HSBC Bank Canada

First Quarter 2014 Interim Report

HSBC

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Corporate profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. The HSBC Group serves customers worldwide from over 6,300 offices in over 75 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,758bn at 31 March 2014, HSBC is one of the world's largest banking and financial services organizations.

Headlines

- Profit before income tax expense for the quarter ended 31 March 2014 was $233m, a decrease of 13.4% compared with the same period in 2013 and broadly unchanged compared with the fourth quarter of 2013.
- Profit attributable to common shareholders was $160m for the quarter ended 31 March 2014, a decrease of 6.4% compared with the same period in 2013.
- Return on average common equity was 15.0% for the quarter ended 31 March 2014 compared with 16.3% for the same period in 2013.
- The cost efficiency ratio was 51.9% for the quarter ended 31 March 2014 compared with 45.0% for the same period in 2013.
- Total assets were $84.3bn at 31 March 2014 compared with $84.4bn at 31 March 2013.
- Common equity tier 1 capital ratio was 10.8%, tier 1 ratio 12.9% and total capital ratio 14.5% at 31 March 2014 compared with 11.1%, 13.9% and 15.9% respectively at 31 March 2013.

Contents

Management's Discussion and Analysis

Financial summary

(in $ millions, except where otherwise stated)	Quarter ended		
	31 March 2014	31 March 2013	31 December 2013
Financial performance for the period ($m)			
Total operating income	**532**	584	524
Profit before income tax expense	**233**	269	232
Profit attributable to common shareholders	**160**	171	164
Basic earnings per common share ($)	**0.32**	0.34	0.33
Financial position at period-end ($m)			
Loan and advances to customers[1]	**41,208**	42,012	40,524
Customer accounts[1]	**49,456**	47,068	50,926
Ratio of customer advances to customer accounts[2]	**83.3**	89.3	79.6
Shareholders' equity	**4,969**	5,218	4,885
Average total shareholders' equity to average total assets[2]	**5.8**	6.2	6.0
Capital measures			
Common equity tier 1 capital ratio (%)	**10.8**	11.1	11.0
Tier 1 ratio (%)	**12.9**	13.9	13.2
Total capital ratio (%)	**14.5**	15.9	15.0
Assets-to-capital multiple	**15.3**	14.1	15.1
Risk-weighted assets ($m)	**38,466**	36,171	36,862
Performance ratios (%)[2]			
Credit coverage ratios (%)			
Loan impairment charges to total operating income	**4.9**	9.6	7.4
Loan impairment charges to average gross customer advances[3]	**0.3**	0.5	0.4
Total impairment allowances to impaired loans at period-end[3]	**62.0**	50.4	66.4
Return ratios (%)			
Return on average common shareholders' equity	**15.0**	16.3	15.2
Post-tax return on average total assets	**0.76**	0.83	0.76
Pre-tax return on average risk-weighted assets[3]	**2.5**	3.0	2.5
Efficiency and revenue mix ratios (%)			
Cost efficiency ratio	**51.9**	45.0	51.5
Adjusted cost efficiency ratio	**51.7**	44.8	51.3
Net interest income to total operating income	**57.7**	57.5	60.3
Net fee income to total operating income	**29.1**	25.0	28.8
Net trading income to total operating income	**7.3**	9.8	6.5

1 *From 1 January 2014, non-trading reverse repurchase and repurchase agreements are presented as separate lines in the balance sheet. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. Comparative data have been restated accordingly. Refer to the 'Accounting matters' section of this document for further information on this change in presentation.*

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

3 *The measure has been aligned with that in use by the HSBC Group and comparative information has been restated. Refer to the 'Use of non-IFRS financial measures' section of this document for a description of the method in use to calculate the measure.*

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 1 May 2014, the date that our unaudited consolidated financial statements and MD&A for the first quarter of 2014 were approved by the Audit and Risk Committee of 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 2014.

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.

Use of non-IFRS financial measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the Financial Statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS financial measures are used throughout this document and their purposes and definitions are discussed below:

Financial position at period-end

These measures are indicators of the stability of the bank's balance sheet and the degree funds are deployed to fund assets.

Ratio of customer advances to customer accounts is calculated by dividing loans and advances to customers by customer accounts using period-end balances.

Average total shareholders' equity to average total assets is calculated by dividing average total shareholders' equity (determined using month-end balances during the period) with average total assets (determined using month-end balances during the period).

Credit coverage ratios

Credit coverage ratios are useful to management as a measure of the extent of incurred loan impairment charges relative to the bank's performance and size of its customer loan portfolio during the period.

Loan impairment charges to total operating income is calculated as loan impairment charges and other credit provisions, as a percentage of total operating income for the period.

Loan impairment charges to average gross customer advances is calculated as annualized loan impairment charges and other credit provisions for the period, as a percentage of average gross customer advances (determined using month-end balances during the period).

Total impairment allowances to impaired loans at period-end are useful to management to evaluate the coverage of impairment allowances relative to impaired loans using period-end balances.

Return ratios

Return ratios are useful for management to evaluate profitability on equity, assets and risk-weighted assets.

Return on average common equity is calculated as annualized profit attributable to common shareholders for the period, divided by average common equity (determined using month-end balances during the period).

Post-tax return on average total assets is calculated as annualized profit attributable to common shareholders for the period, divided by average assets (determined using average month-end balances during the period).

Pre-tax return on average risk-weighted assets is calculated as annualized profit attributable to common shareholders for the period, divided by average risk-weighted assets (determined using quarter-end balances during the period).

Efficiency ratios

Efficiency ratios are measures of the bank's efficiency in managing its operating expense to generate revenue.

Cost efficiency ratio is calculated as total operating expenses for the period as a percentage of total operating income for the period.

Adjusted cost efficiency ratio is calculated similar to the cost efficiency ratio; however, total operating income for the period excludes gains and losses from financial instruments designated at fair value, as the movement in value of the bank's own subordinated debt issues are primarily driven by changes in market rates and are not under the control of management.

Revenue mix ratio

This measure demonstrates the contribution of each of the primary revenue streams to total operating income.

Net interest income, net fee income and net trading income to total operating income is calculated as net interest income, net fee income and net trading income for the period divided by total operating income for the period.

Financial performance

Condensed consolidated income statement

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net interest income	**307**	336	316
Net fee income	**155**	146	151
Net trading income	**39**	57	34
Net expense from financial instruments designated at fair value	**(2)**	(3)	(2)
Gains less losses from financial investments	**19**	35	6
Other operating income	**14**	13	19
Total operating income	**532**	584	524
Loan impairment charges and other credit risk provisions	**(26)**	(56)	(39)
Net operating income	**506**	528	485
Total operating expenses	**(276)**	(263)	(270)
Operating profit	**230**	265	215
Share of profit in associates	**3**	4	17
Profit before income tax expense	**233**	269	232
Income tax expense	**(61)**	(80)	(50)
Profit for the period	**172**	189	182

Overview

HSBC Bank Canada reported a profit before income tax expense of $233m for the first quarter of 2014, a decrease of $36m, or 13%, compared with the first quarter of 2013 and broadly unchanged compared with the fourth quarter of 2013.

The decrease in profit before income tax expense compared with the same quarter last year was primarily due to lower net interest income from declining loan balances of the run-off consumer finance portfolio, lower net trading income from foreign exchange and rates products, and lower gains less losses from financial investments from balance sheet management activities. This was partially offset by lower loan impairment charges as a result of lower specific allowances for commercial customers.

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

"While broadly unchanged from the fourth quarter of 2013, our profit before tax in the first quarter of 2014 is solid at $233m. I am encouraged to see more customers and prospects taking fuller advantage of the unparalleled global network HSBC offers. Other positive signs of momentum include increased commercial financing activity and strong growth in wealth management. As a priority growth market for HSBC, we will continue to invest and grow the business to help our customers fulfil their dreams and ambitions through our connections to international markets and businesses."

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the first quarter of 2014 was $307m, a decrease of $29m, or 9%, compared with the first quarter of 2013 and a decrease of $9m, or 3%, compared with the fourth quarter of 2013. Net interest income decreased compared with the same quarter last year primarily due to declining loan balances of the run-off consumer finance portfolio as well as a decline in personal lending balances. Net interest income in the prior quarter benefitted from the recovery of interest income on impaired loans that was not repeated in the first quarter of 2014. Further contributing to the decrease of net interest income compared with the prior quarter was declining loan balances of the run-off consumer finance portfolio.

