HSBC BANK CANADA
FIRST QUARTER 2013 INTERIM REPORT

- Profit for the quarter ended 31 March 2013 was $189m, a decrease of 14% compared with the same period in 2012.

- Profit attributable to common shareholders was $171m for the quarter ended 31 March 2013, a decrease of 15% compared with the same period in 2012.

- Return on average common equity was 16.3% for the quarter ended 31 March 2013 compared with 19.8% for the same period in 2012.

- The cost efficiency ratio improved to 45.0% for the quarter ended 31 March 2013 compared with 50.5% for the same period in 2012.

- Total assets were $84.4bn at 31 March 2013 compared with $80.7bn at 31 March 2012.

- Total assets under administration increased to $20.4bn at 31 March 2013 from $18.3bn at 31 March 2012.

- Common equity tier 1 capital ratio was 11.1%, tier 1 ratio 13.9% and total capital ratio 15.9% at 31 March 2013 determined in accordance with regulatory guidelines and the Basel III capital adequacy framework adopted with effect from 1 January 2013.

HSBC

Corporate Profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. With around 6,600 offices in over 80 countries and territories and assets of US$2,681bn at 31 March 2013, 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, subject to approval by the Board, are:

2013

Record Date	Payable Date
14 June	30 June
13 September	30 September
13 December	31 December

2014

Record Date	Payable Date
14 March	31 March

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

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Shareholder Information

Shareholder Information

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

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

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

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SHAREHOLDER CONTACT:

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

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Caution Concerning Forward-Looking Statements

This document contains 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. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These risk factors – many of which are beyond our control and the effects of which are difficult to predict – that could cause such differences include: capital management, credit, liquidity and funding, market, structural, and operational risks all of which are discussed in the Risk Management section in Management's Discussion and Analysis of our Annual Report and Accounts 2012. Additional risk factors include: the impact of changes in laws and regulations including relating to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the regulations issued and to be issued thereunder, the Basel Committee on Banking Supervision's global standards for capital and liquidity reform, over-the-counter derivatives reform in Canada; technological changes and security; global capital market activity; the effects of changes in government monetary and economic policies; changes in prevailing interest rates; inflation levels; and the general business and economic market conditions in Canada and in geographic areas where we operate. Canada is an extremely competitive banking environment, and pressures on our net interest spread 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 our revenues. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document speak only as of the date of this document. We do not undertake any obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required under applicable securities legislation.

Management's Discussion and Analysis

Financial Highlights

(in $ millions, except where otherwise stated)	Quarter ended		
	31 March 2013	31 March 2012	31 December 2012
For the period ($m)			
Profit before income tax expense	**269**	290	218
Net operating income before loan impairment charges and other credit risk provisions	**584**	681	526
Profit attributable to common shareholders	**171**	201	137
At period-end ($m)			
Shareholders' equity	**5,218**	4,958	5,146
Loan and advances to customers (net of impairment allowances)	**46,003**	45,395	45,572
Customer accounts	**48,184**	47,037	48,304
Capital measures [1]			
Common equity tier 1 capital ratio (%)	**11.1**	–	–
Tier 1 ratio (%)	**13.9**	13.2	13.8
Total capital ratio (%)	**15.9**	15.6	16.0
Assets-to-capital multiple	**14.1**	13.2	13.1
Risk-weighted assets ($m)	**36,171**	36,460	36,668
Performance ratios (%) [2]			
Return on average common equity	**16.3**	19.8	12.9
Post-tax return on average total assets	**0.82**	0.99	0.66
Post-tax return on average risk-weighted assets [1]	**1.9**	2.2	1.5
Credit coverage ratios (%)			
Loan impairment charges as a percentage of total operating income	**9.6**	7.0	6.3
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.4**	0.4	0.3
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**50.1**	64.0	58.6
Efficiency and revenue mix ratios (%) [2]			
Cost efficiency ratio	**45.0**	50.5	52.9
Adjusted cost efficiency ratio	**44.8**	49.5	52.6
As a percentage of total operating income:			
- net interest income	**57.5**	58.4	66.2
- net fee income	**25.0**	21.0	29.3
- net trading income	**9.8**	5.9	8.6
Financial ratios (%) [2]			
Ratio of customer advances to customer accounts	**95.5**	96.5	94.3
Average total shareholders' equity to average total assets	**6.2**	6.2	6.2
Total assets under administration ($m) [2]			
Funds under management	**19,290**	17,294	18,327
Custodial accounts	**1,121**	961	1,133
Total assets under administration	**20,411**	18,255	19,460

1 *Effective 1 January 2013, regulatory information is determined in accordance with the Basel III capital adequacy framework. Comparative regulatory information for 2012 periods, were not restated and are determined in accordance with the Basel II capital adequacy framework. Refer to the 'Risk Management' section of this document for further information relating to the adoption of the Basel III capital adequacy framework.*

2 *Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.*

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 Management's Discussion and Analysis ('MD&A'), the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. The MD&A is dated 8 May 2013, the date that our unaudited consolidated financial statements and MD&A for the first quarter of 2013 were approved by our Board of Directors ('the Board').

We prepare our unaudited 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 '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

The references to 'notes' throughout this MD&A refer to notes on the unaudited consolidated financial statements for the first quarter ended 31 March 2013.

Use of non-IFRS financial measures

The bank uses certain non-IFRS financial measures to assess its performance. Non-IFRS financial measures are not defined by IFRS and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The following non-IFRS financial measures are used throughout this document and are defined below:

- *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 the Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework (2012: Risk weighted assets are calculated using the 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.

- *Assets under administration* – These are assets administered by the bank on behalf of our customers. The bank does not recognise these assets on its consolidated statement of financial position because our customers are the beneficial owners.

- *Liquid assets* – These assets include high grade financial investments and reverse repurchase agreements of which a certain amount is pledged as collateral to secure recognized liabilities and contingent obligations within payment and depository clearing systems.

Management's Discussion and Analysis (continued)

Overview

HSBC Bank Canada recorded profit of $189m for the first quarter of 2013, a decrease of $30m, or 14%, compared with the first quarter of 2012, and an increase of $35m, or 23%, compared with the fourth quarter of 2012. Profit attributable to common shareholders was $171m for the first quarter of 2013, a decrease of $30m, or 15%, compared with the first quarter of 2012, and an increase of $34m, or 25%, compared with the fourth quarter of 2012.

The first quarter of 2012 included a gain on the sale of the full service brokerage business of $84m and a restructuring charge of $36m mostly relating to the wind-down of the consumer finance business. Excluding the impact of these items and their effect on income tax expense, profit increased by $17m, or 8%, compared with the same quarter last year. The increase is mainly due to reduced operating expenses from strict cost control and continued delivery of organizational cost effectiveness programmes, which resulted in sustainable cost savings. Additionally contributing to the increase were higher gains on the disposal of available-for-sale financial investments, and a growth in trading income of C$5m as a result of a change in valuation estimation methodology on derivatives. The increase is partially offset by lower net interest income mainly due to lower average retail and consumer finance loan balances following the strategic refocus of these businesses and continued pressure on net interest spread in a prolonged low interest rate environment.

The fourth quarter of 2012 included a $42m charge resulting from the write down in the value of investment property. Excluding the charge resulting from the write down, profit in the first quarter of 2013 increased by $66m compared with the prior quarter mainly due to higher gains on the disposal of available-for-sale financial investments, partially offset by higher specific provisions for commercial exposures notably in the energy and real estate sectors.

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

"We've enjoyed a good start to 2013, as a result of our focus on building our core businesses, deepening client relationships, and continued improvements in the efficiency of our operations in Canada, consistent with HSBC's global strategy. Our success is driven by our ability to connect internationally-minded Canadian businesses and individuals to opportunities around the world."

Analysis of Consolidated Financial Results for the First Quarter 2013

Net interest income

Net interest income for the first quarter of 2013 was $336m, a decrease of $62m, or 16%, compared with the first quarter of 2012, and a decrease of $12m, or 3%, compared with the fourth quarter of 2012. The decreases are mainly due to lower average retail and consumer finance loan balances following the strategic refocus of these businesses and continued pressure on net interest spread in a prolonged low interest rate environment.

Net fee income

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Credit facilities	**63**	56	63
Funds under management	**33**	29	33
Account services	**20**	21	20
Credit cards	**14**	13	22
Immigrant Investor Program	**8**	15	8
Remittances	**8**	7	8
Corporate finance	**5**	8	12
Brokerage commissions	**4**	4	4
Insurance	**4**	5	4
Trade finance import/export	**3**	3	2
Trustee fees	**1**	1	1
Other	**3**	6	1
Fee income	**166**	168	178
Less: fee expense	**(20)**	(25)	(24)
Net fee income	**146**	143	154

Management's Discussion and Analysis (continued)

Net fee income for the first quarter of 2013 was $146m, an increase of $3m, or 2%, compared with the first quarter of 2012, and a decrease of $8m, or 5%, compared with the fourth quarter of 2012. The increase compared with the same quarter last year was due to a growth in authorized commercial credit facilities and higher funds under management. The decrease compared with the prior quarter is mainly due to a reduction in fee income from credit cards associated with lower transaction volume and a decrease in corporate finance fees.

Net trading income

Net trading income for the first quarter of 2013 was $57m, an increase of $17m, or 43% compared with the first quarter of 2012, and an increase of $12m, or 27%, compared with the fourth quarter of 2012. Net trading income increased compared to both the first and fourth quarters of 2012 as a result of a change in estimation methodology in respect of credit and debit valuation adjustments on derivative contracts to reflect evolving market practises. In addition higher global customer trading volumes in foreign exchange products and improved performance in rates and credit products contributed to the increase. Net trading income in the first quarter of 2012 included losses caused by the narrowing of credit spreads on the carrying value of our own debt instruments classified as trading.

