HSBC BANK CANADA

FIRST QUARTER 2011 INTERIM REPORT

- Profit attributable to common shareholders was C$142m for the quarter ended 31 March 2011, an increase of 6.8% over the same period in 2010.

- Return on average common equity was 16.6% for the quarter ended 31 March 2011 compared with 16.2% for the same period in 2010.

- The cost efficiency ratio was 57.0% for the quarter ended 31 March 2011 compared with 52.2% for the same period in 2010.

- Total assets were C$79.1bn at 31 March 2011 compared with C$78.8bn at 31 March 2010.

- Total assets under administration increased to C$33.2bn at 31 March 2011 from C$32.4bn at 31 March 2010.

- Tier 1 capital ratio of 13.4% and a total capital ratio of 16.2% at 31 March 2011 compared to 12.3% and 14.8% respectively at 31 March 2010.

The world's local bank

First Quarter 2011 Interim Report

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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.

First Quarter 2011 Management's Discussion and Analysis

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 first quarter of 2011 is dated 10 May 2011.

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), which we adopted on 1 January 2011. 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. Prior to the adoption of IFRS, our financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Prior period amounts have been restated on an IFRS basis and certain amounts have been reclassified to conform to the presentation adopted in the current period. Our adoption of IFRS is described in more detail in the "Transition to IFRS" section of this MD&A and in Notes 1, 2, 3 and 17 of the accompanying consolidated financial statements.

Financial Highlights

	Quarter ended		
	31 March 2011	31 March 2010	31 December 2010
For the period (C$m)			
Profit before income tax expense	**223**	224	169
Net operating income before loan impairment charges and other credit risk provisions	**630**	613	653
Profit attributable to common shareholders	**142**	133	96
At period-end (C$m)			
Shareholders' equity	**4,414**	4,216	4,426
Risk weighted assets (1)	**33,531**	37,239	34,152
Loan and advances to customers (net of impairment allowances)	**45,959**	49,526	45,218
Customer accounts	**44,252**	42,294	45,460
Capital ratios (%) (1)			
Tier 1 ratio	**13.4**	12.3	13.3
Total capital ratio	**16.2**	14.8	16.0
Performance ratios (%) (2)			
Return on average common equity	**16.6**	16.2	10.8
Post-tax return on average total assets	**0.72**	0.67	0.47
Post-tax return on average risk weighted assets	**1.7**	1.4	1.1
Credit coverage ratios (%)			
Loan impairment charges as a percentage of total operating income	**7.8**	11.3	17.6
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.1**	0.1	0.2
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**69.9**	62.2	73.1
Efficiency and revenue mix ratios (%)(2)			
Cost efficiency ratio	**57.0**	52.2	56.7
Adjusted cost efficiency ratio	**54.4**	48.8	53.7
As a percentage of total operating income:			
- net interest income	**60.6**	64.3	61.6
- net fee income	**25.9**	23.8	27.0
- net trading income	**5.9**	5.9	4.1
Financial ratios (%)(2)			
Ratio of customer advances to customer accounts	**103.9**	117.1	99.5
Average total shareholders' equity to average total assets	**5.5**	5.3	5.5
Total assets under administration (C$m)			
Funds under management	**32,057**	30,382	31,501
Custodial accounts	**1,128**	2,009	1,303
Total assets under administration	**33,185**	32,391	32,804

(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. Risk weighted assets and ratios at 31 March 2010 and 31 December 2010 have not been restated for the impact of IFRS.*

(2) *These are non-IFRS amounts or non-IFRS measures. Please refer to the discussion outlining the use of non-IFRS measures in this document in the "IFRS and related non-IFRS measures used in the MD&A" section on page 7.*

Analysis of Financial Results

Overview

HSBC Bank Canada recorded profit for the period of C$160m for the first quarter of 2011, an increase of C$6m, or 3.9% compared with profit of C$154m for the first quarter of 2010 and C$42m, or 35.6% higher than the fourth quarter of 2010. Profit attributable to common shareholders was C$142m for the quarter ended 31 March 2011, an increase of C$9m, or 6.8% over the first quarter of 2010 and C$46m, or 47.9% higher than the fourth quarter of 2010. The increase was primarily due to higher fee income and lower loan impairment charges, partially offset by lower net interest income and increased operating expenses. A reduction in statutory tax rates also contributed to the increase in profit for the period.

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

"Improving economic conditions, a reduction in credit losses and HSBC's strong business fundamentals delivered continued solid operating results for the first quarter. We continued to focus on generating growth, building on our global capabilities to meet our customer needs, while maintaining strong capital and liquidity levels.

"We expect the economy to show modest but continued improvement through 2011 and HSBC is well placed to support our clients' growth ambitions as the Canadian employment picture improves and trade with emerging markets increases."

Analysis of Consolidated Financial Results for the First Quarter of 2011

Net interest income for the first quarter of 2011 was C$382m, compared with C$394m for the first quarter of 2010, a decrease of C$12m, or 3.0%. The decrease was primarily due to spread compression resulting from competitive pressures and lower loan volumes, resulting from reduced commercial borrowings and Consumer Finance receivables, as well as our strategic initiatives to reduce commercial real estate concentration. These decreases were partially offset by the benefit from increases in the Bank of Canada interest rates impacting the bank's prime rate-based assets.

Net interest income for the first quarter of 2011 decreased by C$20m or 5.0% compared to the fourth quarter of 2010. The decrease was primarily due to lower loan volumes in commercial and consumer finance loans, as noted above and higher term funding costs.

Net fee income. The components of net fee income are as follows:

	Quarter ended		
	31 March 2011	31 March 2010	31 December 2010
Fee income			
Credit facilities	**52**	44	51
Funds under management	**40**	32	38
Account services	**21**	22	22
Brokerage commissions	**22**	20	21
Credit cards	**11**	10	13
Corporate finance	**9**	13	15
Insurance	**6**	6	16
Remittances	**5**	4	5
Trade finance import/export	**4**	4	5
Trustee fees	**1**	2	2
Other	**12**	9	10
Fee income	**183**	166	198
Less: fee expense	**20**	20	22
Net fee income	**163**	146	176

Net fee income for the first quarter of 2011 increased by C$17m, or 11.6%, compared with the first quarter of 2010. Fees from funds under management, credit facilities and brokerage commissions increased by C$18m, due to stronger sales and increased equity values in the wealth management business, higher volumes of bankers' acceptances and standby credits and increased international trade activity in commercial banking. These were partially offset by a C$4m decrease in corporate finance fees compared to the prior period due to a decrease in equity and debt capital markets activity.

Analysis of Financial Results (continued)

Net fee income decreased by C$13m, or 7.4% compared to the fourth quarter of 2010, primarily due to a C$6m decrease in corporate finance fees, partially offset by a C$4m increase in fees from funds under management, credit facilities and brokerage commissions. In addition, a one-time increase in credit insurance income of C$10m was recorded in the fourth quarter of 2010.

Net trading income for the first quarter of 2011 was C$37m, compared with C$36m for the first quarter of 2010. The main factor contributing to the slight increase in the current period was an increase in foreign exchange trading revenue as a result of specific marketing initiatives to increase customer transaction volumes.

Net trading income increased by C$10m, or 37.0% compared to the fourth quarter of 2010 due to an increase in rates and credits trading revenues.

Net loss from financial instruments designated at fair value. The bank records certain subordinated debentures, deposits and liabilities of subsidiaries at fair value. As credit spreads continued to narrow in the first quarter of 2011, the change in fair value of these balances resulted in an expense of C$8m in the period, which was unchanged from the same quarter in 2010 and C$4m higher than the expense incurred in the fourth quarter of 2010.

Changes in credit spreads can have a material impact on the fair value of our own debt obligations designated at fair value and can create significant inter-period volatility in our reported results. However, as these instruments are normally held to their maturity, there is no resulting economic gain or loss.

Gains less losses from financial investments for the first quarter of 2011 were C$16m, compared with C$3m for the first quarter of 2010, an increase of C$13m. The increase was due to the disposal of the bank's available-for-sale preferred share portfolio, combined with higher gains on certain government bonds and bank debt securities sold in the current quarter. There were no gains or losses from financial investments in the fourth quarter of 2010.

Other operating income for the first quarter of 2011 was C$40m, compared with C$42m for the first quarter of 2010, a decrease of C$2m, or 4.8%. Other operating income decreased by C$12m, or 23.1% in the first quarter compared to the fourth quarter of 2010. The lower income in the current quarter is primarily due to a decrease in recoveries related to the delivery of technology services to other HSBC Group companies, with the related expenses recorded in "total operating expenses" below.

Loan impairment charges and other credit risk provisions of C$49m were recorded in the first quarter of 2011 compared with C$69m for the first quarter of 2010 and C$115m in the fourth quarter of 2010. The decrease in loan impairment charges in 2011 compared to 2010 was largely due to a decrease in individually assessed impairment charges on the bank's commercial loan portfolio reflecting improving economic conditions, and lower collectively assessed allowances on the consumer finance portfolio as a result of lower receivable balances and lower delinquencies.

Total operating expenses for the first quarter of 2011 were C$359m, compared with C$320m for the first quarter of 2010, an increase of C$39m, or 12.2%. Salaries and employee benefits increased by C$28m, primarily due to increases in commissions and performance-based incentives as a result of better underlying performance, higher full-time salaries and an increase in the post-retirement benefits expense as a result of enhancements to certain of the bank's pension plans. The remainder of the increase over the first quarter of 2010 was due to higher technology and service charges, including expenses related to the delivery of technology services to other HSBC Group companies (with the associated revenue included in "other operating income" above) and higher outside service costs, partially offset by lower premises and equipment costs.

Total operating expenses for the first quarter were C$11m, or 3.0%, lower than in the fourth quarter of 2010. Salaries and employee benefits increased by C$11m, for the reasons noted above, but were offset by lower premises and equipment costs and lower marketing expenditures.

Tax expense. The effective tax rate in the first quarter of 2011 was 28.3%, compared with 31.3% in the same quarter of 2010 and 30.2% in the fourth quarter of 2010. The decrease in the tax rates in the current quarter compared to the first and fourth quarters of 2010 was largely due to a reduction in the statutory income tax rates.

Analysis of Financial Results (continued)

Quarterly summary of condensed statements of income (unaudited)

The following table presents a summary of quarterly consolidated results for the last eight quarters. Because our IFRS adoption is effective as of 1 January 2010, our 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, our quarterly information for 2011 and 2010 is not comparable with the quarterly information for 2009.

	Quarter ended							
	31 March 2011 IFRS	31 December 2010 IFRS	30 September 2010 IFRS	30 June 2010 IFRS	31 March 2010 IFRS	31 December 2009 Canadian GAAP	30 September 2009 Canadian GAAP	30 June 2009 Canadian GAAP
Total revenue [1]	**630**	653	630	690	613	702	590	657
Profit for the period	**160**	118	146	200	154	171	122	136
Profit attributable to common shareholders	**142**	96	124	178	133	148	101	114
Profit attributable to preferred shareholders	**15**	15	16	15	15	16	15	15
Profit attributable to non-controlling interests	**3**	7	6	7	6	7	6	7
Basic earnings per common share	**0.28**	0.19	0.25	0.36	0.27	0.30	0.20	0.23

(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 2009 and 2010 were disclosed on page 13 of the 2010 Annual Report and Accounts.

Statement of Financial Position

Total assets at 31 March 2011 were C$79.1bn, an increase of C$1.1bn from 31 December 2010, primarily due to a C$0.5bn increase in trading assets and a C$0.7bn increase in loans and advances to customers. Liquidity remained strong, with C$25.9bn of cash and balances at central banks, items in the course of collection from other banks, trading assets, loans and advances to banks and financial investments at 31 March 2011, compared to C$26.1bn at 31 December 2010. Loans and advances to customers increased to C$46.0bn from C$45.2bn at 31 December 2010, primarily due an increase in the balance of reverse repurchase agreements with customers. Excluding repurchase agreements, loans and advances decreased by C$0.2bn, as our commercial customers deleveraged their balance sheets.

Gross impaired loans were C$857m, an increase of C$59m compared with C$798m at 31 December 2010, but were C$143m lower than at 31 March 2010. Total impaired loans net of specific allowances for credit losses were C$630m at 31 March 2011, compared with C$571m at 31 December 2010. Total impaired loans includes C$116m (31 December 2010 – C$117m) of Consumer Finance loans, for which impairment is assessed collectively. The collective allowance applicable to Consumer Finance loans was C$140m compared to C$148m at 31 December 2010. The total collective allowance was C$387m compared to C$400m at 31 December 2010.

Total customer accounts decreased to C$44.3bn at 31 March 2011 from C$45.5bn at 31 December 2010. The main decreases were in fixed date personal deposits and interest-bearing current accounts.

Debt securities in issue increased to C$15.2bn at 31 March 2011 from C$14.8bn at 31 December 2010, primarily due to an increase in wholesale term deposits.

Total assets under administration

Funds under management were C$32.1bn at 31 March 2011, an increase of C$0.6bn since 31 December 2010 due to higher net sales and market values in our wealth management business. Including custody and administration balances, total assets under administration were C$33.2bn compared with C$32.8bn at 31 December 2010.

Non-IFRS Measures

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

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 reflect intra-group charges and recoveries from HSBC Group entities on a net basis, consistent with our reporting to our Parent. These revenues and expenses are reported on a gross basis in “other operating income” and “general and administrative expenses” in our consolidated financial statements.

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.

Review of Customer Group Results

Profit before income tax expense

	Quarter ended		
	31 March 2011	31 March 2010	31 December 2010
Retail Banking and Wealth Management	**7**	6	5
Commercial Banking	**137**	153	96
Global Banking and Markets	**79**	54	65
Consumer Finance	**8**	18	10
Other	**(8)**	(7)	(7)
	223	224	169

Retail Banking and Wealth Management ("RBWM") [1]

Overview

Profit before income tax expense was C$7m for the first quarter of 2011, compared with C$6m for the first quarter of 2010. The increase in profit is largely attributable to the wealth management business as a result of strong sales and higher client trading volumes.

The RBWM business continued to focus on becoming the leading international premium bank in Canada, offering our premium customers global connectivity through innovative products providing them access to emerging market exposure and deepening our relationships with them through proposition based product packages and pricing.

Financial performance

Net interest income was C$94m, a decrease of C$2m, or 2.1%, compared to the first quarter of 2010, primarily due to a combination of lower volumes and higher funding costs, partially offset by higher revenues in the securities business. Net interest income was C$3m, or 3.1%, lower compared to the fourth quarter of 2010, primarily due to a combination of lower volumes and higher funding costs.

Net fee income was C$56m, an increase of C$8m, or 16.7%, compared to the first quarter of 2010 due to higher revenues from the wealth management business resulting from stronger sales and increased trading activity, and higher net Global Investor Immigration Services revenues. Net fee income increased by C$3m, or 5.7%, compared to the fourth quarter of 2010 due to higher revenues from the wealth management business resulting from stronger sales and increased customer trading activity, partially offset by lower trustee fees.

Loan impairment charges and other credit risk provisions of C$2m were C$7m, or 77.8%, lower compared to the first quarter of 2010 and C$4m, or 66.7% lower than the fourth quarter of 2010 due to a release of collective impairment provisions as a result of lower volumes and delinquencies.

Total operating expenses were C$149m, an increase of C$12m, or 8.8% compared to the first quarter of 2010, due to higher staff costs, as discussed under the analysis of the consolidated results, and were C$2m higher than the fourth quarter of 2010.

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(1) *In November 2010, our parent company announced that, with effect from March 2011, within the context of the customer group/global business view of HSBC Group's performance, Retail Banking and Wealth Management would be managed as a single global business. The business is the existing Personal Financial Services, with Global Asset Management moving from Global Banking and Markets to this new single business. Commentary in this MD&A related to Retail Banking and Wealth Management reflects the performance of Personal Financial Services and does not yet reflect the change in structure. These changes will be reflected in our second quarter 2011 results.*

Review of Customer Group Results (continued)

Commercial Banking ("CMB")

Overview

Profit before income tax expense was C$137m for the first quarter of 2011, compared with C$153m for the first quarter of 2010. The decrease in profit largely reflects the slow pace of the global economic recovery, continued client deleveraging and its effect on our loan portfolio.

