# HSBC BANK CANADA
# FIRST QUARTER 2012 INTERIM REPORT

- Profit attributable to common shareholders was C$202m for the quarter ended 31 March 2012, an increase of 42.3% over the same period in 2011.
- Return on average common equity was 19.9% for the quarter ended 31 March 2012 compared with 16.6% for the same period in 2011.
- The cost efficiency ratio was 50.2% for the quarter ended 31 March 2012 compared with 55.6% for the same period in 2011.
- Total assets were C$80.7bn at 31 March 2012 compared with C$79.1bn at 31 March 2011.
- Total assets under administration decreased to C$18.3bn at 31 March 2012 from C$33.2bn at 31 March 2011 primarily due to the sale of the bank's full service retail brokerage business. Excluding the impact of this sale, total assets under administration increased by C$1.0bn at 31 March 2012.
- Tier 1 capital ratio of 13.2% and a total capital ratio of 15.6% at 31 March 2012 compared to 13.4% and 16.2% respectively at 31 March 2011.

HSBC

# Corporate Profile

*HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. With around 7,200 offices in over 80 countries and territories and assets of US$2,556bn at 31 December 2011, the HSBC Group is one of the world's largest banking and financial services organizations.*

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**DIVIDENDS AND DISTRIBUTION DATES:**

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

| 2012 | |
|---|---|
| Record Date | Payable Date |
| 15 June | 30 June |
| 14 September | 30 September |
| 14 December | 31 December |

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

# Shareholder Information

## Shareholder Information

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

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

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

**TRANSFER AGENT AND REGISTRAR:**

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Toronto, Ontario
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**SHAREHOLDER CONTACT:**

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

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

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**Shareholder Relations:**

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## Caution regarding forward-looking financial statements

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

# Management's Discussion and Analysis

## Financial Highlights

| *(in $ millions, except where otherwise stated)* | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | 31 December 2011 |
| **For the period (C$m)** | | | |
| Profit before income tax expense | **292** | 223 | 185 |
| Net operating income before loan impairment charges and other credit risk provisions | **681** | 610 | 562 |
| Profit attributable to common shareholders | **202** | 142 | 118 |
| **At period-end (C$m)** | | | |
| Shareholders' equity | **4,942** | 4,414 | 4,973 |
| Core tier 1 capital | **3,647** | 3,321 | 3,555 |
| Risk weighted assets [1] | **36,460** | 33,531 | 35,322 |
| Loan and advances to customers (net of impairment allowances) | **45,395** | 46,024 | 44,357 |
| Customer accounts | **47,037** | 44,420 | 46,614 |
| **Capital ratios (%)** | | | |
| Tier 1 ratio [1] | **13.2** | 13.4 | 13.4 |
| Total capital ratio [1] | **15.6** | 16.2 | 16.0 |
| Core tier 1 capital ratio [2] | **10.0** | 9.9 | 10.1 |
| **Performance ratios (%)** [2] | | | |
| Return on average common equity | **19.9** | 16.6 | 11.8 |
| Post-tax return on average total assets | **1.00** | 0.72 | 0.58 |
| Post-tax return on average risk weighted assets | **2.3** | 1.7 | 1.3 |
| **Credit coverage ratios (%)** | | | |
| Loan impairment charges as a percentage of total operating income | **7.0** | 8.0 | 9.6 |
| Loan impairment charges as a percentage of average gross customer advances and acceptances | **0.4** | 0.4 | 0.4 |
| Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end | **68.4** | 69.9 | 73.4 |
| **Efficiency and revenue mix ratios (%)** [2] | | | |
| Cost efficiency ratio | **50.2** | 55.6 | 57.5 |
| Adjusted cost efficiency ratio | **49.2** | 54.9 | 57.5 |
| As a percentage of total operating income: | | | |
| - net interest income | **58.4** | 62.6 | 69.9 |
| - net fee income | **21.0** | 26.7 | 27.9 |
| - net trading income | **5.9** | 6.1 | 5.5 |
| **Financial ratios (%)** [2] | | | |
| Ratio of customer advances to customer accounts | **96.5** | 103.6 | 95.2 |
| Average total shareholders' equity to average total assets | **6.2** | 5.5 | 6.1 |
| **Total assets under administration (C$m)** | | | |
| Funds under management [3] | **17,294** | 32,057 | 26,383 |
| Custodial accounts | **961** | 1,128 | 967 |
| Total assets under administration | **18,255** | 33,185 | 27,350 |

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

2 *These are non-IFRS amounts or non-IFRS measures. Please refer to the discussion outlining the use of non-IFRS measures in the "Basis of preparation of financial information" section in this document.*

3 *Comparative figures include funds managed in the full service brokerage business, which was sold effective 1 January 2012 of C$15.9bn and C$10.6bn at 31 March 2011 and 31 December 2011 respectively.*

# Management's Discussion and Analysis (continued)

## Basis of preparation of financial information

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the Management's Discussion and Analysis ("MD&A"), the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". The MD&A for the bank for the first quarter of 2012 is dated 3 May 2012.

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

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

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

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

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

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

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

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

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

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

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

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

# Management's Discussion and Analysis (continued)

## Overview

HSBC Bank Canada recorded a profit of C$220m for the first quarter of 2012, an increase of C$60m, or 37.5% compared with C$160m for the first quarter of 2011. Profit attributable to common shareholders was C$202m, an increase of C$60m, or 42.3% over the first quarter of 2011. The increase was primarily due to a gain of C$84m resulting from the sale of the full service retail brokerage business as well as increased net interest income and reduced operating expenses. This was partially offset by restructuring charges of C$36m mostly relating to the wind-down of the consumer finance business and lower net fee income. Excluding the gain on the sale of the full service retail brokerage business, the restructuring charges and after income tax expense, HSBC Bank Canada's profit for the period was C$173m, an increase of C$13m, or 8.1% over the same period in 2011. The return on average common equity was 19.9% for the quarter, an increase from 16.6% in the same period in 2011 due to the gain on the sale of the full service retail brokerage business offset by restructuring charges. Excluding the gain and restructuring charges, the adjusted return on average common equity was 15.3% for the first quarter of 2012.

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

"The bank's profit this quarter showed good growth over the same quarter in 2011 as a result of increased net interest income and decreased operating expenses even after excluding the impact of the sale of the full service retail brokerage business and restructuring charges arising from the wind-down of the consumer finance business. We are focused on growing HSBC Bank Canada by continuing to improve the efficiency of our business and investing in our core businesses in Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management to meet the needs of HSBC Canada customers in the years ahead."

## Analysis of Consolidated Financial Results for the First Quarter 2012

***Net interest income*** for the first quarter of 2012 was C$398m, compared with C$382m for the first quarter of 2011, an increase of C$16m, or 4.2%. The first quarter of 2012 showed an increase of C$5m, or 1.3% compared with C$393m reported in the prior quarter. Net interest income increased marginally due to growth in average interest earning assets of C$0.5bn from the first quarter in 2011 (C$0.6bn from the prior quarter) offset by spread compression due to re-pricing to lower interest rates. Net interest income also benefited from refund interest received from the Canada Revenue Agency.

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

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Credit facilities | **56** | 52 | 55 |
| Funds under management | **29** | 40 | 39 |
| Account services | **21** | 21 | 21 |
| Brokerage commissions | **4** | 22 | 11 |
| Credit cards | **13** | 11 | 13 |
| Corporate finance | **8** | 9 | 12 |
| Insurance | **5** | 6 | 6 |
| Remittances | **7** | 5 | 7 |
| Trade finance import/export | **3** | 4 | 3 |
| Trustee fees | **1** | 1 | 1 |
| Global Investor Immigration Program | **15** | 7 | 15 |
| Other | **6** | 5 | 2 |
| Fee income | **168** | 183 | 185 |
| Less: fee expense | **(25)** | (20) | (28) |
| Net fee income | **143** | 163 | 157 |

Net fee income for the first quarter of 2012 was C$143m, compared with C$163m for the first quarter of 2011, a decrease of C$20m, or 12.3%. The first quarter of 2012 decreased by C$14m, or 8.9% compared with C$157m for the prior quarter. The sale of the full service retail brokerage business resulted in reductions in fees from funds under management and brokerage commissions in the first quarter of 2012. Excluding the effect of the sale of the full service retail brokerage business, net fee income for the first quarter of 2012 increased by C$13m and C$5m compared with the first and fourth quarters of 2011 respectively, resulting from increases in fees from credit facilities and the global immigration investor program.