Other items of income

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net expense from financial instruments designated at fair value	**(3)**	(14)	(3)
Gains less losses from financial investments	**35**	17	4
Other operating income/(expense)	**13**	13	(26)
Gain on the sale of the full service retail brokerage business	**–**	84	4
Other items of income	**45**	100	(21)

Net expense from financial instruments designated at fair value for the first quarter of 2013 was $3m, compared with a net expense of $14m in the first quarter of 2012, and was unchanged compared with the fourth quarter of 2012. The bank designates certain subordinated debentures to be recorded at fair value. Income and expense are largely as a result of the widening or narrowing of credit spreads decreasing or increasing the fair value of these subordinated debentures, respectively.

Gains less losses from financial investments for the first quarter of 2013 were $35m, an increase of $18m and $31m respectively compared with the first quarter of 2012 and fourth quarter of 2012. The increases in gains less losses from financial investments are due to higher gains on the disposal of available-for-sale financial investments driven by balance sheet management activities.

Other operating income/(expense) for the first quarter of 2013 was $13m, unchanged compared with the first quarter of 2012, and an increase of $39m compared with the fourth quarter of 2012. The fourth quarter of 2012 included a $42m charge resulting from the 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 on 1 January 2012 and resulted in a gain of $84m, net of assets written off and directly related costs. In the fourth quarter of 2012, the bank satisfied certain conditions relating to the sale of the full service retail brokerage business for which we recognized an increase to the gain of $4m.

Loan impairment charges and other credit risk provisions

Loan impairment charges and other credit risk provisions for the first quarter of 2013 were $56m, an increase of $8m, or 17%, compared with the first quarter of 2012, and an increase of $23m, compared with the fourth quarter of 2012. The increases are primarily due to higher specific provisions for commercial exposures notably in the energy and real estate sectors, partially offset by a reduction in collective consumer finance provisions due to improved delinquency performance.

Management's Discussion and Analysis (continued)

Operating expenses

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Employee compensation and benefits	**156**	191	153
General and administrative expenses	**95**	105	109
Depreciation of property, plant and equipment	**9**	9	8
Amortization and impairment of intangible assets	**3**	3	8
Total operating expenses (excluding restructuring charges)	**263**	308	278
Restructuring charges	**–**	36	–
Total operating expenses	**263**	344	278

Total operating expenses (excluding restructuring charges) for the first quarter of 2013 were $263m, a decrease of $45m, or 15%, compared with the first quarter of 2012, and a decrease of $15m, or 5%, compared with the fourth quarter of 2012. The decreases in total operating expenses compared with both quarters are mainly due to strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings. Cost reductions relating to the wind-down of the bank's consumer finance business as well as reduced activities and expenses related to the delivery of technology services to HSBC Group companies also contributed to a further decrease in total operating expense compared with the same quarter last year.

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

Income taxes

Income tax expense. The effective tax rate in the first quarter of 2013 was 30.0%, compared with 25.2% in the first quarter of 2012 and 29.9% in the fourth quarter of 2012. The lower effective tax rate in the first quarter of 2012 was largely due to a lower effective tax rate applied to the gain on the sale of the full service retail brokerage business.

Statement of Financial Position

Total assets at 31 March 2013 were $84.4bn, an increase of $3.7bn from $80.7bn at 31 December 2012, mainly due to increases of $1.7bn in trading assets, $1.2bn in loans and advances to banks, $0.4bn in loans and advances to customers and $0.4bn in customers' liability under acceptances. The growth in trading assets is due to a higher holding of government and agency bonds as a result of increased trading activity in the rates business and a higher holding in pending settlement trading accounts. Loans and advances to banks and loans and advances to customers increased as a result of an increase in reverse repurchase agreements. Excluding the increase in reverse repurchase agreements, loans and advances to banks increased marginally by $0.1bn and loans and advances to customers decreased by $0.5bn.

Liquid assets increased to $25.9bn at 31 March 2013, compared to $24.3bn at 31 December 2012 mainly as a result of strong deposit growth and debt issues mostly invested in short term investments. Refer to the 'Use of non-IFRS financial measures' for a definition of liquid assets.

Total liabilities at 31 March 2013 were $78.9bn, an increase of $3.6bn from $75.3bn at 31 December 2012, mainly due to increases of $1.7bn in debt securities in issue, $1.3bn in trading liabilities and $0.4bn in acceptances. The increase in debt securities in issue is due to an additional $1.5bn of medium term notes and bearer deposits issued during the first quarter of 2013. The increase in trading liabilities is driven by an increase in short position securities to manage interest rate risk and a higher holding in pending settlement trading accounts.

Management's Discussion and Analysis (continued)

Analysis of Consolidated Financial Results for the First Quarter 2013 by Customer Groups

Commercial Banking

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net interest income	**161**	180	177
Net fee income	**75**	71	77
Net trading income	**8**	8	6
Other operating income/(expense)	**2**	5	(40)
Net operating income before loan impairment charges and other credit risk provisions	**246**	264	220
Loan impairment charges and other credit risk provisions	**(39)**	(11)	(6)
Net operating income	**207**	253	214
Total operating expenses	**(88)**	(97)	(97)
Operating profit	**119**	156	117
Share of profit in associates	**4**	1	3
Profit before income tax expense	**123**	157	120

Overview

Profit before income tax expense was $123m for the first quarter of 2013, a decrease of $34m, or 22%, compared with the first quarter of 2012, and an increase of $3m, or 3%, compared with the fourth quarter of 2012. The fourth quarter of 2012 included a $42m charge resulting from the write down in the value of investment property. Excluding the impact of the write down, profit before income tax expense decreased compared with the same quarter last year and compared with the prior quarter due to higher specific impairment provisions in the energy and real estate sectors and lower net interest spread, partially offset by reduced operating expenses as a result of strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings.

Financial performance

Net interest income for the first quarter of 2013 was $161m, a decrease of $19m, or 11%, compared with the first quarter of 2012, and a decrease of $16m, or 9%, compared with the fourth quarter of 2012. The decreases are mainly due to continued pressure on net interest spread in a prolonged low interest rate environment partially offset by a growth in average loan balances.

Net fee income for the first quarter of 2013 was $75m, an increase of $4m, or 6%, compared with the first quarter of 2012, and a decrease of $2m, or 3%, compared with the fourth quarter of 2012. The increase in net fee income compared with the same quarter last year is mainly driven by growth in authorized credit facilities and transaction volume. The decrease in net fee income compared with the prior quarter is as a result of lower volumes of guarantees.

Net trading income for the first quarter of 2013 was $8m, unchanged compared with the first quarter of 2012 and marginally higher compared with the fourth quarter of 2012.

Other operating income/(expense) for the first quarter of 2013 was $2m, a decrease of $3m and an increase of $42m respectively compared with the first quarter of 2012 and fourth quarter of 2012. The fourth quarter of 2012 included a $42m charge resulting from the write down in the value of investment property.

Loan impairment charges and other credit risk provisions for the first quarter of 2013 were $39m, an increase of $28m and $33m respectively compared with the first quarter of 2012 and fourth quarter of 2012. The increases in loan impairment charges and other risk provisions are due to higher specific provisions notably in the energy and real estate sectors.

Total operating expenses for the first quarter of 2013 were $88m, a decrease of $9m, or 9%, compared with both the first and fourth quarter of 2012. The decreases are as a result of strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings.

Management's Discussion and Analysis (continued)

Global Banking and Markets

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net interest income	**42**	46	40
Net fee income	**18**	19	24
Net trading income	**37**	22	28
Gains less losses from financial investments	**33**	17	3
Other operating income/(expense)	**–**	(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	**130**	111	96
Loan impairment charges and other credit risk provisions	**2**	–	–
Net operating income	**132**	111	96
Total operating expenses	**(29)**	(25)	(27)
Profit before income tax expense	**103**	86	69

Overview

Profit before income tax expense was $103m for the first quarter of 2013, an increase of $17m, or 20%, compared with the first quarter of 2012 and an increase of $34m, or 49%, compared with the fourth quarter of 2012. The increase in profit before income tax compared with the same quarter last year is due to higher gains on the disposal of available-for-sale investments and improved trading income as a result of a change in valuation estimation methodology on derivatives, higher global customer trading volumes in foreign exchange products and improved performance in rates and credit products. The increase is partially offset by a $8m gain on the sale of the full service retail brokerage business included in the same quarter last year.

The increase in profit before income tax compared with the prior quarter is due to higher gains on the disposal of available-for-sale investments and improved trading income as a result of a change in valuation estimation methodology on derivatives, higher global customer trading volumes in foreign exchange products and improved performance in rates and credit products. The increase is partially offset by reduced net fee income driven by lower derivative sales and debt capital market fees.

Financial performance

Net interest income for the first quarter of 2013 was $42m, a decrease of $4m, or 9%, compared with the first quarter of 2012, and an increase of $2m, or 5%, compared with the fourth quarter of 2012. The decrease in net interest income compared with the same quarter last year is due to reduced net interest spread. The increase in net interest income compared with the prior quarter is due to a growth in volume, partially offset by reduced net interest spread.

Net fee income for the first quarter of 2013 was $18m, marginally decreased compared with the first quarter of 2012 and a decrease of $6m, or 25% compared with the fourth quarter of 2012. The decrease was driven by lower derivative sales and debt capital market fees.

