HSBC Bank Canada

First Quarter 2016 Interim Report

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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 6,000 offices in over 71 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With assets of US$2,596bn at 31 March 2016, the HSBC Group is one of the world's largest banking and financial services organizations.

Headlines

- Profit before income tax expense for the quarter ended 31 March 2016 was $158m, a decrease of 31.6% compared with the same period in 2015, and an increase of $186m compared with the fourth quarter of 2015.
- Profit attributable to common shareholder was $106m for the quarter ended 31 March 2016, a decrease of 35.0% compared with the same period in 2015, and an increase of $144m compared with the fourth quarter of 2015.
- Return on average common equity was 9.4% for the quarter ended 31 March 2016 compared with 14.5% for the same period in 2015.
- The cost efficiency ratio was 55.3% for the quarter ended 31 March 2016 compared with 54.0% for the same period in 2015, and 69.4% for the fourth quarter ended 2015.
- Total assets were $92.6bn at 31 March 2016 compared with $94.0bn at 31 December 2015.
- Common equity tier 1 capital ratio was 10.0%, tier 1 ratio 12.0% and total capital ratio 13.2% at 31 March 2016 compared with 10.1%, 12.1% and 13.5% respectively at 31 December 2015.

Basis of preparation of financial information

HSBC Bank Canada ('the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc ('HSBC Holdings'). Throughout the Management's Discussion and Analysis ('MD&A'), the HSBC Holdings Group is defined as the 'HSBC Group' or the 'Group'. The MD&A is dated 29 April 2016, the date that our unaudited interim condensed consolidated financial statements and the MD&A for the first quarter ended 31 March 2016 were approved by the Audit and Risk Committee of our Board of Directors.

The bank has prepared its unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'). The information in this MD&A is derived from our unaudited interim condensed 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 interim condensed consolidated financial statements for the first quarter ended 31 March 2016.

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.

Management's Discussion and Analysis

($ millions, except where otherwise stated)	**31 March 2016**	31 March 2015	31 December 2015
Financial performance for the period			
Total operating income	**544**	530	448
Profit/(loss) before income tax expense	**158**	231	(28)
Profit/(loss) attributable to the common shareholder	**106**	163	(38)
Basic earnings/(loss) per common share ($)	**0.21**	0.33	(0.08)
Financial position at period-end			
Loans and advances to customers	**47,873**	42,660	48,378
Customer accounts	**53,830**	50,490	55,089
Ratio of customer advances to customer accounts (%)[1]	**88.9**	84.5	87.8
Shareholders' equity	**5,411**	4,959	5,376
Average total shareholders' equity to average total assets (%)[1]	**5.7**	5.4	5.8
Capital measures[2]			
Common equity tier 1 capital ratio (%)	**10.0**	10.5	10.1
Tier 1 ratio (%)	**12.0**	11.8	12.1
Total capital ratio (%)	**13.2**	13.1	13.5
Leverage ratio (%)[3]	**4.8**	4.6	4.7
Risk-weighted assets ($m)	**43,069**	41,659	42,846
Performance ratios (%)[1]			
Return ratios (%)			
Return on average common shareholder's equity	**9.4**	14.5	(0.9)
Post-tax return on average total assets	**0.46**	0.73	(0.16)
Pre-tax return on average risk-weighted assets[2]	**1.5**	2.3	(0.3)
Credit coverage ratios (%)			
Loan impairment charges to total operating income	**15.6**	3.0	36.6
Loan impairment charges to average gross customer advances and acceptances[1]	**0.7**	0.2	1.5
Total impairment allowances to impaired loans and acceptances at period end[1]	**74.3**	74.8	83.4
Efficiency and revenue mix ratios (%)			
Cost efficiency ratio[1]	**55.3**	54.0	69.4
Adjusted cost efficiency ratio[1]	**55.2**	54.2	69.3
As a percentage of total operating income:			
- net interest income	**51.7**	54.2	62.9
- net fee income	**29.6**	32.5	36.8
- net trading income/(loss)	**12.3**	2.8	(5.1)

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

2 *The bank assesses capital adequacy against standards established in guidelines issued by OFSI in accordance with the Basel III capital adequacy frameworks.*

3 *Leverage ratio replaces assets-to-capital multiple effective 1 January 2015.*

Management's Discussion and Analysis (continued)

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 ratios

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 with average total assets (determined using month-end balances) for the period.