## Management's Discussion and Analysis (continued)

***Net trading income*** for the first quarter of 2012 was C$40m, compared with C$37m for the first quarter of 2011, an increase of C$3m, or 8.1%, and an increase of C$9m, or 29.0% compared with C$31m reported in the prior quarter. The main factor contributing to the increase over the first quarter in 2011 was the positive impact from mark to market accounting gains and losses arising from economic hedges and hedge ineffectiveness. The increase is partially offset by lower foreign exchange revenue resulting from lower trading activities.

***Net loss from financial instruments designated at fair value.*** The bank designates certain subordinated debentures and other liabilities to be recorded at fair value. As credit spreads narrowed in the first quarter of 2012, the change in fair value of these balances resulted in a charge of C$14m in the period, compared to a charge of C$8m for the same quarter in 2011.

***Gains less losses from financial investments*** for the first quarter of 2012 were C$17m, little changed compared with C$16m for the first quarter of 2011.

***Other operating income*** for the first quarter of 2012 was C$13m, compared with C$20m for the first quarter of 2011, a decrease of C$7m. The first quarter of 2012 increased by C$35m compared with a loss of C$22m in the prior quarter. The decrease compared to the first quarter of 2011 is due a reduction in the delivery of technology services to HSBC Group companies. The fourth quarter of 2011 was lower compared to the first quarter of 2012 because it included a C$42m write-down in the value of investment property.

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

***Loan impairment charges and other credit risk provisions*** of C$48m were recorded in the first quarter of 2012 little changed compared with C$49m for the first quarter of 2011 and are C$6m lower, or 11.1%, compared to C$54m for the prior quarter. The decrease was due to improved credit quality in the bank's commercial loan portfolio.

***Total operating expenses*** for the first quarter of 2012 were C$342m. Excluding restructuring charges of C$36m, total operating expenses were C$306m compared with C$339m in the first quarter of 2011, a decrease of C$33m, or 9.7%. The reduction in operating expenses is largely attributable to a C$23m reduction relating to the full service retail brokerage business included in the first quarter of 2011. The remaining reduction is as a result of cost management initiatives which reduced employee compensation and benefits as well as a reduction in activity and expenses related to delivery of technology services to HSBC Group companies. The adjusted cost efficiency ratio for the first quarter improved to 49.2% compared with 54.9% in 2011 and 57.5% in the prior quarter. Excluding the impact of restructuring costs and the gain on the sale of the full service retail brokerage business, the adjusted cost efficiency ratio was 50.1% for the current quarter compared to 55.0% in the prior quarter.

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

***Income tax expense.*** The effective tax rate in the first quarter of 2012 was 24.7%, compared with 28.3% in the first quarter of 2011. The decrease in the quarter was largely due to a reduction in statutory tax rates and the manner in which tax is computed on the gain on the sale of the full service retail brokerage business.

### Statement of Financial Position

Total assets at 31 March 2012 were C$80.7bn, an increase of C$0.7bn from 31 December 2011, primarily due to increases in trading assets of C$1.2bn; increases in loans and advances to customers of C$1.0bn; and an increase in financial investments of C$1.2bn offset by a decrease in loans and advances to banks of C$3.0bn. Liquidity remained strong at 31 March 2012, with C$27.9bn of cash and balances at central banks, items in the course of collection from other banks, highly liquid trading assets, short term loans and advances to banks and financial investments, compared to C$28.5bn at 31 December 2011. Loans and advances to customers increased to C$45.4bn from C$44.4bn at 31 December 2011, primarily due an increase in the balance of reverse repurchase agreements with customers. Excluding reverse repurchase agreements, loans and advances increased by C$0.3bn, primarily due to an increase in our commercial loan portfolio.

Gross impaired loans were C$729m, an increase of C$51m compared with C$678m at 31 December 2011 due to the impairment of a small number of specific loans. However, they were C$128m lower than at 31 March 2011. Total impaired

# Management's Discussion and Analysis (continued)

loans net of individually assessed allowances for credit losses were C$525m at 31 March 2012, compared with C$470m at 31 December 2011. Total impaired loans include C$59m (31 December 2011 – C$59m) of Consumer Finance loans, for which impairment is assessed collectively. The collective allowance applicable to Consumer Finance loans was C$95m compared to C$89m at 31 December 2011. The total collective allowance was C$335m compared to C$329m at 31 December 2011.

Total customer accounts increased to C$47.0bn at 31 March 2012 from C$46.6bn at 31 December 2011. The main increases were in fixed date personal deposits and interest-bearing current accounts.

Debt securities in issue increased to C$14.0bn at 31 March 2012 from C$13.3bn at 31 December 2011, primarily due to the issue by the bank of C$1.0bn in medium term notes.

**Total assets under administration**

Funds under management were C$17.3bn at 31 March 2012, a decrease of C$14.8bn since 31 March 2011 and a decrease of C$9.1bn since 31 December 2011. This was due to the sale of the full service retail brokerage business (C$15.9bn at 31 March 2011 and C$10.6bn at 31 December 2011). Excluding the funds under management relating to the full service retail brokerage business, total assets under administration increased by C$1.0bn to C$18.3bn compared with the first quarter of 2011 and C$1.5bn compared with the prior quarter.

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

**Retail Banking and Wealth Management**

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Net interest income | **105** | 94 | 98 |
| Net fee income | **42** | 70 | 57 |
| Net trading income | **3** | 6 | 4 |
| Other operating income | **2** | 2 | 3 |
| Gain on the sale of the full service retail brokerage business | **76** | – | – |
| Net operating income before loan impairment charges and other credit risk provisions | **228** | 172 | 162 |
| Loan impairment charges and other credit risk provisions | **(6)** | (2) | (7) |
| Net operating income | **222** | 170 | 155 |
| Total operating expenses (excluding restructuring charges) | **(127)** | (156) | (148) |
| Restructuring charges | **(2)** | – | (14) |
| Profit/(loss) before income tax expense | **93** | 14 | (7) |

**Overview**

Profit before income tax expense was C$93m for the first quarter of 2012, an increase of C$79m compared with the same period in 2011. Results for 2012 included a C$76m gain on the sale of the full service retail brokerage business and the benefit of refund interest received from the Canada Revenue Agency partially offset by restructuring costs of C$2m. In addition, profit increased due to higher net interest income resulting from higher average mortgage balances and savings deposits re-pricing at lower interest rates.

Compared to the fourth quarter of 2011, profit before income tax expense increased C$100m. In addition to the factors noted above, the fourth quarter of 2011 included a C$9m write-off of internally developed software costs and C$14m restructuring costs related to the sale of the full service retail brokerage business.

# Management's Discussion and Analysis (continued)

### Financial performance

***Net interest income*** was C$105m, an increase of C$11m, or 11.7%, compared to the first quarter of 2011 and an increase of C$7m, or 7.1%, compared to the fourth quarter of 2011. The increase is mainly due to refund interest from Canada Revenue Agency received in the current quarter. The remaining increase is attributable to a growth in average balances of floating rate residential mortgages and favourable re-pricing of savings deposits, partially offset by spread compression due to re-pricing to lower interest rates especially fixed rate residential mortgages.

***Net fee income*** was C$42m, a decrease of C$28m, or 40.0%, compared to the first quarter of 2011 and a decrease of C$15m, or 26.3%, compared to the fourth quarter of 2011. Excluding the income in prior periods related to the full service retail brokerage business sold, net fee income remained unchanged compared to the first quarter of 2011. Net fee income increased C$2m compared to the fourth quarter of 2011 mainly due to higher revenues from our Global Investor Immigration Program.

***Net trading income*** was C$3m, a decrease of C$3m, compared to first quarter of 2011 and a decrease of C$1m compared to the fourth quarter of 2011. The decreases are primarily due to lower foreign exchange revenue resulting from lower trading activities.