Net trading income for the first quarter of 2013 was $37m, increases of $15m and $9m respectively compared with the first quarter of 2012 and fourth quarter of 2012. Net trading income increased compared with both the first and fourth quarter of 2012 as a result of a change in estimation methodology in respect of credit and debit valuation adjustments on derivative contracts to reflect evolving market practises. In addition contributing to the increase was higher global customer trading volumes in foreign exchange products and improved performance in rates and credit products. Net trading income in the first quarter of 2012 included losses caused by the narrowing of credit spreads on the carrying value of our own debt instruments classified as trading.

Gains less losses from financial investments for the first quarter of 2013 was $33m, increases of $16m and $30m respectively compared with the first quarter of 2012 and fourth quarter of 2012. The increases in gains less losses from financial investments are due to higher gains on the disposal of available-for-sale financial investments driven by balance sheet management activities.

Total operating expenses for the first quarter of 2013 were $29m, an increase of $4m, or 16%, compared with the first quarter of 2012, and an increase of $2m, or 7% compared with the fourth quarter of 2012.

Management's Discussion and Analysis (continued)

Retail Banking and Wealth Management

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net interest income	**89**	105	82
Net fee income	**43**	42	44
Net trading income	**4**	3	3
Other operating income	**3**	2	4
Gain on the sale of the full service retail brokerage business	**–**	76	4
Net operating income before loan impairment charges and other credit risk provisions	**139**	228	137
Loan impairment charges and other credit risk provisions	**(7)**	(6)	(8)
Net operating income	**132**	222	129
Total operating expenses (excluding restructuring charges)	**(118)**	(128)	(126)
Restructuring charges	**–**	(2)	–
Profit before income tax expense	**14**	92	3

Overview

Profit before income tax expense for the first quarter of 2013 was $14m, a decrease of $78m compared with first quarter of 2012, and an increase of $11m compared with the fourth quarter of 2012. Profit before income tax in 2012 benefitted from a gain on the sale of the full service retail brokerage business partially offset by related restructuring charges. Excluding these items, profit before income tax expense decreased by $4m compared with the same quarter last year and increased by $15m compared with the prior quarter. The remaining decrease in profit before income tax expense compared with the same quarter last year is due to reduced net interest income driven by narrowing net interest spread and a decline in average loan balances partially offset by reduced operating expenses as a result of strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings. The remaining increase in profit before income tax expense compared with the prior quarter is due to higher net interest income as a result of lower wholesale funding driven by strong growth in customer deposits, partially offset by a decline in average loan balances, and reduced operating expenses as a result of strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings.

Financial performance

Net interest income for the first quarter of 2013 was $89m, a decrease of $16m, or 15%, compared with the first quarter of 2012, and an increase of $7m, or 9%, compared with the fourth quarter of 2012. The first quarter of 2012 benefitted from refund interest received from the Canada Revenue Agency. Excluding the refund interest, net interest income decreased by $8m compared with the same quarter last year due to narrowing net interest spread and a decline in average loan balances. Net interest income increased compared to the prior quarter as a result of lower wholesale funding driven by strong growth in customer deposits partially offset by a decline in average loan balances.

Net fee income for the first quarter of 2013 was $43m, marginally changed compared with the first quarter of 2012 and with the fourth quarter of 2012.

Net trading income for the first quarter of 2013 was $4m, marginally higher compared with the first quarter of 2012 and with the fourth quarter of 2012.

Loan impairment charges and other credit risk provisions for the first quarter of 2013 were $7m, marginally changed compared with the first quarter of 2012 and with the fourth quarter of 2012.

Total operating expenses (excluding restructuring charges) for the first quarter of 2013 were $118m, a decrease of $10m, or 8%, compared with the first quarter of 2012, and a decrease of $8m, or 6%, compared with the fourth quarter of 2012. The decreases are as a result of strict cost control and continued delivery of our organizational cost effectiveness programmes, which resulted in sustainable cost savings.

Management's Discussion and Analysis (continued)

Consumer Finance

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net interest income	**52**	73	57
Net fee income	**10**	11	9
Gains less losses from financial investments	**2**	–	1
Other operating income	**1**	2	1
Net operating income before loan impairment charges and other credit risk provisions	**65**	86	68
Loan impairment charges and other credit risk provisions	**(12)**	(31)	(19)
Net operating income	**53**	55	49
Total operating expenses (excluding restructuring charges)	**(18)**	(38)	(19)
Restructuring charges	**–**	(34)	–
Profit/(loss) before income tax expense	**35**	(17)	30

Overview

Profit before income tax expense was $35m for the first quarter of 2013, an increase of $52m compared with the first quarter of 2012, and an increase of $5m compared with the fourth quarter of 2012. In the first quarter of 2012, $34m in restructuring costs were incurred following the decision in March 2012 to wind-down the consumer finance business in Canada. Excluding the restructuring costs, profit before income tax expense increased by $18m compared with the same quarter last year and $5m compared with the prior quarter mainly due to lower operating expenses and loan impairment charges, partially offset by lower net interest income as a result of declining average loan balances.

Financial performance

Net interest income for the first quarter of 2013 was $52m, a decrease of $21m and $5m respectively compared with the first quarter of 2012 and fourth quarter of 2012. The decrease in net interest income is mainly due to declining customer loan balances as a result of the wind-down of the business.

Net fee income for the first quarter of 2013 was $10m, marginally lower compared with the first quarter of 2012 and marginally higher compared with the fourth quarter of 2012.

Loan impairment charges and other credit risk provisions for the first quarter of 2013 were $12m, a decrease of $19m, or 61%, compared with the first quarter of 2012, and a decrease of $7m, or 37%, compared with the fourth quarter of 2012. The decrease in loan impairment charges and other credit risk provisions compared with 2012 is due to a reduction in collective provisions driven by lower average loan balances following the wind-down of the business as well as reduced delinquency.

Total operating expenses (excluding restructuring charges) for the first quarter of 2013 were $18m, a decrease of $20m, or 53%, compared with the first quarter of 2012, and marginally lower compared with the fourth quarter of 2012. The decrease in total operating expenses compared with the same quarter last year is due to reduced staff, infrastructure charges and other overhead expenses as a result of the wind-down of the business.

Other

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Net interest expense	**(8)**	(6)	(8)
Net trading income	**8**	7	8
Net loss from financial instruments designated at fair value	**(3)**	(14)	(3)
Other operating income	**7**	5	8
Net operating income/(expense)	**4**	(8)	5
Total operating expenses	**(10)**	(20)	(9)
Loss before income tax expense	**(6)**	(28)	(4)

Management's Discussion and Analysis (continued)

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 our own subordinated debentures designated at fair value and revenue and expense related to information technology services provided to HSBC Group companies on an arm's length basis. Profit before income tax expense for the first quarter of 2013 was a loss of $6m, compared with losses of $28m and $4m respectively for the first quarter of 2012 and the fourth quarter of 2012. The variances from comparative periods are primarily due to the impact of the items noted above.

Quarterly summary of Condensed Consolidated Statements of Income (Unaudited)

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

	Quarter ended							
	31 March 2013 $m	31 December 2012 $m	30 September 2012 $m	30 June 2012 $m	31 March 2012 $m	31 December 2011 $m	30 September 2011 $m	30 June 2011 $m
Total revenue [1]	**584**	526	572	614	681	562	653	597
Profit for the period	**189**	154	180	201	219	132	199	206
Profit attributable to common shareholders	**171**	137	162	184	201	115	181	189
Profit attributable to preferred shareholders	**15**	15	15	15	15	15	16	15
Profit attributable to non-controlling interests	**3**	2	3	2	3	2	3	2
Basic earnings per common share	**0.34**	0.27	0.33	0.37	0.40	0.23	0.36	0.38

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

Refer to the 'Quarterly Summary of Condensed Consolidated Statements of Income' section of our Annual Report and Accounts 2012 for more information regarding quarterly trends in revenue and expenses for 2012 and 2011. Comparative information has been adjusted for the effect of the adoption of the revised IAS 19 Employee benefits. Refer to the 'Accounting and Reporting Changes' section below for further information.

Critical Accounting Policies and Impact of Estimates and Judgements

Refer to the 'Critical Accounting Policies and Impact of Estimates and Judgements' section of our Annual Report and Accounts 2012 for accounting policies that are deemed critical to the bank's results and financial position, in terms of materiality of the items which the policy is applied, or which involve a high degree of judgement including the use of assumptions and estimates.

Accounting and Reporting Changes

Effective 1 January 2013, the bank adopted IAS 19 'Employee Benefits', which was applied retrospectively. The most significant impact for the bank is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement is presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate. However, there is no material impact on either plan assets as the difference between the estimated and the actual return on plan assets is recorded through the statement of other comprehensive income. There is a no material impact on plan liabilities. In addition, unvested amounts related to past service events are no longer amortized and recognized in the income statement over the vesting period, but recognized in full on the date of the past service event as a charge or a credit to income. Refer to note 2 for further information related to the restatement of comparative information.

Management's Discussion and Analysis (continued)

Effective 1 January 2013, the bank adopted IFRS 10 'Consolidated Financial Statements' ('IFRS 10') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'), which were applied retrospectively. Under IFRS 10, there is one approach for determining if an investor controls an investee for all entities, based on the concept of power, variability of returns and their linkage. This replaced the previous approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities. The bank determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

Effective 1 January 2013, the bank adopted IFRS 13 'Fair Value Measurement' ('IFRS 13'), which was applied prospectively. IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement. The adoption of IFRS 13 did not have a material impact on the bank's consolidated financial statements.

