HSBC BANK CANADA
FIRST QUARTER 2010 REPORT TO SHAREHOLDERS

- Reported net income attributable to common shares was C$84 million for the quarter ended 31 March 2010, little changed compared with the same period in 2009.

- Return on average common equity was 9.9 per cent for the quarter ended 31 March 2010 compared with 10.0 per cent for the same period in 2009.

- The cost efficiency ratio was 61.4 per cent for the quarter ended 31 March 2010 compared with 51.8 per cent for the same period in 2009.

- Total assets were C$70.6 billion at 31 March 2010 compared with C$70.1 billion at 31 March 2009.

- Total funds under management increased to C$30.4 billion at 31 March 2010 compared with C$21.5 billion at 31 March 2009.

- Tier 1 capital ratio of 12.3 per cent and a total capital ratio of 14.8 per cent at 31 March 2010 compared to 10.2 per cent and 12.6 per cent respectively at 31 March 2009.

The world's local bank

HSBC

First Quarter 2010 Management's Discussion and Analysis

HSBC Bank Canada ("the bank", "we", "our") is an indirectly 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 first quarter of 2010 is dated 11 May 2010. We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). This information is derived from our consolidated financial statements or from the information used to prepare them. Unless otherwise stated, all references to "$" means Canadian dollars. All tabular amounts are in millions of dollars except where otherwise stated. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

Financial Highlights

	Quarter ended		
	31 March 2010	*31 December 2009*	*31 March 2009*
Earnings			
Net income attributable to common shares	**$ 84**	$ 148	$ 85
Basic earnings per share (C$)	**0.17**	0.30	0.17
Performance ratios (%)(1)			
Return on average common equity	**9.9**	17.3	10.0
Return on average assets	**0.47**	0.81	0.48
Net interest margin	**2.51**	2.52	2.30
Cost efficiency ratio	**61.4**	47.6	51.8
Non-interest revenue: total revenue ratio	**30.4**	44.0	44.2
Credit information			
Gross impaired credit exposures	**$ 976**	$ 1,022	$ 1,157
Allowance for credit losses			
– Balance at end of period	**633**	638	709
– As a percentage of gross impaired credit exposures	**64.9 %**	62.4 %	61.3 %
– As a percentage of gross loans and acceptances	**1.5 %**	1.5 %	1.5 %
Average balances(1)			
Assets	**$ 72,428**	$ 72,749	$ 71,464
Loans	**36,810**	37,220	42,173
Deposits	**53,279**	53,309	51,526
Common equity	**3,468**	3,418	3,457
Capital ratios (%)(2)			
Tier 1	**12.3**	12.1	10.2
Total capital	**14.8**	14.9	12.6
Total assets under administration			
Funds under management	**$ 30,382**	$ 28,174	$ 21,503
Custody accounts	**10,730**	10,721	9,260
Total assets under administration	**$ 41,112**	$ 38,895	$ 30,763

(1) *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document in the "GAAP and related non-GAAP measures used in the MD&A" section on page 13.*

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

Analysis of Financial Results

Overview

HSBC Bank Canada recorded net income attributable to common shares for the three months ended 31 March 2010 of C$84 million, little changed compared with the C$85 million reported in the same period in 2009, and a decrease of C$64 million, or 43.2 per cent, from C$148 million for the fourth quarter of 2009. Good operating performance and lower loan impairment charges were somewhat masked by the impact of fair value accounting on our economic hedges, US dollar denominated assets and liabilities and a portion of our own debt held at fair value. This caused the results for the first quarter of 2010 to bear a charge of C$112 million compared to credits of C$35 million in the first quarter of 2009 and C$8 million in the fourth quarter of 2009 even though no economic gain or loss occurred. Income before tax excluding these items for the first quarter of 2010 increased 145.3 per cent and 13.5 per cent over the first and fourth quarters of 2009 respectively.

These results reflected increases in net interest income and significant reductions in loan impairment charges. Non interest revenues were also strong, particularly fee income, although these favourable operating impacts were offset within total non-interest revenues by the C$112 million charge in the first quarter of other net mark-to-market accounting losses as noted above. Compared to the fourth quarter of 2009, the decline in results arises mainly from lower non-interest revenue caused by the effect of mark-to-market accounting losses noted above and exceptional capital market revenues recorded in the fourth quarter of 2009, partially offset by significantly lower loan impairment charges.

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

“Good operating performance for the first quarter of 2010 reflects increased revenues from core banking operations, positive results from our wealth management activities, stable costs and significant reductions in credit losses compared to prior periods.

“The bank continues to benefit from the beginnings of the Canadian economic recovery. We continue to support our customers' credit, deposit and investment needs and anticipate increased demand for our delivery of global financial services to our customers throughout 2010 as conditions continue to improve.”

Net interest income

Net interest income for the first quarter of 2010 was C$380 million, compared with C$350 million for the same quarter in 2009, an increase of C$30 million, or 8.6 per cent. This resulted from an increase in net interest margin to 2.51 per cent in the quarter compared with 2.30 per cent in the same quarter of 2009, offset by a slight decrease in average interest earning assets from C$61.8 billion to C$61.5 billion.

Net interest income from core banking operations which consists of Personal Financial Services, Commercial Banking and Global Banking and Markets business increased by C$52 million or 20.9 per cent. This was as a result of an increase in net interest margin to 2.09 per cent in the first quarter of 2010 from 1.75 per cent in the same period last year, and a marginal increase in average interest earning assets from C$57.7 billion to C$58.3 billion. The net interest margin for core banking operations increased as a result of a more stable interest rate environment than the comparable period in 2009, as the cost of wholesale funds decreased due to lower credit spreads. In addition, net interest margin in the current quarter has been positively impacted by pricing initiatives in previous periods on commercial loans reflecting changes in the credit environment. Net interest income for the Consumer Finance business decreased by C$22 million or 21.8 per cent compared to the same quarter in 2009 mainly as a result of a reduction in average receivables, including consumer finance, automobile and other loans of 20.5 per cent to C$3.1 billion.

Analysis of Financial Results *(continued)*

Net interest income for the three months ended 31 March 2010 decreased C$13 million or 3.3 per cent compared to the fourth quarter of 2009, while net interest margin decreased slightly to 2.51 per cent from 2.52 per cent. The net interest margin for core banking operations increased by three basis points compared to the fourth quarter of 2009 while the net margin for the Consumer Finance company was lower due to margin compression in our private label portfolio. Lower interest earning assets in the core banking operations and lower receivables in the Consumer Finance business as well as a reduced number of days in the current quarter compared to the fourth quarter of 2009 also contributed to lower net interest income.

Non-interest revenue

Non-interest revenue was C$166 million in the first quarter of 2010, compared with C$277 million for the same quarter in 2009, a decrease of C$111 million, or 40.1 per cent. Non-interest revenue in our Global Banking and Markets business in the first quarter of 2010 includes the impact of a charge for C$112 million compared to credits for the first and fourth quarters of 2009 of $35 million and C$8 million respectively for other mark-to-market accounting losses. Canadian generally accepted accounting principles require that mark-to-market changes in the fair values of derivatives which do not qualify as accounting hedges in relation to certain of our non-trading assets and liabilities are recorded in income although no economic loss has arisen. This includes derivatives related to certain mortgage securitization programs where we do no expect to realize any gains or losses as it is our intent to hold such derivatives to maturity. Similarly, changes in market values of certain other non-trading financial assets and liabilities are also required to be included in reported income, even though no economic gain or loss has resulted. These non-cash items are driven largely by changes in market interest and foreign exchange rates or refinement of model assumptions used in valuing certain complex financial instruments. Changes in mark-to-market values can create significant inter-period volatility in our reported results, but as these instruments are normally held to their maturity, there is no resulting economic loss or gain.