Return ratios

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

Return on average common shareholder's equity is calculated as profit attributable to the common shareholder 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 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 the profit before income tax expense divided by the average monthly balances of risk-weighted assets for the period. Risk-weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

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.

Efficiency and revenue mix ratios

Efficiency and revenue mix ratios are measures of the bank's efficiency in managing its operating expense to generate revenue and demonstrates the contribution of each of the primary revenue streams to total income.

Cost efficiency ratio is calculated as total operating expenses 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 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.

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

Financial performance

Summary consolidated income statement

	Quarter ended		
	31 March 2016	31 March 2016	31 December 2015
	$m	$m	$m
Net interest income	**281**	287	282
Net fee income	**161**	172	165
Net trading income	**67**	15	(23)
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Gains less losses from financial investments	**21**	36	7
Other operating income	**15**	18	18
Total operating income	**544**	530	448
Loan impairment charges and other credit risk provisions	**(85)**	(16)	(164)
Net operating income	**459**	514	284
Total operating expenses	**(301)**	(286)	(311)
Operating profit/(loss)	**158**	228	(27)
Share of profit in associates	**—**	3	(1)
Profit before income tax expense	**158**	231	(28)
Income tax expense	**(43)**	(61)	—
Profit/(loss) for the period	**115**	170	(28)

Overview

HSBC Bank Canada reported a profit before income tax expense of $158m for the first quarter of 2016, a decrease of $73m, or 31.6%, compared with the first quarter of 2015. The decrease is mainly due to higher loan impairment charges due to credit deterioration on specific files in the energy portfolio. Excluding loan impairment charges, operating income net of operating expenses for the first quarter of 2016 is consistent with the first quarter of 2015.

Compared to the fourth quarter of 2015, operating profit increased by $185m due to lower loan impairment charges taken in the quarter and higher trading income due to a favourable change to the Credit Value Adjustment (CVA) in the first quarter of 2016.

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

"In the first quarter, revenues improved by 3% over the same period in 2015. This is attributed to solid performance in our Global Banking and Markets business, where there were strong trading revenues. There was also growth in both our mortgage and mutual fund portfolios in Retail Banking and Wealth Management. Costs improved from the previous quarter. They are well managed, and reflect our investments in our people, processes and technology to improve our efficiency, combat financial crime, as well as deliver the digitized services and global connectivity our customers demand. The downturn in the energy sector continues to weigh on our results and we continue to take the steps necessary to effectively manage our exposure.

"Our business fundamentals remain sound and we are focused on working with our customers to help them realize their financial goals so they can grow here at home and around the world."

Management's Discussion and Analysis (continued)

Performance by income and expense item

Net interest income

Net interest income for the first quarter of 2016 was $281m, a decrease of $6m, or 2.1%, compared with the first quarter of 2015 and a decrease of $1m, or 0.4%, compared with the fourth quarter of 2015. The decrease was mainly due to the continued run-off of the consumer finance portfolio, the impact of two Bank of Canada rate cuts in 2015, and increased liquidity and funding costs. This was partially offset by higher asset balances resulting from growth in residential mortgages, a change in the categorization of banker's acceptances from the fourth quarter of 2015 and onwards from trading assets to loans and advances, as well as yield improvement on commercial loans.

Net fee income

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Credit facilities	**75**	76	73
Funds under management	**43**	44	45
Account services	**15**	18	18
Credit cards	**13**	14	15
Corporate finance	**8**	14	8
Remittances	**8**	8	8
Brokerage commissions	**1**	4	3
Immigrant Investor Program	**3**	3	2
Insurance	**2**	3	2
Trade finance import/export	**2**	3	2
Trustee fees	**1**	2	2
Other	**7**	2	5
Fee income	**178**	191	183
Less: fee expense	**(17)**	(19)	(18)
Net fee income	**161**	172	165

Net fee income for the first quarter of 2016 was $161m, a decrease of $11m, or 6.4%, compared with the first quarter of 2015 and a decrease of $4m, or 2.4%, compared with the fourth quarter of 2015. The decreases are mainly due to reduced account service fees from fee refunds and lower debt capital market volume.