Effective 1 January 2013, the bank adopted changes to IAS 1 'Presentation of Financial Statements' ('IAS 1') relating to the presentation of items of other comprehensive income, which was applied retrospectively. As a result of the adoption of changes within IAS 1, items presented within the consolidated statement of comprehensive income are grouped into those that will and those that will not be subsequently reclassified to income.

Financial Instruments including Off-Balance Sheet Arrangements

During the normal course of business, the bank makes extensive use of financial instruments including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instrument contracts. These arrangements were described in the 'Off-Balance Sheet Arrangements' section of our Annual Report and Accounts 2012. As a result of changing market practices in response to regulatory and accounting changes, as well as general market developments, the banks revised its methodology for estimating the credit valuation adjustment and debit valuation adjustment for derivatives from 1 January 2013. Refer to note 1(b)(iii) for further information relating to the revision. There have been no other changes in the basis of calculating the fair value of financial instruments from 31 December 2012, 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, our 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 2013 when our 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 2013, 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 2013 that have materially affected or are reasonably likely to affect internal control over financial reporting.

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

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in Management's Discussion and Analysis in our Annual Report and Accounts 2012, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Management's Discussion and Analysis (continued)

Related Party Transactions

Related party transaction policies and practices are unchanged from those outlined in the 'Related Party Transactions' section in our Annual Report and Accounts 2012. 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 8 May 2013		
	Dividend or distribution [1]	Number of issued shares and securities	Carrying value
	$ per share or security	Thousands	$m
Common shares			
HSBC Bank Canada		498,668	1,225
Preferred Shares – Class 1			
- Series C	0.31875	7,000	175
- Series D	0.3125	7,000	175
- Series E	0.4125	10,000	250
Preferred Shares – Class 2			
- Series B	0.0775	86,450	346
			946
HSBC Canada Asset Trust Securities (HSBC HaTS™)[2]			
- Series 2015	25.75		200

1 *Cash dividends on preference shares are non-cumulative and are payable quarterly. Cash distributions on HSBC HaTS™ are non-cumulative and are payable semi-annually.*
2 *Reported in non-controlling interests in the consolidated statement of financial position.*

During the first quarter of 2013, the bank declared and paid $90m in dividends on HSBC Bank Canada common shares, an increase of $7m from the same period in 2012.

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 2013, for shareholders of record on 14 June 2013.

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. Our investment grade ratings were confirmed by S&P in December 2012 and amended downward one notch by DBRS® in February 2013 concurrent with similar rating actions on our ultimate parent, HSBC Holdings. Our investment grade ratings are comparable to those assigned to Canadian banks.

Our ratings are as follows:

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

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)

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The most important risk categories that we are exposed to include capital management, credit, liquidity and funding, market, structural and operational risk. A discussion of our risk management activities including both quantitative and qualitative factors is included in the 'Risk Management' section of our 2012 Annual Report and Accounts. There have been no changes in our processes and no material changes in quantitative factors during the first quarter ended 31 March 2013. Refer to the 'Capital' section of the MD&A for a more information on our regulatory capital and regulatory capital ratios.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. It arises principally from direct lending, trade finance and the leasing business, but also from certain off-balance sheet products such as guarantees and counterparty credit risk on derivatives, and from our holdings of certain types of securities, particularly debt securities.

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 and monitoring the credit risk, we aggregate exposures by product type, industry and geographic area. Exposures are measured at exposure at default ('EAD') as defined under the Basel III capital adequacy framework (31 December 2012: as defined under the Basel II capital adequacy framework), which presents the amounts of loss the bank may be exposed to in the case of default of a customer.

The following table demonstrates the diversification of our loan portfolios by product type:

Loan portfolio by product type

	Exposure at default At 31 March 2013 $m	Exposure at default At 31 December 2012 $m
Wholesale loan portfolios		
Sovereign		
Drawn exposures	**20,659**	20,083
Undrawn commitments	**33**	29
Derivatives	**89**	79
	20,781	20,191
Banks		
Drawn exposures	**3,448**	3,591
Repurchase type transactions	**24**	37
Derivatives	**2,363**	2,127
Other off-balance sheet exposures	**475**	347
	6,310	6,102
Corporate		
Drawn exposures	**26,693**	26,330
Undrawn commitments	**10,720**	11,124
Repurchase type transactions	**222**	131
Derivatives	**1,064**	1,070
Other off-balance sheet exposures	**2,369**	2,277
	41,068	40,932
Total wholesale loan portfolios	**68,159**	67,225

Management's Discussion and Analysis (continued)

Loan portfolio by product type (continued)

	Exposure at default At 31 March 2013 $m	Exposure at default At 31 December 2012 $m
Retail loan portfolios		
Residential mortgages	**17,625**	17,850
Home equity lines of credit	**5,386**	5,543
Personal unsecured revolving loan facilities	**1,109**	1,127
Other personal loan facilities	**2,815**	2,827
Other small to medium enterprises loan facilities	**732**	746
Consumer finance loan portfolios	**1,355**	1,567
Total retail loan portfolios	**29,022**	29,660
Total loan portfolio exposure	**97,181**	96,885

Credit Quality of Financial Assets

The overall credit quality of financial assets remains broadly unchanged at 31 March 2013 compared with 31 December 2012. The increase in impaired financial assets is mainly due to a specific impairment of customers in the energy and real estate sector in the first quarter of 2013.

Impaired financial assets at amortized cost

The table below represents the carrying value of impaired financial assets measured at amortized cost and related allowances and provisions for credit losses:

	At 31 March 2013 $m	At 31 December 2012 $m
Impaired financial assets at amortized cost	**810**	811
Individually assessed allowance for credit losses	**192**	202
Collectively assessed allowance for credit losses	**214**	217
Allowance relating to on-balance sheet financial assets at amortized cost (1)	**406**	419
Provision for credit losses relating to off-balance sheet credit exposures (2)	**69**	80
Allowance and provision for credit losses	**475**	499
Net impaired financial assets at amortized cost	**335**	312
Allowance and provision for credit losses as percentage of impaired financial assets at amortized cost	**58.6%**	61.5%

1 *Included under 'Loans and advances to customers' in the consolidated statement of financial position*
2 *Included under 'Other liabilities' in the consolidated statement of financial position*

Management's Discussion and Analysis (continued)

Allowance and provision for credit losses

The table below shows the movement in balances of allowance and provision for credit losses:

	Quarter ended 31 March 2013			Quarter ended 31 March 2012		
	Customers individually assessed $m	**Customers collectively assessed $m**	**Total $m**	Customers individually assessed $m	Customers collectively assessed $m	Total $m
Opening balance at the beginning of the period	**202**	**297**	**499**	208	329	537
Movement						
Loans and advances written off	**(45)**	**(31)**	**(76)**	(12)	(30)	(42)
Recoveries of loans and advances written off	**–**	**1**	**1**	–	1	1
Charge to income statement	**40**	**16**	**56**	13	35	48
Interest recognized on impaired loans and advances	**(5)**	**–**	**(5)**	(5)	–	(5)
Closing balance at the end of the period	**192**	**283**	**475**	204	335	539

Coverage by collectively assessed impairment

	Quarter ended	
	31 March 2013 %	31 December 2012 %
As a percentage of total loans with customers (gross of allowances for credit losses)	**0.61**	0.65
As a percentage of risk-weighted assets	**0.78**	0.81

Liquidity and funding risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or will have to obtain such resources at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk, a form of liquidity risk, arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Liquid assets

The bank's liquid assets are classified according to their liquidity value. Federal government and provincial government, including government guaranteed, debt qualify as Level 1 or Level 2. High quality foreign government debt and certain other debt issuers may also be counted towards the bank's liquid assets under prescribed policies. All assets within the liquid asset portfolio are unencumbered.

The estimated value of the bank's aggregate liquid assets are shown in the table below.

	At 31 March 2013 $m	At 31 December 2012 $m
Level 1	**15,579**	15,955
Level 2	**3,784**	3,280
	19,363	19,235

Management's Discussion and Analysis (continued)

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios.

Value at Risk ('VaR')

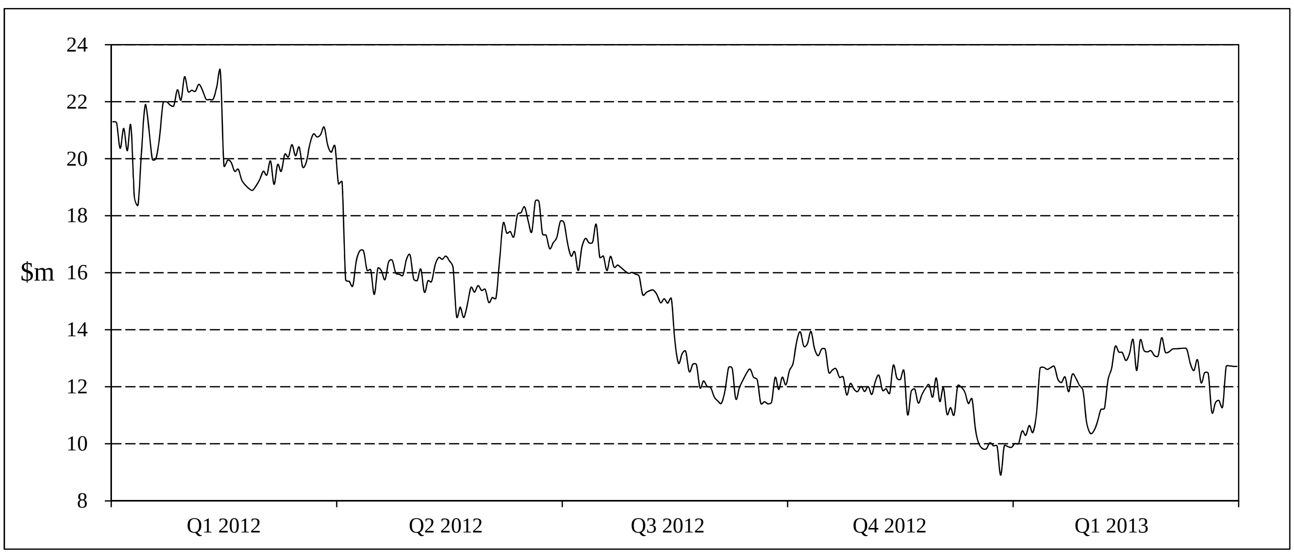
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Refer to the 'Market Risk' section of our Annual Report and Accounts 2012 for more information relating to the calculation of VaR.