***Loan impairment charges and other credit risk provisions*** were C$6m, an increase of C$4m compared to the first quarter of 2011 and slightly lower than the fourth quarter of 2011. The first quarter of 2011 included a reduction of collective loan loss provisions.

***Total operating expenses*** were C$127m, a decrease of C$29m, or 18.6%, compared to the first quarter of 2011 and a decrease of C$21m, or 14.2%, compared to the fourth quarter of 2011. The current quarter includes a reduction in operating expenses relating to the sale of the full service brokerage business. The prior quarter included a C$9m write-off of internally developed software costs. Excluding these items, total operating expenses were lower by C$3m compared to the first quarter of 2011 mainly due to lower expense recoveries related to information technology activities performed on behalf of HSBC Group companies and C$8m higher compared to the fourth quarter of 2011 mainly due to increased employee benefit costs.

### Commercial Banking

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Net interest income | **180** | 173 | 189 |
| Net fee income | **71** | 69 | 66 |
| Net trading income | **8** | 6 | 5 |
| Other operating income | **1** | 1 | (40) |
| Net operating income before loan impairment charges and other credit risk provisions | **260** | 249 | 220 |
| Loan impairment charges and other credit risk provisions | **(11)** | (17) | (23) |
| Net operating income | **249** | 232 | 197 |
| Total operating expenses | **(92)** | (96) | (87) |
| Operating profit | **157** | 136 | 110 |
| Share of profit in associates | **1** | 1 | – |
| Profit before income tax expense | **158** | 137 | 110 |

### Overview

Profit before income tax expense was C$158m for the first quarter of 2012, C$21m higher than the first quarter of 2011 and C$48m higher than the fourth quarter of 2011. The first quarter's results include the benefit of refund interest received from the Canada Revenue Agency while the prior quarter included a C$42m write-down in the carrying value of investment property. Excluding the impact of the refund interest and write-down, profit before income tax expense for first quarter of 2012 was C$153m, C$16m higher than the first quarter of 2011 and little changed over the fourth quarter of 2011. This was due to growth in average interest earning assets offset by spread compression due to re-pricing to lower interest rates. In addition, profit benefitted from higher fees from account services and credit facilities and a reduced provision for impaired loans due to improved credit quality.

# Management's Discussion and Analysis (continued)

## Financial performance

***Net interest income*** was C$180m, an increase of C$7m, or 4.0%, compared to the first quarter of 2011. Excluding the increase due to refund interest from Canada Revenue Agency noted above, net interest income for the quarter increased by C$2m over the first quarter and decreased C$14m over the fourth quarter of 2011. The remaining increase of the first quarter of 2012 is due to growth in average interest earning assets offset by spread compression due to re-pricing to lower interest rates. The fourth quarter of 2011 included higher than usual interest recoveries.

***Net fee income*** was C$71m for the first quarter of 2012, an increase of C$2m, or 2.9%, compared to the first quarter of 2011 and an increase of C$5m, or 7.6% compared over the fourth quarter of 2011 largely due to higher fees from account services and credit facilities.

***Net trading income*** was C$8m, an increase of C$2m compared to the first quarter of 2011 and an increase of C$3m compared to the fourth quarter of 2011. The increase is primarily due to higher commissions on foreign exchange trading.

***Other operating income*** was C$1m for the first quarter of 2012 compared to a loss of C$40m in the fourth quarter of 2011 which resulted from a C$42m write-down in the carrying value of investment property.

***Loan impairment charges and other credit risk provisions*** decreased by C$6m, or 35.3%, to C$11m compared to the first quarter of 2011 and C$12m compared to the fourth quarter of 2011, primarily due to improved credit quality and a decline in the number of specific loan impairments.

***Total operating expenses*** decreased by C$4m, or 4.2% compared with the first quarter of 2011 primarily due to lower employee compensation costs. Compared to the fourth quarter of 2011, total operating expenses increased by C$5m due to higher employee benefits costs related to timing of incentive payments and severance costs associated with organizational effectiveness initiatives.

## Global Banking and Markets

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Net interest income | **46** | 49 | 38 |
| Net fee income | **19** | 14 | 23 |
| Net trading income | **22** | 21 | 17 |
| Gains less losses from financial investments | **17** | 16 | 3 |
| Other operating income | **(1)** | 1 | – |
| Gain on the sale of the full service retail brokerage business | **8** | – | – |
| Net operating income before loan impairment charges and other credit risk provisions | **111** | 101 | 81 |
| Loan impairment charges and other credit risk provisions | **–** | – | 1 |
| Net operating income | **111** | 101 | 82 |
| Total operating expenses | **(25)** | (29) | (15) |
| Profit before income tax expense | **86** | 72 | 67 |

## Overview

Profit before income tax expense was C$86m for the first quarter of 2012, an increase of C$14m compared to the first quarter of 2011. The increase is mainly due to a gain on the sale of the full service retail brokerage business and an increase in advisory and debt capital market fees, positive impact from mark to market accounting gains and losses arising from economic hedges and hedge ineffectiveness and a reduction in specific severance costs. These items were partially offset by a decrease in foreign exchange revenues due to lower volatility and related volume, a decrease in equity capital market fees and adjustments recorded in the carrying value due to changes in credit spreads of our own debt instruments classified as trading. Profit before income tax expense increased C$19m in the first quarter of 2012 compared to the fourth quarter of 2011. The increase is mainly due to a gain on sale of the full service retail brokerage business, gains from the disposal of financial investments, positive impact from mark to market accounting gains and losses arising from economic hedges and hedge

# Management's Discussion and Analysis (continued)

ineffectiveness and an increase in net interest income from Global Banking activities. This was partially offset by a decrease in foreign exchange revenues, a decrease in equity capital market fees, an increase in employee benefits costs related to timing of incentive payments, a reduction in the provision for variable incentive payments in the fourth quarter of 2011 and adjustments recorded in the carrying value due to changes in credit spreads of our own debt instruments classified as trading.

### Financial performance

***Net interest income*** was C$46m, a decrease of C$3m, or 6.1% compared to the first quarter of 2011 and an increase of C$8m, or 21.1% compared to the fourth quarter of 2011. The increase reflects the benefit of increased liquidity and an increase in Global Banking lending activities.

***Net fee income*** was C$19m, an increase of C$5m, or 35.7% compared to the first quarter of 2011. This was due to an increase in advisory and debt capital markets fees partially offset by a decrease in equity market fees following the sale of the full service retail brokerage business. Net fee income decreased by C$4m, or 17.4% compared to the fourth quarter of 2011 mainly due to a decrease in equity capital market fees partially offset by an increase in debt capital market fees.

***Net trading income*** was C$22m, little changed compared to the first quarter of 2011 and an increase of C$5m, or 29.4% compared to the fourth quarter of 2011. The increase is due to the positive impact from mark to market accounting gains and losses arising from economic hedges and hedge ineffectiveness partially offset by the impact of changes in credit spreads on the carrying value of our own debt instruments classified as trading and a decrease in customer trading volumes of foreign exchange products.

***Gains from financial investments*** was C$17m, an increase of C$1m compared to the first quarter of 2011 and an increase of C$14m, compared to the fourth quarter of 2011 due to an increase in the disposals of financial investments.

***Total operating expenses*** were C$25m, a decrease of C$4m, or 13.8% compared to the same period in 2011 due to a reduction in specific severance costs partially offset by an increase in variable employee compensation costs. Total operating expenses increased by C$10m compared to the fourth quarter of 2011 mainly due to an increase in employee benefit costs related to timing of incentive payments and a reduction in the provision for variable incentive expenses in the fourth quarter of 2011.

### Consumer Finance

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Net interest income | **73** | 70 | 74 |
| Net fee income | **11** | 10 | 11 |
| Other operating income | **2** | 1 | – |
| Net operating income before loan impairment charges and other credit risk provisions | **86** | 81 | 85 |
| Loan impairment charges and other credit risk provisions | **(31)** | (30) | (25) |
| Net operating income | **55** | 51 | 60 |
| Total operating expenses | **(38)** | (43) | (43) |
| Restructuring charges | **(34)** | – | – |
| Profit/(loss) before income tax expense | **(17)** | 8 | 17 |

### Overview

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

Excluding restructuring charges, the consumer finance business recorded a profit before income tax expense of C$17m for the first quarter of 2012 compared with a profit of C$8m for the same period during 2011 and unchanged compared to the fourth quarter of 2011. The improvement in profit from the first quarter in 2011 was due to cost management initiatives which resulted in decreased operating expenses.