The CMB business continued to focus on its position as the Best Bank for Small Business through our Business Direct strategy and as the Leading International Bank for business by continuing to strengthen our cross border capabilities, particularly through our investment in Eastern Canada.

Financial performance

Net interest income was C$173m, a decrease of C$21m, or 10.8%, compared to the first quarter of 2010. Net interest income decreased as loan volumes declined by 8.4% due to client deleveraging, partially offset by growth in deposits. Net interest income decreased by C$19m, or 9.9%, compared to the fourth quarter of 2010 due to lower margins on deposits, decreased loan volumes resulting from reduced customer demand, and increased term funding costs.

Net fee income was C$69m for the first quarter of 2011, an increase of C$12m, or 21.1%, compared to the first quarter of 2010, and C$4m, or 6.2%, from the fourth quarter of 2010, driven largely by the growth of fees from bankers' acceptances and other credit-related products.

Loan impairment charges and other credit risk provisions decreased by C$13m, or 43.3%, to C$17m compared to the first quarter of 2010. A decrease in the loan portfolio, improved credit quality, and a reduction in the non-performing loans portfolio resulted in reduced levels of individually assessed impairment charges in the energy, wholesale and retail trade sectors and a release of collectively assessed impairments. Compared to the prior quarter, loan impairment charges decreased C$59m, or 77.6%, with lower provisions in the real estate, service and energy sectors.

Total operating expenses were C$96m, an increase of C$17m, or 21.5%, over the same period in 2010 due largely to investments in our business, including personnel and marketing. Operating expenses were C$1m higher compared to the fourth quarter of 2010.

Global Banking and Markets ("GBM")

Overview

Profit before income tax expense was C$79m for the first quarter of 2011, compared with C$54m for the first quarter of 2010. The increase was mainly due to an increase in net interest income from reductions in funding and liquidity costs, higher available-for-sale asset balances and the positive impact from increases in the Bank of Canada interest rates, as well as gains from the disposal of certain financial investments.

The GBM business continued to focus on becoming the International Bank of choice by building a client-driven franchise serving the global needs of our core clients, delivering global products to Canadian clients and Canadian products to global clients.

Financial performance

Net interest income was C$49m, an increase of C$27m, or 122.7%, in the first quarter of 2011 compared to the first quarter of 2010. This reflects the increase in the Bank of Canada interest rates, the benefit of higher available-for-sale asset balances and higher client spreads. Funding and liquidity costs also decreased due to the stability in the financial markets. Net interest income increased by $4m compared to the fourth quarter of 2010 mainly due to a decrease in funding and liquidity costs.

Net fee income of C$28m decreased by C$5m, or 15.2%, in the first quarter of 2011 compared to the first quarter of 2010. This was caused by a decrease in credit fees due to a decrease in the loans outstanding and a decrease in advisory fees. This was partially offset by an increase in asset management fees on higher funds under management due to strong net sales and favourable equity market conditions. Net fee income decreased by C$11m compared to the fourth quarter of 2010 mainly due to a decrease in equity and debt capital market transactions.

Review of Customer Group Results (continued)

Net trading income decreased by C$1m to C$21m in the first quarter of 2011 compared to the first quarter of 2010. Foreign exchange revenues increased due to strong customer activities, but were offset by a decrease in rates and credit trading revenues. Net trading income increased by C$10m compared to the prior quarter due to an increase in mark to market accounting gains and an increase in rates and credit trading revenues.

Gains from financial investments of C$16m from the disposal of assets held as available-for-sale were realized in the first quarter of 2011, which was a C$13m increase from the first quarter of 2010 and C$16m higher than the fourth quarter of 2010. As a result of improved market conditions, a portfolio of preferred shares was sold for a gain of C$6m and gains of C$10m were recognized on the sale of certain government and bank debt securities.

Loan impairment charges and other credit risk provisions were nil in the current quarter. The net recoveries of C$2m and C$3m recorded in the first and fourth quarters of 2010 were due to the release of collective impairment charges.

Total operating expenses were C$36m, an increase of C$7m, or 24.1%, in the first quarter of 2011 compared to the first quarter of 2010, due to certain restructuring costs incurred and an increase in branch operation costs, and were C$2m higher than in the fourth quarter of 2010.

Consumer Finance ("CF")

Overview

CF recorded a profit before income tax expense of C$8m for the first quarter of 2011, compared with C$18m for the first quarter of 2010. This decline was primarily due to a decrease in net interest income as a result of lower average receivables.

The primary focus of CF continued to be the improvement of the sales force's productivity and managing risk and credit quality.

Financial performance

Net interest income for the first quarter was C$70m, a decrease of C$13m, or 15.7%, compared with C$83m for first quarter of 2010. Average receivables declined by approximately C$0.5bn, or 16.0%, resulting in lower net interest income in the first quarter of 2011 compared with the same period in 2010. The lower average receivables were a result of credit tightening decisions taken in 2007 and 2008. Net interest income decreased by C$2m compared to the fourth quarter of 2010, mainly due to lower average receivables.

Net fee income increased by C$2m, or 25.0%, to C$10m in the first quarter of 2011, compared to the first quarter of 2010, mainly due to higher credit card interchange income, emanating from higher credit card transaction volumes and lower rewards costs. Net fee income decreased by C$12m, or 54.5%, compared to the fourth quarter of 2011 primarily due to a one-time increase in credit insurance income of C$10m in the fourth quarter.

Loan impairment charges and other credit risk provisions were C$30m, a decrease of C$2m, or 6.3%, in the first quarter of 2011, compared to the first quarter of 2010, primarily due to lower receivables and delinquencies as a result of improved market conditions and a continued focus on improving the credit quality of the portfolios. Loan impairment charges decreased by C$6m compared to the prior quarter, mainly due to improved delinquencies.

Total operating expenses of C$43m in the first quarter of 2011 increased by C$2m, or 4.9%, compared to the first quarter of 2010, primarily due to higher marketing costs. Operating expenses decreased by C$6m compared to the fourth quarter of 2010, primarily due to lower marketing costs, lower occupancy costs, and other cost containment initiatives.

Other

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include a net loss from financial instruments designated at fair value and revenue and expense recoveries related to information technology activities performed on behalf of the HSBC Group companies. A loss before income tax expense of C$8m was recorded in Other in the first quarter of 2011, compared to a loss of C$7m in the first quarter of 2010 due to the impact of narrowing credit spreads on the fair value of our own debt obligations.

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 risks. A discussion of our risk management activities including both quantitative and qualitative factors is included on pages 26 to 47 of our 2010 Annual Report and Accounts. Unless stated, there have been no changes in our processes and no material changes in quantitative factors during the first quarter of 2011.

Capital Management

	31 March 2011	31 December 2010 [(1)]
Total Tier 1 Capital	**4,497**	4,544
Total Tier 2	**921**	934
Total Tier 1 and Tier 2 capital available for regulatory purposes	**5,418**	5,478
Total risk-weighted assets	**33,531**	34,152
Actual regulatory capital ratios		
Tier 1 capital	**13.4%**	13.3%
Total capital	**16.2%**	16.0%
Actual assets to capital multiple	**13.5x**	13.3x
Minimum regulatory capital ratios required		
Tier 1 capital	**7.0 %**	7.0 %
Total capital	**10.0 %**	10.0 %

(1) *Calculated based on Canadian GAAP. See "Transition to IFRS" on page 13 for a discussion of the impact of IFRS on the bank's regulatory capital.*

Impaired loans

The following table provides details of the impaired loan portfolio:

	31 March 2011	31 December 2010
Personal		
Residential mortgages	**120**	116
Other personal	**41**	35
	161	151
Consumer finance loans	**116**	117
Corporate and commercial	**580**	530
Acceptances and letters of credit	**22**	60
Total impaired loans and acceptances	**879**	858
Impairment allowance		
Individually assessed	**227**	227
Collectively assessed	**387**	400
Total impairment allowance	**614**	627
Net impaired loans and acceptances	**265**	231

Risk Management (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 2010 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)[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.*

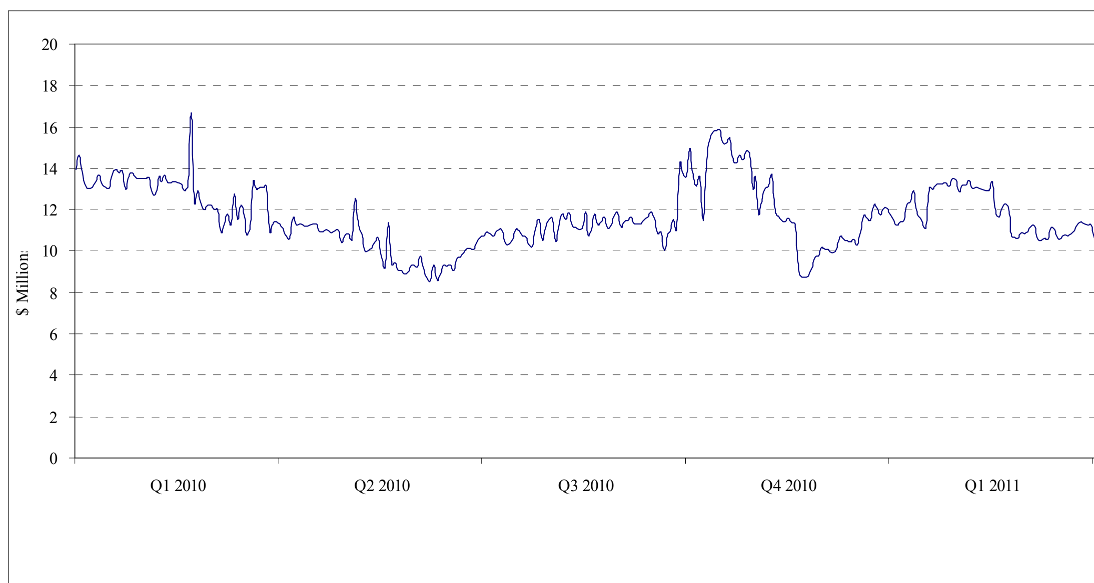
Value at Risk ("VaR")

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 2010 Annual Report and Accounts on pages 44 and 45.

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 2011	31 December 2010
End of quarter	**11**	12
Average	**12**	12
Minimum	**11**	9
Maximum	**14**	16

Daily VaR



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 for the bank, will be prepared in accordance with IFRS from 1 January 2011 onwards.

Pages 18 to 22 of our 2010 Annual Report and Accounts contained a discussion of the key elements of our implementation plan including: our project governance structure, implementation strategy, and the expected impact on our financial reporting and accounting policies. HSBC Holdings plc, our ultimate parent, adopted IFRS in 2005. Accordingly, for a number of years we have reported our results on an IFRS basis for inclusion in the HSBC Group's consolidated financial results, and, as a result, the impact on our business activities, financial processes and information systems, and internal controls was not significant.

Upon transition to IFRS, we have, where possible, adopted the accounting policies used by entities reporting under IFRS within the HSBC Group. These policies are disclosed in note 2 and 3 to the accompanying consolidated financial statements. We have also changed our reporting format to be similar to other entities reporting under IFRS within the HSBC Group. Note 17 to the accompanying consolidated financial statements contains an explanation of the significant presentational reclassifications and reconciliations between the new reporting format and the previous format under Canadian GAAP.

The transition to IFRS has not affected the bank's net cash flows or the underlying economics of the business, though the presentation of certain items in the statement of financial position and income statement are now changed. An explanation of how the transition to IFRS has affected our reported financial position, equity and financial performance is provided in note 17 to the accompanying consolidated financial statements, which includes a discussion of the transitional elections and exemptions under IFRS 1 and the following reconciliations as at the date of transition, 1 January 2010, and for the comparative periods of 31 March 2010 and 31 December 2010:

- net income as previously reported under Canadian GAAP to profit for the period reported under IFRS;
- total comprehensive income as previously reported under Canadian GAAP to total comprehensive income for the period reported under IFRS;
- total shareholders' equity as previously reported under Canadian GAAP to total equity under IFRS;
- reconciliations from Canadian GAAP to IFRS, including a reconciliation to the new presentation format under IFRS of the income statements and statements of financial position.

The net impact of the adoption of IFRS on our opening shareholders' equity at the transition date of 1 January 2010 was a decrease of C$146m, primarily resulting from changes in accounting for securitized mortgages and employee defined benefit plans. In addition, non-controlling interests of C$430m, which was presented outside of shareholders' equity under Canadian GAAP has been reclassified as a component of total equity under IFRS. Total assets were C$7.4bn higher, primarily due to the recognition of securitized mortgages that were derecognized from the balance sheet under Canadian GAAP.

The restated profit for the period for the first quarter of 2010 was C$154m on an IFRS basis, which is an increase of C$55m compared to the net income previously reported under Canadian GAAP of C$99m. The most significant differences between Canadian GAAP and IFRS affecting the profit for the restated and future periods are related to the change in accounting for securitized mortgages and the associated swap transactions, which were marked-to-market under Canadian GAAP but are not required to be recognized under IFRS because the assets and risk are consolidated within our financial results, and foreign exchange translation gains and losses on available-for-sale financial assets, which were recorded in other comprehensive income under Canadian GAAP but are recorded in income under IFRS.

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

Impact of IFRS on our capital adequacy requirements

The transition to IFRS did not have a material effect on the bank's regulatory capital. The regulatory capital ratios at 31 December 2010 presented on page 11 were calculated on a Canadian GAAP basis. On an IFRS basis, the bank's Tier 1 regulatory capital ratio at 31 December 2010 would have declined from 13.3% on a Canadian GAAP basis to 13.0% on an IFRS basis and the total regulatory capital ratio would have declined from 16.0% to 15.8%. We have decided not take advantage of OSFI's relief provisions to phase in the impact of IFRS in the calculation of regulatory capital on a straight-line basis over eight quarters from 1 January 2011 to 31 December 2012, as the transition did not have a material impact on our regulatory capital.

OSFI has also provided transitional provisions for the asset-to-capital multiple ("ACM"), which allows for the exclusion of assets securitized and sold through Canada Mortgage and Housing Corporation sponsored programs prior to 1 April 2010 from the calculation of ACM. We have decided to take advantage of this relief provision. As at 31 December 2010, including the impact of the transitional provision, the ACM would have increased from 13.3 on a Canadian GAAP basis to 13.6 on an IFRS basis (14.8 excluding the impact of the transitional provision). As at 31 March 2011, the ACM was 13.5 including the impact of the transitional provision and would have been 14.9 excluding the impact of the transitional provision.

Significant Accounting Policies and Critical Accounting Estimates

Accounting policies and critical accounting estimates

These unaudited interim consolidated financial statements have been prepared in accordance with IFRS. For a summary of the bank's significant accounting policies under IFRS, refer to note 2 of the accompanying consolidated financial statements. The key assumptions and bases for estimates that are made under IFRS, and their impact on the amounts reported in the unaudited interim consolidated financial statements and notes, are summarized in note 3 of the consolidated financial statements.

Future changes in accounting policies

At 31 March 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are effective for annual periods beginning on or after 1 January 2012. Those which are expected to have a significant effect on the bank's consolidated financial statements are discussed in note 1(e) of the accompanying consolidated financial statements. We do not expect the IASB to issue any new or revised accounting standards requiring adoption during 2011.

Other Information

Related party transactions

Related party transaction policies and practices are unchanged from those outlined on pages 24 and 25 of the 2010 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. Transactions with related parties are detailed in note 15 to the accompanying consolidated financial statements.

Financial instruments, including arrangements not reflected on the Statement of Financial Position ("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 23 of the 2010 Annual Report and Accounts. Although the notional values of these financial instruments are not recorded on the statement of financial position, 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 2010, 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.

Outstanding shares and securities

	At 10 May 2011	
	Number	***Amount***
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 interest in trust and subsidiary 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 first quarter of 2011, the bank declared and paid C$75m in dividends on HSBC Bank Canada common shares, unchanged from the same period in 2010.