Net trading income

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Trading activities	**64**	12	(34)
Net interest from trading activities	**5**	7	12
Hedge ineffectiveness	**(2)**	(4)	(1)
Net trading income	**67**	15	(23)

Net trading income for the first quarter of 2016 was $67m, an increase of $52m, or 346.7%, compared with the first quarter of 2015, and an increase of $90m compared with the fourth quarter of 2015. Net trading income increased over the comparative periods mainly due to a favourable change to the CVA on derivative contracts due to the tightening of customer credit spreads and the strengthening Canadian dollar. Also, derivative fair value movements were recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading income in 2015.

Other items of income

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Gains less losses from financial investments	**21**	36	7
Other operating income	**15**	18	18
Other items of income	**35**	56	24

The bank has previously designated certain of its own subordinated debentures to be recorded at fair value. Net expense from financial instruments designated at fair value for the first quarter of 2016 was $1m, compared with an income of $2m in the first quarter of 2015 and an expense of $1m for the fourth quarter of 2015. The net expense from financial instruments designated at fair value was caused from marginal narrowing of the bank's own credit spread which increased the fair value of these subordinated debentures. This compares with an income recorded in the prior period which arose from the widening of the bank's own credit spread. Gains less losses from financial investments for the first quarter of 2016 were $21m, a decrease of $15m, or 41.7%, compared with the first quarter of 2015 and an increase of $14m, or 200.0%, compared with the fourth quarter of 2015. Gains on sale of available-for-sale debt securities arise from the continued rebalancing of the Balance Sheet Management liquid asset.

Other operating income for the first quarter of 2016 was $15m, a decrease of $3m, or 16.7%, compared with the first and fourth quarters of 2015. This was primarily due to income received from the sale in the first quarter of 2015 of a small portfolio of impaired loans.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Individually assessed allowances	**77**	16	64
Collectively assessed allowances/(releases)	**6**	(1)	48
Loan impairment charges	**83**	15	112
Other credit risk provisions	**2**	1	52
Loan impairment charges and other credit risk provisions	**85**	16	164

Loan impairment charges and other credit risk provisions for the first quarter of 2016 were $85m, an increase of $69m compared with the first quarter of 2015 and a decrease of $79m compared to the fourth quarter of 2015. The increase in loan impairment charges and other credit risk provisions over the first quarter of 2015 is primarily due to credit deterioration on specific files in the energy portfolio. The decrease over the fourth quarter of 2015 is mainly due to the timing of collective allowances taken on the energy sector.

Total operating expenses

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Employee compensation and benefits	**169**	169	169
General and administrative expenses	**122**	106	131
Depreciation of property, plant and equipment	**7**	7	8
Amortization and impairment of intangible assets	**3**	4	3
Total operating expenses	**301**	286	311

Total operating expenses for the first quarter of 2016 were $301m, an increase of $15m, or 5.2%, compared with the first quarter of 2015 and a decrease of $10m, or 3.2%, compared with the fourth quarter of 2015. Total operating expenses are higher than the first quarter of 2015 mainly due to the adverse impact caused by the lower Canadian dollar on expenses denominated in foreign currencies, and continued investments in the implementation of HSBC's Global Standards and other efficiency initiatives to deliver future savings. Total operating expenses are lower than the fourth quarter of 2015 due to prudent cost management resulting in lower salaries from reduced head count, lower automobile and travel expenses, as well as the timing of certain expenditures.

Share of profit in associates

Share of profit in associates for the first quarter of 2016 was $nil, a decrease of $3m compared with the first quarter of 2015, and an increase of $1m from the fourth quarter of 2015.

Income taxes expense

The effective tax rate in the first quarter of 2016 was 27.0%, compared with 26.8% in the first quarter of 2015 and a 0.2% tax rate recovery in the fourth quarter of 2015. The lower income tax rate in the fourth quarter of 2015 resulted from a net loss position recognized offset against the resolution and closure of multiple tax issues covering a number of years with the Canadian tax authorities.