Net fee income

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Credit facilities	**68**	63	64
Funds under management	**37**	33	32
Account services	**19**	20	20
Credit cards	**14**	14	16
Remittances	**8**	8	8
Corporate finance	**8**	5	10
Immigrant Investor Program	**4**	8	6
Brokerage commissions	**3**	4	3
Insurance	**3**	4	3
Trade finance import/export	**2**	3	3
Trustee fees	**1**	1	1
Other	**5**	3	7
Fee income	**172**	166	173
Less: fee expense	**(17)**	(20)	(22)
Net fee income	**155**	146	151

Net fee income for the first quarter of 2014 was $155m, an increase of $9m, or 6%, compared with the first quarter of 2013 and an increase of $4m, or 3%, compared with the fourth quarter of 2013. The increase in net fee income compared with both the same quarter last year and the prior quarter was primarily due to higher standby fees as well as higher fees from growth in funds under management.

Net trading income

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Trading activities	**33**	44	26
Net interest from trading activities	**3**	10	10
Hedge ineffectiveness	**3**	3	(2)
Net trading income	**39**	57	34

Net trading income for the first quarter of 2014 was $39m, a decrease of $18m, or 32% compared with the first quarter of 2013, and an increase of $5m, or 15%, compared with the fourth quarter of 2013. The decrease in net trading income compared with the same quarter last year was mainly due to lower customer spreads related to foreign exchange products and lower trading income generated by rates products. The increase in net trading income compared with the prior quarter was primarily due to trading gains in the hedging portfolios.

Other items of income

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net expense from financial instruments designated at fair value	**(2)**	(3)	(2)
Gains less losses from financial investments	**19**	35	6
Other operating income	**14**	13	19
Other items of income	**31**	45	23

Net expense from financial instruments designated at fair value for the first quarter of 2014 was $2m, marginally lower compared with the first quarter of 2013 and unchanged compared with the fourth quarter of 2013.

Gains less losses from financial investments for the first quarter of 2014 were $19m, a decrease of $16m, or 46%, compared with the first quarter of 2013 and an increase of $13m compared with the fourth quarter of 2013. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities. The variances from comparative periods are primarily as a result of the bank's continuing balance sheet management activities.

Other operating income for the first quarter of 2014 was $14m, marginally higher compared with the first quarter of 2013, and a decrease of $5m, or 26%, compared with the fourth quarter of 2013. The decrease in other operating income compared with the prior quarter was primarily due to a reduction in global support activity resulting in lower income from other entities within the HSBC Group.

Loan impairment charges and other credit risk provisions

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Individually assessed allowances	**15**	40	31
Collectively assessed allowances	**6**	27	15
Loan impairment charges	**21**	67	46
Other credit risk provisions/(reversal of provisions)	**5**	(11)	(7)
Loan impairment charges and other credit risk provisions	**26**	56	39

Loan impairment charges and other credit risk provisions for the first quarter of 2014 were $26m, a decrease of $30m and $13m respectively compared with the first quarter and the fourth quarter of 2013. The decreases in loan impairment charges and other credit risk provisions compared with the first and fourth quarters last year are primarily as a result of lower specific allowances for commercial customers.

Total operating expenses

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Employee compensation and benefits	**159**	156	146
General and administrative expenses	**104**	95	112
Depreciation of property, plant and equipment	**8**	9	9
Amortization and impairment of intangible assets	**5**	3	3
Total operating expenses	**276**	263	270

Total operating expenses for the first quarter of 2014 were $276m, an increase of $13m and $6m respectively compared with the first quarter and the fourth quarter of 2013. The increase in total operating expenses compared with both the first and fourth quarters last year is primarily due to our continued investment in our Regulatory and Financial Crime Compliance function. The first and fourth quarters last year included a reduction of incentive compensation accruals of $7m and $4m respectively.

Management's Discussion and Analysis (continued)

Share of profit in associates

Share of profit in associates for the first quarter of 2014 was $3m, marginally lower compared with the first quarter of 2013, and a decrease of $14m compared with the fourth quarter of 2013. Share of profit in associates was higher in the fourth quarter due to an increase in value of the bank's investment in private equity funds.

Income taxes expense

The effective tax rate in the first quarter of 2014 was 26.5%, compared with 30.0% in the first quarter of 2013 and 21.8% in the fourth quarter of 2013. Income tax expense in the first quarter 2013 was higher due to an increase in the bank's tax provision relating to certain defined benefit pension assets resulting in a higher effective tax rate for the period. Income tax expense in the fourth quarter of 2013 included various decreases in estimates resulting in a lower effective tax rate for the period.

Movement in financial position

Condensed consolidated balance sheet

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
ASSETS			
Trading assets	**5,962**	6,975	6,728
Derivatives	**2,121**	1,918	2,112
Loans and advances to banks	**1,188**	837	1,149
Loans and advances to customers	**41,208**	42,012	40,524
Reverse repurchase agreements – non-trading	**7,748**	5,896	6,161
Financial investments	**19,570**	19,972	21,814
Customer's liability under acceptances	**5,578**	5,092	4,757
Other assets	**956**	1,682	1,015
Total assets	**84,331**	84,384	84,260
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**645**	1,228	635
Customer accounts	**49,456**	47,068	50,926
Repurchase agreements – non-trading	**2,037**	2,119	1,487
Trading liabilities	**5,471**	4,027	4,396
Derivatives	**1,859**	1,438	1,746
Debt securities in issue	**10,320**	13,720	11,348
Acceptances	**5,578**	5,092	4,757
Other liabilities	**3,796**	4,244	3,880
Total liabilities	**79,162**	78,936	79,175
Equity			
Share capital and other reserves	**1,974**	2,447	1,959
Retained earnings	**2,995**	2,771	2,926
Non-controlling interests	**200**	230	200
Total equity	**5,169**	5,448	5,085
Total equity and liabilities	**84,331**	84,384	84,260

Assets

Total assets at 31 March 2014 were $84.3bn, broadly unchanged from 31 December 2013. Assets increased due to higher commercial customer lending which resulted in a $1.5bn growth in loans and advances to customers as well as customers' liability under acceptances. Further contributing to the increase in assets was growth of $1.6bn in reverse repurchase agreements. The increase in assets was broadly offset by a decline of $2.2bn in financial investments driven by balance sheet management activities and $0.8bn in trading positions of government and agency bonds.

Liabilities

Total liabilities at 31 March 2014 were $79.2bn, broadly unchanged from 31 December 2013. The increases of $1.1bn in trading liabilities, $0.8bn in acceptances as well as $0.6bn in repurchase agreements were broadly offset by decreases of $1.5bn in customer accounts and $1.0bn in debt securities in issue.

The growth in trading liabilities was primarily due to higher balances from pending trade settlements and higher holdings of short position securities. The growth in acceptances was primarily due to increased commercial customer lending activity using banker's acceptances. The decrease in customer accounts was primarily as a result of lower commercial account balances. The decrease in debt securities in issue was primarily due to the maturity of wholesale funding during the first quarter of 2014.

Global lines of business

Commercial Banking

Commercial Banking offers a full range of commercial financial services and tailored solutions to customers ranging from small and medium-sized enterprises ('SMEs') to publicly quoted companies.

Review of financial performance

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net interest income	**168**	161	173
Net fee income	**79**	77	82
Net trading income	**6**	8	6
Other operating income	**6**	3	6
Total operating income	**259**	249	267
Loan impairment charges and other credit risk provisions	**(12)**	(39)	(29)
Net operating income	**247**	210	238
Total operating expenses	**(101)**	(90)	(95)
Operating profit	**146**	120	143
Share of profit in associates	**3**	4	17
Profit before income tax expense	**149**	124	160

Overview

Profit before income tax expense was $149m for the first quarter of 2014, an increase of $25m, or 20%, compared with the first quarter of 2013 and a decrease of $11m, or 7%, compared with the fourth quarter of 2013. The increase in profit before income tax compared with the same quarter last year was primarily due to lower specific loan impairment charges and higher net interest income from growth in loan balances. In 2014 the HSBC Group adopted a revised methodology in allocating indirect expenses of support functions to the global lines of business which more accurately reflects the utilization of product support services. The increase in profit before income tax for the first quarter of 2014 compared with the same quarter last year was partially offset by higher total operating expenses primarily as a result of the adoption of the revised methodology. Profit before income tax expense in the fourth quarter of 2013 benefitted from an increase in value of the bank's investment in private equity funds and higher net interest income from the recovery of interest income on impaired loans that was not repeated in the first quarter of 2014. Further contributing to the decrease in profit before income tax expense compared with the fourth quarter of 2013 were higher allocated product support costs as a result of the adoption of the revised methodology, partially offset by lower specific loan impairment charges.

Financial performance by income and expense item

Net interest income for the first quarter of 2014 was $168m, an increase of $7m, or 4% compared with the first quarter of 2013 and a decrease of $5m, or 3%, compared with the fourth quarter of 2013. The increase in net interest income compared with the same quarter last year was primarily due to growth in loan balances. Net interest income in the prior quarter benefitted from the recovery of interest income on impaired loans that was not repeated in the first quarter of 2014.

