–**	**371**	198	19	257	474
Netherlands	**–**	**2**	**–**	**2**	–	3	–	3
Total core countries	**358**	**200**	**–**	**558**	198	93	257	548
Peripheral countries								
Italy	**–**	**13**	**–**	**13**	–	–	–	–
Portugal	**–**	**1**	**–**	**1**	–	10	–	10
Spain	**22**	**1**	**–**	**23**	–	3	–	3
Total peripheral countries	**22**	**15**	**–**	**37**	–	13	–	13
Luxembourg	**–**	**2**	**–**	**2**	–	2	–	2
Total	**380**	**217**	**–**	**597**	198	108	257	563

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $4m in France (31 December 2011: $3m in Germany and $8m in France).*

Exposures to other European countries outside of the eurozone

	30 June 2012				31 December 2011			
	Corporate $m	**Financial institutions(1) $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions(1) $m	Sovereign $m	Total $m
Belgium	**–**	**96**	**–**	**96**	–	–	–	–
Romania	**–**	**–**	**–**	**–**	2	–	–	2
Sweden	**–**	**36**	**–**	**36**	–	37	–	37
Switzerland	**–**	**4**	**481**	**485**	–	13	643	656
United Kingdom	**4**	**904**	**–**	**908**	4	553	52	609
Total	**4**	**1,040**	**481**	**1,525**	6	603	695	1,304

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $651m in the United Kingdom (31 December 2011: $339m).*

Management's Discussion and Analysis (continued)

Credit Ratings

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

Investment grade ratings are unchanged from 31 December 2011 and remain among the highest assigned to Canadian banks.

The bank's current ratings are as follows:

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

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

Value at Risk ("VaR")

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Information in connection with VaR is included in our Annual Report and Accounts for 2011 on pages 52 and 53.

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

	Quarter ended	
	30 June 2012 $m	31 December 2011 $m
End of quarter	**17**	16
Average	**15**	22
Minimum	**13**	15
Maximum	**17**	29

Daily VaR

Second Quarter 2012 Consolidated Financial Statements and Notes (Unaudited)

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Financial Statements (Unaudited)

Consolidated income statement (Unaudited)

		Quarter ended			Half-year ended	
		30 June 2012	30 June 2011	31 March 2012	**30 June 2012**	30 June 2011
	Notes	**$m**	$m	$m	**$m**	$m
Interest income		**565**	595	586	**1,151**	1,202
Interest expense		**(193)**	(205)	(188)	**(381)**	(430)
Net interest income		**372**	390	398	**770**	772
Fee income		**168**	183	168	**336**	366
Fee expense		**(21)**	(21)	(25)	**(46)**	(41)
Net fee income		**147**	162	143	**290**	325
Trading income excluding net interest income		**39**	30	32	**71**	66
Net interest income on trading activities		**8**	6	8	**16**	7
Net trading income		**47**	36	40	**87**	73
Net (loss)/gain from financial instruments designated at fair value		**(2)**	2	(14)	**(16)**	(6)
Gains less losses from financial investments		**28**	4	17	**45**	20
Other operating income		**22**	3	13	**35**	23
Gain on sale of full service retail brokerage business	*13*	**–**	–	84	**84**	–
Net operating income before loan impairment charges and other credit risk provisions		**614**	597	681	**1,295**	1,207
Loan impairment charges and other credit risk provisions		**(59)**	(31)	(48)	**(107)**	(80)
Net operating income		**555**	566	633	**1,188**	1,127
Employee compensation and benefits		**(163)**	(208)	(190)	**(353)**	(416)
General and administrative expenses		**(100)**	(62)	(104)	**(204)**	(179)
Depreciation of property, plant and equipment		**(8)**	(9)	(9)	**(17)**	(19)
Amortization and impairment of intangible assets		**(5)**	(14)	(3)	**(8)**	(18)
Restructuring charges	*14*	**–**	–	(36)	**(36)**	–
Total operating expenses		**(276)**	(293)	(342)	**(618)**	(632)
Operating profit		**279**	273	291	**570**	495
Share of profit in associates		**–**	1	1	**1**	2
Profit before income tax expense		**279**	274	292	**571**	497
Income tax expense		**(76)**	(66)	(72)	**(148)**	(129)
Profit for the period		**203**	208	220	**423**	368
Profit attributable to common shareholders		**186**	191	202	**388**	333
Profit attributable to preferred shareholders		**15**	15	15	**30**	30
Profit attributable to shareholders		**201**	206	217	**418**	363
Profit attributable to non-controlling interests		**2**	2	3	**5**	5
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668	**498,668**	498,668
Basic earnings per common share		**$ 0.37**	$ 0.38	$ 0.41	**$ 0.78**	$ 0.67