Movement in financial position

Summary consolidated statement of financial position

	At 31 March 2016	At 31 March 2015	At 31 December 2015
	$m	$m	$m
ASSETS			
Trading assets	**4,908**	8,254	3,893
Derivatives	**4,949**	5,604	4,909
Loans and advances to banks	**1,038**	950	1,400
Loans and advances to customers	**47,873**	42,660	48,378
Reverse repurchase agreements – non-trading	**6,040**	7,361	6,807
Financial investments	**22,588**	19,462	23,935
Customer's liability under acceptances	**4,313**	5,740	3,834
Other assets	**896**	993	868
Total assets	**92,605**	91,024	94,024
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**1,595**	1,177	2,049
Customer accounts	**53,830**	50,490	55,089
Repurchase agreements – non-trading	**5,780**	4,754	6,606
Trading liabilities	**2,672**	4,020	1,713
Derivatives	**5,140**	5,449	5,005
Debt securities in issue	**10,539**	10,316	10,896
Acceptances	**4,313**	5,740	3,834
Other liabilities	**3,325**	3,919	3,456
Total liabilities	**87,194**	85,865	88,648
Equity			
Share capital and other reserves	**2,165**	1,809	2,167
Retained earnings	**3,246**	3,150	3,209
Non-controlling interests	**—**	200	—
Total equity	**5,411**	5,159	5,376
Total equity and liabilities	**92,605**	91,024	94,024

Assets

Total assets at 31 March 2016 were $92.6bn, a decrease of $1.4bn over 31 December 2015. Balance Sheet Management activities decreased financial investments, reverse repurchase agreements - non-trading, and loans and advances to banks by $1.3bn, $0.8bn and $0.4bn respectively. The decrease in loans and advances to customers is driven mainly by lower facility utilization partially offset by increased new-to-bank activities. Trading assets increased by $1.0bn mainly due to the timing of settlement.

Liabilities

Total liabilities at 31 March 2016 were $87.2bn, a decrease of $1.5bn from 31 December 2015. Customer deposit accounts decreased by $1.3bn mainly due to seasonal movement on commercial banking deposits. Balance Sheet Management activities decreased non-trading repurchase agreements by $0.8bn. Subordinated liabilities of $0.2bn was redeemed. This was partially offset by increased trading liabilities of $1.0bn mainly due to higher securities short positions from client facilitation trades.

Management's Discussion and Analysis (continued)

Equity

Total equity at 31 March 2016 was $5.4bn, an increase of $0.04bn from 31 December 2015, mainly due to profits generated in the period.

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 to publicly quoted companies.

Review of financial performance

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Net interest income	**142**	152	145
Net fee income	**79**	80	81
Net trading income	**7**	8	8
Gains less losses from financial investment	**2**	—	—
Other operating income	**6**	5	9
Total operating income	**236**	245	243
Loan impairment charges and other credit risk provisions	**(81)**	(11)	(158)
Net operating income	**155**	234	85
Total operating expenses	**(103)**	(101)	(117)
Operating profit/(loss)	**52**	133	(32)
Share of profit in associates	**—**	3	(1)
Profit/(loss) before income tax expense	**52**	136	(33)

Overview

Commercial banking remains focused on enhancing and simplifying its delivery model, improving productivity to the benefit of its customers and employees, despite headwinds from sustained low energy and commodity prices. The business focuses on deepening our relationships with existing clients while attracting and retaining new customers to the Bank. In the first quarter of 2016, new-to-bank lending activities increased 30% year-over-year while client attrition improved when compared with 2015. The business continues to make tangible strides against our compliance agenda with a number of key milestones achieved in the first quarter.

Profit before income tax expense was $52m for the first quarter of 2016, a decrease of $84m or 62% compared with the first quarter of 2015. Higher loan impairment charges from the energy sector, lower net interest income due to increased liquidity and funding costs and margin compression driven by Bank of Canada rate cuts in 2015 were the main drivers of the decrease. Profit before income tax expense was $85m higher when compared with the fourth quarter of 2015, driven primarily by lower loan impairment charges and lower operating expenses.

Net interest income for the first quarter of 2016 was $142m, a decrease of $10m, or 7%, from the first quarter of 2015 and a decrease of $3m, or 2%, from the fourth quarter of 2015. The decrease in net interest income over comparative periods is mainly due to increased liquidity and funding costs and lower deposit margins driven by two Bank of Canada rate cuts in 2015.

Net fee income for the first quarter of 2016 was $79m, a decrease of $1m, or 1%, compared with the first quarter of 2015, and a decrease of $2m, or 2%,compared with fourth quarter of 2015.

Net trading income for the first quarter of 2016 was $7m, a decrease of $1m, or 13%, compared with the first and fourth quarters of 2015.