Net fee income for the first quarter of 2014 was $79m, an increase of $2m, or 3%, compared with the first quarter of 2013 and a decrease of $3m, or 4% compared with the fourth quarter of 2013. Net fee income increased

Management's Discussion and Analysis (continued)

compared with the same quarter last year primarily due to higher standby fees. Net fee income decreased compared with the prior quarter primarily due to lower foreign exchange transaction volume.

Net trading income for the first quarter of 2014 was $6m, marginally lower compared with the first quarter of 2013 and broadly unchanged compared with the fourth quarter of 2013.

Other operating income for the first quarter of 2014 was $6m, an increase of $3m compared with the first quarter of 2013 and unchanged compared with the fourth quarter of 2013. Other operating income in the same quarter last year included operating losses from an investment property that was subsequently disposed of.

Loan impairment charges and other credit risk provisions for the first quarter of 2014 were $12m, a decrease of $27m and $17m respectively compared with the first quarter and the fourth quarter of 2013. The decreases in loan impairment charges and other credit risk provisions compared with the prior quarter and same quarter last year was mainly as a result of lower specific loan impairment charges.

Total operating expenses for the first quarter of 2014 were $101m, an increase of $11m and $6m respectively compared with the first quarter and the fourth quarter of 2013. In 2014, the HSBC Group adopted a revised methodology in allocating indirect expenses of support functions to the global lines of business which more accurately reflects the utilization of product support services. The increase in total operating expenses compared with 2013 was primarily as a result of the adoption of the revised methodology.

Share in profit in associates for the first quarter of 2014 was $3m, marginally lower compared with the first quarter of 2013 and a decrease of $14m compared with the fourth quarter of 2013. Share of profit in associates in the prior quarter benefitted from an increase in value of the bank's investment in private equity funds.

Global Banking and Markets

Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide.

Review of financial performance

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net interest income	**44**	42	40
Net fee income	**24**	18	23
Net trading income	**21**	37	17
Gains less losses from financial investments	**19**	33	6
Other operating income	**–**	–	1
Total operating income	**108**	130	87
Loan impairment (charges)/reversals and other credit risk provisions	**(1)**	2	1
Net operating income	**107**	132	88
Total operating expenses	**(30)**	(29)	(26)
Profit before income tax expense	**77**	103	62

Overview

Profit before income tax expense was $77m for the first quarter of 2014, a decrease of $26m, or 25%, compared with the first quarter of 2013 and an increase of $15m, or 24%, compared with the fourth quarter of 2013. Gains less losses from financial investments are realized as Balance Sheet Management continues to re-balance the portfolio for risk management purposes based on the low interest rate environment. The variances in profit before income tax compared with both the first and fourth quarters last year were primarily driven by the re-balancing of the financial investments portfolio. Also contributing to the decrease in profit before income tax expense compared with the same quarter last year were lower customer spreads related to foreign exchange products and lower trading income generated by rates products, notably in government instruments.

Financial performance by income and expense item

Net interest income for the first quarter of 2014 was $44m, an increase of $2m, or 5% compared with the first quarter of 2013 and an increase of $4m, or 10%, compared with the fourth quarter of 2013. The increase in net interest income compared with both the same quarter last year and the prior quarter was primarily due to higher trading funding activity from reverse repurchase agreements.

Net fee income for the first quarter of 2014 was $24m, an increase of $6m, or 33%, compared with the first quarter of 2013 and marginally higher compared with the fourth quarter of 2013. The increase in net fee income compared with the same quarter last year was primarily due higher standby fees.

Net trading income for the first quarter of 2014 was $21m, a decrease of $16m, or 43%, compared with the first quarter of 2013 and an increase of $4m, or 24% compared with the fourth quarter of 2013. The decrease in net trading income compared with the same quarter last year was mainly due to lower customer spreads related to foreign exchange products and lower trading income generated by rates products, notably in government instruments. The increase in net trading income compared with the prior quarter was primarily due to trading gains in the hedging portfolios.

Gains less losses from financial investments for the first quarter of 2014 was $19m, a decrease of $14m, or 42%, compared with the first quarter of 2013 and an increase of $13m compared with the fourth quarter of 2013. Gains less losses from financial investments are realized as Balance Sheet Management continues to re-balance the portfolio for risk management purposes based on the low interest rate environment. The variances in gains less losses from financial investments compared with prior year periods were primarily due to the reason above.

Total operating expenses for the first quarter of 2014 were $30m, marginally higher compared with the first quarter of 2013 and an increase of $4m, or 15%, compared with the fourth quarter of 2013. Total operating expenses in the fourth quarter of 2013 included an adjustment to incentive provisions which reduced expenses. The increase in total operating expenses compared with the prior quarter was primarily due to the incentive provision adjustment.

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides banking and wealth management services for our personal customers to help them to manage their finances and protect and build their financial future.

Review of financial performance

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net interest income	**102**	141	110
Net fee income	**52**	51	46
Net trading income	**5**	4	4
Gains less losses from financial investments	**–**	2	–
Other operating income	**2**	3	2
Total operating income	**161**	201	162
Loan impairment charges and other credit risk provisions	**(13)**	(19)	(11)
Net operating income	**148**	182	151
Total operating expenses	**(133)**	(134)	(142)
Profit before income tax expense	**15**	48	9

Profit before income tax expense

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Ongoing Retail Banking and Wealth Management business	**9**	18	(1)
Run-off consumer finance portfolio	**6**	30	10
Profit before income tax expense	**15**	48	9

Management's Discussion and Analysis (continued)

Overview

Profit before income tax expense for the first quarter of 2014 was $15m, a decrease of $33m, or 69%, compared with first quarter of 2013 and an increase of $6m, or 67%, compared with the fourth quarter of 2013. Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $9m, a decrease of $9m, or 50%, compared with the first quarter of 2013 and an increase of $10m compared with the fourth quarter of 2014. Profit before income taxes decreased compared with the same quarter last year primarily due to lower net interest income driven by a decline in personal lending balances and a decline in net interest spread in a competitive low interest rate environment. In 2014, the HSBC Group adopted a revised methodology in allocating indirect expenses of support functions to the global lines of business which more accurately reflects the utilization of product support services. The increase in profit before income tax expense compared with the fourth quarter of 2013 was primarily as a result of lower operating expenses following the adoption of the revised methodology.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2014 was $6m, a decrease of $24m, or 80%, compared with the first quarter of 2013 and a decrease of $4m, or 40%, compared with the fourth quarter of 2013. The decrease in profit before income tax expense relating to the run-off consumer finance portfolio was primarily due to lower interest income from declining loan balances, partially offset by lower collective provisions and lower operating expenses from right sizing of operations.

Financial performance by income and expense item

Net interest income relating to ongoing business for the first quarter of 2014 was $83m, a decrease of $11m and $3m respectively compared with the first quarter and fourth quarter of 2013. Net interest income decreased primarily due to a decline in personal lending balances and lower net interest spread in a competitive low interest rate environment, partially offset by a growth in deposit balances.

Net fee income relating to ongoing business for the first quarter of 2014 was $51m, marginally higher compared with the first quarter of 2013 and an increase of $6m, or 13%, compared with the fourth quarter of 2013. In the fourth quarter of 2013, the bank revised its methodology in recognizing guarantee fees to more appropriately reflect the revenue as it is earned which resulted in the deferral of guarantee fees. The increase in net fee income compared with the prior quarter was primarily as a result of the deferral of guarantee fees in the fourth quarter of 2013.

Net trading income relating to ongoing business for the first quarter of 2014 was $5m, marginally higher compared with both the first quarter and fourth quarter of 2013.

Loan impairment charges and other credit risk provisions relating to ongoing business for the first quarter of 2014 were $7m, a decrease of $2m, or 22%, compared with the first quarter of 2013 and marginally higher compared with the fourth quarter of 2013. The decrease in loan impairment charges and other credit risk provisions is due to a reduction in collectively assessed provisions following lower loan balances.

Total operating expenses relating to ongoing business for the first quarter of 2014 were $125m, an increase of $3m, or 2%, compared with the first quarter of 2013 and a decrease of $7m, or 5%, compared with the fourth quarter of 2013. Total operating expenses in the first quarter of 2013 included an adjustment to incentive provisions which reduced expenses. In 2014, the HSBC Group adopted a revised methodology in allocating indirect expenses of support functions to the global lines of business which more accurately reflects the utilization of product support services. The decrease in total operating expenses compared with the prior quarter was primarily due to the adoption of the revised methodology.

Other

'Other' contains the results of movements in fair value of own debt, income and expenses related to information technology services provided to HSBC Group companies on an arm's length basis and other transactions which do not directly relate to our global lines of business.