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of comprehensive income (Unaudited)

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Profit for the period	**203**	208	220	**423**	368
Other comprehensive income/(loss)					
Available-for-sale investments	**21**	43	(17)	**4**	12
– fair value gains/(losses)	**68**	63	(11)	**57**	37
– fair value gains transferred to income statement on disposal	**(28)**	(4)	(17)	**(45)**	(20)
– income taxes	**(19)**	(16)	11	**(8)**	(5)
Cash flow hedges	**27**	72	(106)	**(79)**	16
– fair value (losses)/gains	**23**	99	(150)	**(127)**	19
– income taxes	**4**	(27)	44	**48**	(3)
Actuarial gains/(losses) on defined benefit plans	**(14)**	(8)	(27)	**(41)**	(2)
– before income taxes	**(20)**	(10)	(36)	**(56)**	3
– income taxes	**6**	2	9	**15**	(5)
Other comprehensive income/(expense) for the period, net of tax	**34**	107	(150)	**(116)**	26
Total comprehensive income for the period	**237**	315	70	**307**	394
Total comprehensive income for the period attributable to:					
– shareholders	**235**	313	67	**302**	389
– non-controlling interests	**2**	2	3	**5**	5
	237	315	70	**307**	394

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of financial position (Unaudited)

	Notes	**30 June 2012 $m**	30 June 2011 $m	31 December 2011 $m
ASSETS				
Cash and balances at central bank		**70**	66	77
Items in the course of collection from other banks		**142**	187	104
Trading assets	*4*	**6,009**	5,336	4,587
Derivatives	*5*	**2,158**	1,510	2,203
Loans and advances to banks		**1,919**	4,873	4,530
Loans and advances to customers		**46,126**	45,620	44,357
Financial investments	*6*	**20,105**	17,928	19,168
Other assets		**668**	652	559
Prepayments and accrued income		**240**	206	225
Customers' liability under acceptances		**4,459**	4,954	4,059
Property, plant and equipment		**128**	114	123
Goodwill and intangible assets		**75**	85	76
Total assets		**82,099**	81,531	80,068
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**1,747**	1,056	1,377
Customer accounts		**47,097**	45,522	46,614
Items in the course of transmission to other banks		**374**	232	288
Trading liabilities	*7*	**3,280**	4,254	2,996
Financial liabilities designated at fair value	*8*	**1,011**	1,001	1,006
Derivatives	*5*	**1,730**	1,304	1,746
Debt securities in issue		**13,961**	15,280	13,327
Other liabilities		**1,958**	1,962	2,260
Acceptances		**4,459**	4,954	4,059
Accruals and deferred income		**505**	517	566
Retirement benefit liabilities		**341**	261	300
Subordinated liabilities		**326**	321	326
Total liabilities		**76,789**	76,664	74,865
Equity				
Preferred shares		**946**	946	946
Common shares		**1,225**	1,225	1,225
Other reserves		**364**	225	439
Retained earnings		**2,545**	2,241	2,363
Total shareholders' equity		**5,080**	4,637	4,973
Non controlling interests		**230**	230	230
Total equity		**5,310**	4,867	5,203
Total equity and liabilities		**82,099**	81,531	80,068

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of cash flows (Unaudited)