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 June 2011, for shareholders of record on 15 June 2011.

Other Information (continued)

Further details regarding features of the bank's securities and shares, including certain restrictions regarding distributions payable for HSBC HaTS, are disclosed in notes 10 and 12 of the 2010 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares for the remainder of 2011, subject to approval by the Board, are:

2011	
Record Date	Payable Date
15 June	30 June
15 September	30 September
15 December	31 December

The payable dates for HSBC HaTS distributions in 2011 are 30 June 2011 and 31 December 2011.

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 2011 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 31 March 2011, 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 31 March 2011 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 2010 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.

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.

First Quarter 2011 Consolidated Financial Statements and Notes (Unaudited)

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Consolidated Financial Statements (Unaudited)

Consolidated income statement (Unaudited)

	Notes	Quarter ended 31 March 2011 $m	31 March 2010 $m	31 December 2010 $m
Interest income		**607**	570	627
Interest expense		**225**	176	225
Net interest income		**382**	394	402
Fee income		**183**	166	198
Fee expense		**20**	20	22
Net fee income		**163**	146	176
Trading income excluding net interest income		**36**	31	24
Net interest income on trading activities		**1**	5	3
Net trading income		**37**	36	27
Net loss from financial instruments designated at fair value		**(8)**	(8)	(4)
Gains less losses from financial investments		**16**	3	-
Other operating income		**40**	42	52
Net operating income before loan impairment charges and other credit risk provisions		**630**	613	653
Loan impairment charges and other credit risk provisions	4	**49**	69	115
Net operating income		**581**	544	538
Employee compensation and benefits		**208**	180	197
General and administrative expenses		**137**	127	157
Depreciation of property, plant and equipment		**10**	10	10
Amortization of intangible assets		**4**	3	6
Total operating expenses		**359**	320	370
Operating profit		**222**	224	168
Share of profit in associates		**1**	-	1
Profit before income tax expense		**223**	224	169
Income tax expense		**63**	70	51
Profit for the period		**160**	154	118
Profit attributable to common shareholders		**142**	133	96
Profit attributable to preferred shareholders		**15**	15	15
Profit attributable to shareholders		**157**	148	111
Profit attributable to non-controlling interests		**3**	6	7
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668
Basic earnings per common share		**$ 0.28**	$ 0.27	$ 0.19

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of comprehensive income (Unaudited)

	Quarter ended		
	31 March 2011 $m	31 March 2010 $m	31 December 2010 $m
Profit for the period	**160**	154	118
Other comprehensive income/(loss)			
Available-for-sale investments	**(31)**	(18)	(51)
– fair value losses	**(26)**	(22)	(76)
– fair value gains transferred to income statement on disposal	**(16)**	(3)	-
– income taxes	**11**	7	25
Cash flow hedges	**(56)**	(32)	(93)
– fair value losses	**(80)**	(46)	(133)
– income taxes	**24**	14	40
Actuarial gains/(losses) on defined benefit plans	**6**	(15)	6
– before income taxes	**13**	(20)	8
– income taxes	**(7)**	5	(2)
Other comprehensive loss for the period, net of tax	**(81)**	(65)	(138)
Total comprehensive income/(loss) for the period	**79**	89	(20)
Total comprehensive income/(loss) for the period attributable to:			
– shareholders	**76**	83	(27)
– non-controlling interests	**3**	6	7
	79	89	(20)

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of financial position (Unaudited)

	Notes	31 March 2011 $m	31 March 2010 $m	31 December 2010 $m	1 January 2010 $m
ASSETS					
Cash and balances at central bank		**63**	95	79	189
Items in the course of collection from other banks		**103**	97	84	88
Trading assets	6	**4,487**	4,346	3,947	4,042
Derivatives	7	**1,422**	1,055	1,363	1,055
Loans and advances to banks		**5,590**	3,847	5,792	5,862
Loans and advances to customers	4	**45,959**	49,526	45,218	48,164
Financial investments	8	**15,693**	14,381	16,149	13,033
Other assets		**599**	412	567	916
Prepayments and accrued income		**223**	202	186	178
Customers' liability under acceptances		**4,679**	4,580	4,372	4,966
Interest in associates		**43**	43	43	44
Property, plant and equipment		**119**	144	123	144
Goodwill and intangible assets		**94**	105	94	99
Total assets		**79,074**	78,833	78,017	78,780
LIABILITIES AND EQUITY					
Liabilities					
Deposits by banks		**1,620**	3,034	999	2,561
Customer accounts		**44,252**	42,294	45,460	43,114
Items in the course of transmission to other banks		**178**	87	101	186
Trading liabilities	9	**3,419**	3,236	2,764	2,812
Financial liabilities designated at fair value	10	**976**	1,133	983	1,138
Derivatives	7	**1,244**	960	1,161	823
Debt securities in issue		**15,229**	16,493	14,816	16,235
Other liabilities		**1,705**	1,266	1,531	1,098
Acceptances		**4,679**	4,580	4,372	4,966
Accruals and deferred income		**553**	541	583	553
Retirement benefit liabilities		**253**	234	267	214
Subordinated liabilities		**322**	329	324	432
Total liabilities		**74,430**	74,187	73,361	74,132
Equity					
Preferred shares		**946**	946	946	946
Common shares		**1,225**	1,225	1,225	1,225
Other reserves		**110**	155	197	205
Retained earnings		**2,133**	1,890	2,058	1,842
Total shareholders' equity		**4,414**	4,216	4,426	4,218
Non controlling interests		**230**	430	230	430
Total equity		**4,644**	4,646	4,656	4,648
Total equity and liabilities		**79,074**	78,833	78,017	78,780

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of cash flows (Unaudited)

		Quarter ended		
		31 March 2011	31 March 2010	31 December 2010
	Notes	**$m**	$m	$m
Cash flows from operating activities				
Profit before tax		**223**	224	169
Adjustments for:				
– non-cash items included in profit before tax	12	**71**	85	156
– change in operating assets	12	**(1,010)**	(73)	3,885
– change in operating liabilities	12	**256**	(278)	(1,387)
– tax paid		**(65)**	(114)	(107)
Net cash (used in)/from operating activities		**(525)**	(156)	2,716
Cash flows from investing activities				
Purchase of financial investments		**(4,507)**	(1,510)	(1,520)
Proceeds from the sale and maturity of financial investments		**4,932**	143	1,141
Purchase of property, plant and equipment		**(10)**	(19)	(29)
Net cash from/(used in) investing activities		**415**	(1,386)	(408)
Cash flows from financing activities				
Subordinated liabilities repaid		**-**	(103)	(3)
Dividends paid to shareholders		**(90)**	(90)	(85)
Redemption of trust units		**-**	-	(200)
Distributions to non-controlling interests		**(3)**	(5)	(5)
Net cash used in financing activities		**(93)**	(198)	(293)
Net (decrease)/increase in cash and cash equivalents		**(203)**	(1,740)	2,015
Cash and cash equivalents at the beginning of the period		**6,680**	6,069	4,665
Cash and cash equivalents at the end of the period	12	**6,477**	4,329	6,680

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the quarter ended 31 March 2011 (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	2,171	2,058	81	116	197	4,426	230	4,656
Profit for the period	-	157	-	-	-	157	3	160
Other comprehensive income (net of tax)	-	6	(31)	(56)	(87)	(81)	-	(81)
Available-for-sale investments	-	-	(31)	-	(31)	(31)	-	(31)
Cash flow hedges	-	-	-	(56)	(56)	(56)	-	(56)
Actuarial gains/(losses) on defined benefit plans	-	6	-	-	-	6	-	6
Total comprehensive income for the period	-	163	(31)	(56)	(87)	76	3	79
Dividends to shareholders	-	(90)	-	-	-	(90)	-	(90)
Distributions to unit holders	-	-	-	-	-	-	(3)	(3)
Other movements	-	2	-	-	-	2	-	2
At 31 March	2,171	2,133	50	60	110	4,414	230	4,644

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the quarter ended 31 March 2010 (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	2,171	1,842	59	146	205	4,218	430	4,648
Profit for the period	-	148	-	-	-	148	6	154
Other comprehensive income (net of tax)	-	(15)	(18)	(32)	(50)	(65)	-	(65)
Available-for-sale investments	-	-	(18)	-	(18)	(18)	-	(18)
Cash flow hedges	-	-	-	(32)	(32)	(32)	-	(32)
Actuarial gains/(losses) on defined benefit plans	-	(15)	-	-	-	(15)	-	(15)
Total comprehensive income for the period	-	133	(18)	(32)	(50)	83	6	89
Dividends to shareholders	-	(90)	-	-	-	(90)	-	(90)
Distributions to unit holders	-	-	-	-	-	-	(6)	(6)
Other movements	-	5	(1)	1	-	5	-	5
At 31 March	2,171	1,890	40	115	155	4,216	430	4,646

Consolidated Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the quarter ended 31 December 2010 (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 October	2,171	2,024	132	209	341	4,536	430	4,966
Profit for the period	-	111	-	-	-	111	7	118
Other comprehensive income (net of tax)	-	6	(51)	(93)	(144)	(138)	-	(138)
Available-for-sale investments	-	-	(51)	-	(51)	(51)	-	(51)
Cash flow hedges	-	-	-	(93)	(93)	(93)	-	(93)
Actuarial gains/(losses) on defined benefit plans	-	6	-	-	-	6	-	6
Total comprehensive income/(loss) for the period	-	117	(51)	(93)	(144)	(27)	7	(20)
Dividends to shareholders	-	(85)	-	-	-	(85)	-	(85)
Distributions to unit holders	-	-	-	-	-	-	(7)	(7)
Other movements	-	2	-	-	-	2	(200)	(198)
At 31 December	2,171	2,058	81	116	197	4,426	230	4,656

Notes on the Consolidated 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. From 1 January 2011, the bank has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”).

IFRSs comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by IFRS Interpretations Committee (formerly IFRIC) and its predecessor body.

These consolidated financial statements represent the first interim financial statements of the bank and its subsidiaries prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’ and accordingly IFRS 1 ‘First-Time Adoption of International Financial Reporting Standards’ (“IFRS 1”) has been applied.

In accordance with IFRSs, the bank has:

- provided comparative financial information;
- retrospectively applied all IFRSs, other than in respect of elections taken under IFRS 1;
- applied all mandatory exceptions as applicable for first-time adopters of IFRSs; and
- elected to align our reporting under IFRSs with the reporting to our Parent for consolidation purposes, as permitted by IFRS 1.

The bank’s consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”). Canadian GAAP differs in some areas from IFRSs. To comply with IFRSs, management has amended certain accounting, measurement and consolidation methods previously applied in the Canadian GAAP financial statements. Note 17 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position and income statement.

(b) Presentation of information

The bank’s consolidated financial statements are presented in Canadian dollars which is its functional currency. The abbreviations “$m” represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

(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 in Note 3.

(d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 31 March 2011. Subsidiaries are consolidated from the date that the bank gains control. The acquisition method of accounting is used when subsidiaries are acquired by the bank. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregation of the consideration transferred, the amount on non-controlling interest and the fair value of the acquirer’s previously held equity interest, if any, over the net of the amounts of identifiable assets

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

acquired and liabilities assumed. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the bank are consolidated until the date that control ceases.

In the context of Special Purpose Entities ('SPE'), the following circumstances may indicate a relationship which, in substance, the bank controls and consequently consolidates a SPE:

- the activities of the SPE are being conducted on behalf of the bank according to its specific business needs so that the bank obtains the benefits from the SPE's operation;
- the bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the bank has delegated these decision-making powers;
- the bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- the bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The bank performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the bank and a SPE.

All inter-company transactions are eliminated on consolidation.

The consolidated financial statements of the bank also include the attributable share of the results and reserves of associates.

In accordance with IFRS 1, the bank has chosen not to restate business combinations that took place prior to 1 January 2004, the date of transition to IFRS of its Parent, as described in Note 17.

(e) Changes in accounting policy during 2010

The bank adopted the revised IFRS 3 'Business Combinations' ("IFRS 3") and amendments to IAS 27 'Consolidated and Separate Financial Statements' ("IAS 27"). The main changes under the standards are that:

- acquisition-related costs are recognized as an expense in the income statement in the period in which they are incurred;
- all consideration transferred, including contingent consideration, is recognized and measured at fair value at the acquisition date;
- equity interests held prior to control being obtained are re-measured to fair value at the date of obtaining control, and any gain or loss is recognized in the income statement;
- an option is available, on a transaction-by-transaction basis, to measure any non-controlling (previously referred to as minority) interests in the entity acquired either at fair value, or at the non-controlling interests' proportionate share of the net identifiable assets of the entity acquired; and
- changes in a parent's ownership interest in a subsidiary that do not result in a change of control are treated as transactions between equity holders and are reported in equity.

In terms of their application to the bank, the revised IFRS 3 and amendments to IAS 27 apply prospectively to acquisitions and transactions taking place on or after 1 January 2010, and have had no significant effect on the consolidated financial statements as there have been no acquisitions subsequent to 1 January 2010.

(f) Future accounting developments

At 31 March 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which are expected to have a significant effect on the bank's consolidated financial statements are discussed below.

Standards and Interpretations issued by the IASB

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ("IFRS 9") which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39") with a less complex and improved standard for financial instruments.

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 9 is required to be applied retrospectively.

The main changes to the requirements of IAS 39 are summarized below.

All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist.

Classification of financial assets is based on an entity's business model for managing the financial assets and their contractual cash flow characteristics. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model.

A financial asset is measured at amortized cost if two criteria are met: i) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and ii) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Movements in the fair value of financial assets classified at fair value are recognized in profit or loss, except for equity investments where an entity takes the option to designate an equity instrument that is not held for trading at fair value through other comprehensive income. If this option is taken, all subsequent changes in fair value are recognized in other comprehensive income with no recycling of gains or losses to the income statement. Dividend income would continue to be recognized in the income statement.

An entity is only permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit and loss if doing so significantly reduces or eliminates an accounting mismatch. This designation is made on initial recognition and is irrevocable.

Financial assets which contain embedded derivatives are to be classified in their entirety either at fair value or amortized cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9.

Most of IAS 39's requirements for financial liabilities are retained, including amortized cost accounting for most financial liabilities. The guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities. However, fair value changes attributable to changes in own credit risk for financial liabilities designated under the fair value option other than loan commitments and financial guarantee contracts are to be presented in the statement of other comprehensive income unless the treatment would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to the income statement but may be transferred within equity.

The second and third phases in IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortized cost and hedge accounting. The IASB has indicated that it expects to finalize the replacement of IAS 39 by June 2011. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

2 Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value (other than debt securities issued by the bank and derivatives managed in conjunction with such debt securities issued) are recognized in 'Interest income' and 'Interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortized cost of a financial asset or a financial

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

liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Non interest income

Fee income is earned from a diverse range of services provided by the bank to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognized as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognized as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognized as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income' (Note 2(a)).

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with related interest income, expense and dividends.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on those financial instruments are also included in 'Net income from financial instruments designated at fair value', except for interest arising from debt securities issued, and derivatives managed in conjunction with debt securities, which is recognized in 'Interest expense'.

Dividend income is recognized when the right to receive payment is established.

(c) Segment reporting

We manage and report our operations according to our main customer groups: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Consumer Finance. Measurement of segment assets, liabilities, income and expenses is based on the bank's accounting policies. The chief financial officer regularly reviews operating activity by customer group. Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made.

(d) Valuation of Financial Instruments

All financial instruments are recognized initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the bank recognizes a trading gain or loss on inception of the financial instrument. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognized immediately in the income statement but is

recognized over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the bank enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuation, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. If there are additional factors that are not incorporated within the valuation model but would be considered by market participants, further fair value adjustments are applied to model calculated fair values. These fair value adjustments include adjustments for bid-offer spread, model uncertainty, credit risk and model limitation.