Gains less losses from financial investments for the first quarter of 2016 was $2m compared to a nil balance in the first and fourth quarter of 2015, due to a non-recurring gain from the mezzanine fund portfolio.

Other operating income for the first quarter of 2016 was $6m, an increase of $1m, or 20%, compared with the first quarter of 2015, and a decrease of $3m, or 33%, compared with the fourth quarter of 2015. Other operating income decreased over the fourth quarter of 2015 due to non-recurring recovery received in the fourth quarter of 2015.

Loan impairment charges and other credit risk provisions for the first quarter of 2016 was $81m, an increase of $70m, or 636%, compared with the first quarter of 2015 and a decrease of $77m, or 49%, compared with the fourth quarter of 2015. Loan impairment charges and other credit risk provisions increased over the first quarter of 2015 due to credit deterioration on specific files in the energy portfolio. The decrease over the fourth quarter of 2015 mainly reflects an increase in collective allowances taken to the energy sector in December 2015.

Total operating expenses for the first quarter of 2016 were $103m, an increase of $2m, or 2%, compared with the first quarter of 2015 mainly due to continued investments in HSBC's Global Standards and Risk and Compliance functions. Total operating expenses decreased by $14m, or 12%, compared with the fourth quarter of 2015 mainly due to lower restructuring costs and group recharges.

Share of profit in associates represents changes in the value of investments in certain private equity funds. Share of profit in associates for the first quarter of 2016 was nil, a decrease of $3m compared with the first quarter of 2015, and an increase of $1m compared with the fourth quarter of 2015. The variance mainly reflects the mark to market value of the carrying investments.

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 2016	31 March 2015	31 December 2015
	$m	$m	$m
Net interest income	**47**	48	42
Net fee income	**28**	35	26
Net trading income/(loss)	**50**	(6)	(40)
Gains less losses from financial investment	**19**	36	7
Total operating income	**144**	113	35
Loan impairment charges and other credit risk provisions	**—**	(1)	(3)
Net operating income	**144**	112	32
Total operating expenses	**(33)**	(31)	(38)
Profit/(loss) before income tax expense	**111**	81	(6)

Overview

By continuing to leverage HSBC's global network on behalf of its clients, Global Banking and Markets increased trading revenues as well as lending and credit activities while Capital Financing activities decreased during the quarter.

Profit before income tax expense was $111m for the first quarter of 2016, an increase of $30m, or 37%, compared with the first quarter of 2015, and an increase of $117m compared with the fourth quarter of 2015.

Management's Discussion and Analysis (continued)

Financial performance by income and expense item

Net interest income for the first quarter of 2016 was $47m, a decrease of $1m, or 2%, compared with the first quarter of 2015. The decrease is mainly due to the two Bank of Canada rate cuts in 2015, and increased liquidity and funding costs. Net interest income increased $5m, or 12%, compared with the fourth quarter of 2015. The increase is mainly due to the change in categorization of banker's acceptances originated in the fourth quarter of 2015 and onwards from trading assets to loans and advances.

Net fee income for the first quarter of 2016 was $28m, a decrease of $7m, or 20%, compared with the first quarter of 2015 and an increase of $2m, or 8%, compared with the fourth quarter of 2015. The decrease over the first quarter of 2015 is mainly due to decreased debt capital markets fees.

Net trading income for the first quarter of 2016 was $50m, an increase of $56m compared with the first quarter of 2015 and an increase of $90m, compared with the fourth quarter of 2015. Net trading income increased over the comparative periods mainly due to a favourable change to the CVA on derivative contracts due to the tightening of customer credit spreads and the strengthening Canadian dollar. Also, derivative fair value movements were recycled to the income statement due to hedge accounting criteria not having been met, negatively impacting net trading in 2015.

Gains less losses from financial investments for the first quarter of 2016 was $19m, a decrease of $17m, or 47%, compared with the first quarter of 2015 and an increase of $12m, or 171%, compared with the fourth quarter of 2015. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities.

Loan impairment charges and other credit risk provisions for the first quarter of 2016 was nil. Balances in the comparative periods represent movements in the collective allowances.

Total operating expenses for the first quarter of 2016 were $33m, an increase of $2m, or 6%, compared with the first quarter of 2015 and a decrease of $5m, or 13%, compared with the fourth quarter of 2015. Total operating expenses are higher than the first quarter of 2015 mainly due to continued investments in the implementation of HSBC's Global Standards and other efficiency initiatives to deliver future savings. Total operating expenses are lower than the fourth quarter of 2015 due to prudent cost management, as well as the timing of certain expenditures.