In 2010, the HSBC Group's policy regarding the VaR calculation was expanded to include Idiosyncratic Credit VaR ('ICVaR') from trading positions. ICVaR captures the residual market risk of a specific issuer that is not captured in the historical simulation credit VaR. Commencing with this interim report, the bank has included ICVaR within the VaR information presented in the table and graph below.

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 2013 $m	31 December 2012 $m
End of quarter	**13**	10
Average	**12**	12
Minimum	**10**	9
Maximum	**14**	14

Daily VaR



Management's Discussion and Analysis (continued)

Area of special interest: Exposures to Europe

The bank's exposure to Europe and in particular the eurozone remains within the bank's overall risk appetite. Exposures to the eurozone decreased by $40m compared to the position at 31 December 2012 due to a decline of $86m in exposures with core and other eurozone countries partially offset by a growth of $46m in exposures with peripheral countries. The increase in exposures with peripheral countries was primarily due to a growth of $45m in financial institution exposures with Spain, of which $32m is held with other HSBC Group affiliates. Exposures to other European countries outside of the eurozone increased by $181m mainly as a result of increases of $203m and $60m of financial institutions exposures with the United Kingdom and Sweden respectively, partially offset by a decrease of $82m in exposures with Switzerland.

Exposures to eurozone countries

	At 31 March 2013				At 31 December 2012			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Core countries								
Germany	**–**	**313**	**–**	**313**	–	326	–	326
France	**–**	**172**	**200**	**372**	–	316	156	472
Total core countries	**–**	**485**	**200**	**685**	–	642	156	798
Peripheral countries								
Italy	**–**	**13**	**–**	**13**	–	12	–	12
Portugal	**–**	**1**	**–**	**1**	–	1	–	1
Spain	**–**	**53**	**–**	**53**	–	8	–	8
Total peripheral countries	**–**	**67**	**–**	**67**	–	21	–	21
Austria	**–**	**1**	**–**	**1**	–	–	–	–
Belgium	**–**	**93**	**–**	**93**	–	98	–	98
Luxembourg	**31**	**–**	**–**	**31**	–	–	–	–
Total	**31**	**646**	**200**	**877**	–	761	156	917

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $3m in Germany, $12m in France and $32m in Spain (31 December 2012: $3m in Germany, $8m in France and $7m in Spain).*

Exposures to other European countries outside of the eurozone

	At 31 March 2013				At 31 December 2012			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Sweden	**–**	**98**	**–**	**98**	–	38	–	38
Switzerland	**38**	**67**	**374**	**479**	75	–	486	561
United Kingdom	**8**	**1,255**	**–**	**1,263**	8	1,052	–	1,060
Total	**46**	**1,420**	**374**	**1,840**	83	1,090	486	1,659

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $1,125m in the United Kingdom (31 December 2012: $928m).*

Management's Discussion and Analysis (continued)

Capital

Effective 1 January 2013, the bank calculates its regulatory capital ratios using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework. Comparative information is presented using guidelines issued by OSFI in accordance with the Basel II capital adequacy framework and therefore is not comparable.

The Basel III capital adequacy framework significantly revises the definitions of regulatory capital and introduces the requirement that all regulatory capital must be able to absorb losses in a failed financial institution. Capital instruments issued prior to adoption, that do not meet the new requirements will be phased out as regulatory capital over a ten year period from 2013 to 2022. In addition, for the purposes of calculating common equity tier 1 capital, certain other regulatory adjustments including those relating to goodwill, intangible assets, pension assets and deferred tax assets will be phased in over a five year period from 2014 to 2018. The framework also emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity to risk-weighted assets ('CET1') ratio. The Basel III rules also call for the implementation of a capital conservation buffer, which could be drawn upon in periods of stress, as well as countercyclical capital buffer.

In guidance issued in December 2012, OSFI requires a minimum ratio of 7.0% for CET1 by the first quarter of 2013, and 8.5% for total tier 1 and 10.5% for total capital by the first quarter of 2014 on an 'all-in' basis. The 'all-in' basis includes all regulatory adjustments that will be required by 2018, however retaining the phase out of non-qualifying capital instruments.

Regulatory capital

The bank's regulatory capital and risk-weighted assets are as follows:

	Basel III All-in 31 March 2013 $m	Basel II 31 December 2012 $m
Common equity tier 1 capital	**4,001**	N/A
Additional tier 1 capital	**1,031**	N/A
Tier 1 capital	**5,032**	5,053
Tier 2 capital	**703**	823
Total capital available for regulatory purposes	**5,735**	5,876
Total risk-weighted assets	**36,171**	36,668

Regulatory capital ratios

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2013.

The bank's actual regulatory capital ratios and capital limits are as follows:

	Basel III All-in 31 March 2013	Basel II 31 December 2012
Actual regulatory capital ratios		
Common equity tier 1 capital	**11.1%**	N/A
Tier 1 capital	**13.9%**	13.8%
Total capital	**15.9%**	16.0%
Actual assets-to-capital multiple	**14.1x**	13.1x
Required regulatory capital limits		
Common equity tier 1 capital ratio	**7.0%**	N/A
Minimum Tier 1 capital (1)	**8.5%**	7.0%
Minimum Total capital (1)	**10.5%**	10.0%
Maximum assets-to-capital multiple	**20.0x**	20.0x

1 *Limits are effective from 1 January 2014.*

First Quarter 2013 Financial Statements and Notes (Unaudited)

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Financial Statements (Unaudited)

Notes on the Financial Statements (Unaudited)

Financial Statements (Unaudited)

Consolidated income statement (Unaudited)

	Notes	Quarter ended 31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Interest income		**517**	586	534
Interest expense		**(181)**	(188)	(186)
Net interest income		**336**	398	348
Fee income		**166**	168	178
Fee expense		**(20)**	(25)	(24)
Net fee income		**146**	143	154
Trading income excluding net interest income		**47**	32	34
Net interest income on trading activities		**10**	8	11
Net trading income		**57**	40	45
Net expense from financial instruments designated at fair value		**(3)**	(14)	(3)
Gains less losses from financial investments		**35**	17	4
Other operating income/(expense)		**13**	13	(26)
Gain on sale of full service retail brokerage business		**–**	84	4
Net operating income before loan impairment charges and other credit risk provisions		**584**	681	526
Loan impairment charges and other credit risk provisions		**(56)**	(48)	(33)
Net operating income		**528**	633	493
Employee compensation and benefits	*3*	**(156)**	(191)	(153)
General and administrative expenses		**(95)**	(105)	(109)
Depreciation of property, plant and equipment		**(9)**	(9)	(8)
Amortization and impairment of intangible assets		**(3)**	(3)	(8)
Restructuring charges		**–**	(36)	–
Total operating expenses		**(263)**	(344)	(278)
Operating profit		**265**	289	215
Share of profit in associates		**4**	1	3
Profit before income tax expense		**269**	290	218
Income tax expense		**(80)**	(71)	(64)
Profit for the period		**189**	219	154
Profit attributable to common shareholder		**171**	201	137
Profit attributable to preferred shareholders		**15**	15	15
Profit attributable to shareholders		**186**	216	152
Profit attributable to non-controlling interests		**3**	3	2
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668
Basic earnings per common share		**$ 0.34**	$ 0.40	$ 0.27

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of comprehensive income (Unaudited)

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Profit for the period	**189**	219	154
Other comprehensive income			
Available-for-sale investments [1]	**(3)**	(17)	(33)
– fair value gains/(losses)	**33**	(11)	(56)
– fair value gains transferred to income statement on disposal	**(35)**	(17)	(4)
– income taxes	**(1)**	11	27
Cash flow hedges [1]	**(2)**	(106)	(32)
– fair value gains/(losses)	**121**	(107)	82
– fair value gains/(losses) transferred to income statement	**(124)**	(43)	(125)
– income taxes	**1**	44	11
Actuarial losses on defined benefit plans [2]	**(4)**	(27)	25
– before income taxes	**(5)**	(36)	34
– income taxes	**1**	9	(9)
Other comprehensive expense for the period, net of tax	**(9)**	(150)	(40)
Total comprehensive income for the period	**180**	69	114
Total comprehensive income for the period attributable to:			
– shareholders	**177**	66	112
– non-controlling interests	**3**	3	2
	180	69	114

(1) Other comprehensive income items that can be reclassified into income.
(2) Other comprehensive income items that cannot be reclassified into income.