# Management's Discussion and Analysis (continued)

## Financial performance

***Net interest income*** was C$73m, an increase of C$3m or 4.3% compared to the same period last year and little changed compared to the fourth quarter of 2011. The year over year increase was primarily due to lower funding costs, partially offset by lower interest income due to lower average receivables. Average receivables declined by approximately C$0.1bn, or 4.0% year over year.

***Net fee income*** was C$11m, little changed compared to the same period during 2011 and unchanged from the fourth quarter of 2011.

***Loan impairment charges and other credit risk provisions*** were C$31m and largely unchanged compared to the same quarter in 2011 and increased by C$6m or 24.0% compared to the fourth quarter of 2011.

***Total operating expenses*** were C$38m, a decrease of C$5m, or 11.6% compared to both the first and fourth quarters of 2011 and C$5m or 11.6% lower than the fourth quarter of 2011, due to effective cost reduction initiatives.

## Other

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Net interest income | **(6)** | (4) | (6) |
| Net trading income | **7** | 4 | 5 |
| Net loss from financial investments designated at fair value | **(14)** | (8) | – |
| Other operating income | **9** | 15 | 15 |
| Net operating income | **(4)** | 7 | 14 |
| Total operating expenses | **(24)** | (15) | (16) |
| Loss before income tax expense | **(28)** | (8) | (2) |

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include gains and losses from the impact of changes in credit spreads on financial instruments designated at fair value, revenue and expense related to information technology services sold to HSBC Group companies on an arm's length basis. A loss before income tax expense of C$28m was recorded in the first quarter of 2012, compared with a loss of C$8m for the first quarter of 2011. The variances from comparative periods are primarily due to the impact of changes in credit spreads on financial instruments designated at fair value and changes in intercompany revenue and expense relating to technology services sold to other HSBC Group companies.

# Management's Discussion and Analysis (continued)

## Quarterly summary of Condensed Consolidated Statements of Income (unaudited)

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

| | Quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **31 March 2012** | 31 December 2011 | 30 September 2011 | 30 June 2011 | 31 March 2011 | 31 December 2010 | 30 September 2010 | 30 June 2010 |
| | **$m** | $m | $m | $m | $m | $m | $m | $m |
| Total revenue [1] | **681** | 562 | 653 | 597 | 610 | 633 | 605 | 661 |
| Profit for the period | **220** | 135 | 201 | 208 | 160 | 118 | 146 | 200 |
| ofit attributable to common shareholders | **202** | 118 | 182 | 191 | 142 | 96 | 124 | 178 |
| ofit attributable to preferred shareholders | **15** | 15 | 16 | 15 | 15 | 15 | 16 | 15 |
| Profit attributable to non-controlling interests | **3** | 2 | 3 | 2 | 3 | 7 | 6 | 7 |
| Basic earnings per common share | **0.41** | 0.24 | 0.36 | 0.38 | 0.28 | 0.19 | 0.25 | 0.36 |

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

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

## Critical Accounting Policies and Impact of Estimates and Judgements

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

## Off-Balance Sheet Arrangements

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

## Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the bank and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2012 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the design and effectiveness of disclosure controls and procedures as well as the design and effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The CEO and CFO have signed certifications relating to the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 31 March 2012, and their responsibility for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 31 March 2012 that have materially affected or are reasonably likely to affect internal control over financial reporting.

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

# Management's Discussion and Analysis (continued)

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

## Related Party Transactions

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

## Outstanding Shares and Securities

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

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

During the first quarter of 2012, the bank declared and paid C$83m in dividends on HSBC Bank Canada common shares, an increase of C$8m from the same period in 2011.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, 31.25 cents per share on Class 1 Preferred Shares – Series D, 41.25 cents per share on Class 1 Preferred Shares – Series E and 7.75 cents per share on Class 2 Preferred Shares – Series B. Dividends will be paid on 30 June 2012, for shareholders of record on 15 June 2012.

# Management's Discussion and Analysis (continued)

## Risk Management

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

### Capital Management

| | **31 March 2012 $m** | 31 December 2011 $m |
|---|---|---|
| Total tier 1 capital | **4,823** | 4,731 |
| Total tier 2 | **846** | 906 |
| **Total tier 1 and tier 2 capital available for regulatory purposes** | **5,669** | 5,637 |
| **Core tier 1 capital** | **3,647** | 3,555 |
| **Total risk-weighted assets** | **36,460** | 35,322 |
| **Actual regulatory capital ratios** | | |
| Tier 1 capital | **13.2 %** | 13.4 % |
| Total capital | **15.6 %** | 16.0 % |
| Core tier 1 capital | **10.0 %** | 10.1 % |
| **Actual assets to capital multiple** | **13.2 x** | 13.1 x |
| **Minimum regulatory capital ratios required** | | |
| Tier 1 capital | **7.0 %** | 7.0 % |
| Total capital | **10.0 %** | 10.0 % |

### Credit Risk

### Loan portfolio diversity

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry and environmental factors. Therefore, diversification of credit risk is a key concept by which we are guided.

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

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

| | **31 March 2012 $m** | 31 December 2011 $m |
|---|---|---|
| Loans included in financial statements, net of impairment allowances | **45,395** | 44,357 |
| Impairment allowances [1] | **467** | 464 |
| Less: Reverse repos and stock borrowing balances with customers | **(1,553)** | (1,050) |
| Short term settlements | **(302)** | – |
| Customers' liability under acceptances | **4,356** | 4,059 |
| Trading acceptances | **2,161** | 1,975 |
| Guarantees and irrevocable letters of credit pledged as collateral security | **2,762** | 2,641 |
| Documentary credits and short-term trade related transaction | **324** | 294 |
| Total loans | **53,610** | 52,740 |
| Impaired loans and other impaired credit exposures [2] | **(788)** | (732) |
| Total performing loans | **52,822** | 52,008 |

1 *Included in 'Other liabilities' is $72m (31 December 2011: $73m) in collective impairment allowances relating to off-balance sheet credit instruments.*
2 *Includes $59m (31 December 2011: $54m) of impaired acceptances and letters of credit.*

# Management's Discussion and Analysis (continued)

Performing loan portfolio

| | 31 March 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **$m** | **%** | $m | % |
| Business and government loans [1] | **25,904** | **49.0** | 25,092 | 48.3 |
| Residential mortgages | **19,073** | **36.1** | 18,951 | 36.4 |
| Consumer finance loans | **2,363** | **4.5** | 2,441 | 4.7 |
| Other consumer loans | **5,482** | **10.4** | 5,524 | 10.6 |
| Total performing loans | **52,822** | **100.0** | 52,008 | 100.0 |

1 *Includes $478m (31 December 2011: $454m) of construction and other loans secured by mortgages over residential property.*

## Credit Quality of Financial Assets

The credit quality of financial assets is broadly unchanged at 31 March 2012 compared with 31 December 2011. The increase in impaired facilities is mainly due to a small number of specific advances, which became impaired during the quarter. Eurozone exposures decreased from $746m at 31 December 2011 to $488m at 31 March 2012 of which there was no sovereign debt. Exposures to corporates in Greece, Ireland, Italy, Portugal and Spain are little changed compared to 31 December 2011. Exposures to Switzerland and the United Kingdom decreased by $49m to $881m at 31 March 2012 including sovereign debt exposure of $635m down from $695m at 31 December 2011.