Retail Banking and Wealth Management

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

Review of financial performance

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Net interest income	**100**	94	98
Net fee income	**54**	57	57
Net trading income	**5**	6	5
Other operating income	**2**	6	2
Total operating income	**161**	163	162
Loan impairment charges and other credit risk provisions	**(4)**	(4)	(3)
Net operating income	**157**	159	159
Total operating expenses	**(147)**	(136)	(143)
Profit before income tax expense	**10**	23	16

Profit before income tax

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Ongoing Retail Banking and Wealth Management business	**5**	11	9
Run-off consumer finance portfolio	**5**	12	7
Profit before income tax expense	**10**	23	16

Overview

During the quarter, Retail Banking and Wealth Management continued to benefit from growth in residential mortgages and deposits, with a key focus on revenue in a highly competitive low interest rate market environment. Profit before income tax expense was $10m for the first quarter of 2016, a decrease of $13m, or 57%, compared with the first quarter of 2015 and a decrease of $6m, or 38%, compared with the fourth quarter of 2015.

Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was $5m, a decrease of $6m, or 55%, compared with the first quarter of 2015 and a decrease of $4m or 44% compared with the fourth quarter of 2015.

The decreases over comparative periods were primarily due to increased business operating expenses and investment in HSBC's Global Standards and risk and compliance activities, as well as higher loan losses.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2016 was $5m, a decrease of $7m, or 58%, compared to the first quarter of 2015 and a decrease of $2m, or 29%, compared to the last quarter of 2015.

The decreases over comparative periods were primarily due to income received from the sale of a small portfolio of impaired loans in 2015, and the continued run-off of the portfolio.

Financial performance by income and expense item relating to the ongoing business

Net interest income for the first quarter of 2016 was $100m, an increase of $6m, or 6%, compared with the first quarter of 2015 and an increase of $2m, or 2%, compared with the fourth quarter of 2015. Net interest income increased over the comparative periods mainly due to continued growth in retail products offset in part by increased liquidity and funding costs and tighter spreads in a competitive low interest rate environment.

Net fee income for the first quarter of 2016 was $54m, a decrease of $3m, or 5% compared to both the first quarter of 2015 and the fourth quarter of 2015. Net fee income decreased over the comparative periods mainly due to market decrease impacting the value of wealth management products.

Net trading income for the first quarter of 2016 was $5m, a decrease of $1m, or 17% compared to the first quarter of 2015 and largely unchanged compared with the fourth quarter of 2015.

Other operating income for the first quarter of 2016 was $2m, a decrease of $4m, or 67%, compared with the first quarter of 2015 and largely unchanged compared to the fourth quarter of 2015.

Loan impairment charges and other credit risk provisions for the first quarter of 2016 was $4m, largely unchanged compared with the first quarter of 2015 and an increase of $1m, or 33% compared to the fourth quarter of 2015.

Total operating expenses for the first quarter of 2016 was $147m, an increase of $11m, or 8%, compared with the first quarter of 2015 and an increase of $4m, or 3%, compared with the fourth quarter of 2015. Operating expenses increased due to hiring in our Wealth and Premier businesses in line with our growth strategy and continued investment in HSBC's Global Standards program.

Management's Discussion and Analysis (continued)

Other

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

Review of financial performance

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Net interest income	**(8)**	(7)	(3)
Net fee income	**—**	—	1
Net trading income	**5**	7	4
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Other operating income	**7**	7	7
Total operating income	**3**	9	8
Total operating expenses	**(18)**	(18)	(13)
Loss before income tax expense	**(15)**	(9)	(5)

Loss before income tax expense was $15m for the quarter ended 31 March 2016, an increase of $6m, or 67%, compared to the first quarter of 2015 and an increase of $10m, or 200%, compared to the fourth quarter of 2015. The increase in loss compared to the comparative periods is mainly due to the narrowing of credit spreads on financial instruments designated at fair value, and a transitional change in the liquidity funds transfer pricing policy framework, negatively impacting net interest income in the first quarter of 2016.

Summary quarterly performance

Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2015 for more information regarding quarterly trends in performance for 2015 and 2014.