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of financial position (Unaudited)

	Notes	**31 March 2013 $m**	31 March 2012 $m	31 December 2012 $m
ASSETS				
Cash and balances at central bank		**62**	141	56
Items in the course of collection from other banks		**135**	127	90
Trading assets	*4*	**6,975**	5,751	5,272
Derivatives	*5*	**1,918**	1,963	1,810
Loans and advances to banks		**2,742**	1,546	1,480
Loans and advances to customers		**46,003**	45,395	45,572
Financial investments	*6*	**19,972**	20,350	20,410
Other assets		**1,049**	661	911
Prepayments and accrued income		**227**	237	165
Customers' liability under acceptances		**5,092**	4,356	4,737
Property, plant and equipment		**138**	120	140
Goodwill and intangible assets		**71**	75	71
Total assets		**84,384**	80,722	80,714
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**2,230**	1,439	2,173
Customer accounts		**48,184**	47,037	48,304
Items in the course of transmission to other banks		**69**	396	71
Trading liabilities	*7*	**4,027**	3,061	2,672
Financial liabilities designated at fair value	*8*	**438**	1,002	436
Derivatives	*5*	**1,438**	1,511	1,415
Debt securities in issue		**13,720**	14,006	11,980
Other liabilities		**2,588**	1,558	2,389
Acceptances		**5,092**	4,356	4,737
Accruals and deferred income		**516**	540	528
Retirement benefit liabilities		**308**	304	309
Subordinated liabilities		**326**	324	324
Total liabilities		**78,936**	75,534	75,338
Equity				
Common shares		**1,225**	1,225	1,225
Preferred shares		**946**	946	946
Other reserves		**276**	317	281
Retained earnings		**2,771**	2,470	2,694
Total shareholders' equity		**5,218**	4,958	5,146
Non-controlling interests		**230**	230	230
Total equity		**5,448**	5,188	5,376
Total equity and liabilities		**84,384**	80,722	80,714

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of cash flows (Unaudited)

		Quarter ended		
		31 March 2013	31 March 2012	31 December 2012
	Notes	**$m**	$m	$m
Cash flows from operating activities				
Profit before tax		**269**	290	218
Adjustments for:				
– non-cash items included in profit before tax	*9*	**74**	(12)	42
– change in operating assets	*9*	**(1,585)**	(2,236)	1,066
– change in operating liabilities	*9*	**2,218**	723	(2,412)
– tax paid, net		**(89)**	(306)	(2)
Net cash from/(used in) operating activities		**887**	(1,541)	(1,088)
Cash flows from investing activities				
Purchase of financial investments		**(4,960)**	(7,415)	(1,100)
Proceeds from the sale and maturity of financial investments		**5,396**	6,217	2,228
Net cash flows from the sale of full service retail brokerage business		**–**	(116)	–
Purchase of property, plant and equipment		**(10)**	(14)	(10)
Purchase of intangible assets		**–**	(2)	(5)
Net cash from/(used in) investing activities		**426**	(1,330)	1,113
Cash flows from financing activities				
Dividends paid to shareholders		**(105)**	(98)	(97)
Distributions to non-controlling interests		**(3)**	(3)	(2)
Net cash used in financing activities		**(108)**	(101)	(99)
Net increase/(decrease) in cash and cash equivalents		**1,205**	(2,972)	(74)
Cash and cash equivalents at the beginning of the period		**1,753**	4,877	1,827
Cash and cash equivalents at the end of the period	*9*	**2,958**	1,905	1,753

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the quarter ended 31 March 2013 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings [1] $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	2,694	121	160	281	5,146	230	5,376
Profit for the period	–	186	–	–	–	186	3	189
Other comprehensive income (net of tax)	–	(4)	(3)	(2)	(5)	(9)	–	(9)
Available-for-sale investments	–	–	(3)	–	(3)	(3)	–	(3)
Cash flow hedges	–	–	–	(2)	(2)	(2)	–	(2)
Actuarial losses on defined benefit plans	–	(4)	–	–	–	(4)	–	(4)
Total comprehensive income for the period	–	182	(3)	(2)	(5)	177	3	180
Dividends paid on common shares	–	(90)	–	–	–	(90)	–	(90)
Dividends paid on preferred shares	–	(15)	–	–	–	(15)	–	(15)
Distributions to unit holders	–	–	–	–	–	–	(3)	(3)
At 31 March	2,171	2,771	118	158	276	5,218	230	5,448

(1) Retained earnings at 1 January 2013 restated (see Note 2).

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 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 [1] $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	2,379	138	301	439	4,989	230	5,219
Profit for the period	–	216	–	–	–	216	3	219
Other comprehensive income (net of tax)	–	(27)	(16)	(106)	(122)	(150)	–	(149)
Available-for-sale investments	–	–	(16)	–	(16)	(17)	–	(16)
Cash flow hedges	–	–	–	(106)	(106)	(106)	–	(106)
Actuarial losses on defined benefit plans	–	(27)	–	–	–	(27)	–	(27)
Total comprehensive income for the period	–	189	(16)	(106)	(122)	66	3	70
Dividends paid on common shares	–	(83)	–	–	–	(83)	–	(83)
Dividends paid on preferred shares	–	(15)	–	–	–	(15)	–	(15)
Distributions to unit holders	–	–	–	–	–	–	(3)	(3)
At 31 March	2,171	2,470	122	195	317	4,957	230	5,188

(1) Retained earnings at 1 January 2012 restated (see Note 2).

The accompanying notes on pages 29 to 41 and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis on pages 16 to 21 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 interim financial statements should be read in conjunction with the bank's 2012 annual consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards ('IFRS') and Section 308 (4) of the Bank Act.

The interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting'.

(b) Presentation of information

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

(ii) In the first quarter of 2013, the bank adopted a revised disclosure convention for the presentation of impaired loans and advances which affects the disclosure of the impaired loan portfolio. The revised disclosure convention introduces a more stringent approach to the assessment of whether renegotiated loans are presented as impaired. This reflects HSBC Group standards and developments in industry best practice disclosure.

Under the revised disclosure convention, renegotiated consumer finance loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment, are included as impaired loans and advances. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Management believes that this revised approach better reflects the nature of risks and inherent credit quality in our loan portfolio as it applies stricter requirements for the performance of renegotiated loans before they may be presented as no longer impaired. The revised disclosure convention affects the disclosure presentation of impaired loans but does not affect the accounting policy for the recognition of impairment allowances as disclosed in Note 2(f) on pages 74 to 76 of the bank's 2012 Annual Report and Accounts and accordingly there is no impact on the income statement.

For the current period, impaired loan data as disclosed under the section "Credit Quality of Financial Assets" within Management's Discussion and Analysis" on page 17 reflects the revised impaired loans disclosure convention. The largest presentation difference is the balance of impaired loans relating to the Consumer Finance business which was $164m at 31 March 2013 (31 December 2012: $191m; 31 March 2012: $260m).

(iii) As a result of changing market practices in response to regulatory and accounting changes, as well as general market developments, the bank revised its methodology for estimating the credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for derivatives from 1 January 2013. Previously, the probability of default ('PD') used in the CVA calculation was based on the bank's internal credit rating for the counterparty taking into account how credit ratings may deteriorate over the duration of the exposure based on historical rating transition matrices. The revised methodology maximizes the use of the PDs based on market-observable data, such as credit default swap ('CDS') spreads. Where CDS spreads are not available, PDs are estimated having regard to market practice, considering relevant data including both CDS indices and historical rating transition matrices. In addition, the bank aligned its methodology for estimating the debit valuation adjustment ('DVA') to be consistent with that applied for CVA. Historically, the bank considered that a zero spread was appropriate in respect of own credit risk and consequently did not adjust derivative liabilities for its own credit risk.

Notes on the Financial Statements (Unaudited) (continued)

(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 73 to 76 in Note 2 of the bank's 2012 Annual Report and Accounts.

(d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 31 March 2013. The method adopted by the bank to consolidate its subsidiaries is described on page 70 in Note 1(d) of the 2012 Annual Report and Accounts.

(e) Future accounting developments

Future accounting developments have been disclosed in Note 1(f) on the consolidated financial statements of the bank's 2012 Annual Report and Accounts.

2 Summary of significant and critical accounting policies

Except as set out below, there have been no significant changes to the accounting policies of the bank from those as disclosed on pages 72 to 84 in Note 2 of the 2012 Annual Report and Accounts.

(a) IAS 19 – Employee Benefits

Effective 1 January 2013, the bank adopted *IAS 19 'Employee Benefits'* ('IAS 19 revised'), which was applied retrospectively. The most significant impact for the bank is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement is presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate. However, there is no impact on plan assets as the difference between the estimated and the actual return on plan assets is recorded through the statement of other comprehensive income. There is no material impact on plan liabilities.

In addition, unvested amounts related to past service events are no longer amortized and recognized in the income statement over the vesting period, but recognized in full on the date of the past service event as a charge or a credit to income.

The estimated effect of the adoption of this standard is an increase in total operating expenses for fiscal 2013 of approximately $10m annually. In addition, as the standard is to be applied retrospectively, there is an increase in retained earnings on 1 January 2013 of $14m, net of income taxes, relating to past service gains recorded in previous years that were previously deferred and not yet recognized as a reduction of costs. The financial statements for 2012 have been restated through an adjustment to increase retained earnings at 1 January 2012 of $16m, net of taxes, an increase of costs for 2012 of $9m (approximately $2m per quarter) and an increase in other comprehensive income of $7m ($5m after tax).