Excluding the impact of other net mark-to-market accounting losses, non-interest revenue increased by C$36 million or 14.9 per cent. Credit fees were C$11 million higher due to pricing initiatives in commercial banking business. Investment administration fees in our Personal Financial Services business were C$7 million higher reflecting the increased market values of customer portfolios compared to the prior year as equity values improved as well as increased sales of investment products. Capital market fees in Global Banking and Markets were C$6 million higher due to increased activities in underwriting, advisory, equity and debt markets in 2010 which resulted in higher commissions earned on client trading activities. Other income was C$27 million higher mainly due to the adverse impact of a C$20 million contingency recorded in our Personal Financial Services and Consumer Finance businesses in the first quarter of 2009 as well as increases in recoveries for HSBC Technology Services from other HSBC Group companies of C$4 million. Trading revenue in Global Banking and Markets of C$20 million was C$21 million lower in the first quarter of 2010 compared to the same period in the prior year, which benefited from volatile interest and foreign exchange markets and the favourable impact of foreign currency funding in a lower interest rate environment.

Non-interest revenue for the three months ended 31 March 2010 was C$143 million or 46.3 per cent lower than the fourth quarter of 2009. Excluding the impact of other net mark-to-market accounting losses, non-interest revenue decreased by C$23 million or 7.6 per cent. Gains on available-for-sale and other securities in Global Banking and Markets increased by C$4 million due to realization of certain gains in government securities. Other income was C$3 million higher particularly due to increases in fees from Investor Immigrant Services. Capital market fees decreased by C$26 million reflecting the exceptional revenues recorded in the fourth quarter of 2009 by Global Banking and Markets. Other net mark-to-market losses of C$112 million were C$120 million worse than the fourth quarter of 2009 as noted above.

Analysis of Financial Results *(continued)*

Non-interest expenses

Non-interest expenses of C$335 million in the first quarter of 2010 were C$10 million higher than the same period in 2009. Salaries and employee benefits were C$7 million lower, as a result of lower full time salaries particularly in the Consumer Finance business following reductions in branch operations and lower stock-based compensation costs, partially offset by higher variable compensation reflective of increased income in Global Banking and Markets. Premises and equipment expenses were little changed overall. Other non-interest expenses were C$17 million higher due to increased expenditures relating to business licences and taxes, marketing and brokerage fees, the latter relating to activity in investor immigrant services. Expenses relating to the delivery of technology services to other HSBC Group companies also increased. The cost efficiency ratio for the first quarter of 2010 was 61.4 per cent compared to 51.8 per cent in the same period in 2009 mainly as a reflection of the adverse swing in other mark-to-market accounting gains, net, which is a non-cash income or expense item. Excluding the impact of this swing, the cost efficiency ratio would have improved by 4.0 percentage points.

Non-interest expenses for the three months ended 31 March 2010 were C$1 million higher than the fourth quarter of 2009. Salaries and employee benefits were C$2 million higher mainly due to higher benefits as a result of the timing of employer’s cost of statutory benefit contributions arising from the payment from the bank’s annual incentive in the first quarter every year. Premises and equipment expenses were C$3 million lower mainly due to lower costs relating to the delivery of technology services to other HSBC Group companies. Other expenses increased marginally. The cost efficiency ratio was 61.4 per cent compared to 47.6 per cent in the fourth quarter as a result of the impact of other mark-to-market losses noted above. Excluding the impact of this item, the cost efficiency ratio would have declined by 2.8 percentage points.

Credit quality and provision for credit losses

Provision for credit losses was C$63 million for the first quarter of 2010, compared with C$161 million in the first quarter of 2009, and C$131 million for the fourth quarter of 2009. Although conditions still remain uncertain, particularly in the real estate sector the reduction in the first quarter of 2010 compared to the fourth quarter of 2009 was due to a decrease in specific provisions for credit losses reflecting improved economic conditions compared to the challenging credit environment that existed throughout 2009. The reduction in expense compared to the same period in the previous year included C$53 million relating to core banking operations and C$45 million for Consumer Finance.

Gross impaired credit exposures were C$976 million, C$46 million lower compared with C$1,022 million at 31 December 2009. Total impaired exposures, net of specific allowances for credit losses, were C$775 million at 31 March 2010 compared with C$836 million at 31 December 2009. However, the total of impaired exposures includes C$200 million (31 December 2009 – C$214 million) of Consumer Finance and other consumer loans, for which impairment is assessed collectively. The general allowance for credit losses applicable to business and government loans in the banking portfolio was reduced by C$3 million to C$217 million (31 December 2009 – C$220 million). This arose as a result of a reduction of the performing commercial loan portfolio as well as a slight improvement in certain of the credit metrics used in the assessment of the allowance. The general allowance applicable to Consumer Finance loans was C$180 million compared to C$201 million at 31 December 2009. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 1.47 per cent at 31 March 2010, little changed compared with 1.46 per cent at 31 December 2009.

Analysis of Financial Results *(continued)*

Income taxes

The effective tax rate in the first quarter of 2010 was 30.3 per cent, which compares with 28.9 per cent in the same quarter of 2009 and 28.7 per cent in the fourth quarter of 2009. The tax rate was higher in the first quarter of 2010 compared to the same period in 2009 due to the impact of certain eligible tax credits claimed in 2009 in respect of previous years. The tax rate in the fourth quarter of 2009 was lower due to the recognition in 2009 of increased income earned in the British Columbia international finance centre that is not subject to provincial income tax.

Balance sheet

Total assets at 31 March 2010 were C$70.6 billion, a decrease of C$0.7 billion from 31 December 2009. The decrease from 31 December 2009 mainly resulted from securitization of residential mortgages and slightly lower Consumer Finance receivables. Although business and government loans increased from the end of 2009 by C$0.4 billion, this was offset by a similar reduction in customers liability under acceptances. Before securitization, residential mortgages in Personal Financial Services were slightly lower. As a result of securitizations, net mortgage loans outstanding decreased by C$0.6 billion. Consumer loans and personal lines of credit in the Personal Financial Services business were up by C$0.2 billion to C$5.9 billion while Consumer Finance receivables decreased by C$152 million as a result of lower loan originations arising from credit tightening decisions. Liquidity remained strong at 31 March 2010, with more than C$25.1 billion of cash resources, securities and reverse repurchase agreements, unchanged since 31 December 2009.

Total deposits decreased by C$0.5 billion to C$49.7 billion at 31 March 2010 from C$50.2 billion at 31 December 2009. Personal deposits decreased by C$0.3 billion compared to 31 December 2009 as a result of competition and some movements from customer accounts to investment products, while higher cost wholesale deposits, included in business and government deposits, decreased by C$0.6 billion as a result of funding received from securitizations.

Total assets under administration

Funds under management were C$30.4 billion at 31 March 2010 an increase of C$2.2 billion since 31 December 2009. Including custody and administration balances, total assets under administration were C$41.1 billion compared with C$38.9 billion at 31 December 2009 and C$30.8 billion at 31 March 2009.

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 credit, liquidity, market, operational and fiduciary risks. A discussion of our risk management activities including both quantitative and qualitative factors is included on pages 25 to 39 of our 2009 Annual Report and Accounts. Unless stated, there have been no changes in our processes nor material changes in quantitative factors during the first quarter of 2010.