If the fair value of a financial asset measured at fair value becomes negative, the financial instrument is recorded as a financial liability until its fair value becomes positive, at which time the financial instrument is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the bank's liabilities. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit spread is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

(e) Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the bank. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either the borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest rate method, less impairment losses. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

The bank may commit to underwrite loans on fixed contractual terms for specified periods of time, where the drawdown of the loan is contingent upon certain future events outside the control of the bank.

(f) Impairment of loans and advances

Losses for impairment are recognized promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred as a result of a loss event and where the loss event has an impact on the estimated future cash flows of the loan or portfolio of loans. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

Individually assessed loans and advances

For all loans that are considered individually significant, the bank assesses on a case-by-case basis at each statement of financial position date whether there is any objective evidence that a loan is impaired. The criteria used by the bank to determine that there is such objective evidence include:

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial realization; and
- A significant downgrading in credit rating by an external credit rating agency.

For all loans that are considered individually significant, the bank assesses on a case-by-case basis at each statement of financial position date whether there is any objective evidence that a loan is impaired. For those loans where objective evidence of impairment exists, impairment losses are determined by considering the following factors:

- the bank's aggregate exposure to the customer;
- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the bank and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Specific allowances are recorded on these individual accounts on an account-by-account basis to reduce their carrying value to the estimated realizable amount. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

For business and government loans, for which evidence of loss has been specifically identified on an individual basis, the underlying credit metrics, including probability of default, loss given default and exposure at default, for each customer is derived from the bank's internal rating systems as a basis for determining the collective allowance. Management amends

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

these metrics for some or all borrowers where they consider that the rating system metrics do not fully reflect incurred losses. This judgemental adjustment employs an established framework and references both internal and external indicators of credit quality.

For consumer loans, residential mortgages and credit cards, expected losses are estimated through analysis of historical losses, delinquency migration and write-off trends, supplemented by judgemental adjustments that employ an established framework and reference both internal and external indicators of credit quality.

The level of the collective allowance is reassessed each quarter and may fluctuate as a result of changes in portfolio volumes, concentrations and risk; analysis of developing trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of indicators that may have affected the condition of the portfolio. The balance of the collective allowance is also analyzed as a function of risk-weighted assets and is also referenced to applicable industry data.

The loan impairment charges and other credit risk provisions is charged to income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognized in the income statement.

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans as part of an orderly realization are recorded as 'foreclosed assets' or 'assets held for sale' and reported in 'Other assets'. Assets held for sale are recorded at the lower of the carrying amount of the loan (net of impairment allowance) and its net realizable value at the date of exchange. Any subsequent write-down of the acquired asset to its net realizable value is recognized in the income statement, in 'Other operating income'. Any subsequent increase in the net realizable value, to the extent this does not exceed the cumulative write down, is also recognized in 'Other operating income', together with any realized gains or losses on disposal. Foreclosed assets that are expected to be held for longer then one year are recorded in accordance with the banks accounting policy for such assets.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as new loans for measurement purposes once the minimum numbers of payments required under the new arrangements have been received. These renegotiated loans are segregated from other parts of the loan portfolio for the purpose of collective impairment assessment, to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

(g) Trading assets and trading liabilities

Treasury bills, debt securities, equity shares, acceptances, deposits, debt securities in issue, and short positions in securities are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together. These financial assets or financial liabilities are recognized on trade date, when the bank enters into contractual arrangements with counterparties to purchase or sell financial instruments, and are normally derecognized when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income

statement. Subsequently their fair values are re-measured, and gains and losses from changes therein are recognized in the income statement in ‘Net trading income’.

(h) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet the necessary criteria and are so designated by management. The bank may designate financial instruments at fair value when the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognizing gains and losses on them, on different bases. Under this criterion, the main class of financial instruments designated by the bank are medium and long-term debt issues. The interest payable on certain fixed rate long-term debt securities issued has been matched with the interest on ‘receive fixed/pay variable’ interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortized cost, because the related derivatives are measured at fair value with changes in the fair value recognized in the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognized in the income statement.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognized when the bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognized when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair values are re-measured, and gains and losses from changes therein are recognized in ‘Net income/(loss) from financial instruments designated at fair value’.

(i) Financial investments

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale. Financial investments are recognized on trade date, when the bank enters into contractual arrangements with counterparties to purchase securities, and are normally derecognized when either the securities are sold or the borrowers repay their obligations.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and changes therein are recognized in other comprehensive income in “Available-for-sale investments – fair value gains/(losses)” until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognized in other comprehensive income are recognized in the income statement as ‘Gains less losses from financial investments’.

Interest income is recognized on available-for-sale debt securities using the effective interest rate method, calculated over the asset’s expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividends are recognized in the income statement when the right to receive payment has been established.

At each reporting date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognized in the income statement, is removed from other comprehensive income and recognized in the income statement.

Impairment losses for available-for-sale debt securities are recognized within ‘Loan impairment charges and other credit risk provisions’ in the income statement and impairment losses for available-for-sale equity securities are recognized within ‘Gains less losses from financial investments’ in the income statement.

Once an impairment loss has been recognized on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognized in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in fair value of the financial asset is recognized in other comprehensive income. If the fair value of the debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.
- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognized directly in other comprehensive income. Impairment losses recognized on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognized in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

(j) Sale and repurchase agreements (including stock lending and borrowing)

When securities are sold subject to a commitment to repurchase them at a predetermined price (‘repos’), they remain on the statement of financial position and a liability is recorded in respect of the consideration received. Securities purchased under commitments to sell (‘reverse repos’) are not recognized on the statement of financial position and the consideration paid is recorded in ‘Loans and advances to banks’ or ‘Loans and advances to customers’ as appropriate. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties under these agreements is not normally reflected on the statement of financial position. Cash collateral advanced or received is recorded as an asset or a liability, respectively.

Securities borrowed are not recognized on the statement of financial position.

(k) Derivatives and hedge accounting

Derivatives are recognized initially, and are subsequently re-measured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognized in the income statement. When derivatives are designated as hedges, the bank classifies them as either: (i) hedges of the change in fair value of recognized assets or liabilities or firm commitments (”fair value hedges”); (ii) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability, or a forecast transaction (“cash flow hedges”). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

At the inception of a hedging relationship, the bank documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flow of the hedged items. Interest on designated qualifying hedges is included in ‘Net interest income’.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or bank thereof that are attributable to the hedged risk.

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

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortized to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognized, in which case it is released to the income statement immediately.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income within the "Cash flow hedging reserve". Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the income statement. The accumulated gains and losses recognized in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains separately in equity until the forecast transaction is eventually recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

Hedge effectiveness testing

To qualify for hedge accounting, the bank requires that, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the bank adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent.

Hedge ineffectiveness is recognized in the income statement in 'Net trading income'.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the income statement. These gains and losses are reported in 'Net trading income', except where derivatives are managed in conjunction with financial instruments designated at fair value (other than derivatives managed in conjunction with debt securities issued by the bank), in which case gains and losses are reported in 'Net income from financial instruments designated at fair value'. The interest on derivatives managed in conjunction with debt securities issued by the bank which are designated at fair value is recognized in 'Interest expense'. All other gains and losses on these derivatives are reported in 'Net income from financial instruments designated at fair value'.

(l) Derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual right to receive cash flows from the assets has expired; or when the bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, cancelled or expires.

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

(m) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(n) Associates

The bank classifies investments in entities over which it has significant influence, but does not control, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in associates are recognized using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the bank's share of net assets, less dividends or distributions received.

Profits on transactions between the bank and its associates are eliminated to the extent of the bank's interest in the respective associates. Losses are also eliminated to the extent of the bank's interest in the associates unless the transaction provides evidence of an impairment of the asset transferred.

(o) Goodwill and intangible assets

(i) Goodwill arises on acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceeds the amounts of identifiable assets and liabilities acquired. If they do not exceed the amounts of the identifiable assets and liabilities of an acquired business, the difference is recognized immediately in the income statement.

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the cash-generating unit may be impaired, by comparing the recoverable amount from a cash-generating unit with the carrying amount of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use. Value in use is the present value of the expected future cash flows from a cash-generating unit. If the recoverable amount is less than carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses.

At the date of disposal a business, attributable goodwill is included in the bank's share of net assets in the calculation of the gain or loss on disposal.

(ii) The bank's intangible assets are comprised of internally generated computer software and purchased software with finite useful lives. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or circumstances that indicate the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during the year, provided it is performed at the same time every year. An intangible asset recognized during the current period is tested before the end of the current year. Intangible assets that have a finite useful life are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Intangible assets with finite useful lives are amortized, generally on a straight-line basis, over their useful lives as follows:

- Internally generated software — between 3 and 5 years
- Purchased software — between 3 and 5 years

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

(p) Property, plant and equipment

Land and buildings are stated at historical cost or fair value at the Parent's date of transition to IFRS ('deemed cost'), less any impairment losses and depreciation calculated to write off the assets over their estimated useful lives as follows:

- land is not depreciated;
- buildings are depreciated over the estimated useful life (20 – 40 years); and
- Leasehold improvements are depreciated over the shorter of their lease term or over their estimated remaining useful lives.

Equipment, fixtures and fittings (including equipment on operating leases where the bank is the lessor), and purchased computer software are stated at cost less any impairment losses and depreciation calculated on a straight-line basis to write off the assets over their useful lives, which are generally between 3 - 5 years.

Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Gains and losses on disposal are recorded in other operating income in the year of disposal.

Investment properties are included in the statement of financial position at fair value with changes therein recognized in the income statement in the period of change. Fair values are determined by independent professional valuators who apply recognized valuation techniques.

(q) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the bank is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances to banks' or 'Loans and advances to customers', as appropriate. The finance income receivable is recognized in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

All other leases are classified as operating leases. When acting as lessor, the bank includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the bank is the lessee, leased assets are not recognized on the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income' respectively.

(r) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is recognized in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled based on tax rates and laws enacted, or substantively enacted, by the reporting date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting entity and relate to income taxes levied by the same taxation authority, and when the bank has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognized directly in other comprehensive income. Deferred tax relating to fair value re-measurement of available-for-sale investments and cash flow hedging instruments are charged or credited directly to other comprehensive income, and are subsequently recognized in the income statement when the deferred fair value gain or loss is recognized in the income statement.

Interim period income tax expense is accrued using the estimated average annual effective income tax rates, which have been substantially enacted and which will be applicable to expected total annual earnings.

(s) Pension and other post-employment benefits

The bank operates a number of pension and other post-employment benefit plans. These plans include both defined benefit and defined contribution plans and various other post-employment benefits such as post employment healthcare. The post-retirement plans include supplemental pension arrangements that provide pension benefits in excess of the benefits provided by the pension plans, and post-retirement, non-pension arrangements that provide certain benefits in retirement. The pension plans are funded by contributions from the bank or our employees, while the supplemental pension arrangements are not funded.

Payments to defined contribution plans are charged as an expense as they fall due.

The defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the scheme's actuaries using the projected unit credit method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognized on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The defined benefit liability recognized in the statement of financial position represents the present value of defined benefit obligations adjusted for unrecognized past service costs and reduced by the fair value of plan assets. Any net defined benefit surplus is limited to unrecognized past service costs plus the present value of available refunds and reductions in future contributions to the plan.

The costs of obligations arising from other defined post-employment benefits plans, such as defined benefit health-care plans, are accounted for on the same basis as defined benefit pension plans.

(t) Share-based payments

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognized as an expense on a straight-line basis over the vesting period, with a corresponding credit to retained earnings. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions. Market performance conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Where an award has been modified, as a minimum the expense of the original award continues to be recognized as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is

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

recognized in addition to the expense of the original grant, measured at the date of modification, over the modified vesting period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognized immediately for the amount that would otherwise have been recognized for services over the vesting period.

HSBC Holdings is the grantor of its equity instrument for all share awards and share options across the group. The credit to 'Retained Earnings' on expensing an award represents the effective capital contribution from HSBC Holdings. To the extent the bank will be, or has been, required to fund a share-based payment arrangement, this capital contribution is reduced and the fair value of shares expected to be released to employees is recorded within 'Other Liabilities'.

(u) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the statement of financial position date. Any resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognized in other comprehensive income if the gain or loss on the non-monetary item is recognized in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognized in the income statement if the gain or loss on the non-monetary item is recognized in the income statement.

(v) Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the bank; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

(w) Financial guarantee contracts

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

(x) Debt securities in issue and deposits by customers and banks

Financial liabilities are recognized when the bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which are normally the proceeds received net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortized cost, using the effective interest rate method to amortize the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

Debt securities issued are debts for which transferable certificates have been issued. Debt securities in issue also include secured borrowings arising from securitization transactions.

(y) Share capital and other equity instruments

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

(z) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, items in the course of collection from or in transmission to other banks and certificates of deposit.

3 Critical accounting policies

The results of the bank are sensitive to the accounting policies, assumptions, and estimates that underlie the preparation of its consolidated financial statements. The significant accounting policies used in the preparation of the consolidated financial statements are described in detail in Note 2.

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 estimation, are disclosed below:

Impairment of loans and advances

The bank's accounting policy for losses arising from the impairment of customer loans and advances is described Note 2(f). Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment allowances on both individually and collectively assessed loans and advances. The most significant judgement area is the calculation of collective impairment allowances.

The methods used to calculate collective impairment allowances on homogeneous groups of loans that are not considered individually significant are disclosed in Note 2(f). They are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

The methods involve the use of statistically assessed historical information supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other factors that can affect customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll rates, loss rates, and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

The calculation of the collective impairment allowance to cover losses which have been incurred but not yet been identified on loans subject to individual assessment utilizes underlying credit metrics, including the probability of default, loss given default and exposure at default, for each customer are derived from the bank's internal rating systems as a basis for determining the collective impairment allowance. Management amends these metrics for some or all borrowers where they consider that the rating system metrics do not fully reflect incurred losses. This judgemental adjustment employs an established framework and references both internal and external indicators and credit quality.

The level of the collective impairment allowance is reassessed each quarter and may fluctuate as a result of changes in portfolio volumes, concentrations and risk; analysis of developing trends in probability of loss, severity of loss and exposure

at default factors; and management's current assessment of indicators that may have affected the condition of the portfolio. The balance of the collective impairment allowance is also analyzed as a function of risk-weighted assets and is also referenced to applicable industry data.

Many of the factors have a high degree of interdependency and there is no one single factor to which the bank's loan impairment allowances as a whole are sensitive. It is possible that the outcomes in the next financial year could be different from the assumptions built into the models, resulting in a material adjustment to the carrying amount of loans and advances.

Valuation of financial instruments

The bank's accounting policy for valuation of financial instruments is described in Note 2(d) on the Financial Statements. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on a basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates; selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate the fair value in areas where the choice of valuation model is particularly subjective, for example, when used for valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there are little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there are some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

Given the uncertainty and subjective nature of valuing financial instruments at fair value, it is possible that the outcomes within the next financial year could differ from the assumptions used, and this could result in a material adjustment to the carrying amount of financial instruments measured at fair value.

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

4 Loans and advances to customers

	At 31 March 2011		At 31 March 2010		At 31 December 2010		At 1 January 2010	
	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %	Loans and advances to customers $m	Loans as a % of total gross loans and advances to customers %
Personal								
Residential mortgages	**18,705**	**40.2%**	19,486	38.9%	18,923	41.3%	19,575	40.1%
Other personal	**5,872**	**12.6%**	5,930	11.8%	5,905	12.9%	5,742	11.8%
	24,577	**52.8%**	25,416	50.7%	24,828	54.2%	25,317	51.9%
Consumer finance loans	**2,498**	**5.4%**	2,971	5.9%	2,615	5.7%	2,825	5.8%
Corporate and commercial	**15,114**	**32.5%**	16,853	33.6%	14,989	32.7%	16,560	33.90%
Financial								
Non-bank financial institutions†	**4,384**	**9.3%**	4,913	9.8%	3,413	7.4%	4,094	8.4%
Total gross loans and advances to customers	**46,573**	**100.0%**	50,153	100.0%	45,845	100.0%	48,796	100.0%
Less: impairment	**(614)**		(627)		(627)		(632)	
Total loans and advances to Customers	**45,959**		49,526		45,218		48,164	

† Included within non-bank financial is reverse repurchase agreements of $3,428m (31 March 2010: $3,864m and 31 December 2010: $2,512m and 1 January 2010: $2,991m).