The impact on retained earnings is as follows:

Retained earnings as at 1 January

	2013	2012
	$m	$m
Retained earnings as previously reported	**2,680**	2,363
Change in accounting policy	**14**	16
Retained earning as restated	**2,694**	2,379

Notes on the Financial Statements (Unaudited) (continued)

(b) IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities

Effective 1 January 2013, the bank adopted *IFRS 10 'Consolidated Financial Statements'* ('IFRS 10') and IFRS 12 '*Disclosure of Interests in Other Entities*' ('IFRS 12'), which were applied retrospectively. Under IFRS 10, there is one approach for determining if an investor controls an investee for all entities, based on the concept of power, variability of returns and their linkage. This replaced the previous approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities.

The bank determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, there was no impact on the bank's consolidated financial statements.

(c) IFRS 13 – Fair Value Measurement

Effective 1 January 2013, the bank adopted *IFRS 13 'Fair Value Measurement*' ('IFRS 13'), which was applied prospectively. IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The adoption of IFRS 13 did not have any impact on the bank's reported financial results or financial position. However, there were certain new and revised disclosures as set out in Note 13.

(d) IAS 1 – Presentation of Financial Statements

Effective 1 January 2013, the bank adopted changes to *IAS 1 'Presentation of Financial Statements'* ('IAS 1') relating to the presentation of items of other comprehensive income, which was applied retrospectively.

As a result of the adoption of changes within IAS 1, items presented within the consolidated statement of comprehensive income are grouped into items that can or cannot be reclassified into income.

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 2013 $m	31 March 2012 $m	31 December 2012 $m
Pension plans - defined benefit	**5**	5	1
Pension plans - defined contribution	**7**	11	11
Healthcare and other post-employment benefit plans	**3**	2	3
	15	18	15

As stated in Note 2 above, the defined benefit component has been restated to reflect the adoption of IAS 19 revised. 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.

Notes on the Financial Statements (Unaudited) (continued)

4 Trading assets

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Trading assets:			
which may be repledged or resold by counterparties	**1,602**	571	1,149
not subject to repledge or resale by counterparties	**5,373**	5,180	4,123
	6,975	5,751	5,272
Canadian and Provincial Government bonds (1)	**2,600**	1,622	1,753
Debt securities	**284**	343	339
Total debt securities	**2,884**	1,965	2,092
Bankers acceptances	**2,582**	2,157	2,590
Customer trading assets	**1,202**	1,186	262
Treasury and other eligible bills	**274**	405	308
Equity securities	**33**	38	20
	6,975	5,751	5,272

(1) Includes government guaranteed bonds.

5 Derivatives

For a detailed description of the type and use of derivatives by the bank, please refer to the bank's accounting policies disclosed on pages 72 to 84 in Note 2, and Note 11 on pages 101 to 107 of the bank's 2012 Annual Report and Accounts.

Fair values of derivatives by product contract type held:

	At 31 March 2013					
	Assets			**Liabilities**		
	Trading $m	**Hedging $m**	**Total $m**	**Trading $m**	**Hedging $m**	**Total $m**
Foreign exchange	**871**	**258**	**1,129**	**826**	**5**	**831**
Interest rate	**493**	**268**	**761**	**443**	**136**	**579**
Commodity	**28**	**–**	**28**	**28**	**–**	**28**
Gross total fair values	**1,392**	**526**	**1,918**	**1,297**	**141**	**1,438**

	At 31 March 2012					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $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 December 2012					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	756	182	938	693	10	703
Interest rate	530	282	812	484	168	652
Commodity	60	–	60	60	–	60
Gross total fair values	1,346	464	1,810	1,237	178	1,415

Notes on the Financial Statements (Unaudited) (continued)

Trading derivatives

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

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Foreign exchange	**69,769**	52,605	65,583
Interest rate	**30,713**	31,641	35,510
Commodity	**297**	473	561
Total derivatives	**100,779**	84,719	101,654

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

Hedging instruments

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

	At 31 March 2013		At 31 March 2012		At 31 December 2012	
	Cash flow hedge $m	**Fair value hedge $m**	Cash flow hedge $m	Fair value hedge $m	Cash flow hedge $m	Fair value hedge $m
Foreign exchange	**2,369**	**–**	1,919	–	2,300	–
Interest rate	**22,005**	**5,546**	23,800	3,770	22,561	4,294
Total derivatives	**24,374**	**5,546**	25,719	3,770	24,861	4,294

Fair value of derivatives designated as fair value hedges

	At 31 March 2013		At 31 March 2012		At 31 December 2012	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate	**15**	**73**	15	71	8	94

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

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Gains/(losses)			
On hedging instruments	**14**	43	(16)
On hedged items attributable to the hedged risk	**(13)**	(43)	17

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 2013		At 31 March 2012		At 31 December 2012	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange	**258**	**5**	114	–	182	10
Interest rate	**253**	**62**	351	89	273	75

Notes on the Financial Statements (Unaudited) (continued)

6 Financial investments

Financial investments consist of the following:

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Financial investments			
Not subject to repledge or resale by counterparties	**19,498**	20,168	19,661
Which may be subject to repledge or resale by counterparties	**474**	182	749
	19,972	20,350	20,410
Available-for-sale			
Canadian and Provincial Government bonds [1]	**13,911**	13,130	13,429
International Government bonds [1]	**2,555**	3,217	2,999
Treasury bills and other eligible bills	**2,007**	2,351	2,308
Debt securities issued by banks and other financial institutions	**1,494**	1,626	1,666
Other debt securities	**5**	26	8
	19,972	20,350	20,410

(1) Includes government guaranteed bonds.

7 Trading liabilities

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Other liabilities – net short positions	**2,226**	1,267	1,644
Customer trading liabilities	**1,548**	1,370	916
Trading liabilities due to other banks	**207**	346	55
Other debt securities in issue	**46**	78	57
	4,027	3,061	2,672

8 Financial liabilities designated at fair value

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Debt securities in issue	**–**	575	–
Subordinated debentures	**438**	427	436
	438	1,002	436

The carrying amount at 31 March 2013 of financial liabilities designated at fair value was $38m higher (31 March 2012: $34m higher; 31 December 2012: $36m higher) than the contractual amount at maturity. At 31 March 2013, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of $4m (31 March 2012: $19m gain; 31 December 2012: $7m gain).

Notes on the Financial Statements (Unaudited) (continued)

9 Notes on the statement of cash flows

	Quarter ended		
	31 March 2013	31 March 2012	31 December 2012
	$m	$m	$m
Non-cash items included in profit before tax			
Gain on sale of full-service retail brokerage business	**–**	(84)	(4)
Depreciation and amortization	**9**	15	10
Share based payment expense	**4**	4	2
Loan impairment charges and other credit risk provisions	**56**	48	33
Charge for defined benefit plans	**5**	5	1
	74	(12)	42
Change in operating assets			
Change in prepayment and accrued income	**(62)**	(17)	97
Change in net trading securities and net derivatives	**(543)**	(715)	253
Change in loans and advances to customers	**(487)**	(1,086)	704
Change in other assets	**(493)**	(418)	12
	(1,585)	(2,236)	1,066
Change in operating liabilities			
Change in accruals and deferred income	**(12)**	(21)	(63)
Change in deposits by banks	**57**	110	(186)
Change in customer accounts	**(120)**	423	591
Change in debt securities in issue	**1,740**	679	(2,084)
Change in financial liabilities designated at fair value	**2**	(4)	(564)
Change in other liabilities	**551**	(464)	(106)
	2,218	723	(2,412)
Cash and cash equivalents			
Cash and balances at central bank	**62**	141	56
Items in the course of collection from/(to) other banks, net	**66**	(269)	19
Loans and advances to banks of one month or less	**2,742**	1,546	1,480
T-Bills and certificates of deposits – three months or less	**88**	487	198
	2,958	1,905	1,753
Interest			
Interest paid	**122**	147	282
Interest received	**457**	582	622

Notes on the Financial Statements (Unaudited) (continued)

10 Contingent liabilities, contractual commitments and guarantees

	At 31 March 2013 $m	At 31 March 2012 $m	At 31 December 2012 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**3,379**	2,762	3,083
Commitments			
Documentary credits and short-term trade-related transactions	**628**	547	627
Undrawn formal standby facilities, credit lines and other commitments to lend [1]	**35,299**	36,683	36,291
	35,927	37,230	36,918

(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. Information on each business line is included in Management's Discussion and Analysis and pages 95 to 96 of the 2012 Annual Report and Accounts. 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.