Impaired loans

The following table provides details of the impaired loan portfolio:

	At 31 March 2010	*At 31 December 2009*
Business and government		
Real estate	**$ 425**	$ 439
Manufacturing[1]	**84**	98
Trade	**68**	64
Services	**45**	67
Other	**86**	78
Total business and government loans	**708**	746
Personal		
Residential mortgages	**68**	62
Consumer finance loans	**161**	176
Other consumer loans	**39**	38
Total personal loans	**268**	276
Total impaired loans, guarantees, acceptances and letters of credit[1]	**$ 976**	$ 1,022
Specific allowances	**$ 201**	$ 186
General allowances	**432**	452
Total allowance for credit losses	**$ 633**	$ 638
Net impaired loans and acceptances	**$ 343**	$ 384

(1) *Includes C$8 million (2009 – C$15 million) of impaired acceptances and letters of credit.*

Securities

The bank has determined the fair value of non-bank asset-backed commercial paper ("ABCP") included in trading securities using a discounted cash flow model that estimates the fair value.

There have been no changes in the key assumptions used by management in their valuation which are disclosed in note 3 on page 63 of the 2009 Annual Report and Accounts.

Our valuation was based on our assessment, at 31 March 2010, of estimates and circumstances that may change in subsequent periods. The assessment of fair values, in management's view, would be transacted between willing buyers and sellers acting on an arm's length basis in an active, liquid market. Although there were a limited number of transactions in the non-bank ABCP notes during the quarter ended 31 March 2010, management considers that the absence of an active, liquid two-way market, particularly among the larger holders of the notes, is an indicator that these transactions were not representative of fair market value. Items that may have a material impact on the fair value of the restructured notes include any further changes in economic conditions including market liquidity and interest rates.

Risk Management *(continued)*

Detailed information on the valuation of our non-bank ABCP is included in our 2009 Annual Report and Accounts on pages 62 to 64, as well as note 3 of these interim consolidated financial statements.

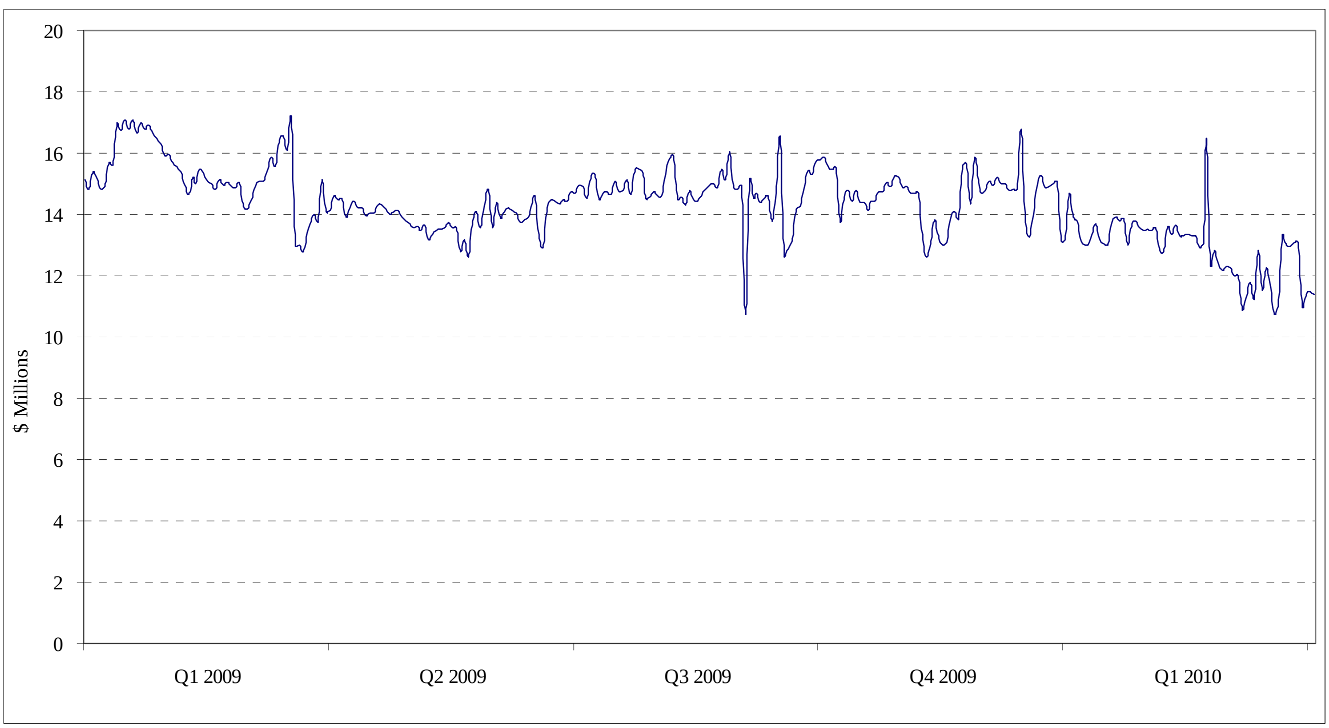
Value at Risk (VaR)

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 2009 Annual Report and Accounts on pages 37 and 38.

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	
	31 March 2010	*31 December 2009*
End of quarter	**$ 11**	$ 13
Average	**13**	15
Minimum	**11**	13
Maximum	**16**	17

Daily VaR



Risk Management *(continued)*

Capital Management

	At 31 March 2010	*At 31 December 2009*
Total Tier 1 capital	**$ 4,562**	$ 4,567
Total Tier 2 capital	**934**	1,041
Total Tier 1 and Tier 2 capital available for regulatory purposes	**5,496**	5,608
Total risk-weighted assets	**$ 37,239**	$ 37,674
Actual regulatory capital ratios		
Tier 1 capital	**12.3 %**	12.1 %
Total capital	**14.8 %**	14.9 %
Actual assets to capital multiple	**13.0 x**	12.9 x
Minimum regulatory capital ratios required		
Tier 1 capital	**7.0 %**	7.0 %
Total capital	**10.0 %**	10.0 %

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 2009 and remain among the highest assigned to the 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	AA-	AA (low)
Preferred shares	P-1 (Low)	Pfd-2 (high)
HSBC Canada Asset Trust Securities	P-1 (Low)	A (low)

Other Information

Related party transactions

Related party transaction policies and practices are unchanged from those outlined on pages 21 and 22 of the 2009 Annual Report and Accounts. 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.

Financial instruments, including 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. The most significant off-balance sheet arrangements are guarantees and letters of credit, and derivatives, which were described on page 20 of the 2009 Annual Report and Accounts. Although the notional values of these financial instruments are not recorded on the balance sheet, derivatives, guarantees and letters of credit are recorded at fair value. In addition, in certain circumstances, the bank provides guarantees and letters of credit facilities to borrowers. There have been no changes in the basis of calculating the fair value of financial instruments from 31 December 2009, 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.

Accounting policies and critical accounting estimates

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The key assumptions and bases for estimates that are made under GAAP, and their impact on the amounts reported in the unaudited interim consolidated financial statements and notes, remain substantially unchanged from those described on pages 15 to 17 and page 20 of the 2009 Annual Report and Accounts. There were no changes to the significant accounting policies and methods of computation, except for changes in model assumptions and refinements in models, as appropriate, from those used in the preparation of the bank's consolidated financial statements for the year ended 31 December 2009, which were outlined on pages 52 to 59 of the 2009 Annual Report and Accounts.