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

Movement in impairment allowances

	Customers		
	Individually assessed $m	**Collectively assessed $m**	**Total $m**
At 1 January 2011	**227**	**400**	**627**
Amounts written off	**(17)**	**(42)**	**(59)**
Recoveries of loans and advances written off in previous periods	**-**	**2**	**2**
Charge to income	**21**	**28**	**49**
Other movements	**(4)**	**(1)**	**(5)**
At 31 March 2011	**227**	**387**	**614**
At 1 January 2010	186	446	632
Amounts written off	(10)	(59)	(69)
Recoveries of loans and advances written off in previous periods	1	1	2
Charge to income	32	37	69
Other movements	(8)	1	(7)
At 31 March 2010	201	426	627
At 1 October 2010	222	401	623
Amounts written off	(31)	(43)	(74)
Recoveries of loans and advances written off in previous periods	(2)	4	2
Charge to income	77	38	115
Other movements	(39)	-	(39)
At 31 December 2010	227	400	627

5 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:

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m
Pension plans- defined benefit	**3**	3	3
Pension plans- defined contribution	**12**	5	6
Healthcare and other post-employment benefit plans	**3**	2	2
	18	10	11

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 2010.

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

The following table presents information related to our defined benefit plans:

	Pension benefits At 31 December 2010 $m	Non-pension benefits At 31 December 2010 $m	Total At 31 December 2010 $m
Accrued benefit obligations			
Balance, beginning of year	408	110	518
Current service cost	13	4	17
Interest cost	25	7	32
Benefits paid	(23)	(3)	(26)
Actuarial loss	57	17	74
Balance, end of year	480	135	615
Plan Assets			
Fair value, beginning of year	343	-	343
Expected return on plan assets	23	-	23
Bank contributions	25	3	28
Employee contributions	1	-	1
Actuarial gain	17	-	17
Benefits paid	(23)	(3)	(26)
Special termination benefits paid	(1)	-	(1)
Fair value, end of year	385	-	385
Funded status			
Funded status – deficit	(95)	(135)	(230)
Unamortized past service costs	-	(23)	(23)
Accrued benefit liability	(95)	(158)	(253)
Valuation allowance	(14)	-	(14)
Accrued benefit liability, net of valuation allowance	(109)	(158)	(267)

The significant actuarial assumptions adopted in measuring the accrued benefit obligations were as follows:

	Pension benefits	Non-pension benefits
Accrued benefit obligation at 31 December 2010		
Discount rate (%)	5.25 - 5.50	5.25-5.50
Rate of compensation increase (%)	3.50 - 3.80	n/a

6 Trading assets

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Trading assets:				
- which may be repledged or resold by counterparties	**900**	94	532	148
- not subject to repledge or resale by counterparties	**3,587**	4,252	3,415	3,894
	4,487	4,346	3,947	4,042
Treasury and other eligible bills	**982**	372	557	333
Debt securities	**1,795**	1,998	1,712	1,935
Equity securities	**29**	34	26	28
Customer trading assets	**798**	825	553	871
Bankers acceptances	**883**	1,117	1,099	875
	4,487	4,346	3,947	4,042

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

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $59m (31 March 2010: $175m and 31 December 2010: $35m and 1 January 2010: $165m), of which nil (31 March 2010: $107m and 31 December 2010: nil and 1 January 2010: $111m) are guaranteed by various governments.

7 Derivatives

Fair values of derivatives by product contract type held:

	At 31 March 2011					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,067**	**-**	**1,067**	**1,067**	**-**	**1067**
Interest rate	**137**	**218**	**355**	**98**	**79**	**177**
Gross total fair values	**1,204**	**218**	**1,422**	**1,165**	**79**	**1,244**
Total			**1,422**			**1,244**

	At 31 March 2010					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	672	-	672	812	-	812
Interest rate	149	234	383	122	26	148
Gross total fair values	821	234	1,055	934	26	960
Total			1,055			960

	At 31 December 2010					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	935	-	935	986	-	986
Interest rate	156	272	428	114	61	175
Gross total fair values	1,091	272	1,363	1,100	61	1,161
Total			1,363			1,161

	At 1 January 2010					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	629	-	629	691	-	691
Interest rate	143	283	426	113	19	132
Gross total fair values	772	283	1,055	804	19	823
Total			1,055			823

Use of derivatives

The bank transacts derivatives for three primary purposes: to create risk management solutions for clients, for proprietary trading purposes, and to manage and hedge the bank's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments as defined in IAS 39) are held for trading. The held for trading classification includes two types of derivatives: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

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

The bank's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being used to achieve this where necessary. When entering into derivative transactions, the bank employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

Trading derivatives

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income', except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value', together with the gains and losses on the hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

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

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1January 2010 $m
Foreign exchange	**54,873**	38,925	43,704	35,415
Interest rate	**75,874**	17,112	42,543	9,552
Total derivatives	**130,747**	56,037	86,247	44,967

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

Hedging instruments

The bank uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the bank to optimize the overall cost to the bank of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

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

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

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

	At 31 March 2011		At 31 March 2010		At 31 December 2010		At 1 January 2010	
	Cash flow hedge $m	**Fair value hedge $m**	Cash flow hedge $m	Fair value hedge $m	Cash flow hedge $m	Fair value hedge $m	Cash flow hedge $m	Fair value hedge $m
Interest rate	**15,576**	**2,686**	13,940	280	13,485	1,465	11,178	165

Fair value hedges

The bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognized in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to the income statement as a yield adjustment over the remainder of the hedging period.

Fair value of derivatives designated as fair value hedges

	At 31 March 2011		At 31 March 2010		At 31 December 2010		At 1 January 2010	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate	**30**	**4**	4	2	14	8	4	3

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

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Gains/ (losses)				
– on hedging instruments	**19**	(2)	9	(5)
– on hedged items attributable to the hedged risk	**(18)**	3	(10)	5

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

Cash flow hedges

The bank's cash flow hedges consist principally of interest rate and cross-currency swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. Gains and losses are initially recognized in other comprehensive income, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of derivatives designated as cash flow hedges

	At 31 March 2011		At 31 March 2010		At 31 December 2010		At 1 January 2010	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate	**188**	**75**	230	24	258	53	279	16

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

8 Financial investments

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Financial investments				
– not subject to repledge or resale by counterparties	**15,693**	14,381	16,149	13,033
Treasury and other eligible bills				
– available-for-sale	**2,009**	3,546	2,898	2,655
Debt securities				
– available-for-sale	**13,639**	10,818	13,234	10,359
Equity securities				
– available-for-sale	**45**	17	17	19
Total financial investments	**15,693**	14,381	16,149	13,033

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $927m (31 March 2010: $1,301m and 31 December 2010: $1,265m and 1 January 2010: $917m), of which $421m (31 March 2010: $870m and 31 December 2010: $852m and 1 January 2010: $917m) are guaranteed by various governments.

Included in the available-for-sale debt securities are debt securities issued by governments of $12,659m (31 March 2010: $9,388m and 31 December 2010: $11,863m and 1 January 2010: $8,941m).

9 Trading liabilities

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Other debt securities in issue	**123**	219	98	56
Customer trading liabilities	**1,617**	1,942	1,402	1,606
Other liabilities – net short positions	**1,679**	1,075	1,264	1,150
	3,419	3,236	2,764	2,812

10 Financial liabilities designated at fair value

	At 31 March 2011 $m	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Debt securities in issue	**563**	727	568	736
Subordinated liabilities	**413**	406	415	402
	976	1,133	983	1,138

The carrying amount at 31 March 2011 of financial liabilities designated at fair value was $25m higher (31 March 2010: $22m higher and 31 December 2010: $25m higher and 1 January 2010: $19m higher) than the contractual amount at maturity. At 31 March 2011, the cumulative amount of change in fair value attributable to changes in credit risk was a loss of $8m (31 March 2010: $14m loss and 31 December 2010: $12m loss and 1 January 2010: $19m loss).

11 Transfers of financial assets not qualifying for derecognition

The bank enters into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties or to SPEs. The bank securitizes mortgage backed securities through programs sponsored by the Canada Mortgage and Housing Corporation ("CMHC") and other third party programs.

Full derecognition occurs when the bank transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

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

The majority of financial assets that do not qualify for derecognition are: (i) mortgages converted into mortgage backed securities ("MBS") and thereafter sold and (ii) debt securities held by counterparties as collateral under repurchase agreement and (iii) equity securities lent under securities lending agreements.

12 Notes on the statement of cash flows

	At 31 March 2011	At 31 March 2010	At 31 December 2010
	$m	$m	$m
Non-cash items included in profit before tax			
Depreciation and amortization	**14**	13	16
Share based payment expense	**5**	6	4
Loan impairment charges and other credit risk provisions	**49**	63	133
Charge for defined benefit pension plans	**3**	3	3
	71	85	156
Change in operating assets			
Change in prepayment and accrued income	**(37)**	(24)	41
Change in net trading securities and net derivatives	**156**	485	1,061
Change in loans and advances to customers	**(790)**	(1,425)	2,510
Change in other assets	**(339)**	891	273
	(1,010)	(73)	3,885
Change in operating liabilities			
Change in accruals and deferred income	**(30)**	(12)	(15)
Change in deposits by banks	**621**	473	165
Change in customer accounts	**(1,208)**	(820)	18
Change in debt securities in issue	**413**	258	(1,001)
Change in financial liabilities designated at fair value	**(7)**	(5)	(266)
Change in other liabilities	**467**	(172)	(288)
	256	(278)	(1,387)
Cash and cash equivalents			
Cash and balances at central bank	**63**	95	79
Items in the course of collection from/(to) other banks, net	**(75)**	10	(17)
Loans and advances to banks of one month or less	**5,590**	3,847	5,792
T-Bills and certificates of deposits – three months or less	**899**	377	826
	6,477	4,329	6,680

13 Contractual commitments, guarantees and contingent liabilities

	At 31 March 2011	At 31 March 2010	At 31 December 2010
	$m	$m	$m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**2,281**	2,198	2,337
Commitments			
Documentary credits and short-term trade-related transactions	**353**	244	352
Undrawn formal standby facilities, credit lines and other commitments to lend	**34,478**	35,458	34,298
	34,831	35,702	34,650
Credit and yield enhancement			
Credit and yield enhancement	**-**	14	15

The table above discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Contractual amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

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

Contingent liabilities

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.

14 Segment analysis

We manage and report our operations according to our main customer groups. 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 changes and credits on the 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 Global Banking and Markets.

A description of each customer group is as follows:

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides services to individuals by offering a comprehensive range of financial products and services, which include retail banking, asset management, full service and discount brokerage and trust and advisory services.

In November 2010, our parent company announced that, with effect from March 2011, within the context of the customer group/global business view of HSBC Group's performance, Retail Banking and Wealth Management would be managed as a single global business. The business is the existing Personal Financial Services, with Global Asset Management moving from Global Banking and Markets to this new single business. The segment reporting disclosed below related to retail banking and wealth management does not yet reflect the change in structure. These changes will be reflected in our second quarter 2011 results.

Commercial Banking

Commercial Banking meets the needs of Canadian commercial and corporate clients by offering commercial and corporate banking, asset management, merchant banking, treasury and trade finance.

Global Banking and Markets

Global Banking and Markets provides a comprehensive range of financial services to an international group of HSBC's large multinational clients as well as client sales, service and distribution, statement of financial position management, and proprietary trading. The focus is on entities that have a need for global value added products by offering the following services: corporate banking, asset management, M&A advisory, treasury and trade finance.

Consumer Finance

Consumer finance provides Canadian customers a wide range of consumer finance products including real estate secured loans, unsecured personal loans, speciality insurance products and private label credit cards to retail merchants.

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 the HSBC Group companies.

The accounting policies of the segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

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

	Quarter ended 31 March 2011					
	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Net interest income/(loss)..	94	173	49	70	(4)	382
Net fee income	56	69	28	10	-	163
Net trading income	6	6	21	-	4	37
Net loss from financial instruments designated at fair	-	-	-	-	(8)	(8)
Gains less losses from financial investments	-	-	16	-	-	16
Other operating income	2	1	1	1	35	40
Net operating income before loan impairment charges and other credit risk provisions	158	249	115	81	27	630
Loan impairment charges and other credit risk provisions	2	17	-	30	-	49
Net operating income	156	232	115	51	27	581
Total operating expenses	149	96	36	43	35	359
Operating profit/(loss)	7	136	79	8	(8)	222
Share of profit in associates	-	1	-	-	-	1
Profit/(loss) before income tax	7	137	79	8	(8)	223

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

	Quarter ended 31 March 2010					
	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Net interest income/(loss)	96	194	22	83	(1)	394
Net fee income	48	57	33	8	-	146
Net trading income	6	7	22	-	1	36
Net loss from financial instruments designated at fair	-	-	-	(1)	(7)	(8)
Gains less losses from financial investments	-	-	3	-	-	3
Other operating income	2	4	1	1	34	42
Net operating income before loan impairment charges and other credit risk provisions	152	262	81	91	27	613
Loan impairment charges and other credit risk provisions	9	30	(2)	32	-	69
Net operating income	143	232	83	59	27	544
Total operating expenses	137	79	29	41	34	320
Operating profit/(loss)	6	153	54	18	(7)	224
Share of profit in associates	-	-	-	-	-	-
Profit/(loss) before income tax	6	153	54	18	(7)	224

	Quarter ended 31 December 2010					
	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Net interest income/(loss)	97	192	45	72	(4)	402
Net fee income/(loss)	53	65	39	22	(3)	176
Net trading income	5	7	11	-	4	27
Net loss from financial instruments designated at fair	-	-	-	-	(4)	(4)
Gains less losses from financial investments	-	-	-	-	-	-
Other operating income	3	2	1	1	45	52
Net operating income before loan impairment charges and other credit risk provisions	158	266	96	95	38	653
Loan impairment charges and other credit risk provisions	6	76	(3)	36	-	115
Net operating income	152	190	99	59	38	538
Total operating expenses	147	95	34	49	45	370
Operating profit/(loss)	5	95	65	10	(7)	168
Share of profit in associates	-	1	-	-	-	1
Profit/(loss) before income tax	5	96	65	10	(7)	169

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

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

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
Quarter ended 31 March 2011						
Net operating income:	**156**	**232**	**115**	**51**	**27**	**581**
External	**178**	**225**	**100**	**51**	**27**	**581**
Inter-segment	**(22)**	**7**	**15**	**-**	**-**	**-**
Quarter ended 31 March 2010						
Net operating income:	143	232	83	59	27	544
External	145	223	90	59	27	544
Inter-segment	(2)	9	(7)	-	-	-
Quarter ended 31 December 2010						
Net operating income:	152	190	99	59	38	538
External	176	171	94	59	38	538
Inter-segment	(24)	19	5	-	-	-

Statement of financial position information

	Retail Banking and Wealth Management $m	Commercial Banking $m	Global Banking and Markets $m	Consumer Finance $m	Other $m	Total $m
At 31 March 2011						
Loans and advances to customers (net)	**24,570**	**14,780**	**4,838**	**2,358**	**(587)**	**45,959**
Customers' liability under acceptances	**-**	**3,935**	**744**	**-**	**-**	**4,679**
Total assets	**25,547**	**19,506**	**32,190**	**2,574**	**(743)**	**79,074**
Customer accounts	**25,676**	**16,827**	**1,828**	**589**	**(668)**	**44,252**
Acceptances	**-**	**3,935**	**744**	**-**	**-**	**4,679**
Total liabilities	**35,997**	**21,474**	**15,020**	**2,207**	**(268)**	**74,430**
At 31 March 2010						
Loans and advances to customers (net)	25,412	16,706	4,811	2,798	(201)	49,526
Customers' liability under acceptances	-	3,680	900	-	-	4,580
Total assets	26,847	20,968	28,132	3,133	(247)	78,833
Customer accounts	25,127	15,670	1,508	201	(212)	42,294
Acceptances	-	3,680	900	-	-	4,580
Total liabilities	37,083	20,138	13,983	2,798	185	74,187
At 31 December 2010						
Loans and advances to customers (net)	24,839	14,741	3,790	2,468	(620)	45,218
Customers' liability under acceptances	-	3,468	904	-	-	4,372
Total assets	25,768	18,908	31,417	2,618	(694)	78,017
Customer accounts	26,259	17,503	1,709	622	(633)	45,460
Acceptances	-	3,468	904	-	-	4,372
Total liabilities	37,159	21,681	12,483	2,257	(219)	73,361

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

15 Related party transactions

The ultimate Parent company of the bank is HSBC Holdings plc, which is incorporated in England. The bank's related parties include the Parent, fellow subsidiaries, and key management personnel.