		Quarter ended			Half-year ended	
		30 June 2012	30 June 2011	31 March 2012	**30 June 2012**	30 June 2011
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**279**	274	292	**571**	497
Adjustments for:						
– non-cash items included in profit before tax	*9*	**89**	63	(14)	**75**	134
– change in operating assets	*9*	**(1,135)**	791	(2,236)	**(3,371)**	(293)
– change in operating liabilities	*9*	**760**	1,201	902	**1,662**	1,608
– tax paid		**(38)**	(73)	(306)	**(344)**	(138)
Net cash (used in)/from operating activities		**(45)**	2,256	(1,362)	**(1,407)**	1,808
Cash flows from investing activities						
Purchase of financial investments		**(4,602)**	(5,234)	(13,021)	**(17,623)**	(9,741)
Proceeds from the sale and maturity of financial investments		**4,868**	3,042	11,822	**16,690**	7,974
Net cash flows from the sale of full service retail brokerage business	*13*	**–**	–	(116)	**(116)**	–
Purchase of property, plant and equipment		**(23)**	(9)	(14)	**(37)**	(19)
Purchase of intangibles		**(4)**	–	(2)	**(6)**	–
Net cash from/(used in) investing activities		**239**	(2,201)	(1,331)	**(1,092)**	(1,786)
Cash flows from financing activities						
Dividends paid to shareholders		**(97)**	(90)	(98)	**(195)**	(180)
Distributions to non-controlling interests		**(2)**	(2)	(3)	**(5)**	(5)
Net cash used in financing activities		**(99)**	(92)	(101)	**(200)**	(185)
Net increase/(decrease) in cash and cash equivalents		**95**	(37)	(2,794)	**(2,699)**	(163)
Cash and cash equivalents at the beginning of the period		**1,905**	6,477	4,699	**4,699**	6,603
Cash and cash equivalents at the end of the period	9	**2,000**	6,440	1,905	**2,000**	6,440

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the half-year ended 30 June 2012 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January [1]	2,171	2,363	138	301	439	4,973	230	5,203
Profit for the period	–	418	–	–	–	418	5	423
Other comprehensive income (net of tax)	–	(41)	4	(79)	(75)	(116)	–	(116)
Available-for-sale investments	–	–	4	–	4	4	–	4
Cash flow hedges	–	–	–	(79)	(79)	(79)	–	(79)
Actuarial gains/(losses) on defined benefit plans	–	(41)	–	–	–	(41)	–	(41)
Total comprehensive income for the period	–	377	4	(79)	(75)	302	5	307
Dividends paid on common shares	–	(165)	–	–	–	(165)	–	(165)
Dividends paid on preferred shares	–	(30)	–	–	–	(30)	–	(30)
Distributions to unit holders	–	–	–	–	–	–	(5)	(5)
At 30 June	2,171	2,545	142	222	364	5,080	230	5,310

(1) Includes reclassification of $28m from "Cash flow hedging reserve" to "Available-for-sale fair value reserve" as at 31 December 2011.

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

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

	Share capital $m	Retained earnings $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	2,171	2,058	81	116	197	4,426	230	4,656
Profit for the period	–	363	–	–	–	363	5	368
Other comprehensive income (net of tax)	–	(2)	12	16	28	26	–	26
Available-for-sale investments	–	–	12	–	12	12	–	12
Cash flow hedges	–	–	–	16	16	16	–	16
Actuarial gains/(losses) on defined benefit plans	–	(2)	–	–	–	(2)	–	(2)
Total comprehensive income for the period	–	361	12	16	28	389	5	394
Dividends paid on common shares	–	(150)	–	–	–	(150)	–	(150)
Dividends paid on preferred shares	–	(30)	–	–	–	(30)	–	(30)
Distributions to unit holders	–	–	–	–	–	–	(5)	(5)
Other movements	–	2	–	–	–	2	–	2
At 30 June	2,171	2,241	93	132	225	4,637	230	4,867

The accompanying notes on pages 28 to 39 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 16 to 20 form an integral part of these financial statements.

Notes on the Financial Statements (Unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("the Parent", "HSBC"). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies. These consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ("IASB") and in accordance with Section 308 of the Bank Act.

These interim financial statements should be read in conjunction with the bank's 2011 annual consolidated financial statements.

(b) Presentation of information

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

(ii) The bank provides services or enters into transactions with HSBC Group regarding the sharing of costs of development by Canadian employees for certain technology platforms used by HSBC around the world. In previous periods, we have shown the salary and related direct expenses for these employees and the recovery of these expenditures on a gross basis as part of "General and administrative expenses" and "Other operating income" respectively. Effective for the first quarter of 2012, the bank has reported the impact of these transactions on a net basis by reclassifying the recovery of these expenditures from "Other operating income" to "General and administrative expenses". This change in presentation only affects transactions for which there is no arm's length mark-up on costs. Prior periods have also been reclassified to conform to the current year's presentation. As a result, the impact of this change is a reduction in "Other operating income" and "General and administrative expenses" of $29m (30 June 2011: $22m; 31 March 2012: $14m).