Impaired loan portfolio

| | 31 March 2012 | 31 December 2011 |
|---|---|---|
| | **$m** | $m |
| Business and government | | |
| Real estate | **249** | 256 |
| Manufacturing | **41** | 41 |
| Trade | **68** | 68 |
| Services | **103** | 95 |
| Energy | **68** | 22 |
| Other | **55** | 51 |
| | **584** | 533 |
| Residential mortgages | **108** | 103 |
| Consumer finance loans | **59** | 59 |
| Other consumer loans | **37** | 37 |
| Total impaired loans, acceptances and letters of credit [1] | **788** | 732 |
| Specific allowances | **204** | 208 |
| Collective allowances [2] | **335** | 329 |
| Total allowances for credit losses | **539** | 537 |
| Net impaired loans, acceptances and letters of credit | **249** | 195 |
| Allowance as percentage of total impaired loans, acceptances and letters of credit | **68.4%** | 73.4% |

1 *Includes $59 million (31 December 2011: $54 million) of impaired acceptances and letters of credit*
2 *Included in 'Other liabilities' is $72m (31 December 2011: $73m) in collective impairment allowances relating to off-balance sheet credit instruments.*

# Management's Discussion and Analysis (continued)

## Movement in impairment allowances

| | Customers | | |
|---|---|---|---|
| | Individually assessed $m | Collectively assessed (1) $m | Total $m |
| **Quarter ended 31 March 2012** | | | |
| At 1 January 2012 | **208** | **329** | **537** |
| Amounts written off | **(12)** | **(30)** | **(42)** |
| Recoveries of loans and advances written off in previous periods | **–** | **1** | **1** |
| Charge to income | **13** | **35** | **48** |
| Other movements | **(5)** | **–** | **(5)** |
| **At 31 March 2012** | **204** | **335** | **539** |
| Quarter ended 31 March 2011 | | | |
| 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 |
| Quarter ended 31 December 2011 | | | |
| At 1 October 2011 | 206 | 330 | 536 |
| Amounts written off | (17) | (35) | (52) |
| Recoveries of loans and advances written off in previous periods | – | 2 | 2 |
| Charge to income | 22 | 32 | 54 |
| Other movements | (3) | – | (3) |
| At 31 December 2011 | 208 | 329 | 537 |

1 *Collectively assessed impairment allowances of $72m (31 March 2011: $65m; 31 December 2011: $73m) relating to off-balance sheet credit instruments have been included in 'Other liabilities'.*

## Credit Ratings

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

Investment grade ratings are unchanged from 31 December 2011 and remain among the highest assigned to 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 | A | AA (Low) |
| Preferred shares | P-1 (Low) (1) | Pfd-2 (High) |
| HSBC Canada Asset Trust Securities (HSBC HaTS™) | P-1 (Low) (1) | A (Low) |

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

# Management's Discussion and Analysis (continued)

## Value at Risk ("VaR")

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

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

| | Quarter ended | |
|---|---|---|
| | **31 March 2012** | 31 December 2011 |
| End of quarter | **17** | 16 |
| Average | **16** | 22 |
| Minimum | **12** | 15 |
| Maximum | **18** | 29 |

*Daily VaR*

# First Quarter 2012 Consolidated Financial Statements and Notes (Unaudited)

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# Financial Statements (Unaudited)

## Consolidated income statement (Unaudited)

| | | Quarter ended | | |
|---|---|---|---|---|
| | Notes | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Interest income | | **586** | 607 | 585 |
| Interest expense | | **(188)** | (225) | (192) |
| Net interest income | | **398** | 382 | 393 |
| Fee income | | **168** | 183 | 185 |
| Fee expense | | **(25)** | (20) | (28) |
| Net fee income | | **143** | 163 | 157 |
| Trading income excluding net interest income | | **32** | 36 | 23 |
| Net interest income on trading activities | | **8** | 1 | 8 |
| Net trading income | | **40** | 37 | 31 |
| Net gain (loss) from financial instruments designated at fair value | | **(14)** | (8) | – |
| Gains less losses from financial investments | | **17** | 16 | 3 |
| Other operating income | | **13** | 20 | (22) |
| Gain on sale of full-service retail brokerage business | *13* | **84** | – | – |
| **Net operating income before loan impairment charges and other credit risk provisions** | | **681** | 610 | 562 |
| Loan impairment charges and other credit risk provisions | | **(48)** | (49) | (54) |
| **Net operating income** | | **633** | 561 | 508 |
| Employee compensation and benefits | | **(190)** | (208) | (178) |
| General and administrative expenses | | **(104)** | (117) | (109) |
| Depreciation of property, plant and equipment | | **(9)** | (10) | (4) |
| Amortization and impairment of intangible assets | | **(3)** | (4) | (18) |
| Restructuring charges | *14* | **(36)** | – | (14) |
| **Total operating expenses** | | **(342)** | (339) | (323) |
| **Operating profit** | | **291** | 222 | 185 |
| Share of profit in associates | | **1** | 1 | – |
| **Profit before income tax expense** | | **292** | 223 | 185 |
| Income tax expense | | **(72)** | (63) | (50) |
| **Profit for the period** | | **220** | 160 | 135 |
| Profit attributable to common shareholders | | **202** | 142 | 118 |
| Profit attributable to preferred shareholders | | **15** | 15 | 15 |
| Profit attributable to shareholders | | **217** | 157 | 133 |
| Profit attributable to non-controlling interests | | **3** | 3 | 2 |
| Average number of common shares outstanding (000's) | | **498,668** | 498,668 | 498,668 |
| Basic earnings per common share | | **$ 0.41** | $ 0.28 | $ 0.24 |

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# Financial Statements (Unaudited) (continued)

## Consolidated statement of comprehensive income (Unaudited)

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| Profit for the period | **220** | 160 | 135 |
| **Other comprehensive income/(loss)** | | | |
| Available-for-sale investments | **(17)** | (31) | (22) |
| – fair value gains/(losses) | **(11)** | (26) | (27) |
| – fair value gains transferred to income statement on disposal | **(17)** | (16) | (3) |
| – income taxes | **11** | 11 | 8 |
| Cash flow hedges | **(106)** | (56) | 6 |
| – fair value (losses)/gains | **(150)** | (80) | 8 |
| – income taxes | **44** | 24 | (2) |
| Actuarial (losses)/gains on defined benefit plans | **(27)** | 6 | 11 |
| – before income taxes | **(36)** | 13 | 14 |
| – income taxes | **9** | (7) | (3) |
| Other comprehensive loss for the period, net of tax | **(150)** | (81) | (5) |
| Total comprehensive income for the period | **70** | 79 | 130 |
| Total comprehensive income for the period attributable to: | | | |
| – shareholders | **67** | 76 | 128 |
| – non-controlling interests | **3** | 3 | 2 |
| | **70** | 79 | 130 |

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# Financial Statements (Unaudited) (continued)

## Consolidated statement of financial position (Unaudited)

| | Notes | 31 March 2012 $m | 31 March 2011 $m | 31 December 2011 $m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at central bank | | **141** | 63 | 77 |
| Items in the course of collection from other banks | | **127** | 103 | 104 |
| Trading assets | *4* | **5,751** | 4,487 | 4,587 |
| Derivatives | *5* | **1,963** | 1,422 | 2,203 |
| Loans and advances to banks | | **1,546** | 5,590 | 4,530 |
| Loans and advances to customers | | **45,395** | 46,024 | 44,357 |
| Financial investments | *6* | **20,350** | 15,693 | 19,168 |
| Other assets | | **661** | 642 | 559 |
| Prepayments and accrued income | | **237** | 223 | 225 |
| Customers' liability under acceptances | | **4,356** | 4,679 | 4,059 |
| Property, plant and equipment | | **120** | 119 | 123 |
| Goodwill and intangible assets | | **75** | 94 | 76 |
| Total assets | | **80,722** | 79,139 | 80,068 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Deposits by banks | | **1,439** | 1,452 | 1,377 |
| Customer accounts | | **47,037** | 44,420 | 46,614 |
| Items in the course of transmission to other banks | | **396** | 178 | 288 |
| Trading liabilities | *7* | **3,061** | 3,419 | 2,996 |
| Financial liabilities designated at fair value | *8* | **1,002** | 976 | 1,006 |
| Derivatives | *5* | **1,511** | 1,244 | 1,746 |
| Debt securities in issue | | **14,006** | 15,229 | 13,327 |
| Other liabilities | | **1,553** | 1,770 | 2,260 |
| Acceptances | | **4,356** | 4,679 | 4,059 |
| Accruals and deferred income | | **540** | 553 | 566 |
| Retirement benefit liabilities | | **325** | 253 | 300 |
| Subordinated liabilities | | **324** | 322 | 326 |
| Total liabilities | | **75,550** | 74,495 | 74,865 |
| **Equity** | | | | |
| Preferred shares | | **946** | 946 | 946 |
| Common shares | | **1,225** | 1,225 | 1,225 |
| Other reserves | | **316** | 110 | 439 |
| Retained earnings | | **2,455** | 2,133 | 2,363 |
| Total shareholders' equity | | **4,942** | 4,414 | 4,973 |
| Non controlling interests | | **230** | 230 | 230 |
| Total equity | | **5,172** | 4,644 | 5,203 |
| Total equity and liabilities | | **80,722** | 79,139 | 80,068 |