Transactions between HSBC Bank Canada and fellow HSBC Holdings plc subsidiaries:

	For the quarter ended 31 March 2011 $m	For the quarter ended 31 March 2010 $m	For the quarter ended 31 December 2010 $m
Income Statement			
Total revenue	**42**	44	56
Total expenses	**41**	36	40

The above outstanding balances arose from the ordinary course of business and on similar terms, including interest rates and security, as for comparable transactions with third party counterparties.

During the quarter the bank capitalized intercompany charges related to software of $3m (31 March 2010: nil and 31 December 2010: $10m).

16 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 31 March 2011 financial statements.

17 Transition to IFRS

As stated in note 1(a), these are the bank's first interim consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the interim financial statements for the three month period ended 31 March 2011, the comparative information presented in these financial statements for the three month periods ended 31 March 2010 and 31 December 2010 and in the preparation of an opening IFRS statement of financial position at 1 January 2010 (the bank's date of transition).

In preparing its opening IFRS statement of financial position, the bank has adjusted certain amounts and classifications previously reported in its financial statements prepared under Canadian GAAP. The transition has not affected the bank's net cash flows or the underlying economics of its business, though the recognition and classification of certain items in the statement of financial position and income statement are now changed. An explanation of how the transition to IFRS has affected the bank's financial position, financial performance and cash flows is set out below.

The bank has changed its reporting format to be similar to other entities reporting under IFRS within the HSBC Group. These changes are referenced as 'presentational re-classifications' in (c) and (d) below.

(a) Transitional exemptions

In preparing these consolidated financial statements, the bank has elected to take advantage of certain transitional provisions within IFRS 1 First-time Adoption of IFRS.

HSBC Holdings, our ultimate Parent, adopted IFRS in 2005. Accordingly for a number of years, we have reported our results on an IFRS basis for inclusion in the HSBC Group's consolidated financial results.

As we have become a first time adopter of IFRS later than our Parent, we have elected to measure our assets and liabilities at the carrying amounts that were included in our Parent's consolidated financial statements, based on our Parent's date of transition to IFRS, however excluding adjustments made by our Parent for its consolidation procedures and for the effects of the business combination in which our Parent acquired the bank.

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

Based on electing this optional exemption, the following exemptions under IFRS 1 were applied at the date of our Parent's date of transition to IFRS being 1 January 2004:

(i) Business combinations

The Group has elected not to restate business combinations that took place prior to 1 January 2004, the transition date of its Parent.

On 30 November 2008 the bank acquired HSBC Financial Corporation Limited from an entity under common control. Under Canadian GAAP, the acquisition represented a transfer of equity interests between entities under common control and the acquisition was accounted for using the continuity of interest's method. Acquisitions from entities under common control are excluded from the scope of IFRS 3. Accordingly, the bank applied book value (carry-over basis) accounting under IFRS to account for this acquisition. As such, under IFRS the acquisition was accounted for on the same basis as Canadian GAAP.

(ii) Fair value or revaluation as deemed cost

The Group has elected to measure individual items of property at fair value at the date of transition to IFRS and use that fair value as deemed cost at that date. The bank has included in its financial statements the fair value at 1 January 2004, the transition date of its Parent. The impact of this election at 1 January 2010 is an increase in property, plant and equipment of $2m and a corresponding increase to shareholder's equity.

(iii) Employee benefits

The Group has elected to apply the employee benefits exemption and has, therefore, recognized in equity at 1 January 2004 all cumulative actuarial gains and losses on retirement benefit plans (Note 5).

(b) Reconciliations of net income, total comprehensive income and total equity under Canadian GAAP to IFRS

The bank previously prepared its primary financial statements under Canadian GAAP, which differs in certain significant respects from IFRSs.

Reconciliation of net income as previously reported under Canadian GAAP to profit for the period reported under IFRS

	Ref	Quarter ended		Year ended
		31 March 2010	31 December 2010	31 December 2010
		$m	$m	$m
Net income under Canadian GAAP		99	119	490
Adjustments to net income:				
Derecognition of securitized financial assets	**i**	81	(21)	160
Employee defined benefit plans	**ii**	2	4	9
Treatment of foreign exchange on available-for-sale securities	**iii**	(20)	(10)	(12)
Hedge accounting	**v**	14	23	1
Tax	**vi**	(27)	2	(49)
Other	**vii**	(1)	(6)	(7)
Non-controlling interests[1]		6	7	26
Total adjustments to net income		55	(1)	128
Profit under IFRS		154	118	618

[1] *Under Canadian GAAP, non-controlling interest distributions are an expense through the consolidated income statement; however under IFRS, non-controlling interest is a component of equity.*

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

Reconciliation of total comprehensive income as previously reported under Canadian GAAP to total comprehensive income for the period reported under IFRS

	Ref	Quarter ended		Year ended
		31 March 2010 $m	31 December 2010 $m	31 December 2010 $m
Total comprehensive income under Canadian GAAP		48	(16)	479
Difference in net income		55	(1)	128
Adjustments to other comprehensive income:				
Derecognition of securitized financial assets	**i**	(1)	2	(1)
Employee defined benefit plans	**ii**	(20)	8	(58)
Treatment of foreign exchange on available-for-sale securities	**iii**	20	10	12
Designation of debt securities held with other financial institutions	**iv**	(3)	(6)	(7)
Hedge accounting	**v**	(14)	(23)	(1)
Tax	**vi**	3	7	16
Other	**vii**	1	(1)	(1)
Total adjustments to other comprehensive income		(14)	(3)	(40)
Total comprehensive income/(loss) under IFRS		89	(20)	567`

Reconciliation of total shareholders' equity as previously reported under Canadian GAAP to total equity under IFRS

	Ref	At 31 March 2010 $m	At 31 December 2010 $m	At 1 January 2010 $m
Total shareholders' equity under Canadian GAAP		4,324	4,507	4,364
Adjustments to shareholders' equity:				
Derecognition of securitized financial assets	**i**	(25)	53	(106)
Employee defined benefit plans	**ii**	(200)	(231)	(183)
Treatment of foreign exchange on available-for-sale securities [1]	**iii**	–	–	–
Designation of debt securities held with other financial institutions	**iv**	10	6	13
Hedge accounting	**v**	–	–	–
Tax	**vi**	68	60	92
Other	**vii**	39	31	38
Total adjustments to shareholders' equity		(108)	(81)	(146)
Non-controlling interests [2]		430	230	430
Total equity under IFRS		4,646	4,656	4,648

(1) Reclassification entry between retained earnings and other comprehensive income
(2) Under Canadian GAAP, non-controlling interests is not presented as a component of total shareholders equity; however, under IFRS non-controlling interests is presented as a component of total equity.

i) **Derecognition of securitized financial assets** (IAS 39 Financial Instruments)

The bank securitizes National Housing Act – mortgage backed securities ("MBS") through programs sponsored by the CMHC. The programs involve a two step process through which insured mortgages are converted into MBS and thereafter sold.

The bank sells the MBS to the Canada Housing Trust ("CHT") through the Canada Mortgage Bond ("CMB") and Insured Mortgage Purchase Program. Under Canadian GAAP, the features of the transaction meet the derecognition criteria included within AcG-12 Transfer of Receivables. Therefore, the transaction is accounted for as a sale with derecognition of the MBS from the statement of financial position and the recognition of a gain or loss in the income statement. Under IFRS, the terms of the transaction do not meet the derecognition criteria included within IAS 39 because the pass-through

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

test is not met. The pass-through test requires that the bank has no obligation to pay amount to the transferee unless the transferor collects equivalent amounts from the original assets. Therefore, the transaction is accounted for as a secured borrowing with the underlying mortgages of the securitized MBS on statement of financial position and a liability is recognized for the funding received with no recognition of gains or losses on transfer.

As part of the securitization of MBS as mentioned above, the bank is obligated to enter into certain derivative transactions to isolate the CHT from prepayment risk on mortgages in the program. The derivatives represent a contractual obligation to pay a coupon to the CMB holders and right to collect the MBS cash flows and are classified as swaps. Under Canadian GAAP, the derivatives are recognized and classified as held for trading with fair value adjustments recognized in the income statement. Under IFRS, the derivatives are not required to be recognized to avoid double-counting with the securitized assets that are not derecognized.

Under Canadian GAAP the bank recognizes a servicing liability and related income in respect of retained interests. The liability represents future costs of fulfilling our servicing obligation relating to securitized and sold MBS. Under IFRS, the bank continues to recognize a full interest in the underlying securitized mortgages and therefore does not recognize the servicing liability and related income.

In addition to the above programs, the bank also securitizes mortgages to a third party. The same accounting treatment applies to these transactions as for the sale of MBS.

The net effect of these securitization transactions on transition to IFRS is a decrease to Canadian GAAP shareholders' equity which represents the elimination of life-to-date securitization gains and losses subsequent to 1 January 2004 and servicing income realized under Canadian GAAP, less an adjustment for interest income and expense that would have otherwise been recognized under IFRS and the elimination of mark-to-market adjustments on the related derivatives. In addition, it includes the impact of the elimination of fair value revaluations adjustments on the recognized MBS classified as AFS securities under Canadian GAAP, which are excluded from other comprehensive income ("OCI") under IFRS.

ii) Employee defined benefit plans (IAS 19 Employee Benefits)

On transition from Canadian GAAP to IFRS on 1 January 2010 the bank has recognized a reduction in Canadian GAAP retained earnings due to differences in accounting treatment of defined benefit plans between Canadian GAAP and IFRS. The most significant portion of this reduction in shareholders' equity is due to a change in the way the bank has recognized actuarial gains and losses.

Under Canadian GAAP, the bank deferred the recognition of actuarial gains and losses to future years. Previously actuarial gains and losses outside a 10% corridor were recognized in the income statement over the effective average remaining service lives of employees using the "corridor method". The bank has aligned its accounting policy with that of its Parent and the "corridor method" has not been used and the bank has chosen an accounting policy to recognize all actuarial gains and losses immediately in OCI. Therefore all previously net unrecognized actuarial gains at 1 January 2010 on transition to IFRS have been recognized through retained earnings via the statement of comprehensive income, which has the effect of aligning the bank's accounting policy to that of its Parent from 1 January 2004 to date. Profit under IFRS has increased as a result of reversing amortization of net actuarial losses and past vested service costs previously recorded under Canadian GAAP.

A number of additional differences between Canadian GAAP and IFRS exist relating to the accounting for defined benefit plans. The areas of difference which impacted the bank on transition included the calculation and treatment of the valuation allowance, the treatment of the transitional obligation recognized under Canadian GAAP, and the treatment of amendments to benefits and settlements. In addition, the bank utilized a 30 September measurement date under Canadian GAAP, however under IFRS the bank utilized a 31 December measurement date in accordance with IFRS.

iii) Treatment of foreign exchange on available-for-sale debt securities (IAS 39 Financial Instruments)

The bank owns certain foreign currency denominated available-for-sale debt securities. Under Canadian GAAP, foreign exchange gains or losses on these debt securities are recognized in OCI, whereas under IFRS foreign exchange adjustments to these debt securities are recognized in the income statement. Due to the recognition of foreign exchange losses, profit under IFRS decreased relative to profit under Canadian GAAP. There is no impact on shareholders' equity as the adjustments to cumulative foreign exchange losses of $99m at 1 January 2010, (31 March 2010: $119m) and (31 December 2010: $111m) result in an adjustment retained earnings, offset by a corresponding adjustment to OCI. Profit

under IFRS has decreased as a result of recording foreign exchange losses in profit that were previously reported in OCI under Canadian GAAP.

iv) Designation of debt securities held with other financial institutions (IAS 39 Financial Instruments)

The bank classified certain debt securities held with other financial institutions as loan and receivables which are measured at amortized cost under Canadian GAAP. Under IFRS, the debt securities are designated as available-for-sale and measured at fair value, with changes in fair value recorded in OCI. The recognition of interest income has not changed, and accordingly for the year ended 31 December 2010, there was no difference in profit under IFRS and Canadian GAAP relating to this adjustment.

v) Hedge accounting (IAS 39 Financial Instruments)

The bank has designated and formally documented hedging relationships under both Canadian GAAP and IFRS individually. Although the vast majority of hedging relationships qualify under both Canadian GAAP and IFRS, certain Canadian GAAP hedging relationships are not allowed under IFRS and vice versa. Therefore in the transition to IFRS, certain hedging relationships designated under Canadian GAAP will no longer qualify for hedge accounting under IFRS, while certain hedging relationships that will no longer qualify under Canadian GAAP, can be accounted for as hedges under IFRS. In addition, different risks are being hedged in the documented cash flow hedging relationships under both Canadian GAAP and IFRS resulting in different levels of hedge ineffectiveness.

The net effect of these changes is to increase OCI with a corresponding decrease to retained earnings reflects the net additional hedging relationships established under IFRS and ineffectiveness adjustments. There is no impact on total shareholders' equity. The impact on profits for the periods presented relate to recording of differences in measuring hedge ineffectiveness and the recording of the effective portion of fair value changes relating to net additional hedging relationship established under IFRS.

vi) Tax (IAS 12 Income taxes)

Deferred tax liabilities and assets are generally recognized in respect of all temporary differences except where expressly prohibited, subject to an assessment of the recoverability of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The tax adjustments to profit and OCI reflect the tax impact of the IFRS transitional adjustments.

vii) Other

In addition to the above noted differences, we have identified other less significant differences relating to goodwill, share-based payments and other insignificant items. The net impact of these adjustments is an increase to Canadian GAAP shareholders' equity as at January 1, 2010.

(c) Reconciliation of the bank's income statements

i) Change in reporting format:

The bank has changed its reporting format to be consistent with other entities reporting under IFRS within the HSBC Group. In general, the revised reporting format consolidates line items that were previously presented as individual line items.

'Fee income' summarizes certain fee income items which were previously individually presented. 'Trading income excluding net interest revenue' includes 'Foreign exchange', 'Trading revenue' and 'Other mark-to-market non-interest revenue' which were presented as individual line items under Canadian GAAP. 'Net interest income on trading activities' was previously included within 'Net interest income'. For a more detailed description of the nature of the above line items refer to note 2(b).

Certain expense line items which were formerly presented under 'Non-interest expenses' have been re-categorized and reclassified within 'Total operating expenses'. Certain fee expenses previously included under 'Non-interest expenses' have been reclassified to 'Fee expense'.

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

Distributions to unit holders of non-controlling interests

Under IFRS, non-controlling interests is presented as a component of total shareholders' equity; however, under Canadian GAAP non-controlling interests is presented outside of shareholder's equity. Therefore under IFRS, distributions to unit holders of non-controlling interests are distributed directly out of retained earnings and are not recognized in the consolidated income statement as under Canadian GAAP.