(iii) The bank records a collective allowance on all items with credit risk including off-balance sheet credit instruments such as guarantees and credit commitments. In previous periods, the collective allowance related to all credit instruments has been recorded as a deduction from "Loans and advances to customers". Effective for the first quarter of 2012, the bank has reclassified the portion of the collective allowance related to off balance sheet credit instruments into "Other liabilities". Prior periods have also been reclassified to conform to the current year's presentation. As a result, the impact of this change is an increase in "Loans and advances to customers" and "Other liabilities" of $79m (30 June 2011: $72m; 31 March 2012: $72m).

Neither of the above reclassifications have any impact on reported financial results or Shareholders' equity.

(c) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described on pages 66 to 78 of the bank's Annual Report and Accounts for 2011.

(d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 June 2012. The method adopted by the bank to consolidate its subsidiaries is described on page 64 of the Annual Report and Accounts for 2011.

Notes on the Financial Statements (Unaudited) (continued)

(e) Future accounting developments

Future accounting developments have been disclosed on pages 65 to 66 of the bank's Annual Report and Accounts for 2011.

In 2012, the IASB reconsidered the requirements for classification and measurement relating to IFRS 9 to address implementation issues. An exposure draft of revised proposals is expected in the second half of 2012. Presently, the Office of the Superintendent of Financial Institutions Canada ("OSFI") does not allow early adoption. Therefore, the implementation and effects of IFRS 9 remains uncertain.

2 Summary of significant and critical accounting policies

There have been no significant changes to the accounting policies of the bank as disclosed on pages 66 to 78 of the Annual Report and Accounts for 2011.

3 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 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Pension plans – defined benefit	**1**	3	3	**4**	6
Pension plans – defined contribution	**6**	8	11	**17**	20
Healthcare and other post-employment benefit plans	**3**	2	2	**5**	5
	10	13	16	**26**	31

Actuarial valuations for the bank's pension plans and non-pension arrangements are prepared annually. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were conducted as at 31 December 2011.

4 Trading assets

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Trading assets:			
which may be repledged or resold by counterparties	**1,826**	777	704
not subject to repledge or resale by counterparties	**4,183**	4,559	3,883
	6,009	5,336	4,587

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Debt securities	**2,803**	2,592	2,034
Bankers acceptances	**2,375**	588	1,975
Customer trading assets	**460**	1,139	304
Treasury and other eligible bills	**324**	854	245
Equity securities	**47**	163	29
	6,009	5,336	4,587

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $79m (30 June 2011: $77m; 31 December 2011: $84m) none of which are guaranteed by various governments.

Notes on the Financial Statements (Unaudited) (continued)

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 on pages 66 to 78, and Note 11 on page 95 to 101 of the bank's Annual Report and Accounts for 2011.

Fair values of derivatives by product contract type held:

	At 30 June 2012					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,031**	**87**	**1,118**	**954**	**5**	**959**
Interest rate	**568**	**390**	**958**	**513**	**176**	**689**
Commodity	**82**	**–**	**82**	**82**	**–**	**82**
Gross total fair values	**1,681**	**477**	**2,158**	**1,549**	**181**	**1,730**

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

	At 31 December 2011					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	1,034	87	1,121	999	9	1,008
Interest rate	548	499	1,047	479	224	703
Commodity	35	–	35	35	–	35
Gross total fair values	1,617	586	2,203	1,513	233	1,746

Trading derivatives

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

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Foreign exchange	**68,663**	56,937	57,374
Interest rate	**51,392**	45,985	34,992
Commodity	**462**	–	130
Total derivatives	**120,517**	102,922	92,496

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

Notes on the Financial Statements (Unaudited) (continued)

Hedging instruments

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

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Interest rate	**23,599**	**4,119**	18,852	4,025	24,740	4,494
Foreign exchange	**2,129**	**–**	–	–	1,389	–
Total derivatives	**25,728**	**4,119**	18,852	4,025	26,129	4,494