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# Financial Statements (Unaudited) (continued)

## Consolidated statement of cash flows (Unaudited)

| | Notes | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
|---|---|---|---|---|
| | | Quarter ended | | |
| **Cash flows from operating activities** | | | | |
| Profit before tax | | **292** | 223 | 185 |
| Adjustments for: | | | | |
| – non-cash items included in profit before tax | *9* | **(14)** | 71 | 89 |
| – change in operating assets | *9* | **(2,236)** | (1,075) | (207) |
| – change in operating liabilities | *9* | **902** | 321 | (545) |
| – tax paid | | **(306)** | (65) | (34) |
| Net cash used in operating activities | | **(1,362)** | (525) | (512) |
| **Cash flows from investing activities** | | | | |
| Purchase of financial investments | | **(13,021)** | (4,507) | (4,322) |
| Proceeds from the sale and maturity of financial investments | | **11,822** | 4,932 | 5,313 |
| Net cash flows from the sale of full-service retail brokerage business | *13* | **(116)** | – | – |
| Purchase of property, plant and equipment | | **(14)** | (10) | (19) |
| Proceeds from sale of property, plant and equipment | | **–** | – | 8 |
| Purchase of intangibles | | **(2)** | – | (21) |
| Net cash generated from/(used in) investing activities | | **(1,331)** | 415 | 959 |
| **Cash flows from financing activities** | | | | |
| Dividends paid to shareholders | | **(98)** | (90) | (90) |
| Distributions to non-controlling interests | | **(3)** | (3) | (2) |
| Net cash used in financing activities | | **(101)** | (93) | (92) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(2,794)** | (203) | 355 |
| Cash and cash equivalents at the beginning of the period | | **4,699** | 6,680 | 4,344 |
| Cash and cash equivalents at the end of the period | *9* | **1,905** | 6,477 | 4,699 |

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# Financial Statements (Unaudited) (continued)

## Consolidated statement of changes in equity for the quarter ended 31 March 2012 (Unaudited)

| | | | Other reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital $m | Retained earnings $m | Available-for-sale fair value reserve $m | Cash flow hedging reserve $m | Total Other Reserves $m | Total shareholders' equity $m | Non-controlling interests $m | Total equity $m |
| At 1 January [1] | **2,171** | **2,363** | **138** | **301** | **439** | **4,973** | **230** | **5,203** |
| Profit for the period | **–** | **217** | **–** | **–** | **–** | **217** | **3** | **220** |
| Other comprehensive income (net of tax) | **–** | **(27)** | **(17)** | **(106)** | **(123)** | **(150)** | **–** | **(150)** |
| Available-for-sale investments | **–** | **–** | **(17)** | **–** | **(17)** | **(17)** | **–** | **(17)** |
| Cash flow hedges | **–** | **–** | **–** | **(106)** | **(106)** | **(106)** | **–** | **(106)** |
| Actuarial gains/(losses) on defined benefit plans | **–** | **(27)** | **–** | **–** | **–** | **(27)** | **–** | **(27)** |
| Total comprehensive income for the period | **–** | **190** | **(17)** | **(106)** | **(123)** | **67** | **3** | **70** |
| Share capital issued, net of costs | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Dividends paid on common shares | **–** | **(83)** | **–** | **–** | **–** | **(83)** | **–** | **(83)** |
| Dividends paid on preferred shares | **–** | **(15)** | **–** | **–** | **–** | **(15)** | **–** | **(15)** |
| Distributions to unit holders | **–** | **–** | **–** | **–** | **–** | **–** | **(3)** | **(3)** |
| Other movements | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| At 31 March | **2,171** | **2,455** | **121** | **195** | **316** | **4,942** | **230** | **5,172** |

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

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# 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 paid on common shares | – | (75) | – | – | – | (75) | – | (75) |
| Dividends paid on preferred shares | – | (15) | – | – | – | (15) | – | (15) |
| 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 |

*The accompanying notes on pages 26 to 37 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 15 to 18 form an integral part of these financial statements.*

# Notes on the Financial Statements (Unaudited)

## 1 Basis of preparation

### (a) Compliance with International Financial Reporting Standards

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

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

### (b) Presentation of information

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

The bank provides services or enters into transactions with HSBC Group regarding the sharing of costs of development by Canadian employees for certain technology platforms used by HSBC around the world. In previous periods, we have shown the salary and related direct expenses for these employees and the recovery of these expenditures on a gross basis as part of "General and administrative expenses" and "Other operating income" respectively. Effective for the first quarter of 2012, the bank has reported the impact of these transactions on a net basis by reclassifying the recovery of these expenditures from "Other operating income" to "General and administrative expenses". This change in presentation only affects transactions for which there is no arm's length mark-up on costs. Prior periods have also been reclassified to conform to the current year's presentation. As a result, the impact of this change is a reduction in "Other operating income" and "General and administrative expenses" of $14m (31 March 2011: $20m; 31 December 2011: $12m).

The bank records a collective allowance on all items with credit risk including off-balance sheet credit instruments such as guarantees and credit commitments. In previous periods, the collective allowance related to all credit instruments has been recorded as a deduction from "Loans and advances to customers". Effective for the first quarter of 2012, the bank has reclassified the portion of the collective allowance related to off balance sheet credit instruments into "Other liabilities". Prior periods have also been reclassified to conform to the current year's presentation. As a result, the impact of this change is an increase in "Loans and advances to customers" and "Other liabilities" of $72m (31 March 2011: $65m; 31 December 2011: $73m).

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

### (c) Use of estimates and assumptions

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

### (d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 31 March 2012. The method adopted by the bank to consolidate its subsidiaries is described on page 64 of the Annual Report and Accounts for 2011.

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

(e) Changes in accounting policy during 2012

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

(f) Future accounting developments

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

## 2 Summary of significant and critical accounting policies

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

## 3 Employee compensation and benefits

Included within 'Employee compensation and benefits' are components of net periodic benefit cost related to the bank's pension plans and other post-employment benefits, as follows:

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | 31 December 2011 |
| | **$m** | $m | $m |
| Pension plans - defined benefit | **3** | 3 | 3 |
| Pension plans - defined contribution | **11** | 12 | 9 |
| Healthcare and other post-employment benefit plans | **2** | 3 | 1 |
| | **16** | 18 | 13 |

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

## 4 Trading assets

| | **At 31 March 2012** | At 31 March 2011 | At 31 December 2011 |
|---|---|---|---|
| | **$m** | $m | $m |
| Trading assets: | | | |
| which may be repledged or resold by counterparties | **571** | 900 | 704 |
| not subject to repledge or resale by counterparties | **5,180** | 3,587 | 3,883 |
| | **5,751** | 4,487 | 4,587 |

| | **At 31 March 2012** | At 31 March 2011 | At 31 December 2011 |
|---|---|---|---|
| | **$m** | $m | $m |
| Treasury and other eligible bills | **405** | 982 | 245 |
| Debt securities | **1,965** | 1,795 | 2,034 |
| Equity securities | **38** | 29 | 29 |
| Customer trading assets | **1,186** | 798 | 304 |
| Bankers acceptances | **2,157** | 883 | 1,975 |
| | **5,751** | 4,487 | 4,587 |

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $104m (31 March 2011: $59m; 31 December 2011: $84m) none of which are guaranteed by various governments.

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

## 5 Derivatives

For a detailed description of the type and use of derivatives by the bank, please refer to the bank's accounting policies disclosed on pages 66 to 78, and Note 11 on page 95 to 101 of the bank's Annual Report and Accounts for 2011.