Consolidated income statement for the year ended 31 December 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Interest income	2,147	(42)	2,105	Interest income
Interest expense	590	(30)	560	Interest expense
Net interest income	1,557	(12)	1,545	Net interest income
Deposit and payment service fees	111	(111)		
Credit fees	194	(194)		
Capital market fees	119	(119)		
Investment administration fees	143	(143)		
		703	703	Fee income
		72	72	Fee expense
			631	Net fee income
		(44)	(44)	Trading income excluding net interest income
		13	13	Net interest income on trading activities
			(31)	Net trading income
		(3)	(3)	Net income from financial instruments designated at fair value
		8	8	Gains less losses from financial investments
Foreign exchange	48	(48)		
Trade finance	24	(24)		
Trading revenue	104	(104)		
Gains on available-for-sale and securities	14	(14)		
Securitization income	83	(83)		
Other	292	(26)	266	Other operating income
Other mark-to-market	(196)	196		
Non-interest revenue	936	(65)	871	
Total revenue	**2,493**	**(77)**	**2,416**	**Net operating income before loan impairment charges and other credit risk provisions**
		335	335	Loan impairment charges and other credit risk provisions
			2,081	**Net operating income**
Salaries and employee benefits	753		753	Employee compensation and benefits
		553	553	General and administrative expenses
Premises and equipment	175	(175)		
		40	40	Depreciation of property, plant and equipment
Other	504	(504)		
		16	16	Amortization of intangible assets
Non-interest expenses	**1,432**	**(70)**	**1,362**	**Total operating expenses**
Net operating income before provision for credit losses	**1,061**	**(342)**	**719**	**Operating profit**
Provision for credit losses	335	(335)		
		7	7	Share of profit in associates
Income before provision for taxes	**726**	**–**	**726**	**Profit before income tax expense**
Provision for income tax	210	–	210	Income tax expense
Non-controlling interest in income	26	(26)		
Net income	**490**	**26**	**516**	**Profit for the year**
		(26)	(26)	Distribution to non-controlling interests

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

Consolidated income statement for the quarter ended 31 March 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Interest income	512	(10)	502	Interest income
Interest expense	132	(6)	126	Interest expense
Net interest income	380	(4)	376	Net interest income
Deposit and payment service fees	27	(27)		
Credit fees	45	(45)		
Capital market fees	32	(32)		
Investment administration fees	33	(33)		
		161	161	Fee income
		15	15	Fee expense
			146	Net fee income
		(74)	(74)	Trading income excluding net interest income
		5	5	Net interest income on trading activities
			(69)	Net trading income
		(6)	(6)	Net income from financial instruments designated at fair value
		3	3	Gains less losses from financial investments
Foreign exchange	11	(11)		
Trade finance	6	(6)		
Trading revenue	20	(20)		
Gains on available-for-sale and securities	3	(3)		
Securitization income	38	(38)		
Other	63	16	79	Other operating income
Other mark-to-market	(112)	112		
Non-interest revenue	166	(13)	153	
Total revenue	**546**	**(17)**	**529**	**Net operating income before loan impairment charges and other credit risk provisions**
		63	63	Loan impairment charges and other credit risk provisions
			466	**Net operating income**
Salaries and employee benefits	177		177	Employee compensation and benefits
		128	128	General and administrative expenses
Premises and equipment	42	(42)		
		10	10	Depreciation of property, plant and equipment
Other	116	(116)		
		3	3	Amortization of intangible assets
Non-interest expenses	**335**	**(17)**	**318**	**Total operating expenses**
Net operating income before provision for credit losses	**211**	**(63)**	**148**	**Operating profit**
Provision for credit losses	63	(63)		
		-	-	Share of profit in associates
Income before provision for taxes	**148**	**-**	**148**	**Profit before income tax expense**
Provision for income tax	43	-	43	Income tax expense
Non-controlling interest in income	6	(6)		
Net income	**99**	**6**	**105**	**Profit for the quarter**
		(6)	(6)	Distribution to non-controlling interests

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

Consolidated income statement for the quarter ended 31 December 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Interest income	568	(12)	556	Interest income
Interest expense	180	(9)	171	Interest expense
Net interest income	388	(3)	385	Net interest income
Deposit and payment service fees	28	(28)		
Credit fees	51	(51)		
Capital market fees	36	(36)		
Investment administration fees	38	(38)		
		194	194	Fee income
		18	18	Fee expense
			176	Net fee income
		39	39	Trading income excluding net interest income
		3	3	Net interest income on trading activities
			42	Net trading income
		(5)	(5)	Net income from financial instruments designated at fair value
		-	-	Gains less losses from financial investments
Foreign exchange	12	(12)		
Trade finance	7	(7)		
Trading revenue	19	(19)		
Gain on available-for-sale and securities	2	(2)		
Securitization income	11	(11)		
Other	74	(5)	69	Other operating income
Other mark-to-market	5	(5)		
Non-interest revenue	283	(1)	282	
Total revenue	**671**	**(4)**	**667**	**Net operating income before loan impairment charges and other credit risk provisions**
		109	109	Loan impairment charges and other credit risk provisions
			558	**Net operating income**
Salaries and employee benefits	201		201	Employee compensation and benefits
		164	164	General and administrative expenses
Premises and equipment	44	(44)		
		10	10	Depreciation of property, plant and equipment
Other	137	(137)		
		5	5	Amortization of intangible assets
Non-interest expenses	**382**	**(2)**	**380**	**Total operating expenses**
Net operating income before provision for credit losses	**289**	**(111)**	**178**	**Operating profit**
Provision for credit losses	109	(109)		
		2	2	Share of profit in associates
Income before provision for taxes	**180**	**-**	**180**	**Profit before income tax expense**
Provision for income tax	54	-	54	Income tax expense
Non-controlling interest in income	7	(7)		
Net income	**119**	**7**	**126**	**Profit for the quarter**
		(7)	(7)	Distribution to non-controlling interests

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

ii) Reconciliation of Canadian GAAP and IFRS

Adjustments to conform the bank's Canadian GAAP income statement to its accounting policies under IFRS are set out below:

Consolidated income statement for the year ended 31 December 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Hedge accounting	Tax [(1)]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m
Interest income	2,105	244	-	-	-	-	34	2,383
Interest expense	560	197	-	-	8	-	5	770
Net interest income	1,545	47	-	-	(8)	-	29	1,613
Fee income	703	-	-	-	-	-	18	721
Fee expense	72	-	-	-	-	-	18	90
Net fee income	631	-	-	-	-	-	-	631
Trading income excluding net interest income	(44)	196	-	(12)	9	-	(7)	142
Net interest income on trading activities	13	-	-	-	-	-	-	13
Net trading income	(31)	196	-	(12)	9	-	(7)	155
Net loss from financial instruments designated at fair value	(3)	-	-	-	-	-	-	(3)
Gains less losses from financial investments	8	-	-	-	-	-	-	8
Other operating income	266	(83)	-	-	-	-	(1)	182
Net operating income before loan impairment charges and other credit provisions	2,416	160	-	(12)	1	-	21	2,586
Loan impairment charges and other credit risk provisions	335	-	-	-	-	-	24	359
Net operating income	2,081	160	-	(12)	1	-	(3)	2,227
Employee compensation and benefits	753	-	(9)	-	-	-	6	750
General and administrative expenses	553	-	-	-	-	-	(5)	548
Depreciation of property, plant and equipment	40	-	-	-	-	-	-	40
Amortization of intangibles	16	-	-	-	-	-	3	19
Total operating expenses	1,362	-	(9)	-	-	-	4	1,357
Operating profit	719	160	9	(12)	1	-	(7)	870
Share of profit in associates	7	-	-	-	-	(2)	-	5
Profit before tax expense	726	160	9	(12)	1	(2)	(7)	875
Tax expense	210					47		257
Profit for the period [(2)]	516	160	9	(12)	1	(49)	(7)	618

(1) *The tax effect of all adjustments are presented in the tax column*

(2) *Under Canadian GAAAP non-controlling interest distributions are an expense through the consolidated income statement; however, under IFRS, non-controlling interest is a component of equity*

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

Consolidated income statement for the quarter ended 31 March 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Hedge accounting	Tax [(1)]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m
Interest income…………………………………………	502	45	-	-	-	-	23	570
Interest expense………………………………………	126	36	-	-	2	-	12	176
Net interest income……………………………………	376	9	-	-	(2)	-	11	394
Fee income……………………………………………	161	-	-	-	-	-	5	166
Fee expense……………………………………………	15	-	-	-	-	-	5	20
Net fee income…………………………………………	146	-	-	-	-	-	-	146
Trading income excluding net interest income…………	(74)	109	-	(20)	16	-	-	31
Net interest income on trading activities………………	5	-	-	-	-	-	-	5
Net trading income……………………………………	(69)	109	-	(20)	16	-	-	36
Net loss from financial instruments designated at fair value……………………..……..	(6)	-	-	-	-	-	(2)	(8)
Gains less losses from financial investments…………	3	-	-	-	-	-	-	3
Other operating income………………………………	79	(37)	-	-	-	-	-	42
Net operating income before loan impairment charges and other credit provisions…………………...…………	529	81	-	(20)	14	-	9	613
Loan impairment charges and other credit risk provisions…………………………………	63	-	-	-	-	-	6	69
Net operating income………………………………	466	81	-	(20)	14	-	3	544
Employee compensation and benefits…………………	177	-	(2)	-	-	-	5	180
General and administrative expenses…………………	128	-	-	-	-	-	(1)	127
Depreciation of property, plant and equipment………	10	-	-	-	-	-	-	10
Amortization of intangibles……………………………	3	-	-	-	-	-	-	3
Total operating expenses……………………………	318	-	(2)	-	-	-	4	320
Operating profit……………………………………	148	81	2	(20)	14	-	(1)	224
Share of profit in associates……………………………	-	-	-	-	-	-	-	-
Profit before tax expense……………………………	148	81	2	(20)	14	-	(1)	224
Tax expense……………………………………………	43					27		70
Profit for the quarter [(2)]……………………………	105	81	2	(20)	14	(27)	(1)	154

(1) *The tax effect of all adjustments are presented in the tax column*

(2) *Under Canadian GAAAP non-controlling interest distributions are an expense through the consolidated income statement; however, under IFRS, non-controlling interest is a component of equity*

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

Consolidated income statement for the quarter ended 31 December 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Hedge accounting	Tax [1]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m
Interest income……	556	69	-	-	-	-	2	627
Interest expense……	171	57	-	-	2	-	(5)	225
Net interest income……	385	12	-	-	(2)	-	7	402
Fee income……	194	-	-	-	-	-	4	198
Fee expense……	18	-	-	-	-	-	4	22
Net fee income……	176	-	-	-	-	-	-	176
Trading income excluding net interest income……	39	(22)	-	(10)	25	-	(8)	24
Net interest income on trading activities……	3	-	-	-	-	-	-	3
Net trading income……	42	(22)	-	(10)	25	-	(8)	27
Net loss from financial instruments designated at fair value……	(5)	-	-	-	-	-	1	(4)
Gains less losses from financial investments……	-	-	-	-	-	-	-	-
Other operating income……	69	(11)	-	-	-	-	(6)	52
Net operating income before loan impairment charges and other credit provisions……	667	(21)	-	(10)	23	-	(6)	653
Loan impairment charges and other credit risk provisions……	109	-	-	-	-	-	6	115
Net operating income……	558	(21)	-	(10)	23	-	(12)	538
Employee compensation and benefits……	201	-	(4)	-	-	-	-	197
General and administrative expenses……	164	-	-	-	-	-	(7)	157
Depreciation of property, plant and equipment……	10	-	-	-	-	-	-	10
Amortization of intangibles……	5	-	-	-	-	-	1	6
Total operating expenses……	380	-	(4)	-	-	-	(6)	370
Operating profit……	178	(21)	4	(10)	23	-	(6)	168
Share of profit in associates……	2	-	-	-	-	(1)	-	1
Profit before tax expense……	180	(21)	4	(10)	23	(1)	(6)	169
Tax expense……	54					(3)		51
Profit for the quarter [2]……	126	(21)	4	(10)	23	2	(6)	118

(1) *The tax effect of all adjustments are presented in the tax column*

(2) *Under Canadian GAAAP non-controlling interest distributions are an expense through the consolidated income statement; however, under IFRS, non-controlling interest is a component of equity*

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

(d) Reconciliation of the bank's statements of financial position

i) Change in reporting format:

The new statement of financial position presentation groups assets and liabilities together according to their financial instrument classification under IAS39. For a more detailed description of the assets and liabilities presented within the various line items within the statement of financial position refer to Note 2.

Significant presentational reclassifications of line items include:

Assets

- Under the revised format 'Trading assets' include financial assets classified as held for trading through the income statement that were previously presented as 'Deposits with regulated Financial Institutions', 'Securities: Trading', 'Loans' and 'Other assets'.
- 'Loans and advances to banks' and 'Loans and advances to customers' include securities purchased under reverse repurchase agreements which were previously presented under 'Securities purchased under reverse repurchase agreements'.
- 'Financial Investments' include financial assets classified as available-for-sale that were previously presented as 'Securities: Available-for-sale' and includes certain items previous presented in 'Deposits with regulated financial institutions'

Liabilities

- 'Trading liabilities' under the revised format include financial liabilities classified as held for trading that were previously presented as 'Deposits', 'Securities sold short' and certain items presented in 'Interest bearing liabilities of subsidiaries, other than deposits' and certain items presented in 'Other liabilities'.
- 'Debt securities in issue' include debts for which transferrable certificates have been issued that were previously presented as 'Deposits' and 'Interest bearing liabilities of subsidiaries, other than deposits'.
- 'Interest bearing liabilities of subsidiaries, other than deposits' under the previous format has been reclassified to 'Trading liabilities', 'Financial liabilities designated at fair value' or 'Debt securities in issue' as appropriate.
- 'Securities sold under repurchase agreements' under the previous format have been presented as 'Deposits by banks' where the counterparty is a financial institution and 'Customer accounts' where the counterparty is a not a financial institution.

The reclassifications described below were made due to presentational requirements under IFRS:

Non-controlling interests

- Under IFRS, non-controlling interests is presented as a component of total shareholders' equity; however, under Canadian GAAP non-controlling interests was presented outside of shareholder's equity.

Debt securities held with other financial institutions

- Certain debt securities held with other financial institutions were classified as loans and receivables and formerly presented as 'Deposits held with regulated financial institutions' under Canadian GAAP. Under IFRS, these securities are designated as available-for-sale and presented as 'Financial investments'.