Certain amendments to the CICA Handbook relating to business combinations were effective for the first quarter of 2010, but these had no material impact on the bank's consolidated financial statements.

Management's best estimate of the fair value of the bank's non-bank ABCP is included in note 3 on page 24. Information relating to estimates used in the valuation of non-bank ABCP is included on pages 62 to 64 of the 2009 Annual Report and Accounts.

Outstanding shares and securities

	At 11 May 2010	
	Number	***Amount***
HSBC Canada Asset Trust Securities (HSBC HaTS™)(1)		
- Series 2010(2)	200,000	$ 200
- Series 2015(3)	200,000	200
		400
Preferred Shares – Class 1		
- Series C(4)	7,000,000	175
- Series D(5)	7,000,000	175
- Series E(6)	10,000,000	250
Preferred Shares – Class 2		
- Series B(7)	86,450,000	346
		946
Common shares		
HSBC Bank Canada	498,668,000	$ 1,225

Other Information *(continued)*

(1) *Reported in non-controlling interest in trust and subsidiary in the Consolidated Balance Sheet.*

(2) *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$38.90 per unit.*

(3) *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*

(4) *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*

(5) *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*

(6) *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.4125 per share.*

(7) *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.0775 per share.*

During the first quarter of 2010, the bank declared and paid C$75 million in dividends on HSBC Bank Canada common shares, C$5 million higher than the same period in 2009. However, the total common dividends for 2010 are not expected to exceed the amounts declared and paid in 2009.

Further details regarding features of the bank's securities and shares, including certain restrictions regarding distributions payable for HSBC HaTS, are disclosed in notes 11 and 13 of the 2009 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares for the remainder of 2010, subject to approval by the Board, are:

2010	
Record Date	Payable Date
15 June	30 June
15 September	30 September
15 December	31 December

The payable dates for HSBC HaTS distributions in 2010 are 30 June 2010 and 31 December 2010.

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 2010 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 GAAP. 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 31 March 2010, 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 GAAP. There have been no changes in internal controls over financial reporting during the quarter ended 31 March 2010 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's Audit 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 2009 Annual Report and Accounts, 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.

Other Information *(continued)*

Regulatory filings

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

Caution regarding forward-looking financial statements

This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the bank. 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 and foreign exchange rates, inflation level, and general economic conditions in geographic areas where the bank operates. Canada has an extremely competitive banking environment and pressures on interest rates and the bank's net interest margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. In addition, there may be a number of factors relating to the valuation of financial instruments valued using significant non-observable market inputs. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition.

GAAP and related non-GAAP measures used in the MD&A

The bank uses both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized measures under GAAP and are unlikely to be comparable to similar measures used by other companies. The following outlines various GAAP and non-GAAP measures, which management regularly monitors to more clearly indicate the derivation of the measure.

Return on average common equity – Average common equity is calculated using month-end balances of common equity for the period.

Return on average assets – Average assets are calculated using average daily balances for the period.

Net interest margin – Calculated as net interest income divided by average interest earning assets. Average interest earning assets are calculated using average daily balances for the period.

Cost efficiency ratio – Calculated as non-interest expenses divided by total revenue.

Non-interest revenue: total revenue ratio – Calculated as non-interest revenue divided by total revenue.

Average balances – Average assets, loans, and deposits are calculated using daily average balances for the period. Average common equity is calculated using month-end balances of common equity for the period.

Other Information *(continued)*

Quarterly summary of condensed statements of income (unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* **31 March 2010**	*31 December 2009*	*30 September 2009*	*30 June 2009*	*31 March 2009*	*31 December 2008*	*30 September 2008*	*30 June 2008*
Net interest income	**$ 380**	$ 393	$ 368	$ 368	$ 350	$ 375	$ 421	$ 423
Non-interest revenue	**166**	309	222	286	277	249	202	242
Total revenue	**546**	702	590	654	627	624	623	665
Non-interest expenses	**335**	334	323	338	325	321	345	349
Net operating income	**211**	368	267	316	302	303	278	316
Provision for credit losses	**63**	131	97	126	161	136	86	82
Income before the under noted	**148**	237	170	190	141	167	192	234
Provision for income taxes	**43**	66	48	54	39	38	62	64
Non-controlling interest in income of trust	**6**	7	6	7	6	7	6	7
Net income	**$ 99**	$ 164	$ 116	$ 129	$ 96	$ 122	$ 124	$ 163
Preferred share dividends	**15**	16	15	15	11	7	4	5
Net income attributable to common shares	**$ 84**	$ 148	$ 101	$ 114	$ 85	$ 115	$ 120	$ 158
Basic earnings per share (C$)	**0.17**	0.30	0.20	0.23	0.17	0.22	0.23	0.30

The quarterly trends in revenue and expenses were disclosed on page 12 of the 2009 Annual Report and Accounts.

Review of Customer Group Results

Personal Financial Services

Income before taxes and non-controlling interest in income of trust for the first quarter of 2010 was C$23 million compared with C$3 million for the same period in 2009, an increase of C$20 million. Net interest income was C$4 million lower due to a decrease in term deposits and lower margins on personal fixed deposits. This was partially offset by product growth in personal floating loans, residential fixed mortgages and high rate savings accounts. Non-interest revenue was C$31 million higher due to higher funds under management and wealth management revenues attributable to higher trading volumes caused by increased activity in stock markets, stronger sales, a C$2 million increase in technology expense recoveries from other Group entities and a loss contingency recorded in the previous year of C$16 million. Non-interest expenses were C$12 million higher mainly due to higher salary costs related to higher commission expense, an increase in marketing expenses, a C$2 million increase in technology expenses for other Group entities which are recoverable from other Group companies, partially offset by lower severance costs and cost control measures. Provision for credit losses was C$5 million lower due to a C$9 million provision for non-bank ABCP related exposures in the prior year partially offset by higher collective impairment in the current year.

Income before taxes and non-controlling interest in income of trust was C$23 million compared with C$32 million for the fourth quarter of 2009, a decrease of C$9 million. Net interest income was C$21 million lower due to a decrease in term deposits and lower margins on personal fixed deposits. Non-interest revenue was C$1 million higher mainly due to higher brokerage commission revenue attributable to increased activity in stock markets, offset by a C$2 million decrease in technology expense recoveries from other Group entities. Non-interest expenses were C$6 million lower mainly due to lower staff costs attributable to severance costs, lower marketing expense, cost control measures and a C$2 million decrease in technology expenses for other Group entities. Provision for credit losses was C$5 million lower due to lower collective impairments in the current quarter compared to the previous quarter.

Commercial Banking

Income before taxes and non-controlling interest in income of trust for the first quarter of 2010 was C$155 million compared with C$94 million for the same period in 2009. Net interest income was C$12 million higher due to an increase in loan margins from repricing initiatives that were initiated in 2009. This was partially offset by narrowing of spread between prime rate and banker’s acceptances impacting net interest margins and lower lending volumes as customers deleveraged during 2009 in response to weak economic conditions. Non-interest revenue increased by C$10 million due to higher credit fee revenues, higher gains on the sale of investments from our Private Equity business and a C$2 million increase in technology expense recoveries from other Group entities. Non-interest expenses were C$2 million lower despite a C$2 million increase in technology expenses for other Group entities which are recoverable from other Group companies. Underlying non-interest expenses were C$4 million lower. Capital taxes were lower due to a reduction in BC and Ontario tax rates. Staff costs were lower due to a decrease in severance and other remuneration expenses. Provision for credit losses was C$37 million lower due to a decrease in specific impairments in the real estate, trade and manufacturing sectors and a C$10 million provision for non-bank ABCP related exposures in the prior year.