Review of financial performance

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Net interest expense	**(7)**	(8)	(7)
Net trading income	**7**	8	7
Net expense from financial instruments designated at fair value	**(2)**	(3)	(2)
Other operating income	**6**	7	10
Total operating income	**4**	4	8
Total operating expenses	**(12)**	(10)	(7)
Profit/(loss) before income tax expense	**(8)**	(6)	1

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2013 for more information regarding quarterly trends in performance for 2013 and 2012.

Summary consolidated income statement

	Quarter ended							
	Mar 31 2014 $m	Dec 31 2013 $m	Sep 30 2013 $m	Jun 30 2013 $m	Mar 31 2013 $m	Dec 31 2012 $m	Sep 30 2012 $m	Jun 30 2012 $m
Total operating income	**532**	524	522	531	584	526	572	614
Profit for the period	**172**	182	186	130	189	154	180	201
Profit attributable to common shareholders	**160**	164	168	113	171	136	162	184
Profit attributable to preferred shareholders	**9**	16	15	15	15	16	15	15
Profit attributable to non-controlling interests	**3**	2	3	2	3	2	3	2
Basic earnings per common share	**0.32**	0.33	0.34	0.23	0.34	0.27	0.33	0.37

Accounting matters

Critical accounting policies

The results of the bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. A summary of our significant accounting policies are provided in note 2.

Refer to the 'Critical accounting policies' section of our Annual Report and Accounts 2013 for accounting policies that are deemed critical to our results and financial position, in terms of materiality of the items which the policy is applied and the high degree of judgement involved, including the use of assumptions and estimation.

Changes in presentation

In the first quarter of 2014, the bank changed its presentation of reverse repurchase and repurchase agreements. Previously, these amounts were either included in loans and advances to banks as well as loans and advances to customers or deposits by banks as well as customer accounts respectively. These amounts are now presented in their own separate categories on the face of the bank's consolidated balance sheet, which is a more appropriate disclosure for these instruments which are not representative of typical loans and deposits. Prior period presentation was changed accordingly. There is no change in total assets and liabilities, nor is there any impact on interest income and expense. Refer to note 1 for further information relating to the change.

Changes in accounting policy

Offsetting

On 1 January 2014, the bank adopted amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The adoption did not have a material effect on the bank's consolidated financial statements and as a result comparative information was not restated.

Management's Discussion and Analysis (continued)

Future accounting developments

Financial instruments
Refer to the 'Future accounting developments' section of our Annual Report and Accounts 2013 for a discussion of the International Accounting and Standards Board's ('IASB') project to replace present accounting standards on financial instruments with IFRS 9 'Financial Instruments'. In February 2014, the IASB tentatively decided that entities are required to adopt IFRS 9 for annual periods beginning on or after 1 January 2018.

Off-balance sheet arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact, but may not be recognized in our financial statements. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded in our consolidated balance sheet. These arrangements include: guarantees, letters of credit, and derivatives and are described in the 'Off-balance sheet arrangements' section of our Annual Report and Accounts 2013. Further information is disclosed in note 11.

Related Party Transactions

We enter into transactions with other HSBC affiliates as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, we share in the expertise and economies of scale provided by the HSBC Group. We provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas.

These related party transactions are on terms similar to those offered to non-related parties and are subject to formal approval procedures that have been approved by the bank's Conduct Review Committee.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer and Chief Financial Officer have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 31 March 2014, 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 2014 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Risk Management

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages risk on an enterprise wide level, as well as the management of reputational and operational risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to an obligation under contract. It arises principally from direct lending, trade finance and the leasing business, but also from other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

The bank's principal objectives of credit risk management are:

- to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework;
- to both partner with and challenge businesses in defining and implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages credit risk, collateral and other credit risk enhancements, as well as a more in depth explanation of our credit risk measures.

Diversification of credit risk

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. Diversification of credit risk is a key concept by which we are guided.

In assessing and monitoring for credit risk concentration, we aggregate exposures by product type, industry and geographic area. Exposures are measured at exposure at default ('EAD'), which reflects drawn balances as well as an allowance for undrawn amounts of commitments and contingent exposures, and therefore would not agree to the financial statements.

Wholesale and retail credit risk exposures by product type

	EAD At 31 March 2014 $m	EAD At 31 December 2013 $m
Wholesale credit risk exposures		
Sovereign		
Drawn exposures	**20,392**	22,696
Derivatives	**291**	278
Undrawn commitments	**31**	17
Other off-balance sheet exposures	**73**	–
	20,787	22,991
Banks		
Drawn exposures	**2,849**	3,275
Derivatives	**2,392**	2,409
Repurchase type transactions	**15**	16
Other off-balance sheet exposures	**515**	469
	5,771	6,169
Corporate		
Drawn exposures	**27,791**	26,511
Undrawn commitments	**11,627**	11,703
Derivatives	**1,340**	1,278
Repurchase type transactions	**235**	133
Other off-balance sheet exposures	**3,015**	2,950
	44,008	42,575
Total wholesale credit risk exposures	**70,566**	71,735
Retail credit risk exposures		
Residential mortgages	**17,357**	17,347
Home equity lines of credit	**4,866**	4,916
Other personal loan facilities	**2.630**	2,600
Credit cards	**1,075**	1,075
Personal unsecured revolving loan facilities	**1,042**	1,060
Run-off consumer finance loan portfolio	**630**	670
Other small to medium enterprises loan facilities	**577**	624
Total retail credit risk exposures	**28,177**	28,292
Total wholesale and retail credit risk exposures	**98,743**	100,027

Credit Quality of Financial Assets

The overall credit quality at 31 March 2014 improved compared with the position at 31 December 2013 primarily driven by the wholesale portfolio due to refocussing the business on high quality relationships and a more selective risk appetite. The improvement resulted in lower specific loan impairment charges, notably with commercial customers. In addition contributing to the improvement in credit quality was our retail portfolio primarily as a result of the continued run-off of the consumer finance portfolio.

Management's Discussion and Analysis (continued)

Impairment allowances and provision for credit losses

Impairment allowances

	At 31 March 2014 $m	At 31 December 2013 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances (A)	**463**	445
Collectively assessed loans and advances (B)	**41,091**	41,442
- impaired loans and advances	**95**	101
- non-impaired loans and advances	**40,996**	40,341
Total gross loans and advances to customers (C)	**41,554**	40,887
Less: impairment allowances (c)	**346**	363
- individually assessed (a)	**145**	157
- collectively assessed (b)	**201**	206
Net loans and advances to customers	**41,208**	40,524
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**31.3%**	35.3%
Collectively assessed loans and advances coverage - (b) as a percentage of (B)	**0.5%**	0.5%
Total loans and advances coverage - (c) as a percentage of (C)	**0.8%**	0.9%

Movement in impairment allowances and provision for credit losses

	Quarter ended 31 March 2014			
	Customers individually assessed $m	**Customers collectively assessed $m**	**Provision for credit losses $m**	**Total $m**
Opening balance at the beginning of the period	**157**	**206**	**61**	**424**
Movement				
Loans and advances written off net of recoveries of previously written off amounts	**(23)**	**(11)**	**–**	**(34)**
Charge/(release) to income statement	**15**	**6**	**5**	**26**
Interest recognized on impaired loans and advances	**(4)**	**–**	**–**	**(4)**
Closing balance at the end of the period	**145**	**201**	**66**	**412**

Movement in impairment allowances and provision for credit losses

	Quarter ended 31 March 2013			
	Customers individually assessed $m	Customers collectively assessed $m	Provision for credit losses $m	Total $m
Opening balance at the beginning of the period	202	217	80	499
Movement				
Loans and advances written off net of recoveries of previously written off amounts	(45)	(30)	–	(75)
Charge/(release) to income statement	40	27	(11)	56
Interest recognized on impaired loans and advances	(5)	–	–	(5)
Closing balance at the end of the period	192	214	69	475

Liquidity and funding risk

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

The objective of our liquidity and funding management strategy is to ensure that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that access to the wholesale markets is coordinated and cost-effective.

There have been no material changes to our liquidity and funding management strategy as described in the 'Risk management' section of our Annual Report and Accounts 2013. We continue to monitor liquidity and funding risk within our stated risk appetite and management framework.

Advances to core funding ratio

The bank emphasizes the importance of core current accounts and savings accounts as a source of funds to finance lending to customers, and discourages reliance on short-term professional funding.

The advances to core funding ratio describes loans and advances to customers as a percentage of the total of core customer current and savings accounts and term funding with a remaining term to maturity in excess of one year. The distinction between core and non-core deposits generally means that the bank's measure of advances to core funding is more restrictive than that which could be inferred from the published financial statements.

Advances to core funding ratio

	Quarter ended	
	31 March 2014	31 December 2013
	%	%
End of period	**99**	93
Maximum	**99**	95
Minimum	**93**	93
Average	**96**	94

Liquid Assets

The table below shows the estimated liquidity value (before assumed haircuts) of assets categorised as liquid used for the purpose of liquidity stress testing as set out in our internal liquidity and funding management framework.