Fair values of derivatives by product contract type held:

| | **At 31 March 2012** | | | | | |
|---|---|---|---|---|---|---|
| | **Assets** | | | **Liabilities** | | |
| | **Trading** | **Hedging** | **Total** | **Trading** | **Hedging** | **Total** |
| | **$m** | **$m** | **$m** | **$m** | **$m** | **$m** |
| Foreign exchange | **987** | **114** | **1,101** | **903** | **–** | **903** |
| Interest rate | **437** | **365** | **802** | **388** | **160** | **548** |
| Commodity | **60** | **–** | **60** | **60** | **–** | **60** |
| Gross total fair values | **1,484** | **479** | **1,963** | **1,351** | **160** | **1,511** |

| | 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 | – | 1,067 |
| Interest rate | 137 | 218 | 355 | 98 | 79 | 177 |
| Gross total fair values | 1,204 | 218 | 1,422 | 1,165 | 79 | 1,244 |

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

### Trading derivatives

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

| | **At 31 March 2012** | At 31 March 2011 | At 31 December 2011 |
|---|---|---|---|
| | **$m** | $m | $m |
| Foreign exchange | **52,605** | 54,873 | 57,374 |
| Interest rate | **31,641** | 44,884 | 34,992 |
| Commodity | **473** | – | 130 |
| Total derivatives | **84,719** | 99,757 | 92,496 |

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

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

### Hedging instruments

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

| | **At 31 March 2012** | | At 31 March 2011 | | At 31 December 2011 | |
|---|---|---|---|---|---|---|
| | **Cash flow hedge** | **Fair value hedge** | Cash flow hedge | Fair value hedge | Cash flow hedge | Fair value hedge |
| | **$m** | **$m** | $m | $m | $m | $m |
| Foreign exchange | **1,919** | **–** | – | – | 1,389 | – |
| Interest rate | **23,800** | **3,770** | 15,576 | 2,686 | 24,740 | 4,494 |
| Total derivatives | **25,719** | **3,770** | 15,576 | 2,686 | 26,129 | 4,494 |

*Fair value of derivatives designated as fair value hedges*

| | **At 31 March 2012** | | At 31 March 2011 | | At 31 December 2011 | |
|---|---|---|---|---|---|---|
| | **Assets $m** | **Liabilities $m** | Assets $m | Liabilities $m | Assets $m | Liabilities $m |
| Interest rate | **15** | **71** | 30 | 4 | 2 | 127 |

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

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | 31 December 2011 |
| | **$m** | $m | $m |
| Gains/ (losses) | | | |
| On hedging instruments | **43** | 19 | 8 |
| On hedged items attributable to the hedged risk | **(43)** | (18) | (7) |

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

*Fair value of derivatives designated as cash flow hedges*

| | **At 31 March 2012** | | At 31 March 2011 | | At 31 December 2011 | |
|---|---|---|---|---|---|---|
| | **Assets $m** | **Liabilities $m** | Assets $m | Liabilities $m | Assets $m | Liabilities $m |
| Foreign exchange | **114** | **–** | – | – | 87 | 9 |
| Interest rate | **351** | **89** | 188 | 75 | 497 | 97 |

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

## 6 Financial investments

Financial investments consist of the following:

| | At 31 March 2012 $m | At 31 March 2011 $m | At 31 December 2011 $m |
|---|---|---|---|
| Financial investments | | | |
| Not subject to repledge or resale by counterparties | **20,350** | **15,693** | 19,168 |
| Available-for-sale | | | |
| Treasury bills and other eligible bills | **2,351** | **2,009** | 1,716 |
| Debt securities and other | **17,999** | **13,684** | 17,452 |
| | **20,350** | **15,693** | 19,168 |

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $2,014m (31 March 2011: $927m; 31 December 2011: $1,541m) of which $389m (31 March 2011: $421m; 31 December 2011: $270m) are guaranteed by various governments.

Included in the available-for-sale debt securities are debt securities issued by governments of $15,563m (31 March 2011: $12,659m; 31 December 2011: $15,590m).

## 7 Trading liabilities

| | At 31 March 2012 $m | At 31 March 2011 $m | At 31 December 2011 $m |
|---|---|---|---|
| Other debt securities in issue | **78** | 123 | 175 |
| Customer trading liabilities | **1,716** | 1,617 | 1,516 |
| Other liabilities – net short positions | **1,267** | 1,679 | 1,305 |
| | **3,061** | 3,419 | 2,996 |

## 8 Financial liabilities designated at fair value

| | At 31 March 2012 $m | At 31 March 2011 $m | At 31 December 2011 $m |
|---|---|---|---|
| Debt securities in issue | **575** | 563 | 580 |
| Subordinated debentures | **427** | 413 | 426 |
| | **1,002** | 976 | 1,006 |

The carrying amount at 31 March 2012 of financial liabilities designated at fair value was $34m higher (31 March 2011: $25 higher; 31 December 2011: $35m higher) than the contractual amount at maturity. At 31 March 2012, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of $8m (31 March 2011: $8m gain; 31 December 2011: $22m gain).

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

## 9 Notes on the statement of cash flows

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | 31 December 2011 |
| | **$m** | $m | $m |
| **Non-cash items included in profit before tax** | | | |
| Gain on sale of full-service retail brokerage business | **(84)** | – | – |
| Depreciation and amortization | **15** | 14 | 26 |
| Share based payment expense | **4** | 5 | 5 |
| Loan impairment charges and other credit risk provisions | **48** | 49 | 54 |
| Charge for defined benefit plans | **3** | 3 | 4 |
| | **(14)** | 71 | 89 |
| **Change in operating assets** | | | |
| Change in prepayment and accrued income | **(17)** | (37) | 29 |
| Change in net trading securities and net derivatives | **(715)** | 156 | (506) |
| Change in loans and advances to customers | **(1,086)** | (855) | (714) |
| Change in other assets | **(418)** | (339) | 984 |
| | **(2,236)** | (1,075) | (207) |
| **Change in operating liabilities** | | | |
| Change in accruals and deferred income | **(21)** | (30) | (22) |
| Change in deposits by banks | **62** | 621 | 401 |
| Change in customer accounts | **423** | (1,208) | 1,114 |
| Change in debt securities in issue | **679** | 413 | (1,173) |
| Change in financial liabilities designated at fair value | **(4)** | (7) | 13 |
| Change in other liabilities | **(237)** | 532 | (878) |
| | **902** | 321 | (545) |
| **Cash and cash equivalents** | | | |
| Cash and balances at central bank | **141** | 63 | 77 |
| Items in the course of collection from/(to) other banks, net | **(269)** | (75) | (184) |
| Loans and advances to banks of one month or less | **1,546** | 5,590 | 4,530 |
| T-Bills and certificates of deposits – three months or less | **487** | 899 | 276 |
| | **1,905** | 6,477 | 4,699 |
| **Interest** | | | |
| Interest paid | **147** | 184 | 237 |
| Interest received | **582** | 577 | 611 |

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

## 10 Contingent liabilities, contractual commitments, and guarantees

| | **At 31 March 2012 $m** | At 31 March 2011 $m | At 31 December 2011 $m |
|---|---|---|---|
| **Guarantees and other contingent liabilities** | | | |
| Guarantees and irrevocable letters of credit pledged as collateral security | **2,762** | 2,281 | 2,641 |
| **Commitments** | | | |
| Documentary credits and short-term trade-related transactions | **324** | 353 | 294 |
| Undrawn formal standby facilities, credit lines and other commitments to lend (1) | **36,683** | 34,478 | 37,417 |
| | **37,007** | 34,831 | 37,711 |

*(1) Based on original contractual maturity.*

*Litigation*

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

## 11 Segment analysis

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

A 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, discount brokerage and trust and advisory services.