Summary consolidated income statement

	Quarter ended							
	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014
	$m	$m	$m	$m	$m	$m	$m	$m
Total operating income	**544**	448	518	541	530	519	520	539
Profit for the period	**115**	(28)	137	168	170	125	170	182
Profit attributable to common shareholders	**106**	(38)	128	161	163	118	163	172
Profit attributable to preferred shareholders	**9**	10	9	5	4	5	4	8
Profit attributable to non-controlling interests	**—**	—	—	2	3	2	3	2
Basic earnings per common share ($)	**0.21**	(0.08)	0.26	0.32	0.33	0.24	0.32	0.35

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 1.

Refer to the 'Critical accounting policies' section of our Annual Report and Accounts 2015 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 judgment involved, including the use of assumptions and estimation.

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 2015.

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 2016, 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 2016 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 2015 for a discussion of how the bank manages risk on an enterprise wide level, as well as the management of reputation 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 2015 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.

Management's Discussion and Analysis (continued)

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.

Credit risk portfolio by product type

	EAD at 31 March 2016					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Wholesale portfolio						
Sovereign	**20,786**	**229**	**—**	**99**	**70**	**21,184**
Banks	**2,962**	**—**	**81**	**1,912**	**610**	**5,565**
Corporate	**28,364**	**12,143**	**5**	**1,287**	**3,447**	**45,246**
Total	**52,112**	**12,372**	**86**	**3,298**	**4,127**	**71,995**
Retail portfolio						
Residential mortgages	**19,665**	**—**	**—**	**—**	**—**	**19,665**
Home equity lines of credit	**1,854**	**1,045**	**—**	**—**	**—**	**2,899**
Personal unsecured revolving loan facilities	**260**	**223**	**—**	**—**	**—**	**483**
Other personal loan facilities	**1,597**	**178**	**—**	**—**	**3**	**1,778**
Other small to medium enterprises loan facilities	**216**	**253**	**—**	**—**	**18**	**487**
Run-off consumer loan portfolio	**225**	**—**	**—**	**—**	**—**	**225**
Retail Master Card	**349**	**—**	**—**	**—**	**—**	**349**
Total Retail	**24,166**	**1,699**	**—**	**—**	**21**	**25,886**
Total	**76,278**	**14,071**	**86**	**3,298**	**4,148**	**97,881**

Credit risk portfolio by product type

	EAD at 31 December 2015					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Wholesale portfolio						
Sovereign	24,807	195	—	406	70	25,478
Banks	3,549	—	75	1,276	482	5,382
Corporate	29,568	12,995	15	1,917	3,511	48,006
Total	57,924	13,190	90	3,599	4,063	78,866
Retail portfolio						
Residential mortgages	19,239	4	—	—	—	19,243
Home equity lines of credit	1,862	1,040	—	—	—	2,902
Personal unsecured revolving loan facilities	267	224	—	—	—	491
Other personal loan facilities	1,677	186	—	—	5	1,868
Other small to medium enterprises loan facilities	228	262	—	—	18	508
Run-off consumer loan portfolio	254	—	—	—	—	254
Retail Master Card	383	—	—	—	—	383
Total Retail	23,910	1,716	—	—	23	25,649
Total	81,834	14,906	90	3,599	4,086	104,515

Credit risk portfolio by geographic area

	EAD	EAD
	31 March 2016	31 December 2015
	$m	$m
Sovereign		
Canada	**17,507**	20,215
United States of America	**1,418**	2,949
Other	**2,259**	2,314
	21,184	25,478
Banks		
Canada	**2,641**	2,525
United States of America	**1,484**	1,348
Other	**1,440**	1,509
	5,565	5,382
Corporate		
Canada		
British Columbia	**11,361**	11,856
Ontario	**11,699**	12,504
Alberta	**11,314**	11,869
Quebec	**5,839**	6,330
Saskatchewan and Manitoba	**1,812**	1,744
Atlantic provinces	**841**	816
United States of America	**1,639**	1,973
Other	**741**	914
	45,246	48,006
Total wholesale loan portfolio exposure	**71,995**	78,866

Management's Discussion and Analysis (continued)