Any unencumbered asset held as a consequence of a reverse repurchase transaction with a residual contractual maturity within the relevant stress testing horizon and unsecured interbank loans maturing within three months are not included in liquid assets, as these assets are reflected as contractual cash inflows. All assets held within the liquid asset portfolio are unencumbered.

Estimated liquidity value

	At 31 March 2014	At 31 December 2013
	$m	$m
Level 1[1]	**16,601**	17,955
Level 2[2]	**3,389**	3,960
	19,990	21,915

1 *Includes debt securities of central governments, central banks, supranationals and multilateral development banks.*
2 *Includes debt securities of local and regional governments, public sector entities and secured covered bonds.*

Management's Discussion and Analysis (continued)

Net contractual cash flows

The following table quantifies the contractual cash flows from interbank and intra-Group loans and deposits, and reverse repurchase transactions, repurchase transactions (including intergroup transactions) and short positions. These contractual cash inflows and outflows should be considered alongside the level of liquid assets and are treated as such in our internal liquidity stress testing.

Cash flows within three months

	At 31 March 2014 $m	At 31 December 2013 $m
Interbank and intra-Group loans and deposits	**220**	855
Reverse repurchase transactions, repurchase transactions and outright short positions (including intra-Group)	**1,488**	1,057

Contingent liquidity risk arising from committed lending facilities

The bank provides commitments to various counterparts. In terms of liquidity risk, the most significant risk relates to committed lending facilities which, whilst undrawn, give rise to contingent liquidity risk, as these could be drawn during a period of liquidity stress. Commitments are given to customers and committed liquidity facilities are provided to conduits, established to enable clients to access a flexible market-based source of finance.

The table below shows the level of undrawn commitments outstanding to conduits and customers for the five largest single facilities and the largest market sector.

The bank's contractual undrawn exposures monitored under the contingent liquidity risk structure

	At 31 March 2014 $m	At 31 December 2013 $m
Commitments to conduits		
Total lines	**1,035**	1,035
Largest individual lines	**765**	765
Commitments to customers		
Five largest	**1,746**	1,553
Largest market sector	**3,772**	3,644

Sources of funding

Current accounts and savings deposits, payable on demand or on short notice, form a significant part of our funding. We place considerable importance on maintaining the stability and growth of these deposits, which provide a diversified pool of funds.

We also access professional markets in order to maintain a presence in local money markets and to optimize the funding of asset maturities not naturally matched by core deposit funding. As part of our wholesale funding arrangements, we have a number of programs for fundraising activities, so that undue reliance is not placed on any one source of funding.

No reliance is placed on unsecured money market wholesale funding as a source of core funding. Only wholesale funding with a residual term to maturity of one year or greater is counted towards the core funding base. In addition, our stress testing assumptions require an equivalent amount of liquid assets to be held against wholesale funding maturing within the relevant stress testing horizon.

Encumbered assets

In the normal course of business, the bank will pledge or otherwise encumber assets. The pledging of assets will occur to meet the bank's payments and settlement system obligations, as security in a repurchase transaction, to support secured debt instruments or as margining requirements. Limits are in place to control such pledging.

The bank actively monitors its pledging positions. Encumbered assets are not counted towards the bank's liquid assets used for internal stress testing scenarios. We further estimate the impact of credit rating downgrade triggers, and exclude the estimated impact from liquid assets within the bank's liquidity stress testing scenarios.

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.

The objective of market risk management is to identify, measure and control market risk exposures in order to optimize return on risk and to remain within the bank's risk appetite.

Refer to the 'Risk management' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages market risk as well as a more in depth explanation of our market risk measures.

Value at Risk ('VaR')

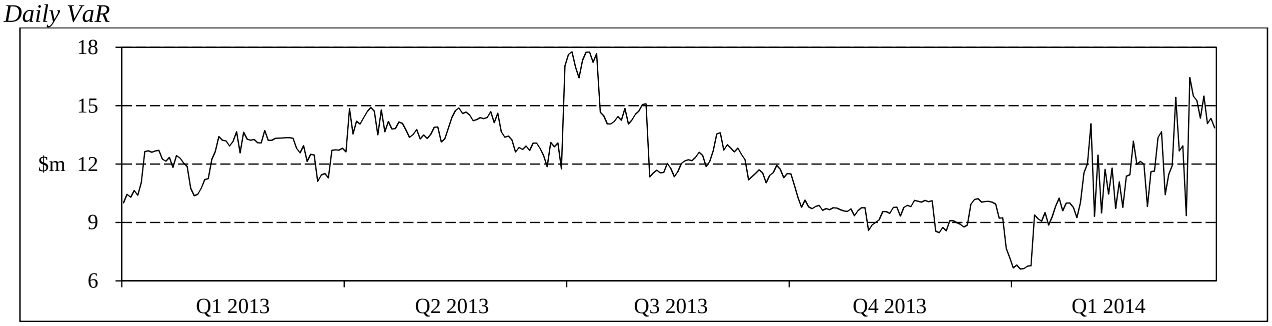
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

VaR disclosed in the table and graph below is the bank's total VaR for both trading and non-trading books and remained within the bank's limits. The increase in VaR during July 2013 was due to a temporary widening in credit spreads effecting credit VaR.

Summary VaR information

	Quarter ended	
	31 March 2014 $m	31 December 2013 $m
End of quarter	**14**	10
Average	**11**	10
Minimum	**7**	8
Maximum	**16**	12

Daily VaR



Area of special interest: Exposures to core and peripheral eurozone countries

Our exposure to core and peripheral eurozone countries remains within the bank's overall risk appetite. Exposures to peripheral eurozone countries increased by $22m to $177m compared with the position at 31 December 2013, of which $86m, or 48.6%, is held with other HSBC Group affiliates.

Management's Discussion and Analysis (continued)

Exposures to core and peripheral eurozone countries

	At 31 March 2014			At 31 December 2013		
	Financial institutions[1] $m	**Sovereign $m**	**Total $m**	Financial institutions[1] $m	Sovereign $m	Total $m
Core countries						
Germany	**402**	**345**	**747**	205	326	531
France	**114**	**322**	**436**	258	215	473
Total core countries	**516**	**667**	**1,183**	463	541	1,004
Peripheral countries						
Italy	**123**	**–**	**123**	60	–	60
Spain	**47**	**–**	**47**	86	–	86
Portugal	**6**	**–**	**6**	6	–	6
Greece	**1**	**–**	**1**	3	–	3
Total peripheral countries	**177**	**–**	**177**	155	–	155
Total	**693**	**667**	**1,360**	618	541	1,159

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $3m in Germany, $29m in France, $59m in Italy, $26m in Spain and $1m in Greece (31 December 2013: $3m in Germany, $29m in France, $64m in Spain and $3m in Greece).*

Factors that may affect future results

The risk management section in the MD&A describes the most significant risks to which the bank is exposed and if not managed appropriately could have a material impact on our future financial results. Refer to the 'Factors that may affect future results' section of our Annual Report and Accounts 2013 for a description of additional factors which may affect future financial results.

Capital

Our objective in the management of capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory requirements.

Refer to the 'Capital' section of our Annual Report and Accounts 2013 for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below, with exception of the assets-to-capital multiple, are presented under a Basel III 'all-in' basis, which applies Basel III regulatory adjustments from 1 January 2013, however phases out of non-qualifying capital instruments over 10 years starting 1 January 2013. The assets-to-capital multiple is presented under a Basel III 'transitional' basis, which phases in Basel III regulatory adjustments over 4 years starting 1 January 2014 and phases out of non-qualifying capital instruments over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2014.

Regulatory capital ratios

Actual regulatory capital ratios and capital limits

	31 March 2014	31 December 2013
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**10.8%**	11.0%
Tier 1 capital ratio	**12.9%**	13.2%
Total capital ratio	**14.5%**	15.0%
Assets-to-capital multiple	**15.3x**	15.1x
Required regulatory capital limits		
Minimum Common equity tier 1 capital ratio	**7.0%**	7.0%
Minimum Tier 1 capital ratio[1]	**8.5%**	8.5%
Minimum Total capital ratio	**10.5%**	10.5%

1 *The minimum Tier 1 capital ratio limit is effective from 1 January 2014.*

Regulatory capital

Regulatory capital and risk weighted assets

	31 March 2014 $m	31 December 2013 $m
Tier 1 capital	**4,950**	4,857
Common equity tier 1 capital	**4,150**	4,057
Gross common equity[1]	**4,369**	4,285
Regulatory adjustments	**(219)**	(228)
Additional tier 1 eligible capital[2]	**800**	800
Tier 2 capital[3]	**616**	677
Total capital available for regulatory purposes	**5,566**	5,534
Total risk-weighted assets	**38,466**	36,862

1 *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2 *Includes directly issued capital instruments and instruments issued by subsidiaries subject to phase out.*
3 *Includes directly issued capital instruments subject to phase out and collective allowances.*

Outstanding Shares and Securities

Outstanding shares and securities

	At 1 May 2014		
	Dividend or distribution[1] $ per share or security	Number of issued shares and securities Thousands	Carrying value $m
Common shares		498,668	1,225
Preferred Shares – Class 1			
Class 1, Series C	0.31875	7,000	175
Class 1, Series D	0.3125	7,000	175
Class 1, Series E	0.4125	10,000	250
			600
HSBC HaTS™ - Series 2015[2]	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 *Presented as non-controlling interests in the consolidated balance sheet.*

During the first quarter of 2014, the bank declared and paid $80m in dividends on HSBC Bank Canada common shares, a decrease of $10m compared with the same quarter last year.