Fair value of derivatives designated as fair value hedges

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**6**	**91**	9	36	2	127

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

	Quarter ended			Half-year ended	
	30 June 2012	30 June 2011	31 March 2012	**30 June 2012**	30 June 2011
	$m	$m	$m	**$m**	$m
Gains/(losses)					
On hedging instruments	**(53)**	(47)	43	**(10)**	(28)
On hedged items attributable to the hedged risk	**54**	47	(43)	**11**	29

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

Fair value of derivatives designated as cash flow hedges

	At 30 June 2012		At 30 June 2011		At 31 December 2011	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**87**	**5**	–	–	87	9
Interest rate	**384**	**85**	269	55	497	97

Notes on the Financial Statements (Unaudited) (continued)

6 Financial investments

Financial investments consist of the following:

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Financial investments			
Not subject to repledge or resale by counterparties	**20,105**	17,928	19,168
Available-for-sale			
Debt securities and other	**17,760**	15,340	17,452
Treasury bills and other eligible bills	**2,345**	2,588	1,716
	20,105	17,928	19,168

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $2,012m (30 June 2011: $1,614m; 31 December 2011: $1,541m) of which $453m (30 June 2011: $420m; 31 December 2011: $270m) are guaranteed by various governments.

Included in the available-for-sale debt securities are debt securities issued by governments of $15,462m (30 June 2011: $13,548m; 31 December 2011: $15,590m).

7 Trading liabilities

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Other liabilities – net short positions	**2,117**	2,219	1,305
Customer trading liabilities	**1,088**	1,881	1,516
Other debt securities in issue	**75**	154	175
	3,280	4,254	2,996

8 Financial liabilities designated at fair value

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Debt securities in issue	**580**	580	580
Subordinated debentures	**431**	421	426
	1,011	1,001	1,006

The carrying amount at 30 June 2012 of financial liabilities designated at fair value was $39m higher (30 June 2011: $33m higher; 31 December 2011: $35m higher) than the contractual amount at maturity. At 30 June 2012, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of $4m (30 June 2011: $5m gain; 31 December 2011: $22m gain).

Notes on the Financial Statements (Unaudited) (continued)

9 Notes on the statement of cash flows

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Non-cash items included in profit before tax					
Gain on sale of full service retail brokerage business	**–**	–	(84)	**(84)**	–
Depreciation and amortization	**19**	23	15	**34**	37
Share based payment expense	**8**	6	4	**12**	11
Loan impairment charges and other credit risk provisions	**59**	31	48	**107**	80
Charge for defined benefit pension plans	**3**	3	3	**6**	6
	89	63	(14)	**75**	134
Change in operating assets					
Change in prepayment and accrued income	**(3)**	17	(17)	**(20)**	(20)
Change in net trading securities and net derivatives	**(232)**	677	(715)	**(947)**	833
Change in loans and advances to customers	**(790)**	382	(1,086)	**(1,876)**	(482)
Change in other assets	**(110)**	(285)	(418)	**(528)**	(624)
	(1,135)	791	(2,236)	**(3,371)**	(293)
Change in operating liabilities					
Change in accruals and deferred income	**(35)**	(36)	(21)	**(56)**	(80)
Change in deposits by banks	**308**	(396)	62	**370**	89
Change in customer accounts	**60**	1,102	423	**483**	30
Change in debt securities in issue	**(45)**	51	679	**634**	464
Change in financial liabilities designated at fair value	**9**	25	(4)	**5**	18
Change in other liabilities	**463**	455	(237)	**226**	1,087
	760	1,201	902	**1,662**	1,608
Cash and cash equivalents					
Cash and balances at central bank	**70**	66	141	**70**	66
Items in the course of transmission to other banks, net	**(232)**	(45)	(269)	**(232)**	(45)
Loans and advances to banks of one month or less	**1,919**	4,873	1,546	**1,919**	4,873
T-Bills and certificates of deposits – three months or less	**243**	1,546	487	**243**	1,546
	2,000	6,440	1,905	**2,000**	6,440
Interest					
Interest paid	**239**	271	147	**386**	455
Interest received	**569**	610	582	**1,151**	1,187

10 Contingent liabilities, contractual commitments, and guarantees

	At 30 June 2012 $m	At 30 June 2011 $m	At 31 December 2011 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**2,945**	2,362	2,641
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend (1)	**35,247**	35,035	37,417
Documentary credits and short-term trade-related transactions	**377**	432	294
	35,624	35,467	37,711

(1) Based on original contractual maturity.