Income before taxes and non-controlling interest in income of trust was C$155 million compared with C$97 million for the fourth quarter of 2009. Net interest income increased C$16 million due to higher net interest margins. Non-interest revenue was C$4 million lower due to lower credit fees from financial and credit related guarantees, and a C$2 million decrease in technology expense recoveries from other Group entities. Non-interest expenses increased by C$1 million due to higher employee statutory benefit costs relating to the incentive payout in the current quarter and higher other administrative expenses. This was partially offset by a C$2 million decrease in technology expenses for other Group entities. Provision for credit losses was C$47 million lower driven by a decrease in specific impairments in the real estate sector.

Review of Customer Group Results *(continued)*

Global Banking and Markets

Loss before taxes and non-controlling interest in income of trust for the first quarter of 2010 on a reported basis was C$44 million compared with income of C$58 million for the same period in 2009. Income before taxes and non-controlling interest in income of trust excluding fair value accounting of certain financial instruments for the first quarter of 2010 was C$68 million compared with income of C$23 million for the same period in 2009. Net interest income was higher due to the reduction in funding and liquidity costs and the positive impact from the stable interest rate environment. Non-interest revenue was C$152 million lower due to other mark-to-market accounting losses, partially offset by higher capital markets fees due to increased revenues from client activities and the realization of gains on certain unquoted securities. Other mark-to-market accounting losses are required to be reported in income even though no income loss had occurred. These mainly arose from the negative impact of changing market interest rates on mark-to-market losses on interest rate derivatives used as economic hedges, and changes in certain assumptions used in our derivative valuation models.

These were partially offset by translation gains recorded on US dollar funding of US dollar AFS securities. Core trading revenues decreased due to lower customer volumes and the impact of volatile markets in the prior periods. Non-interest expense was higher due to an increase in variable compensation and support costs. Provision for credit losses was reduced due to a C$9 million provision recorded in 2009 for non-bank ABCP related exposures.

Loss before taxes and non-controlling interest in income of trust was C$44 million on a reported basis compared with income of C$101 million for the fourth quarter of 2009. Income before taxes and non-controlling interest in income of trust excluding fair value accounting of certain financial instruments was C$68 million compared with income of C$93 million for the fourth quarter of 2009. Non-interest revenue was C$142 million lower as a result of higher mark-to-market accounting losses, which mainly arose from the negative impact of rising interest rates and changes in certain assumptions used in derivative valuation models for mark-to-market losses on interest rate derivatives used as economic hedges. These were partially offset by translation gains recorded on US dollar funding of US dollar AFS securities. Capital markets fees were lower due to an exceptional level of fees in the prior quarter. Non-interest expenses were higher for the same reasons as noted above. Provision for credit losses was relatively unchanged compared to the fourth quarter of 2009.

Consumer Finance

Income before taxes and non-controlling interest in income of trust for the first quarter of 2010 was C$14 million compared with a loss of C$14 million for the same period in 2009. Net interest income compared with the same period in 2009 was lower due to the reduction in the origination of customer receivables resulting from tightening credit standards applied in anticipation of deteriorating economic conditions. Non-interest revenue was unchanged compared to the same period in 2009; however, the earlier period included a C$4 million loss contingency relating to auto loans. Non-interest expenses were reduced due to a reduction of the branch network resulting from lower origination volumes, together with other cost containment measures. Provision for credit losses was C$45 million lower compared to the same period in 2009 due to improved credit performance. Improved economic conditions, additional collection resources and the earlier tightening of credit decisions resulted in reduced delinquency levels. 60-days-and-over delinquency decreased to C$198 million at 31 March 2010 compared to C$248 million at 31 March 2009.

Income before taxes and non-controlling interest in income of trust was C$14 million compared with income of C$7 million for the fourth quarter of 2009. Net interest income was lower due to the credit tightening decisions noted above. Non-interest revenue was slightly higher due to mark-to-market losses on certain investments recorded in the fourth quarter of 2009. Non-interest expenses were essentially flat compared to the prior quarter. Provision for credit losses was C$15 million lower due to improved credit performance. 60-days-and-over delinquency decreased to C$198 million compared to C$220 million in the fourth quarter of 2009 for the same reasons noted above.

Transition to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board previously announced that for fiscal years commencing on or after 1 January 2011, all publicly accountable enterprises will be required to report financial results in accordance with IFRS. The purpose of adopting IFRS is to promote the comparability of world-wide financial reporting. Accordingly, all interim and annual financial reporting, including comparative figures, will be prepared in accordance with IFRS from 1 January 2011 onwards.

Pages 18 and 19 of our 2009 Annual Report and Accounts contain a discussion of the key elements of our implementation plan including: our project governance structure, implementation strategy, expected impacts on account of transitioning to IFRS and expected impact due to anticipated future changes to IFRS. We have provided a status update of our IFRS implementation project and other anticipated impacts of transitioning to IFRS below.

Status update

Our IFRS implementation project is progressing in accordance with the project plan. During 2009, we completed our detailed assessment of accounting differences between Canadian GAAP and IFRS. We have not identified any material accounting differences which are not already addressed by our present processes and systems, however, we continue to review each applicable IFRS standard to ensure that all potential differences are identified. Our process to establish an opening IFRS balance sheet as at 1 January 2010 is well advanced. We have also begun preparations to establish comparative 2010 figures and disclosures for the purposes of reporting in 2011 under IFRS. Management believes that it has made available sufficient resources to successfully complete the transition.

Financial reporting expertise

As a result of reporting our financial results on an IFRS basis for inclusion in the HSBC Group's consolidated financial results, a number of accounting staff are already experienced in applying IFRS. However, we have developed our training plan to expand the knowledge base for IFRS throughout the organization utilizing external and internal training options. We anticipate commencing additional training during the second quarter of 2010.

Expected impact of IFRS on our internal controls over financial reporting and disclosure controls and procedures

We have existing appropriate and effective internal controls over financial reporting to provide reasonable assurance that our systems and processes produce reliable information and that all material information relating to the bank as an issuer is appropriately disclosed. Our parent is subject to certain U.S. requirements including the Sarbanes-Oxley Act, which is similar to and in some instances exceeds the regulatory requirements of the Canadian Securities Administrators (National Instrument 52-109: Certification of Disclosure in Issuers' Annual and Interim Filings). As our results are already reported for inclusion in the HSBC Group's consolidated financial results subject to the aforementioned requirements, we anticipate that our existing internal controls over financial reporting and disclosure controls and procedures will remain effective for reporting under IFRS.

Transition to International Financial Reporting Standards ("IFRS") *(continued)*

Expected impact on business activities

For internal management, the bank utilizes its IFRS based results reported to HSBC Group. The expected impact on business activities of the bank adopting full IFRS on a stand-alone basis is not expected to be significant.

The transition to IFRS is expected to have some impact on our capital management processes. Currently, we also manage our capital requirements and impact in accordance with IFRS requirements. The transition to IFRS is expected to result in an elimination of certain duplicate requirements. Although we have not finalized our opening IFRS balance sheet, we have made a preliminary assessment of the anticipated changes and expect the transition to IFRS will not have a material impact on our regulatory capital ratios. In addition, we believe that we will continue to remain appropriately capitalized and exceed both internal targets and regulatory capital requirements.