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 and 41.25 cents per share on Class 1 Preferred Shares – Series E. Dividends will be paid on 30 June 2014, for shareholders of record on 13 June 2014.

Financial Statements (unaudited)

Consolidated income statement

		Quarter ended		
		31 March 2014	31 March 2013	31 December 2013
	Notes	**$m**	$m	$m
Interest income		**483**	517	503
Interest expense		**(176)**	(181)	(187)
Net interest income		**307**	336	316
Fee income		**172**	166	173
Fee expense		**(17)**	(20)	(22)
Net fee income		**155**	146	151
Trading income excluding net interest income		**36**	47	24
Net interest income on trading activities		**3**	10	10
Net trading income		**39**	57	34
Net expense from financial instruments designated at fair value		**(2)**	(3)	(2)
Gains less losses from financial investments		**19**	35	6
Other operating income		**14**	13	19
Total operating income		**532**	584	524
Loan impairment charges and other credit risk provisions		**(26)**	(56)	(39)
Net operating income		**506**	528	485
Employee compensation and benefits	*3*	**(159)**	(156)	(146)
General and administrative expenses		**(104)**	(95)	(112)
Depreciation of property, plant and equipment		**(8)**	(9)	(9)
Amortization and impairment of intangible assets		**(5)**	(3)	(3)
Total operating expenses		**(276)**	(263)	(270)
Operating profit		**230**	265	215
Share of profit in associates		**3**	4	17
Profit before tax		**233**	269	232
Income tax expense		**(61)**	(80)	(50)
Profit for the period		**172**	189	182
Profit attributable to common shareholders		**160**	171	164
Profit attributable to preferred shareholders		**9**	15	16
Profit attributable to shareholders		**169**	186	180
Profit attributable to non-controlling interests		**3**	3	2
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668
Basic earnings per common share		**$ 0.32**	$ 0.34	$ 0.33

The accompanying notes and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Quarter ended		
	31 March 2014	31 March 2013	31 December 2013
	$m	$m	$m
Profit for the period	**172**	189	182
Other comprehensive income			
Available-for-sale investments[1]	**12**	(3)	5
– fair value gains	**35**	33	11
– fair value gains transferred to income statement on disposal	**(19)**	(35)	(6)
– income taxes	**(4)**	(1)	–
Cash flow hedges[1]	**3**	(2)	16
– fair value gains/(losses)	**(33)**	121	30
– fair value (gains)/losses transferred to income statement	**37**	(124)	(8)
– income taxes	**(1)**	1	(6)
Actuarial losses on defined benefit plans[2]	**(11)**	(4)	(11)
– before income taxes	**(15)**	(5)	(15)
– income taxes	**4**	1	4
Other comprehensive income/(expense) for the period, net of tax	**4**	(9)	10
Total comprehensive income for the period	**176**	180	192
Total comprehensive income for the period attributable to:			
– shareholders	**173**	177	190
– non-controlling interests	**3**	3	2
	176	180	192

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

The accompanying notes and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated balance sheet

	Notes	**31 March 2014 $m**	31 March 2013 $m	31 December 2013 $m
ASSETS				
Cash and balances at central bank		**71**	62	165
Items in the course of collection from other banks		**104**	135	107
Trading assets	*4*	**5,962**	6,975	6,728
Derivatives	*5*	**2,121**	1,918	2,112
Loans and advances to banks		**1,188**	837	1,149
Loans and advances to customers		**41,208**	42,012	40,524
Reverse repurchase agreements – non-trading	*9*	**7,748**	5,896	6,161
Financial investments	*6*	**19,570**	19,972	21,814
Other assets		**368**	1,049	332
Prepayments and accrued income		**213**	227	206
Customers' liability under acceptances		**5,578**	5,092	4,757
Property, plant and equipment		**134**	138	137
Goodwill and intangible assets		**66**	71	68
Total assets		**84,331**	84,384	84,260
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**645**	1,228	635
Customer accounts		**49,456**	47,068	50,926
Repurchase agreements – non-trading	*9*	**2,037**	2,119	1,487
Items in the course of transmission to other banks		**124**	69	53
Trading liabilities	*7*	**5,471**	4,027	4,396
Financial liabilities designated at fair value	*8*	**430**	438	428
Derivatives	*5*	**1,859**	1,438	1,746
Debt securities in issue		**10,320**	13,720	11,348
Other liabilities		**2,203**	2,587	2,338
Acceptances		**5,578**	5,092	4,757
Accruals and deferred income		**516**	516	551
Retirement benefit liabilities		**284**	308	271
Subordinated liabilities		**239**	326	239
Total liabilities		**79,162**	78,936	79,175
Equity				
Common shares		**1,225**	1,225	1,225
Preferred shares		**600**	946	600
Other reserves		**149**	276	134
Retained earnings		**2,995**	2,771	2,926
Total shareholders' equity		**4,969**	5,218	4,885
Non-controlling interests		**200**	230	200
Total equity		**5,169**	5,448	5,085
Total equity and liabilities		**84,331**	84,384	84,260

The accompanying notes and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis form an integral part of these financial statements.

Consolidated statement of cash flows

		Quarter ended		
		31 March	31 March	31 December
		2014	2013	2013
	Notes	**$m**	$m	$m
Cash flows from operating activities				
Profit before tax		**233**	269	232
Adjustments for:				
– non-cash items included in profit before tax	*10*	**47**	74	68
– change in operating assets	*10*	**(772)**	(1,585)	561
– change in operating liabilities	*10*	**(1,278)**	2,218	(1,324)
– tax paid, net		**(71)**	(89)	(45)
Net cash from/(used in) operating activities		**(1,841)**	887	(508)
Cash flows from investing activities				
Purchase of financial investments		**(3,291)**	(4,960)	(3,131)
Proceeds from the sale and maturity of financial investments		**5,547**	5,396	2,497
Purchase of property, plant and equipment		**(8)**	(10)	(7)
Purchase of intangible assets		**(3)**	–	(11)
Net cash from/(used in) investing activities		**2,245**	426	(652)
Cash flows from financing activities				
Dividends paid to shareholders		**(89)**	(105)	(106)
Distributions to non-controlling interests		**(3)**	(3)	(2)
Purchase of preferred shares		**–**	–	(419)
Subordinated liabilities repaid		**–**	–	(85)
Net cash used in financing activities		**(92)**	(108)	(612)
Net increase/(decrease) in cash and cash equivalents		**312**	1,205	(1,772)
Cash and cash equivalents at the beginning of the period		**1,896**	1,753	3,668
Cash and cash equivalents at the end of the period	*10*	**2,208**	2,958	1,896

The accompanying notes and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis form an integral part of these financial statements.

Financial Statements (unaudited) (continued)

Consolidated statement of changes in equity for the three months ended 31 March 2014

	Share capital $m	Retained earnings $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	**1,825**	**2,926**	**35**	**99**	**134**	**4,885**	**200**	**5,085**
Profit for the period	**–**	**169**	**–**	**–**	**–**	**169**	**3**	**172**
Other comprehensive income (net of tax)	**–**	**(11)**	**12**	**3**	**15**	**4**	**–**	**4**
Available-for-sale investments	**–**	**–**	**12**	**–**	**12**	**12**	**–**	**12**
Cash flow hedges	**–**	**–**	**–**	**3**	**3**	**3**	**–**	**3**
Actuarial losses on defined benefit plans	**–**	**(11)**	**–**	**–**	**–**	**(11)**	**–**	**(11)**
Total comprehensive income for the period	**–**	**158**	**12**	**3**	**15**	**173**	**3**	**176**
Dividends paid on common shares	**–**	**(80)**	**–**	**–**	**–**	**(80)**	**–**	**(80)**
Dividends paid on preferred shares	**–**	**(9)**	**–**	**–**	**–**	**(9)**	**–**	**(9)**
Distributions to unit holders	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**
At 31 March	**1,825**	**2,995**	**47**	**102**	**149**	**4,969**	**200**	**5,169**

Consolidated statement of changes in equity for the three months ended 31 March 2013

	Share capital $m	Retained earnings $m	Other reserves: Available-for-sale fair value reserve $m	Other reserves: Cash flow hedging reserve $m	Other reserves: Total other reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	2,171	2,694	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

The accompanying notes and the "Risk Management" and "Capital" sections within Management's Discussion and Analysis form an integral part of these financial statements.