Notes on the Financial Statements (Unaudited) (continued)

Litigation

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

11 Segment analysis

We manage and report our operations according to our main customer groups. Information on each business line is included in the Annual Report and Accounts 2011, on pages 7 to 10. Various estimate and allocation methodologies are used in the preparation of the customer groups' financial information. We allocate expenses directly related to earning revenues to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to customer groups using appropriate allocation formulas. Customer group net interest income reflects internal funding charges and credits on the customer groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in the Global Banking and Markets segment.

A brief description of each customer group is as follows:

Retail Banking and Wealth Management

Retail Banking and Wealth Management offers its products and services to customers based on their individual needs. Customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (investment products, estate and financial planning services).

Commercial Banking

Commercial Banking business is segmented into Corporate and Business Banking to serve both Corporate and Mid-Market companies, as well as small to medium-sized enterprises respectively. Client offerings include financing, payment and cash management, international trade finance, treasury capital markets and advisory, commercial cards and online banking channels.

Global Banking and Markets

Global Banking and Markets consists of two principal business lines; Global Banking and Global Markets.

Global Banking is responsible for the overall management of relationships with major corporate and institutional clients. This involves working closely with a variety of product specialists to deliver a comprehensive range of services such as treasury and capital markets, transaction banking, strategic advisory and investment management and the origination and ongoing management of the credit and lending product.

Global Markets is responsible for the management of relationships with clients that include international and local corporations, institutional investors, financial institutions and other market participants. We specialize in foreign exchange, credits and rates, structured derivatives and equities and debt capital markets.

Consumer Finance

Consumer Finance, through the bank's wholly-owned subsidiary, HSBC Financial Corporation Limited, provided consumer finance products and services, including real estate secured loans, personal loans, specialty insurance products and credit cards, including private-label credit cards to retail merchants.

On 21 March 2012, HSBC Financial Corporation Limited announced that it will be winding down the Consumer Finance business in Canada and, except for existing commitments, ceased origination of loans. Details of restructuring charges incurred as a result of this decision are disclosed in note 14.

Notes on the Financial Statements (Unaudited) (continued)

Other

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

The accounting policies of the segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed on pages 66 to 78 of the bank's Annual Report and Accounts for 2011.

Figures in $m

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Retail Banking and Wealth Management					
Net interest income	**92**	107	105	**197**	201
Net fee income	**44**	66	42	**86**	136
Net trading income	**3**	4	3	**6**	10
Other operating income	**3**	2	2	**5**	4
Gain on sale of full service retail brokerage business	**–**	–	76	**76**	–
Net operating income before loan impairment charges and other credit risk provisions	**142**	179	228	**370**	351
Loan impairment charges and other credit risk provisions	**(7)**	(4)	(6)	**(13)**	(6)
Net operating income	**135**	175	222	**357**	345
Total operating expenses (excluding restructuring charges)	**(128)**	(127)	(127)	**(255)**	(283)
Restructuring charges	**–**	–	(2)	**(2)**	–
Profit before income tax expense	**7**	48	93	**100**	62
Commercial Banking					
Net interest income	**177**	177	180	**357**	350
Net fee income	**72**	67	71	**143**	136
Net trading income	**8**	6	8	**16**	12
Other operating income/(expense)	**3**	(16)	1	**4**	(15)
Net operating income before loan impairment charges and other credit risk provisions	**260**	234	260	**520**	483
Loan impairment charges and other credit risk provisions	**(26)**	(6)	(11)	**(37)**	(23)
Net operating income	**234**	228	249	**483**	460
Total operating expenses	**(85)**	(80)	(92)	**(177)**	(176)
Operating profit	**149**	148	157	**306**	284
Share of profit in associates	**–**	1	1	**1**	2
Profit before income tax expense	**149**	149	158	**307**	286
Global Banking and Markets					
Net interest income	**40**	40	46	**86**	89
Net fee income	**19**	19	19	**38**	33
Net trading income	**28**	23	22	**50**	44
Gain less losses from financial investments	**28**	4	17	**45**	20
Other operating income/(expense)	**2**	1	(1)	**1**	2
Gain on sale of full service retail brokerage business	**–**	–	8	**8**	–
Net operating income	**117**	87	111	**228**	188
Total operating expenses	**(33)**	(27)	(25)	**(58)**	(56)
Profit before income tax expense	**84**	60	86	**170**	132