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

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

**Other**

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

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

*Figures in $m*

| | Quarter ended | | |
|---|---|---|---|
| | ***31 March 2012*** | *31 March 2011* | *31 December 2011* |
| ***Retail Banking and Wealth Management*** | | | |
| Net interest income | **105** | 94 | 98 |
| Net fee income | **42** | 70 | 57 |
| Net trading income | **3** | 6 | 4 |
| Other operating income | **2** | 2 | 3 |
| Gain on sale of full-service retail brokerage business | **76** | – | – |
| Net operating income before loan impairment charges and other credit risk provisions | **228** | 172 | 162 |
| Loan impairment charges and other credit risk provisions | **(6)** | (2) | (7) |
| Net operating income | **222** | 170 | 155 |
| Total operating expenses (excluding restructuring charges) | **(127)** | (156) | (148) |
| Restructuring charges | **(2)** | – | (14) |
| Profit/(loss) before income tax expense | **93** | 14 | (7) |
| | | | |
| ***Commercial Banking*** | | | |
| Net interest income | **180** | 173 | 189 |
| Net fee income | **71** | 69 | 66 |
| Net trading income | **8** | 6 | 5 |
| Other operating income | **1** | 1 | (40) |
| Net operating income before loan impairment charges and other credit risk provisions | **260** | 249 | 220 |
| Loan impairment charges and other credit risk provisions | **(11)** | (17) | (23) |
| Net operating income | **249** | 232 | 197 |
| Total operating expenses | **(92)** | (96) | (87) |
| Operating profit | **157** | 136 | 110 |
| Share of profit in associates | **1** | 1 | – |
| Profit before income tax expense | **158** | 137 | 110 |

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

*Figures in $m*

| | Quarter ended | | |
|---|---|---|---|
| | ***31 March 2012*** | *31 March 2011* | *31 December 2011* |
| ***Global Banking and Markets*** | | | |
| Net interest income | **46** | 49 | 38 |
| Net fee income | **19** | 14 | 23 |
| Net trading income | **22** | 21 | 17 |
| Gains less losses from financial investments | **17** | 16 | 3 |
| Other operating income | **(1)** | 1 | – |
| Gain on sale of full-service retail brokerage business | **8** | – | – |
| Net operating income before loan impairment charges and other credit risk provisions | **111** | 101 | 81 |
| Loan impairment charges and other credit risk provisions | **–** | – | 1 |
| Net operating income | **111** | 101 | 82 |
| Total operating expenses | **(25)** | (29) | (15) |
| Profit before income tax expense | **86** | 72 | 67 |
| ***Consumer Finance*** | | | |
| Net interest income | **73** | 70 | 74 |
| Net fee income | **11** | 10 | 11 |
| Other operating income | **2** | 1 | – |
| Net operating income before loan impairment charges and other credit risk provisions | **86** | 81 | 85 |
| Loan impairment charges and other credit risk provisions | **(31)** | (30) | (25) |
| Net operating income | **55** | 51 | 60 |
| Total operating expenses (excluding restructuring charges) | **(38)** | (43) | (43) |
| Restructuring charges | **(34)** | – | – |
| Profit/(loss) before income tax expense | **(17)** | 8 | 17 |
| ***Other*** | | | |
| Net interest income | **(6)** | (4) | (6) |
| Net trading income | **7** | 4 | 5 |
| Net loss from financial instruments designated at fair value | **(14)** | (8) | – |
| Other operating income | **9** | 15 | 15 |
| Net operating income | **(4)** | 7 | 14 |
| Total operating expenses | **(24)** | (15) | (16) |
| Loss before income tax expense | **(28)** | (8) | (2) |

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

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

| | Retail Banking and Wealth Management | Commercial Banking | Global Banking and Markets | Consumer Finance | Other | Total |
|---|---|---|---|---|---|---|
| **Quarter ended 31 March 2012** | | | | | | |
| Net operating income: | **222** | **249** | **111** | **55** | **(4)** | **633** |
| External | **254** | **233** | **95** | **55** | **(4)** | **633** |
| Inter-segment | **(32)** | **16** | **16** | **–** | **–** | **–** |
| Quarter ended 31 March 2011 | | | | | | |
| Net operating income: | 170 | 232 | 101 | 51 | 7 | 561 |
| External | 192 | 225 | 86 | 51 | 7 | 561 |
| Inter-segment | (22) | 7 | 15 | – | – | – |
| Quarter ended 31 December 2011 | | | | | | |
| Net operating income: | 155 | 197 | 82 | 60 | 14 | 508 |
| External | 178 | 167 | 89 | 60 | 14 | 508 |
| Inter-segment | (23) | 30 | (7) | – | – | – |

*Statement of financial position information*

| | Retail Banking and Wealth Management | Commercial Banking | Global Banking and Markets | Consumer Finance | Other | Total |
|---|---|---|---|---|---|---|
| **At 31 March 2012** | | | | | | |
| Loans and advances to customers (net) | **24,661** | **15,166** | **5,077** | **2,327** | **(1,836)** | **45,395** |
| Customers' liability under acceptances | **–** | **3,616** | **740** | **–** | **–** | **4,356** |
| Total assets | **25,821** | **19,704** | **34,703** | **2,479** | **(1,985)** | **80,722** |
| Customer accounts | **20,568** | **19,088** | **7,417** | **1** | **(37)** | **47,037** |
| Acceptances | **–** | **3,616** | **740** | **–** | **–** | **4,356** |
| Total liabilities | **23,393** | **23,103** | **28,415** | **2,106** | **(1,467)** | **75,550** |
| At 31 March 2011 | | | | | | |
| Loans and advances to customers (net) | 24,570 | 14,845 | 4,838 | 2,358 | (587) | 46,024 |
| Customers' liability under acceptances | – | 3,935 | 744 | – | – | 4,679 |
| Total assets | 25,547 | 19,571 | 32,190 | 2,574 | (743) | 79,139 |
| Customer accounts | 25,676 | 16,827 | 1,996 | 589 | (668) | 44,420 |
| Acceptances | – | 3,935 | 744 | – | – | 4,679 |
| Total liabilities | 35,997 | 21,539 | 15,020 | 2,207 | (268) | 74,495 |
| At 31 December 2011 | | | | | | |
| Loans and advances to customers (net) | 24,580 | 15,355 | 3,931 | 2,412 | (1,921) | 44,357 |
| Customers' liability under acceptances | – | 3,298 | 761 | – | – | 4,059 |
| Total assets | 25,565 | 19,457 | 34,549 | 2,549 | (2,052) | 80,068 |
| Customer accounts | 25,210 | 18,935 | 2,505 | 1 | (37) | 46,614 |
| Acceptances | – | 3,298 | 761 | – | – | 4,059 |
| Total liabilities | 28,270 | 23,173 | 22,807 | 2,159 | (1,544) | 74,865 |

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

## 12 Related party transactions

Transactions detailed below include amounts due to/from the bank and HSBC Holdings including fellow subsidiaries of HSBC Holdings. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

*Transactions between the bank and HSBC Holdings including fellow subsidiaries of HSBC Holdings*

| | Quarter ended | | |
|---|---|---|---|
| | **31 March 2012 $m** | 31 March 2011 $m | 31 December 2011 $m |
| **Income Statement** | | | |
| Interest income | **2** | 3 | 5 |
| Interest expense | **(1)** | (1) | – |
| Fee income | **4** | 4 | 4 |
| Fee expense | **(1)** | (2) | (1) |
| Other operating income | **12** | 17 | 16 |
| General and administrative expenses | **(23)** | (24) | (12) |

## 13 Sale of full-service retail brokerage business

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

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

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

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

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

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

In the fourth quarter of 2011 and first quarter of 2012, $14m and $2m respectively of restructuring charges were incurred either relating to this transaction or from actions undertaking within the business arising as a result of the sale. These amounts are excluded from the gain noted above. Further details of these restructuring charges are set out in note 14 below.

## 14 Restructuring charges

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

**Consumer Finance**

| | Quarter ended | |
|---|---|---|
| | **31 March 2012** | 31 December 2011 |
| | **$m** | $m |
| Employee severance and related compensation and benefits charges, net | **17** | – |
| General and administrative expenses, including onerous lease provisions | **14** | – |
| Impairment of property plant and equipment | **3** | – |
| | **34** | – |

**Full-service retail brokerage business**

| | Quarter ended | |
|---|---|---|
| | **31 March 2012** | 31 December 2011 |
| | **$m** | $m |
| Employee severance and related compensation and benefits charges | **2** | 6 |
| General and administrative expenses, including onerous lease provisions | **–** | 4 |
| Impairment of property plant and equipment | **–** | 4 |
| | **2** | 14 |
| Total | **36** | 14 |

## 15 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 2012 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 3 May 2012 and authorized for issue.