Notes on 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 2013 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*

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 restated to conform with the current period presentation.

From 1 January 2014, non-trading reverse repurchase and repurchase agreements are presented as separate lines in the balance sheet. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. Comparative data have been restated accordingly. Non-trading reverse repurchase and repurchase agreements have been presented as separate lines in the balance sheet given the collateralized nature of the underlying transactions and specific risk management techniques applied accordingly. The extent to which reverse repurchase and repurchase agreements represents loans to/from customers and banks is set out in Note 9 on the financial statements.

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 judgment 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 judgment is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described in Note 2 of the bank's 2013 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 2014. The method adopted by the bank to consolidate its subsidiaries is described in Note 1(d) of the 2013 Annual Report and Accounts.

Notes on the Financial Statements (unaudited) (continued)

e *Future accounting developments*

Future accounting developments have been disclosed in Note 1(f) on the consolidated financial statements of the bank's 2013 Annual Report and Accounts. In February 2014, the International Accounting and Standards Board tentatively decided that entities are required to adopt IFRS 9 'Financial Instruments' for annual periods beginning on or after 1 January 2018.

2 Summary of significant accounting policies

Except as set out below, there have been no significant changes to the accounting policies of the bank from those as disclosed in Note 2 of the 2013 Annual Report and Accounts.

IAS 32 – Offsetting

On 1 January 2014, the bank adopted Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. The amendments clarify the requirements for offsetting financial instruments and address inconsistencies in practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The adoption did not have a material effect on the bank's consolidated financial statements and as a result comparative information was not restated.

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 2014 $m	31 March 2013 $m	31 December 2013 $m
Pension plans - defined benefit	**5**	5	5
Pension plans - defined contribution	**7**	7	7
Healthcare and other post-employment benefit plans	**3**	3	3
	15	15	15

Actuarial valuations for the bank's registered defined pension plans are prepared annually and for non-registered plans and other retirement compensation arrangements triennially. The most recent actuarial valuations of the registered defined benefit pension plans for funding purposes were conducted as at 31 December 2012.

4 Trading assets

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
Trading assets:			
Not subject to repledge or resale by counterparties	**5,518**	5,373	6,294
Which may be repledged or resold by counterparties	**444**	1,602	434
	5,962	6,975	6,728
Canadian and Provincial Government bonds[1]	**1,544**	2,600	2,086
Debt securities	**313**	284	442
Total debt securities	**1,857**	2,884	2,528
Bankers acceptances	**2,654**	2,582	2,848
Customer trading assets	**981**	1,202	885
Treasury and other eligible bills	**461**	274	467
Equity securities	**9**	33	–
	5,962	6,975	6,728

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 in Note 2 and Note 11 of the bank's 2013 Annual Report and Accounts.

Fair values of derivatives by product contract type held

	At 31 March 2014					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**1,181**	**254**	**1,435**	**1,132**	**131**	**1,263**
Interest rate	**483**	**157**	**640**	**425**	**125**	**550**
Commodity	**46**	**–**	**46**	**46**	**–**	**46**
Gross total fair values	**1,710**	**411**	**2,121**	**1,603**	**256**	**1,859**

	At 31 March 2013					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$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 December 2013					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	1,077	288	1,365	1,030	93	1,123
Interest rate	492	220	712	453	135	588
Commodity	35	–	35	35	–	35
Gross total fair values	1,604	508	2,112	1,518	228	1,746

Trading derivatives

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

	At 31 March 2014	At 31 March 2013	At 31 December 2013
	$m	$m	$m
Foreign exchange	**97,266**	69,769	87,334
Interest rate	**39,203**	30,713	37,745
Commodity	**290**	297	567
Total derivatives	**136,759**	100,779	125,646

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

Notes on the Financial Statements (unaudited) (continued)

Hedging instruments

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

	At 31 March 2014		At 31 March 2013		At 31 December 2013	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Interest rate	**19,359**	**11,150**	22,005	5,546	17,477	9,035
Foreign exchange	**2,997**	**–**	2,369	–	3,116	–
Total derivatives	**22,356**	**11,150**	24,374	5,546	20,593	9,035

Fair value of derivatives designated as fair value hedges

	At 31 March 2014		At 31 March 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**35**	**73**	15	73	60	69

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

	Quarter ended		
	31 March 2014	31 March 2013	31 December 2013
	$m	$m	$m
Gains/(losses)			
On hedging instruments	**(38)**	14	32
On hedged items attributable to the hedged risk	**37**	(13)	(31)

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 2014		At 31 March 2013		At 31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**254**	**130**	258	5	288	93
Interest rate	**121**	**52**	253	62	160	66

6 Financial investments

	At 31 March 2014	At 31 March 2013	At 31 December 2013
	$m	$m	$m
Financial investments			
Not subject to repledge or resale by counterparties	**17,811**	19,498	20,468
Which may be subject to repledge or resale by counterparties	**1,759**	474	1,346
	19,570	19,972	21,814
Available-for-sale			
Canadian and Provincial Government bonds[1]	**15,018**	13,911	16,534
International Government bonds[1]	**2,601**	2,555	3,248
Debt securities issued by banks and other financial institutions	**1,453**	1,494	1,224
Treasury bills and other eligible bills	**482**	2,007	799
Other debt securities	**16**	5	9
	19,570	19,972	21,814

1 *Includes government guaranteed bonds*

7 Trading liabilities

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
Other liabilities – net short positions	**4,002**	2,226	3,617
Customer trading liabilities	**950**	1,548	442
Trading liabilities due to other banks	**483**	207	300
Other debt securities in issue	**36**	46	37
	5,471	4,027	4,396

8 Financial liabilities designated at fair value

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
Subordinated debentures	**430**	438	428

The carrying amount at 31 March 2014 of financial liabilities designated at fair value was $30m higher (31 March 2013: $38m higher; 31 December 2013: $28m higher) than the contractual amount at maturity. At 31 March 2014, the cumulative amount of change in fair value attributable to changes in credit risk was not material (31 March 2013: $4m gain; 31 December 2013: $2m gain).

9 Non-trading reverse repurchase and repurchase agreements

Non-trading reverse repurchase agreements and repurchase agreements which are measured at amortised cost, are presented as separate lines in the balance sheet. This separate presentation has been adopted effective 1 January 2014 and comparatives restated accordingly. Previously, non-trading reverse repurchase agreements were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repurchase agreements were included within 'Deposits by banks' and 'Customer accounts'. The extent to which reverse repos and repos represents loans to/from customers and banks is set out below.

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
Assets			
Banks	**810**	1,905	333
Customers	**6,938**	3,991	5,828
Reverse repurchase agreements – non-trading	**7,748**	5,896	6,161
Liabilities			
Banks	**770**	1,002	569
Customers	**1,267**	1,117	918
Repurchase agreements – non-trading	**2,037**	2,119	1,487

Notes on the Financial Statements (unaudited) (continued)

10 Notes on the statement of cash flows

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Non-cash items included in profit before tax			
Depreciation and amortization	**13**	9	23
Share-based payment expense	**3**	4	1
Loan impairment charges and other credit risk provisions	**26**	56	39
Charge for defined benefit plans	**5**	5	5
	47	74	68
Change in operating assets			
Change in prepayment and accrued income	**(7)**	(62)	21
Change in net trading securities and net derivatives	**1,912**	(543)	(143)
Change in loans and advances to customers	**(710)**	389	539
Changes in reverse repurchase agreements – non-trading	**(1,110)**	(876)	(207)
Change in other assets	**(857)**	(493)	351
	(772)	(1,585)	561
Change in operating liabilities			
Change in accruals and deferred income	**(35)**	(12)	22
Change in deposits by banks	**10**	72	(642)
Change in customer accounts	**(1,470)**	775	3,238
Changes in repurchase agreements – non-trading	**550**	(909)	(2,728)
Change in debt securities in issue	**(1,028)**	1,740	(1,039)
Change in other liabilities	**695**	552	(175)
	(1,278)	2,218	(1,324)
Cash and cash equivalents			
Cash and balances at central bank	**71**	62	165
Items in the course of collection (to)/from other banks, net	**(20)**	66	54
Loans and advances to banks of one month or less	**1,188**	837	1,149
Reverse repurchase agreements with banks of one month or less	**810**	1,905	333
T-Bills and certificates of deposits – three months or less	**159**	88	195
	2,208	2,958	1,896
Interest			
Interest paid	**161**	122	190
Interest received	**479**	457	525

11 Contingent liabilities, contractual commitments and guarantees

	At 31 March 2014 $m	At 31 March 2013 $m	At 31 December 2013 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**4,098**	3,379	3,940
Commitments			
Documentary credits and short-term trade-related transactions	**593**	628	540
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**34,368**	35,299	34,588
	34,961	35,927	35,128

1 *Based on original contractual maturity.*

Legal and regulatory proceedings

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 balance sheet or our results of operations.