Notes on the Financial Statements (Unaudited) (continued)

Figures in $m

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Consumer Finance					
Net interest income	**72**	69	73	**145**	139
Net fee income	**12**	10	11	**23**	20
Other operating income	**–**	1	2	**2**	2
Net operating income before loan impairment charges and other credit risk provisions	**84**	80	86	**170**	161
Loan impairment charges and other credit risk provisions	**(26)**	(21)	(31)	**(57)**	(51)
Net operating income	**58**	59	55	**113**	110
Total operating expenses (excluding restructuring charges)	**(22)**	(44)	(38)	**(60)**	(87)
Restructuring charges	**–**	–	(34)	**(34)**	–
Profit/(loss) before income tax expense	**36**	15	(17)	**19**	23
Other					
Net interest expense	**(9)**	(3)	(6)	**(15)**	(7)
Net trading income	**8**	3	7	**15**	7
Net gain/(loss) from financial instruments designated at fair value	**(2)**	2	(14)	**(16)**	(6)
Other operating income	**14**	15	9	**23**	30
Net operating income/(expense)	**11**	17	(4)	**7**	24
Total operating expenses	**(8)**	(15)	(24)	**(32)**	(30)
Profit/(loss) before income tax expense	**3**	2	(28)	**(25)**	(6)

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

	Retail Banking and Wealth Management	**Commercial Banking**	**Global Banking and Markets**	**Consumer Finance**	**Other**	**Total**
Quarter ended 30 June 2012						
Net operating income:	**135**	**234**	**117**	**58**	**11**	**555**
External	**180**	**223**	**83**	**58**	**11**	**555**
Inter-segment	**(45)**	**11**	**34**	**–**	**–**	**–**
Quarter ended 30 June 2011						
Net operating income:	175	228	87	59	17	566
External	190	219	81	59	17	566
Inter-segment	(15)	9	6	–	–	–
Quarter ended 31 March 2012						
Net operating income:	222	249	111	55	(4)	633
External	254	233	95	55	(4)	633
Inter-segment	(32)	16	16	–	–	–
Half-year ended 30 June 2012						
Net operating income:	**357**	**483**	**228**	**113**	**7**	**1,188**
External	**434**	**456**	**178**	**113**	**7**	**1,188**
Inter-segment	**(77)**	**27**	**50**	**–**	**–**	**–**
Half-year ended 30 June 2011						
Net operating income:	345	460	188	110	24	1,127
External	382	444	167	110	24	1,127
Inter-segment	(37)	16	21	–	–	–

Notes on the Financial Statements (Unaudited) (continued)

Statement of financial position information

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Consumer Finance	Other	Total
At 30 June 2012						
Loans and advances to customers (net)	**25,386**	**16,691**	**3,664**	**2,202**	**(1,817)**	**46,126**
Customers' liability under acceptances	**–**	**3,700**	**759**	**–**	**–**	**4,459**
Total assets	**25,601**	**20,093**	**36,262**	**2,355**	**(2,212)**	**82,099**
Customer accounts	**20,590**	**19,426**	**7,121**	**1**	**(41)**	**47,097**
Acceptances	**–**	**3,700**	**759**	**–**	**–**	**4,459**
Total liabilities	**23,617**	**23,496**	**29,157**	**1,957**	**(1,438)**	**76,789**
At 30 June 2011						
Loans and advances to customers (net)	24,485	14,367	5,630	2,375	(1,237)	45,620
Customers' liability under acceptances	–	4,165	789	–	–	4,954
Total assets	25,466	19,386	35,496	2,531	(1,348)	81,531
Customer accounts	25,270	17,478	2,808	1,237	(1,271)	45,522
Acceptances	–	4,165	789	–	–	4,954
Total liabilities	35,436	22,424	17,500	2,161	(857)	76,664
At 31 December 2011						
Loans and advances to customers (net)	24,580	15,355	3,931	2,412	(1,921)	44,357
Customers' liability under acceptances	–	3,298	761	–	–	4,059
Total assets	25,565	19,457	34,549	2,549	(2,052)	80,068
Customer accounts	25,210	18,935	2,505	1	(37)	46,614
Acceptances	–	3,298	761	–	–	4,059
Total liabilities	28,270	23,173	22,807	2,159	(1,544)	74,865