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Retail Banking and Wealth Management			
Net interest income	**89**	105	82
Net fee income	**43**	42	44
Net trading income	**4**	3	3
Other operating income	**3**	2	4
Gain on sale of full-service retail brokerage business	**–**	76	4
Net operating income before loan impairment charges and other credit risk provisions	**139**	228	137
Loan impairment charges and other credit risk provisions	**(7)**	(6)	(8)
Net operating income	**132**	222	129
Total operating expenses (excluding restructuring charges)	**(118)**	(128)	(126)
Restructuring charges	**–**	(2)	–
Profit before income tax expense	**14**	92	3

Notes on the Financial Statements (Unaudited) (continued)

	Quarter ended		
	31 March 2013	31 March 2012	31 December 2012
	$m	$m	$m
Commercial Banking			
Net interest income	**161**	180	177
Net fee income	**75**	71	77
Net trading income	**8**	8	6
Other operating income/(expense)	**2**	5	(40)
Net operating income before loan impairment charges and other credit risk provisions	**246**	264	220
Loan impairment charges and other credit risk provisions	**(39)**	(11)	(6)
Net operating income	**207**	253	214
Total operating expenses	**(88)**	(97)	(97)
Operating profit	**119**	156	117
Share of profit in associates	**4**	1	3
Profit before income tax expense	**123**	157	120
Global Banking and Markets			
Net interest income	**42**	46	40
Net fee income	**18**	19	24
Net trading income	**37**	22	28
Gains less losses from financial investments	**33**	17	3
Other operating income/(expense)	**–**	(1)	1
Gain on sale of full service retail brokerage business	**–**	8	–
Net operating income before loan impairment charges and other credit risk provisions	**130**	111	96
Loan impairment charges and other credit risk provisions	**2**	–	–
Net operating income	**132**	111	96
Total operating expenses	**(29)**	(25)	(27)
Profit before income tax expense	**103**	86	69
Consumer Finance			
Net interest income	**52**	73	57
Net fee income	**10**	11	9
Gain on sale of full service retail brokerage business	**2**	–	1
Other operating income	**1**	2	1
Net operating income before loan impairment charges and other credit risk provisions	**65**	86	68
Loan impairment charges and other credit risk provisions	**(12)**	(31)	(19)
Net operating income	**53**	55	49
Total operating expenses (excluding restructuring charges)	**(18)**	(38)	(19)
Restructuring charges	**–**	(34)	–
Profit/(loss) before income tax expense	**35**	(17)	30
Other			
Net interest income	**(8)**	(6)	(8)
Net trading income	**8**	7	8
Net expense from financial instruments designated at fair value	**(3)**	(14)	(3)
Other operating income	**7**	5	8
Net operating income/(expense)	**4**	(8)	5
Total operating expenses	**(10)**	(20)	(9)
Loss before income tax expense	**(6)**	(28)	(4)

Notes on the Financial Statements (Unaudited) (continued)

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

	Retail Banking and Wealth Management $m	**Commercial Banking $m**	**Global Banking and Markets $m**	**Consumer Finance $m**	**Other $m**	**Total $m**
Quarter ended 31 March 2013						
Net operating income:	**132**	**207**	**132**	**53**	**4**	**528**
External	**161**	**205**	**105**	**53**	**4**	**528**
Inter-segment	**(29)**	**2**	**27**	**–**	**–**	**–**
Quarter ended 31 March 2012						
Net operating income:	222	253	111	55	(8)	633
External	254	237	95	55	(8)	633
Inter-segment	(32)	16	16	–	–	–
Quarter ended 31 December 2012						
Net operating income:	129	214	96	49	5	493
External	170	201	66	51	5	493
Inter-segment	(41)	13	30	(2)	–	–

Statement of financial position information

	Retail Banking and Wealth Management $m	**Commercial Banking $m**	**Global Banking and Markets $m**	**Consumer Finance $m**	**Other $m**	**Total $m**
At 31 March 2013						
Loans and advances to customers (net)	**23,352**	**16,359**	**6,234**	**1,422**	**(1,364)**	**46,003**
Customers' liability under acceptances	**–**	**4,503**	**589**	**–**	**–**	**5,092**
Total assets	**24,265**	**21,682**	**37,994**	**1,833**	**(1,390)**	**84,384**
Customer accounts	**20,746**	**19,548**	**7,909**	**1**	**(20)**	**48,184**
Acceptances	**–**	**4,503**	**589**	**–**	**–**	**5,092**
Total liabilities	**24,077**	**24,514**	**29,825**	**1,360**	**(840)**	**78,936**
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	23,384	23,098	28,415	2,106	(1,469)	75,534
At 31 December 2012						
Loans and advances to customers (net)	23,755	16,367	5,411	1,497	(1,458)	45,572
Customers' liability under acceptances	–	3,982	755	–	–	4,737
Total assets	24,467	21,055	34,768	2,045	(1,621)	80,714
Customer accounts	20,225	20,291	7,818	1	(31)	48,304
Acceptances	–	3,982	755	–	–	4,737
Total liabilities	23,520	24,735	26,553	1,599	(1,069)	75,338

Notes on the Financial Statements (Unaudited) (continued)

12 Related party transactions

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

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

	Quarter ended		
	31 March 2013 $m	31 March 2012 $m	31 December 2012 $m
Income Statement			
Interest income	**9**	3	2
Interest expense	**(15)**	(18)	(18)
Fee income	**–**	(3)	–
Fee expense	**(3)**	(8)	(3)
Other operating income	**24**	22	22
General and administrative expenses	**(11)**	(12)	(13)

Balances due to/from the bank and HSBC Group affiliates in Europe are included in "Exposures to Europe" within Management's Discussion and Analysis on page 20. Other balances have not changed materially compared with those shown in the bank's 2012 Annual Report and Accounts.

13 Fair values of financial instruments

Control framework

As reported in Note 2 above, the bank adopted IFRS 13 effective 1 January 2013. Although this standard provided an updated definition of fair value, the bank existing methodology had already adopted the principles included in the revised standard. Accordingly, there was no change in recorded profit or assets and liabilities arising from the adoption.

Bases of valuing assets and liabilities measured at fair value

The table below provides an analysis of the fair value hierarchy which has been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements.

	Valuation techniques			
	Level 1 Quoted market price $m	**Level 2 Observable inputs $m**	**Level 3 Significant unobservable inputs $m**	**Total $m**
At 31 March 2013				
Assets				
Trading assets	**4,103**	**2,872**	**–**	**6,975**
Derivatives	**–**	**1,871**	**47**	**1,918**
Financial investments: available-for-sale	**17,411**	**2,556**	**5**	**19,972**
Liabilities				
Trading liabilities	**3,484**	**477**	**66**	**4,027**
Financial liabilities at fair value	**–**	**438**	**–**	**438**
Derivatives	**–**	**1,391**	**47**	**1,438**

Notes on the Financial Statements (Unaudited) (continued)

Non-financial assets measured at fair value include pension plan assets. The majority of the valuation of pension plan assets pertains to Level 1 with an insignificant amount in Level 2 or Level 3. Pension plan assets are recorded of a value of $438m as of 31 March 2013 which have reduced the net pension obligation included in retirement benefit liabilities. There are no non-financial liabilities measured at fair value.

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

	Assets			Liabilities		
	Available-for-sale $m	**Held for trading $m**	**Derivatives $m**	**Held for trading $m**	**Designated at fair value $m**	**Derivatives $m**
At 1 January 2013	**9**	–	**5**	**49**	–	**7**
Total gains or losses recognized in profit or loss	**2**	**–**	**42**	**2**	**–**	**40**
Issues	**–**	**–**	**–**	**15**	**–**	**–**
Settlements	**(6)**	**–**	**–**	**–**	**–**	**–**
Transfer out	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2013	**5**	**–**	**47**	**66**	**–**	**47**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**–**	–	**42**	**2**	–	**40**

During the first quarter in 2013, there were no significant transfers between Level 1 and 2.

For assets and liabilities classified as held for trading, realized and unrealized gains and losses are presented in the income statement under ‘Trading income excluding net interest income’. Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under ‘Changes in fair value of long-term debt issued and related derivatives’. The income statement line item ‘Net income from financial instruments designated at fair value’ captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realized gains and losses from available-for-sale securities are presented under ‘Gains less losses from financial investments’ in the income statement while unrealized gains and losses are presented in ‘Fair value gains’ taken to equity within ‘Available-for-sale investments’ in other comprehensive income.

Fair values of financial instruments not carried at fair value

Fair values at the balance sheet date of the assets and liabilities set out below are estimated for the purpose of disclosure at follows:

(i) Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by maturity and coupon rates. In general, contractual cash flows are discounted using the bank’s estimate of the discount rate that a market participant would use in valuing instruments with similar maturity, repricing and credit risk characteristics.

The fair value of a loan portfolio reflects both loan impairments at the reporting date and estimates of market participants’ expectations of credit losses over the life of the loans. For impaired loans, fair value is estimated by discounting the future cash flows over the time period in which they are expected to be recovered.

(ii) Deposits by banks and customer accounts

For the purposes of estimating fair value, deposits by banks and customer accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of

Notes on the Financial Statements (Unaudited) (continued)

similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date.

(iii) Debt securities in issue and subordinated liabilities
Fair values are determined using quoted market prices at the reporting date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured.

For all classes of financial instruments, fair value represents the product of the value of a single instrument, multiplied by the number of instruments held.

The following table lists financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets	**Liabilities**
Cash and balances at central bank	Items in the course of transmission to other banks
Items in the course of collection from other banks	Acceptances
Customers' liability under acceptances	Short-term payables within 'Other liabilities'
Short-term receivables within 'Other assets'	Accrued liabilities
Accrued income	

Fair values of financial instruments which are not carried at fair value on the statement of financial position

	31 March 2013	
	Carrying amount $m	**Fair value $m**
Assets		
Loans and advances to banks	**2,742**	**2,742**
Loans and advances to customers	**46,003**	**46,158**
Liabilities		
Deposits by banks	**2,230**	**2,230**
Customer accounts	**48,184**	**48,307**
Debt securities in issue	**13,720**	**13,984**
Subordinated liabilities	**326**	**298**

The fair values of financial instruments have been classified using Level 3 fair value hierarchy. Further discussion of the bank's liquidity and funding management can be found in the audited sections of 'Risk management' within Management's Discussion and Analysis on pages 31 to 60 of the 2012 Annual Report and Accounts.

14 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 2013 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 8 May 2013 and authorized for issue.