12 Segment analysis

We manage and report our operations according to our main global lines of business. Information on each business line is included in Management's Discussion and Analysis and the 2013 Annual Report and Accounts. Various estimate and allocation methodologies are used in the preparation of the global lines of business' 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 global lines of business using appropriate allocation formulas. Global lines of business net interest income reflects internal funding charges and credits on the global lines of business' 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.

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Commercial Banking			
Net interest income	**168**	161	173
Net fee income	**79**	77	82
Net trading income	**6**	8	6
Other operating income	**6**	3	6
Total operating income	**259**	249	267
Loan impairment charges and other credit risk provisions	**(12)**	(39)	(29)
Net operating income	**247**	210	238
Total operating expenses	**(101)**	(90)	(95)
Operating profit	**146**	120	143
Share of profit in associates	**3**	4	17
Profit before income tax expense	**149**	124	160
Global Banking and Markets			
Net interest income	**44**	42	40
Net fee income	**24**	18	23
Net trading income	**21**	37	17
Gain less losses from financial investments	**19**	33	6
Other operating income	**–**	–	1
Total operating income	**108**	130	87
Loan impairment (charges)/reversals and other credit risk provisions	**(1)**	2	1
Net operating income	**107**	132	88
Total operating expenses	**(30)**	(29)	(26)
Profit before income tax expense	**77**	103	62

Notes on the Financial Statements (unaudited) (continued)

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Retail Banking and Wealth Management			
Net interest income	**102**	141	110
Net fee income	**52**	51	46
Net trading income	**5**	4	4
Gain less losses from financial investments	**–**	2	–
Other operating income	**2**	3	2
Total operating income	**161**	201	162
Loan impairment charges and other credit risk provisions	**(13)**	(19)	(11)
Net operating income	**148**	182	151
Total operating expenses	**(133)**	(134)	(142)
Profit before income tax expense	**15**	48	9
Other			
Net interest expense	**(7)**	(8)	(7)
Net trading income	**7**	8	7
Net expense from financial instruments designated at fair value	**(2)**	(3)	(2)
Other operating income	**6**	7	10
Total operating income	**4**	4	8
Total operating expenses	**(12)**	(10)	(7)
Profit/(loss) before income tax expense	**(8)**	(6)	1

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

	Commercial Banking $m	**Global Banking and Markets $m**	**Retail Banking and Wealth Management $m**	**Other $m**	**Total $m**
Quarter ended 31 March 2014					
Net operating income:	**247**	**107**	**148**	**4**	**506**
External	**234**	**97**	**171**	**4**	**506**
Inter-segment	**13**	**10**	**(23)**	**–**	**–**
Quarter ended 31 March 2013					
Net operating income:	210	132	182	4	528
External	208	104	212	4	528
Inter-segment	2	28	(30)	–	–
Quarter ended 31 December 2013					
Net operating income:	238	88	151	8	485
External	227	74	176	8	485
Inter-segment	11	14	(25)	–	–

Statement of balance sheet information

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Other $m	Total $m
At 31 March 2014					
Loans and advances to customers	**16,434**	**1,465**	**23,309**	**–**	**41,208**
Customers' liability under acceptances	**4,649**	**929**	**–**	**–**	**5,578**
Total assets	**28,458**	**28,957**	**26,490**	**426**	**84,331**
Customer accounts	**20,523**	**5,968**	**22,965**	**–**	**49,456**
Acceptances	**4,649**	**929**	**–**	**–**	**5,578**
Total liabilities	**25,582**	**27,572**	**25,582**	**426**	**79,162**
At 31 March 2013					
Loans and advances to customers	16,409	1,002	24,601	–	42,012
Customers' liability under acceptances	4,503	589	–	–	5,092
Total assets	27,639	30,909	25,430	406	84,384
Customer accounts	19,538	6,783	20,747	–	47,068
Acceptances	4,503	589	–	–	5,092
Total liabilities	24,567	29,818	24,145	406	78,936
At 31 December 2013					
Loans and advances to customers	15,881	1,203	23,440	–	40,524
Customers' liability under acceptances	3,941	816	–	–	4,757
Total assets	29,282	28,107	26,471	400	84,260
Customer accounts	21,986	6,185	22,755	–	50,926
Acceptances	3,941	816	–	–	4,757
Total liabilities	26,436	26,921	25,418	400	79,175

13 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings plc including other companies in the HSBC Group. 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 other companies in the HSBC Holdings Group

	Quarter ended		
	31 March 2014 $m	31 March 2013 $m	31 December 2013 $m
Income Statement			
Interest income	**12**	17	17
Interest expense	**(2)**	(11)	(7)
Fee income	**4**	4	4
Fee expense	**(1)**	(1)	(1)
Other operating income	**10**	11	15
General and administrative expenses	**(27)**	(25)	(30)

Balances due to/from the bank and HSBC Group affiliates in Europe are included in "Exposures to core and peripheral eurozone countries" within Management's Discussion and Analysis.

14 Fair values of financial instruments

Control framework

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 2014				
Assets				
Trading assets	**2,185**	**3,777**	**–**	**5,962**
Derivatives	**–**	**2,091**	**30**	**2,121**
Financial investments: available-for-sale	**17,239**	**2,331**	**–**	**19,570**
Liabilities				
Trading liabilities	**3,872**	**1,591**	**8**	**5,471**
Financial liabilities designated at fair value	**–**	**430**	**–**	**430**
Derivatives	**–**	**1,829**	**30**	**1,859**
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 designated at fair value	–	438	–	438
Derivatives	–	1,391	47	1,438
At 31 December 2013				
Assets				
Trading assets	2,754	3,974	–	6,728
Derivatives	–	2,078	34	2,112
Financial investments: available-for-sale	19,143	2,671	–	21,814
Liabilities				
Trading liabilities	3,470	917	9	4,396
Financial liabilities designated at fair value	–	428	–	428
Derivatives	–	1,712	34	1,746

Non-financial assets measured at fair value include pension plan assets. The majority of pension plan assets are considered Level 1 with an insignificant amount in Level 2 or Level 3. The fair value of these assets is $509m, (31 March 2013: $438m; 31 December 2013: $486m) which has been recorded as a reduction of the related pension plan obligation.

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

	Assets		**Liabilities**	
	Available-for-sale $m	**Derivatives $m**	**Held for trading $m**	**Derivatives $m**
At 1 January 2014	**–**	**34**	**9**	**34**
Total gains or losses recognized in profit or loss	**–**	**–**	**–**	**–**
Transfer out	**–**	**(4)**	**(1)**	**(4)**
At 31 March 2014	**–**	**30**	**8**	**30**
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**–**	**–**	**–**	**–**

	Available-for-sale $m	Derivatives $m	Held for trading $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)	–	–	–
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 2014 and 2013, there were no significant transfers between Level 1 and 2.

For a detailed description of fair value and the classification of financial instruments by the bank, please refer to the bank's accounting policies disclosed in Note 2 and Note 24 of the bank's 2013 Annual Report and Accounts.

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At 31 March 2014		At 31 March 2013		At 31 December 2013	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Assets						
Loans and advances to banks	**1,188**	**1,188**	837	837	1,149	1,149
Loans and advances to customers	**41,208**	**41,292**	42,012	46,158	40,524	40,592
Liabilities						
Deposits by banks	**645**	**645**	1,228	1,228	635	635
Customer accounts	**49,456**	**49,522**	47,068	47,190	50,926	51,001
Debt securities in issue	**10,320**	**10,492**	13,720	13,984	11,348	11,498
Subordinated liabilities	**239**	**236**	326	298	239	236

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 of the 2013 Annual Report and Accounts.

Notes on the Financial Statements (unaudited) (continued)

15 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 31 March 2014 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 1 May 2014 and authorized for issue.

Shareholder Information

PRINCIPAL ADDRESSES:

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Aurora Bonin (604) 641-1905

WEBSITE:
www.hsbc.ca

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)

SHAREHOLDER CONTACT:

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

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

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Shareholder Relations – Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
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Shareholder Relations:
Chris Young (604) 642-4389
Harry Krentz (604) 641-1013

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
9th Floor, 100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253

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

2014	
Record Date	Payable Date
13 June	30 June
15 September	30 September
15 December	31 December

2015	
Record Date	Payable Date
13 March	31 March

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

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