12 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings including fellow subsidiaries of HSBC Holdings. 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 fellow subsidiaries of HSBC Holdings

	Quarter ended			Half-year ended	
	30 June 2012 $m	30 June 2011 $m	31 March 2012 $m	**30 June 2012 $m**	30 June 2011 $m
Income Statement					
Interest income	**1**	4	2	3	7
Interest expense	**(1)**	(1)	(1)	(2)	(2)
Fee income	**4**	4	4	8	8
Fee expense	**(1)**	(1)	(1)	(2)	(3)
Other operating income	**12**	15	12	24	32
General and administrative expenses	**(30)**	(24)	(23)	(53)	(48)

Balances due to/from the bank and HSBC Group affiliates in Europe at 30 June 2012 are included in "Exposures to Europe" within the Management's Discussion and Analysis on page 19. Other balances have not changed materially compared with those shown in the bank's 2011 annual consolidated financial statements.

Notes on the Financial Statements (Unaudited) (continued)

13 Sale of full service retail brokerage business

On 20 September 2011, the bank, together with certain of its wholly-owned subsidiaries, entered into an agreement to sell certain assets of the full service retail brokerage business. The transaction closed effective 1 January 2012.

On closing, the assets of the full service retail brokerage business were transferred. The assets, liabilities and profit relating to the business were previously included in the Retail Banking and Wealth Management segment. Assets and liabilities relating to the disposal group sold were recorded as held for sale and measured at the lower of the carrying amount and fair value less costs to sell. These assets and liabilities were included within Other assets and Other liabilities respectively as follows:

	At 31 December 2011 $m
Current assets	
Trading assets	36
Prepayments	5
Other assets	17
	58
Non Current assets	
Goodwill and intangible assets	3
Included in other assets	61
Current liabilities	
Trading liabilities	(310)
Accruals and deferred income	(5)
Other liabilities	(3)
Included in other liabilities	(318)
Net disposal group	(257)

Trading liabilities represents customers' deposits in their broker trading accounts. On closing, cash representing these amounts was transferred to the purchaser.

A gain of $84m, net of assets written off and directly related costs was recorded in the first quarter of 2012. Of this gain, $76m and $8m was attributed to the Retail Banking and Wealth Management and Global Banking and Markets businesses respectively.

In the first quarter of 2012, $2m of restructuring charges were incurred either relating to this transaction or from actions undertaking within the business arising as a result of the sale. This amount is excluded from the gain noted above. Further details of these restructuring charges are set out in note 14 below.

Notes on the Financial Statements (Unaudited) (continued)

14 Restructuring charges

In March 2012, HSBC Finance Corporation Limited announced the winding down of the Consumer Finance business in Canada and, except for existing commitments, ceased origination of loans. Accordingly restructuring costs were incurred relating to employee severance, pension curtailment and changes in benefits plans, uneconomic contracts, onerous leases and impairment of assets. In addition, as disclosed in note 13, certain restructuring costs were incurred relating to the sale of the full service retail brokerage business. An analysis of the restructuring charges by expense type is set out below:

Consumer Finance

	Quarter ended		Half-year ended
	30 June 2012 $m	31 March 2012 $m	**30 June 2012 $m**
Employee severance and related compensation and benefits charges, net	**–**	17	**17**
General and administrative expenses, including onerous lease provisions	**–**	14	**14**
Impairment of property plant and equipment	**–**	3	**3**
	–	34	**34**

Full service retail brokerage business

	Quarter ended		Half-year ended
	30 June 2012 $m	31 March 2012 $m	**30 June 2012 $m**
Employee severance and related compensation and benefits charges	**–**	2	**2**
General and administrative expenses, including onerous lease provisions	**–**	–	**–**
Impairment of property plant and equipment	**–**	–	**–**
	–	2	**2**
Total	**–**	36	**36**

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 2012 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 26 July 2012 and authorized for issue.