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

Consolidated statement of financial position at 1 January 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Assets				**Assets**
Cash and non-interest deposits with Bank of Canada and other banks	652	(463)	189	Cash and balances at central bank
Deposits with regulated financial institutions	1,245	(1,245)		
		88	88	Items in the course of collection from other banks
Securities: Available-for-sale	12,682	(12,682)		
Securities: Held-for-trading	1,986	(1,986)		
Securities: Other	41	(41)		
		4,042	4,042	Trading assets
		1,100	1,100	Derivatives
Securities purchased under reverse repurchase agreements	8,496	(8,496)		
		5,862	5,862	Loans and advances to banks
Loans	38,104	1,828	39,932	Loans and advances to customers
		13,598	13,598	Financial investments
Customers' liability under acceptances	4,966	(4,966)		
Derivatives	1,100	(1,100)		
Land, buildings and equipment	142	(142)		
Other assets	1,923	(1,098)	825	Other assets
		465	465	Prepayments and accrued income
		4,966	4,966	Customers' liability under acceptances
		43	43	Interests in associates
		142	142	Property, plant and equipment
		85	85	Goodwill and intangibles
Total assets	**71,337**	**–**	**71,337**	**Total assets**
Liabilities and Equity				**Liabilities and Equity**
		2,713	2,713	Deposits by banks
Deposits	50,207	(6,490)	43,717	Customer accounts
		186	186	Items in course of transmission to other banks
		2,812	2,812	Trading liabilities
		1,138	1,138	Financial liabilities designated at fair value
		897	897	Derivatives
		7,870	7,870	Debt securities in issue
		1,137	1,137	Other liabilities
Acceptances	4,966	–	4,966	Acceptances
		556	556	Accruals and deferred income
Interest bearing liabilities of subsidiaries, other than deposits	3,324	(3,324)		
Derivatives	897	(897)		
Securities sold under repurchase agreements	2,517	(2,517)		
Securities sold short	1,148	(1,148)		
Other liabilities	2,650	(2,650)		
		119	119	Retirement benefit liabilities
		432	432	Subordinated debentures
Non-controlling interest in trust and subsidiary	430	(430)		
Total liabilities	**66,139**	**404**	**66,543**	**Total liabilities**
Subordinated debentures	834	(834)		
Shareholders' equity:				Equity:
Preferred shares	946	–	946	Preferred shares
Common shares	1,225	–	1,225	Common shares
Contributed surplus	7	(7)		
Retained earnings	2,113	7	2,120	Retained earnings
Accumulated other comprehensive income	73	–	73	Other reserves
		430	430	Non-controlling interests
Total equity	**4,364**	**430**	**4,794**	**Total equity**
Total equity and liabilities	**71,337**	**–**	**71,337**	**Total equity and liabilities**

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

Consolidated statement of financial position at 31 March 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Assets				**Assets**
Cash and non-interest deposits with Bank of Canada and other banks	559	(464)	95	Cash and balances at central bank
Deposits with regulated financial institutions	1,339	(1,339)		
		97	97	Items in the course of collection from other banks
Securities: Available-for-sale	13,850	(13,850)		
Securities: Held-for-trading	2,217	(2,217)		
Securities: Other	41	(41)		
		4,346	4,346	Trading assets
		1,085	1,085	Derivatives
Securities purchased under reverse repurchase agreements	7,094	(7,094)		
		3,847	3,847	Loans and advances to banks
Loans	37,907	2,868	40,775	Loans and advances to customers
		14,722	14,722	Financial investments
Customers' liability under acceptances	4,580	(4,580)		
Derivatives	1,086	(1,086)		
Land, buildings and equipment	142	(142)		
Other assets	1,833	(1,516)	317	Other assets
		509	509	Prepayments and accrued income
		4,580	4,580	Customers' liability under acceptances
		42	42	Interests in associates
		142	142	Property, plant and equipment
		91	91	Goodwill and intangibles
Total assets	**70,648**	**–**	**70,648**	**Total assets**
Liabilities and Equity				**Liabilities and Equity**
		3,179	3,179	Deposits by banks
Deposits	49,682	(7,021)	42,661	Customer accounts
		87	87	Items in course of transmission to other banks
		3,236	3,236	Trading liabilities
		1,133	1,133	Financial liabilities designated at fair value
		1,134	1,134	Derivatives
		7,604	7,604	Debt securities in issue
		1,301	1,301	Other liabilities
Acceptances	4,580	–	4,580	Acceptances
		529	529	Accruals and deferred income
Interest bearing liabilities of subsidiaries, other than deposits	3,244	(3,244)		
Derivatives	1,134	(1,134)		
Securities sold under repurchase agreements	2,359	(2,359)		
Securities sold short	1,073	(1,073)		
Other liabilities	3,086	(3,086)		
		121	121	Retirement benefit liabilities
		329	329	Subordinated debentures
Non-controlling interest in trust and subsidiary	430	(430)		
Total liabilities	**65,588**	**306**	**65,894**	**Total liabilities**
Subordinated debentures	736	(736)		
Shareholders' equity:				Equity:
Preferred shares	946	–	946	Preferred shares
Common shares	1,225	–	1,225	Common shares
Contributed surplus	9	(9)		
Retained earnings	2,122	9	2,131	Retained earnings
Accumulated other comprehensive income	22	–	22	Other reserves
		430	430	Non-controlling interests
Total equity	**4,324**	**430**	**4,754**	**Total equity**
Total equity and liabilities	**70,648**	**–**	**70,648**	**Total equity and liabilities**

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

Consolidated statement of financial position at 31 December 2010

Canadian GAAP numbers in Canadian GAAP format	$m	Reclass	$m	Canadian GAAP numbers in IFRS format
Assets				**Assets**
Cash and non-interest deposits with Bank of Canada and other banks	513	(434)	79	Cash and balances at central bank
Deposits with regulated financial institutions	2,173	(2,173)		
		84	84	Items in the course of collection from other banks
Securities: Available-for-sale	15,804	(15,804)		
Securities: Held-for-trading	2,254	(2,254)		
Securities: Other	40	(40)		
		3,947	3,947	Trading assets
		1,365	1,365	Derivatives
Securities purchased under reverse repurchase agreements	7,155	(7,155)		
		5,777	5,777	Loans and advances to banks
Loans	35,969	1,554	37,523	Loans and advances to customers
		17,137	17,137	Financial investments
Customers' liability under acceptances	4,372	(4,372)		
Derivatives	1,364	(1,364)		
Land, buildings and equipment	123	(123)		
Other assets	1,729	(1,220)	509	Other assets
		458	458	Prepayments and accrued income
		4,372	4,372	Customers' liability under acceptances
		40	40	Interests in associates
		122	122	Property, plant and equipment
		83	83	Goodwill and intangibles
Total assets	**71,496**	**–**	**71,496**	**Total assets**
Liabilities and Equity				**Liabilities and Equity**
		1,226	1,226	Deposits by banks
Deposits	52,055	(5,336)	46,719	Customer accounts
		101	101	Items in course of transmission to other banks
		2,764	2,764	Trading liabilities
		983	983	Financial liabilities designated at fair value
		1,330	1,330	Derivatives
		6,459	6,459	Debt securities in issue
		1,768	1,768	Other liabilities
Acceptances	4,372	–	4,372	Acceptances
		585	585	Accruals and deferred income
Interest bearing liabilities of subsidiaries, other than deposits	2,363	(2,363)		
Derivatives	1,329	(1,329)		
Securities sold under repurchase agreements	1,560	(1,560)		
Securities sold short	1,262	(1,262)		
Other liabilities	3,079	(3,079)		
		128	128	Retirement benefit liabilities
		324	324	Subordinated debentures
Non-controlling interest in trust and subsidiary	230	(230)		
Total liabilities	**66,250**	**509**	**66,759**	**Total liabilities**
Subordinated debentures	739	(739)		
Shareholders' equity:				Equity:
Preferred shares	946	–	946	Preferred shares
Common shares	1,225	–	1,225	Common shares
Contributed surplus	12	(12)		
Retained earnings	2,262	12	2,274	Retained earnings
Accumulated other comprehensive income	62	–	62	Other reserves
		230	230	Non-controlling interests
Total equity	**4,507**	**230**	**4,737**	**Total equity**
Total equity and liabilities	**71,496**	**–**	**71,496**	**Total equity and liabilities**

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

ii) Reconciliation of Canadian GAAP and IFRS

Adjustments to conform the bank's Canadian GAAP statement of financial position to its accounting policies under IFRS are set out below:

Consolidated statement of financial position at 1 January 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Designation of debt securities held with other financial institutions	Hedge accounting	Tax [1]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
ASSETS									
Cash and balances at central bank	189	-	-	-	-	-	-	-	189
Items in the course of collection from other banks	88	-	-	-	-	-	-	-	88
Trading assets	4,042	-	-	-	-	-	-	-	4,042
Derivative financial assets	1,100	(44)	-	-	-	-	-	(1)	1,055
Loans and advances to banks	5,862	-	-	-	-	-	-	-	5,862
Loans & advances to customers	39,932	8,216	-	-	-	-	-	16	48,164
Financial Investments	13,598	(579)	-	-	13	-	-	1	13,033
Other assets	825	(1)	-	-	-	-	91	1	916
Prepayments and accrued income	465	(197)	(88)	-	-	-	-	(2)	178
Customers' liability under acceptances	4,966	-	-	-	-	-	-	-	4,966
Interest in associates	43	-	-	-	-	-	1	-	44
Property, plant and equipment	142	-	-	-	-	-	-	2	144
Goodwill and intangibles	85	-	-	-	-	-	-	14	99
Total assets	71,337	7,395	(88)	-	13	-	92	31	78,780
LIABILITIES AND EQUITY									
Liabilities									
Deposits by banks	2,713	(152)	-	-	-	-	-	-	2,561
Customer accounts	43,717	(603)	-	-	-	-	-	-	43,114
Items in the course of transmission to other banks	186	-	-	-	-	-	-	-	186
Trading liabilities	2,812	-	-	-	-	-	-	-	2,812
Financial liabilties designated at fair value	1,138	-	-	-	-	-	-	-	1,138
Derivative financial liabilities	897	(74)	-	-	-	-	-	-	823
Debt securities in issue	7,870	8,365	-	-	-	-	-	-	16,235
Other liabilities	1,137	(34)	-	-	-	-	-	(5)	1,098
Acceptances	4,966	-	-	-	-	-	-	-	4,966
Accruals and deferred income	556	(1)	-	-	-	-	-	(2)	553
Retirement benefit liabilities	119	-	95	-	-	-	-	-	214
Subordinated liabilities	432	-	-	-	-	-	-	-	432
Total liabilities	66,543	7,501	95	-	-	-	-	(7)	74,132
Equity									
Preferred shares	946	-	-	-	-	-	-	-	946
Common shares	1,225	-	-	-	-	-	-	-	1,225
Other reserves	73	1	-	99	13	66	(52)	5	205
Retained earnings	2,120	(107)	(183)	(99)	-	(66)	144	33	1,842
Total shareholders' equity	4,364	(106)	(183)	-	13	-	92	38	4,218
Non controlling interests	430	-	-	-	-	-	-	-	430
Total equity	4,794	(106)	(183)	-	13	-	92	38	4,648
Total equity and liabilities	71,337	7,395	(88)	-	13	-	92	31	78,780

(1) The tax effect of all adjustments are presented in the tax column

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

Consolidated statement of financial position at 31 March 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Designation of debt securities held with other financial institutions	Hedge accounting	Tax [1]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
ASSETS									
Cash and balances at central bank	95	-	-	-	-	-	-	-	95
Items in the course of collection from other banks	97	-	-	-	-	-	-	-	97
Trading assets	4,346	-	-	-	-	-	-	-	4,346
Derivative financial assets	1,085	(40)	-	-	-	-	-	10	1,055
Loans and advances to banks	3,847	-	-	-	-	-	-	-	3,847
Loans & advances to customers	40,775	8,735	-	-	-	-	-	16	49,526
Financial Investments	14,722	(350)	-	-	10	-	-	(1)	14,381
Other assets	317	-	-	-	-	-	89	6	412
Prepayments and accrued income	509	(220)	(87)	-	-	-	-	-	202
Customers' liability under acceptances	4,580	-	-	-	-	-	-	-	4,580
Interest in associates	42	-	-	-	-	-	1	-	43
Property, plant and equipment	142	-	-	-	-	-	-	2	144
Goodwill and intangibles	91	-	-	-	-	-	-	14	105
Total assets	70,648	8,125	(87)	-	10	-	90	47	78,833
LIABILITIES AND EQUITY									
Liabilities									
Deposits by banks	3,179	(145)	-	-	-	-	-	-	3,034
Customer accounts	42,661	(367)	-	-	-	-	-	-	42,294
Items in the course of transmission to other banks	87	-	-	-	-	-	-	-	87
Trading liabilities	3,236	-	-	-	-	-	-	-	3,236
Financial liabilties designated at fair value	1,133	-	-	-	-	-	-	-	1,133
Derivative financial liabilities	1,134	(185)	-	-	-	-	-	11	960
Debt securities in issue	7,604	8,889	-	-	-	-	-	-	16,493
Other liabilities	1,301	(57)	-	-	-	-	22	-	1,266
Acceptances	4,580	-	-	-	-	-	-	-	4,580
Accruals and deferred income	529	15	-	-	-	-	-	(3)	541
Retirement benefit liabilities	121	-	113	-	-	-	-	-	234
Subordinated liabilities	329	-	-	-	-	-	-	-	329
Total liabilities	65,894	8,150	113	-	-	-	22	8	74,187
Equity									
Preferred shares	946	-	-	-	-	-	-	-	946
Common shares	1,225	-	-	-	-	-	-	-	1,225
Other reserves	22	-	-	119	10	52	(54)	6	155
Retained earnings	2,131	(25)	(200)	(119)	-	(52)	122	33	1,890
Total shareholders' equity	4,324	(25)	(200)	-	10	-	68	39	4,216
Non controlling interests	430	-	-	-	-	-	-	-	430
Total equity	4,754	(25)	(200)	-	10	-	68	39	4,646
Total equity and liabilities	70,648	8,125	(87)	-	10	-	90	47	78,833

(1) The tax effect of all adjustments are presented in the tax column

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

Consolidated statement of financial position at 31 December 2010

	Cdn GAAP	Derecognition of securitized financial assets	Employee defined benefit plans	Treatment of foreign exchange on available-for-sale securites	Designation of debt securities held with financial institutions	Hedge accounting	Tax [1]	Other	IFRS
	$m	$m	$m	$m	$m	$m	$m	$m	$m
ASSETS									
Cash and balances at central bank	79	-	-	-	-	-	-	-	79
Items in the course of collection from other banks	84	-	-	-	-	-	-	-	84
Trading assets	3,947	-	-	-	-	-	-	-	3,947
Derivative financial assets	1,365	(2)	-	-	-	-	-	-	1,363
Loans and advances to banks	5,777	15	-	-	-	-	-	-	5,792
Loans & advances to customers	37,523	7,680	-	-	-	-	-	15	45,218
Financial Investments	17,137	(995)	-	-	6	-	-	1	16,149
Other assets	509	-	(1)	-	-	-	57	2	567
Prepayments and accrued income	458	(180)	(91)	-	-	-	-	(1)	186
Customers' liability under acceptances	4,372	-	-	-	-	-	-	-	4,372
Interest in associates	40	-	-	-	-	-	3	-	43
Property, plant and equipment	122	-	-	-	-	-	-	1	123
Goodwill and intangibles	83	-	-	-	-	-	-	11	94
Total assets	71,496	6,518	(92)	-	6	-	60	29	78,017
LIABILITIES AND EQUITY									
Liabilities									
Deposits by banks	1,226	(227)	-	-	-	-	-	-	999
Customer accounts	46,719	(1,259)	-	-	-	-	-	-	45,460
Items in the course of transmission to other banks	101	-	-	-	-	-	-	-	101
Trading liabilities	2,764	-	-	-	-	-	-	-	2,764
Financial liabilties designated at fair value	983	-	-	-	-	-	-	-	983
Derivative financial liabilities	1,330	(175)	-	-	-	-	-	6	1,161
Debt securities in issue	6,459	8,358	-	-	-	-	-	(1)	14,816
Other liabilities	1,768	(232)	-	-	-	-	-	(5)	1,531
Acceptances	4,372	-	-	-	-	-	-	-	4,372
Accruals and deferred income	585	-	-	-	-	-	-	(2)	583
Retirement benefit liabilities	128	-	139	-	-	-	-	-	267
Subordinated liabilities	324	-	-	-	-	-	-	-	324
Total liabilities	66,759	6,465	139	-	-	-	-	(2)	73,361
Equity									
Preferred shares	946	-	-	-	-	-	-	-	946
Common shares	1,225	-	-	-	-	-	-	-	1,225
Other reserves	62	-	-	111	6	65	(51)	4	197
Retained earnings	2,274	53	(231)	(111)	-	(65)	111	27	2,058
Total shareholders' equity	4,507	53	(231)	-	6	-	60	31	4,426
Non controlling interests	230	-	-	-	-	-	-	-	230
Total equity	4,737	53	(231)	-	6	-	60	31	4,656
Total equity and liabilities	71,496	6,518	(92)	-	6	-	60	29	78,017

(1) The tax effect of all adjustments are presented in the tax column

(e) Impact of transition to IFRS on the Statement of Cash Flows

Under Canadian GAAP, the bank defined cash and cash equivalents as cash and balances at central banks.

Under IFRS, the bank has aligned its policy with group and has defined cash and cash equivalents as cash and balances at central banks, treasury bills and other eligible bills, loans and advances to banks, items in the course of collection from or in transmission to other banks and certificates of deposit. As a result, the bank has included additional “cash equivalents” which are defined as short term highly liquid investments, held for the purpose of meeting short-term cash commitments rather than investment, that are both convertible to known amounts of cash, and so near their maturity that they present an insignificant risk of changes in value. The inclusion of cash equivalents in the definition of reported cash flows had no significant effect on the net cash flows for the reported periods.

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