Communication to investors

As a wholly-owned subsidiary with no common stock held by outside shareholders, our third party investors consist of preferred shareholders, holders of HSBC Canada Asset Trust Securities (HSBC HaTS™) and holders of our subordinated debt whose primary concern is the payment of dividends, interest and return of principal amounts on the due dates. We plan to communicate the impact of IFRS on our financial results within our Report to Shareholders as required under IFRS transition disclosure standards and by the securities and banking regulators. We do not consider that reporting of our results and financial condition under IFRS will have a significant impact on third party investors.

Consolidated Statements of Income (Unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* **31 March 2010**	*31 December 2009*	*31 March 2009*
Interest income:			
Loans	**$ 440**	$ 468	$ 551
Securities	**68**	71	68
Deposits with regulated financial institutions	**4**	4	4
	512	543	623
Interest expense:			
Deposits	**97**	115	225
Interest bearing liabilities of subsidiaries, other than deposits	**26**	25	38
Debentures	**9**	10	10
	132	150	273
Net interest income	**380**	393	350
Non-interest revenue:			
Deposit and payment service charges	**27**	27	27
Credit fees	**45**	49	34
Capital market fees	**32**	58	26
Investment administration fees	**33**	33	26
Foreign exchange	**11**	10	10
Trade finance	**6**	5	7
Trading revenue	**20**	21	41
Gains (losses) on available-for-sale and other securities	**3**	(1)	–
Securitization income	**38**	39	35
Other	**63**	60	36
Other mark-to-market accounting (losses) gains, net	**(112)**	8	35
	166	309	277
Total revenue	**546**	702	627
Non-interest expenses:			
Salaries and employee benefits	**177**	175	184
Premises and equipment	**42**	45	42
Other	**116**	114	99
	335	334	325
Net operating income before provision for credit losses	**211**	368	302
Provision for credit losses	**63**	131	161
Income before provision for income taxes and non-controlling interest in income of trust	**148**	237	141
Provision for income taxes	**43**	66	39
Non-controlling interest in income of trust	**6**	7	6
Net income	**$ 99**	$ 164	$ 96
Preferred share dividends	**15**	16	11
Net income attributable to common shares	**$ 84**	$ 148	$ 85
Average common shares outstanding (000)	**498,668**	498,668	498,668
Basic earnings per share (C$)	**0.17**	0.30	0.17

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Balance Sheets (Unaudited)

Figures in C$ millions	***At 31 March 2010***	*At 31 December 2009*	*At 31 March 2009*
Assets			
Cash resources:			
Cash and non-interest bearing deposits with the Bank of Canada and other banks	**$ 559**	$ 652	$ 446
Deposits with regulated financial institutions	**1,339**	1,245	1,403
	1,898	1,897	1,849
Securities:			
Available-for-sale	**13,850**	12,682	11,078
Held-for-trading	**2,217**	1,986	1,816
Other	**41**	41	57
	16,108	14,709	12,951
Securities purchased under reverse repurchase agreements	**7,094**	8,496	4,070
Loans:			
Business and government	**18,813**	18,442	22,454
Residential mortgages	**10,750**	11,359	11,526
Consumer finance loans	**3,047**	3,199	3,832
Other consumer loans	**5,930**	5,742	5,424
Allowance for credit losses	**(633)**	(638)	(709)
	37,907	38,104	42,527
Other:			
Customers' liability under acceptances	**4,580**	4,966	5,394
Derivatives	**1,086**	1,100	1,901
Land, buildings and equipment	**142**	142	123
Other assets	**1,833**	1,923	1,314
	7,641	8,131	8,732
	$ 70,648	$ 71,337	$ 70,129
Liabilities and shareholders' equity			
Deposits:			
Regulated financial institutions	**$ 1,066**	$ 754	$ 999
Individuals	**21,249**	21,578	22,147
Businesses and governments	**27,367**	27,875	26,659
	49,682	50,207	49,805
Other:			
Acceptances	**4,580**	4,966	5,394
Interest bearing liabilities of subsidiaries, other than deposits	**3,244**	3,324	4,284
Derivatives	**1,134**	897	1,487
Securities sold under repurchase agreements	**2,359**	2,517	493
Securities sold short	**1,073**	1,148	591
Other liabilities	**3,086**	2,650	2,661
Non-controlling interest in trust and subsidiary	**430**	430	430
	15,906	15,932	15,340
Subordinated debentures	**736**	834	795
Shareholders' equity:			
Capital stock			
Preferred shares	**946**	946	696
Common shares	**1,225**	1,225	1,225
Contributed surplus	**9**	7	1
Retained earnings	**2,122**	2,113	1,965
Accumulated other comprehensive income	**22**	73	302
	4,324	4,364	4,189
Total liabilities and shareholders' equity	**$ 70,648**	$ 71,337	$ 70,129

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Figures in C$ millions	*Quarter ended* **31 March 2010**	*31 December 2009*	*31 March 2009*
Preferred shares:			
Balance at beginning and end of period	**$ 946**	$ 946	$ 696
Common shares:			
Balance at beginning and end of period	**1,225**	1,225	1,225
Contributed surplus:			
Balance at beginning of period	**7**	5	–
Stock-based compensation	**2**	2	1
Balance at end of period	**9**	7	1
Retained earnings:			
Balance at beginning of period	**2,113**	2,035	1,950
Net income for the period	**99**	164	96
Preferred share dividends	**(15)**	(16)	(11)
Common share dividends	**(75)**	(70)	(70)
Balance at end of period	**2,122**	2,113	1,965
Accumulated other comprehensive income (loss) – available-for-sale securities:			
Balance at beginning of period	**(25)**	3	85
Net change in unrealized (losses) gains on available-for-sale securities, net of income taxes	**(29)**	(28)	29
Balance at end of period	**(54)**	(25)	114
Accumulated other comprehensive income (loss) – cash flow hedges:			
Balance at beginning of period	**98**	115	197
Net change in cash flow hedges, net of income taxes	**(22)**	(17)	(9)
Balance at end of period	**76**	98	188
Total accumulated other comprehensive income	**22**	73	302
Total shareholders' equity	**$ 4,324**	$ 4,364	$ 4,189

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Comprehensive Income (Unaudited)

Figures in C$ millions	*Quarter ended* **31 March 2010**	*31 December 2009*	*31 March 2009*
Net income	**$ 99**	$ 164	$ 96
Other comprehensive income (loss) on available-for-sale securities:			
Net unrealized (losses) gains from changes in fair value (net of taxes of $(10), $(14), $12)	**(27)**	(29)	29
Reclassification of realized (gains) losses to earnings (net of taxes of $(1), $–, $–)	**(2)**	1	–
	(29)	(28)	29
Other comprehensive income (loss) on cash flow hedges:			
Unrealized losses from changes in fair value (net of taxes of $(12), $(7), $(7))	**(22)**	(17)	(9)
Comprehensive income for the periods	**$ 48**	$ 119	$ 116

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

Figures in C$ millions	*Quarter ended* **31 March 2010**	*31 December 2009*	*31 March 2009*
Cash flows provided by (used in) operating activities:			
Net income	**$ 99**	$ 164	$ 96
Adjustments to net income to determine net cash provided by operating activities:			
Amortization expense	**13**	12	10
Provision for credit losses	**63**	131	161
Provision for impairment of available-for-sale securities	**–**	2	1
Future income taxes	**23**	(41)	–
Net accrued interest receivable and payable	**(7)**	(45)	27
Trading securities	**(231)**	99	(737)
Derivatives, net	**217**	(188)	11
Mortgages sold with recourse	**96**	61	81
Securities sold short	**(75)**	102	(40)
Other, net	**346**	136	523
	544	433	133
Net cash flows provided by (used in) financing activities:			
Deposits (repaid) received	**(525)**	739	(2,157)
Interest bearing liabilities of subsidiaries, other than deposits	**(80)**	(39)	120
Securities sold under repurchase agreements	**(158)**	(377)	(222)
Dividends paid	**(90)**	(88)	(81)
	(853)	235	(2,340)
Net cash flows provided by (used in) investing activities:			
Loans repaid (funded), excluding securitizations	**(933)**	(196)	202
Proceeds from loans securitized	**1,295**	989	1,316
Non-trading securities purchased	**(1,988)**	(2,208)	(3,262)
Non-trading securities sold	**112**	330	109
Non-trading securities matured	**440**	631	1,234
Other securities	**–**	–	(1)
Securities purchased under reverse repurchase agreements	**1,402**	(753)	2,612
Net change in non-operating and other deposits with regulated financial institutions	**(95)**	33	19
Acquisition of land, buildings and equipment, and intangible assets	**(18)**	(32)	(9)
	215	(1,206)	2,220
Increase (decrease) in cash and cash equivalents	**(94)**	(538)	13
Cash and cash equivalents, beginning of period	**639**	1,177	420
Cash and cash equivalents, end of period	**$ 545**	$ 639	$ 433
Represented by:			
Cash and non-interest bearing deposits with the Bank of Canada and other banks	**559**	652	446
Less non-operating deposits with banks(1)	**(14)**	(13)	(13)
Cash and cash equivalents, end of period	**$ 545**	$ 639	$ 433

(1) *Non-operating deposits comprised primarily of cash restricted for recourse on securitization transactions.*

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

All tabular amounts are in C$ millions of dollars unless stated otherwise

HSBC Bank Canada ("the bank", "we", "our") is a subsidiary of HSBC Holdings plc ("the Parent"). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies.

1. Basis of Preparation

These consolidated financial statements should be read in conjunction with Management's Discussion and Analysis and the notes to the consolidated financial statements of the bank for the year ended 31 December 2009 as set out on pages 25 to 39 and 48 to 98 of the 2009 Annual Report and Accounts. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), except where stated, using the same accounting policies and methods of computation as were used for the bank's consolidated financial statements for the year ended 31 December 2009. Certain prior period amounts have been reclassified to conform with the current period presentation. Unless otherwise stated, all tabular amounts are in C$ millions.

We provide services or enter into transactions with a number of HSBC Group Companies regarding the sharing of cost 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 net basis as part of "Non-interest expenses, Other". Effective for the first quarter of 2010, we have reported the impact of these transactions on a gross basis by increasing the appropriate expense categories and reclassifying the recovery of these expenditures to "Non-interest revenue, Other". Prior periods have also been reclassified to conform to the current year's presentation. The impact of this change is a follows:

	Quarter ended		
	31 March 2010	*31 December 2009*	*31 March 2009*
Non-interest revenue:			
Other	**$ 38**	$ 42	$ 34
Non-interest expense:			
Salaries and employee benefits	**22**	22	24
Premises and equipment	**1**	4	1
Other	**15**	16	9
	$ 38	$ 42	$ 34

2. Accounting policies

There have been no changes in accounting policies since 31 December 2009. Certain amendments to the CICA Handbook relating to business combinations were effective for the first quarter of 2010, but these had no material impact on the bank's consolidated financial statements.

Future accounting and reporting changes have been disclosed on page 59 of the 2009 Annual Report and Accounts.

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

3. Securities

Asset-backed commercial paper

Fair value

The par value of the bank's asset-backed commercial paper notes at 31 March 2010, was C$459 million, with a carrying value of C$256 million (2009 - C$459 million and C$256 million respectively). In the current year, there has been no change in the fair value of the notes as a result of changes in market conditions. The recorded net carrying value of the notes represents management's best estimate of their fair value at 31 March 2010.

At 31 March 2010, the effect of a 100 basis point adverse change in the discount rate, our valuation model's significant non-observable input, would result in a further decrease in the fair value of the notes of approximately C$18 million (2009 - C$17 million).

4. Loans

Loans outstanding, net of unearned income and the allowance for credit losses, are as follows:

	Quarter ended 31 March 2010				
	Business and government	*Residential mortgages*	*Consumer finance loans*	*Other consumer loans*	*Total*
Gross amount at end of period	**18,813**	**10,750**	**3,047**	**5,930**	**38,540**
Specific allowance at beginning of period:	**$ 185**	**$ 1**	**$ –**	**$ –**	**$ 186**
Provision for credit losses(1)	**24**	**1**	**–**	**–**	**25**
Write-offs, net of recoveries	**(9)**	**(1)**	**–**	**–**	**(10)**
Specific allowance at end of period	**200**	**1**	**–**	**–**	**201**
General allowance at beginning of period:	**220**	**2**	**201**	**29**	**452**
Provision for credit losses(1)	**(3)**	**–**	**32**	**9**	**38**
Write-offs, net of recoveries	**–**	**–**	**(53)**	**(5)**	**(58)**
General allowance at end of period	**217**	**2**	**180**	**33**	**432**
Total allowance(2)	**417**	**3**	**180**	**33**	**633**
Net amount at end of period	**$ 18,396**	**$ 10,747**	**$ 2,867**	**$ 5,897**	**$ 37,907**

	Quarter ended 31 March 2009				
	Business and government	*Residential mortgages*	*Consumer finance loans*	*Other consumer loans*	*Total*
Gross amount at end of period	22,454	11,526	3,832	5,424	43,236
Specific allowance at beginning of period:	$ 161	$ 1	$ –	$ –	$ 162
Provision for credit losses(1)	78	1	–	–	78
Write-offs, net of recoveries	(6)	–	–	–	(6)
Specific allowance at end of period	233	1	–	–	234
General allowance at beginning of period:	234	1	194	24	453
Provision for credit losses(1)	–	–	77	6	83
Write-offs, net of recoveries	–	–	(55)	(6)	(61)
General allowance at end of period	234	1	216	24	475
Total allowance(2)	467	2	216	24	709
Net amount at end of period	$ 21,987	$ 11,524	$ 3,616	$ 5,400	$ 42,527

(1) *Total provision for credit losses for the quarter ended 31 March 2010 was C$63 million (31 March 2009 – C$161 million).*

(2) *Includes a general allowance for customers who can utilize facilities through either direct borrowings or acceptances.*

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

5. Loan Securitization

a. Securitization activity during the first quarter of 2010 is as follows:

	Residential mortgages
New securitization activity	
Securitized and sold	**$ 1,296**
Net cash proceeds received	**1,295**
Retained rights to future excess interest	**45**
Retained servicing liability	**7**
Pre-tax gain on sale	**33**
Key assumptions at time of sale	
Prepayment rate	**18.00%**
Excess spread	**1.67%**
Expected credit losses	**0.00%**
Discount rate	**3.14%**

b. The outstanding securitized loans sold to unrelated third parties and removed from the consolidated balance sheets are as follows:

	At 31 March 2010	*At 31 December 2009*
Residential mortgages		
Conventional	**$ 679**	$ 818
Mortgage-backed securities[(1)]	**7,609**	6,741
	$ 8,288	$ 7,559

(1) *Excludes insured mortgages which were securitized and retained by the bank of C$434 million (2009 - C$648 million). These assets are classified as AFS securities.*

6. Financial Liabilities

Information relating to financial liabilities designated as held-for-trading under the fair value option is as follows:

	At 31 March 2010			
	Contractual amount payable at maturity	*Fair value*	*Cumulative fair value gain (loss)*	*Cumulative fair value gain attributable to credit risk*
Deposits	**$ 859**	**$ 872**	**$ (13)**	**$ (6)**
Interest bearing liabilities of subsidiaries, other than deposits	**200**	**200**	**–**	**–**
Subordinated debentures	**400**	**406**	**(6)**	**22**
	$ 1,459	**$ 1,478**	**$ (19)**	**$ 16**

	At 31 December 2009			
	Contractual amount payable at maturity	*Fair value*	*Cumulative fair value loss*	*Cumulative fair value gain(loss) attributable to credit risk*
Deposits	$ 784	$ 803	$ (19)	$ (5)
Interest bearing liabilities of subsidiaries, other than deposits	200	202	(2)	1
Subordinated debentures	400	402	(2)	26
	$ 1,384	$ 1,407	$ (23)	$ 22

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

7. Capital stock issued and outstanding shares

	At 31 March 2010		*At 31 December 2009*		*At 31 March 2009*	
	Number	***Amount***	*Number*	*Amount*	*Number*	*Amount*
Preferred Shares – Class 1						
– Series C	**7,000,000**	**$ 175**	7,000,000	$ 175	7,000,000	$ 175
– Series D	**7,000,000**	**175**	7,000,000	175	7,000,000	175
– Series E	**10,000,000**	**250**	10,000,000	250	–	–
Preferred Shares – Class 2						
– Series B	**86,450,000**	**346**	86,450,000	346	86,450,000	346
		$ 946		$ 946		$ 696
Common shares						
– HSBC Bank Canada	**498,668,000**	**1,225**	498,668,000	1,225	498,668,000	1,225
		$ 1,225		$ 1,225		$ 1,225

On 8 April 2009, the issue of 10,000,000 Class 1 Preferred Shares Series E of C$25 each for cash was completed at a coupon of 6.60 per cent and raised C$245 million, net of issue costs.

8. Stock-based compensation

The expense for stock-based compensation was as follows:

	Quarter ended		
	31 March 2010	*31 December 2009*	*31 March 2009*
Savings-related share option scheme	**$ 2**	$ 2	$ 1
Achievement awards	**–**	–	6
	$ 2	$ 2	$ 7

9. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended		
	31 March 2010	*31 December 2009*	*31 March 2009*
Pension plans – defined benefit	**$ 5**	$ 5	$ 4
Pension plans – defined contribution	**4**	5	5
Other benefits	**3**	2	3
	$ 12	$ 12	$ 12

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

10. Customer group segmentation

The bank reports and manages its operations according to the customer group definitions of the HSBC Group.

	Quarter ended		
	31 March 2010	*31 December 2009*	*31 March 2009*
Personal Financial Services			
Net interest income	**$ 74**	$ 95	$ 78
Non-interest revenue	**116**	115	85
Total revenue	**190**	210	163
Non-interest expenses	**158**	164	146
Net operating income	**32**	46	17
Provision for credit losses	**9**	14	14
Income before undernoted	**23**	32	3
Provision for income taxes	**7**	12	–
Non-controlling interest in income of trust	**1**	1	1
Net income	**15**	19	2
Preferred share dividends	**2**	3	1
Net income attributable to common shares	**$ 13**	$ 16	$ 1
Average assets	**$ 18,299**	$ 18,481	$ 17,994
Commercial Banking			
Net interest income	**$ 188**	$ 172	$ 176
Non-interest revenue	**88**	92	78
Total revenue	**276**	264	254
Non-interest expenses	**97**	96	99
Net operating income	**179**	168	155
Provision for credit losses	**24**	71	61
Income before undernoted	**155**	97	94
Provision for income taxes	**44**	15	27
Non-controlling interest in income of trust	**4**	4	4
Net income	**107**	78	63
Preferred share dividends	**5**	5	2
Net income attributable to common shares	**$ 102**	$ 73	$ 61
Average assets	**$ 23,190**	$ 22,862	$ 25,902
Global Banking and Markets			
Net interest (expense) income	**39**	37	(5)
Non-interest (loss) revenue	**(48)**	94	104
Total (loss) revenue	**(9)**	131	99
Non-interest expenses	**37**	31	32
Net operating (loss) income	**(46)**	100	67
Provision for credit losses	**(2)**	(1)	9
(Loss) income before undernoted	**(44)**	101	58
(Recovery of) provision for income taxes	**(12)**	36	17
Non-controlling interest in income of trust	**1**	2	1
Net (loss) income	**(33)**	63	40
Preferred share dividends	**1**	1	1
Net (loss) income attributable to common shares	**$ (34)**	$ 62	$ 39
Average assets	**$ 27,849**	$ 28,190	$ 23,650
Consumer Finance			
Net interest income	**79**	89	101
Non-interest revenue	**10**	8	10
Total revenue	**89**	97	111
Non-interest expenses	**43**	43	48
Net operating income	**46**	54	63
Provision for credit losses	**32**	47	77
Income (loss) before undernoted	**14**	7	(14)
Provision for (recovery of) income taxes	**4**	3	(5)
Net income (loss)	**10**	4	(9)
Preferred share dividends	**7**	7	7
Net income (loss) attributable to common shares	**$ 3**	$ (3)	$ (16)
Average assets	**$ 3,090**	$ 3,216	$ 3,918

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

11. Guarantees, commitments, legal proceedings and contingent liabilities

Except as stated, there have been no significant changes to guarantees, commitments, legal proceedings and contingent liabilities since 31 December 2009.

Credit-related commitments

In the normal course of business, we enter into various off-balance sheet commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. The credit instruments reported below represent the maximum amount of additional credit that we could be obligated to extend should contracts be fully utilized.

	At 31 March 2010	*At 31 December 2009*
Financial and performance standby letters of credit	**$ 2,198**	$ 2,249
Documentary and commercial letters of credit	**244**	228
Commitments to extend credit	**35,458**	36,229
Credit and yield enhancement	**14**	13
	$ 37,914	$ 38,719

Shareholder Information

PRINCIPAL ADDRESSES

Vancouver (head office):
HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: (604) 685-1000
Fax: (604) 641-1849

Toronto:
HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J 1S9
Tel: (416) 868-8000
Fax: (416) 868-3800

WEB SITE
hsbc.ca

MEDIA ENQUIRIES

Ernest Yee	(604) 641-2973
Sharon Wilks	(416) 868-3878

For dividend information, change in shareholder address or to advise of duplicate mailings, please contact:

Computershare Trust Company of Canada
Shareholder Service Department
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253
Fax: 1 (800) 453-0330

For other shareholder enquiries please contact:

HSBC Bank Canada
Shareholder Relations
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Email: Shareholder_relations@hsbc.ca

Chris Young	(604) 641-1976
Santokh Birk	(604) 641-1918

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)

HSBC Canada Asset Trust
Asset Trust Securities – Series 2010 (HSBC HaTS™) (HBH.M)

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 260 offices, including over 140 bank branches and is the leading international bank in Canada. With around 8,000 offices in 88 countries and territories and assets of US$2,364 billion at 31 December 2009, the HSBC Group is one of the world's largest banking and financial services organizations.

Published by HSBC Bank Canada, Vancouver
Printed by Western Printers, Burnaby

HSBC Bank Canada
885 West Georgia Street
Vancouver, B.C.
Canada V6C 3E9
Telephone: (604) 685-1000
Web: hsbc.ca