Loan portfolio by industry

	EAD at 31 March 2016					
	Drawn	**Undrawn**	**Repurchase type transactions**	**Derivatives**	**Other off-balance sheet**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Corporate						
Real Estate	**6,451**	**1,786**	**—**	**100**	**448**	**8,785**
Energy	**3,307**	**2,771**	**—**	**592**	**925**	**7,595**
Manufacturing	**3,829**	**1,657**	**—**	**65**	**329**	**5,880**
Finance and insurance	**1,041**	**864**	**5**	**249**	**115**	**2,274**
Wholesale trade	**2,572**	**1,229**	**—**	**48**	**156**	**4,005**
Services	**2,126**	**575**	**—**	**43**	**159**	**2,903**
Transport and storage	**1,739**	**542**	**—**	**40**	**150**	**2,471**
Business services	**1,097**	**291**	**—**	**7**	**59**	**1,454**
Mining, logging and forestry	**929**	**640**	**—**	**17**	**350**	**1,936**
Construction services	**1,221**	**854**	**—**	**7**	**659**	**2,741**
Automotive	**1,212**	**296**	**—**	**6**	**39**	**1,553**
Retail Trade	**1,135**	**330**	**—**	**98**	**29**	**1,592**
Hotels and accommodation	**747**	**55**	**—**	**6**	**9**	**817**
Agriculture	**579**	**193**	**—**	**10**	**15**	**797**
Sole proprietors	**379**	**60**	**—**	**—**	**3**	**442**
Government Services	**—**	**1**	**—**	**—**	**—**	**1**
Total Corporate	**28,364**	**12,144**	**5**	**1,288**	**3,445**	**45,246**

	EAD at 31 December 2015					
	Drawn	Undrawn	Repurchase type transactions	Derivatives	Other off-balance sheet	Total
	$m	$m	$m	$m	$m	$m
Corporate						
Real Estate	6,226	1,706	—	212	471	8,615
Energy	3,886	2,894	—	721	900	8,401
Manufacturing	3,898	1,811	—	110	345	6,164
Finance and insurance	1,382	948	15	554	161	3,060
Wholesale trade	2,769	1,301	—	35	170	4,275
Services	2,318	594	—	36	138	3,086
Transport and storage	1,808	631	—	38	158	2,635
Business services	1,299	620	—	9	507	2,435
Mining, logging and forestry	959	714	—	33	353	2,059
Construction services	1,025	622	—	17	195	1,859
Automotive	1,064	344	—	6	39	1,453
Retail Trade	977	406	—	94	35	1,512
Hotels and accommodation	711	48	—	5	6	770
Agriculture	433	305	—	46	29	813
Sole proprietors	403	51	—	1	4	459
Government Services	410	—	—	—	—	410
Total Corporate	29,568	12,995	15	1,917	3,511	48,006

Energy Exposures

The following table provides a breakdown of our exposure to energy industries under the AIRB approach. Of these exposures, 57% at 31 March 2016 are investment grade based on our internal risk rating (equivalent to S&P/Moody's rating of BBB-/Baa3 and higher). In light of sustained low oil prices the bank remains selective in this sector and continues to reduce its exposure to energy and related companies

Credit risk portfolio by product type

	EAD at 31 March 2016				
	Drawn	**Undrawn commiments**	**Derivatives**	**Other off-balance sheet exposures**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Pipelines	**349**	**541**	**506**	**22**	**1,418**
Energy services	**1,175**	**713**	**1**	**68**	**1,957**
Exploration development and production	**1,297**	**1,050**	**75**	**545**	**2,967**
Power and utilities	**299**	**234**	**8**	**241**	**782**
Transportation, refining and marketing	**187**	**233**	**2**	**49**	**471**
Total	**3,307**	**2,771**	**592**	**925**	**7,595**

	EAD at 31 December 2015				
	Drawn	Undrawn commiments	Derivatives	Other off-balance sheet exposures	Total
	$m	$m	$m	$m	$m
Pipelines	610	501	630	27	1,768
Energy services	1,322	750	1	85	2,158
Exploration development and production	1,300	1,138	46	512	2,996
Power and utilities	380	278	6	230	894
Transportation, refining and marketing	275	227	37	46	585
Total	3,887	2,894	720	900	8,401

Credit Quality

Credit Quality of Financial Assets

Although overall credit quality at 31 March 2016 remains strong, recent credit metrics has indicated some deterioration in the quality of the portfolio related to Energy and related exposures. This is consistent with the significant reduction in energy prices and was in accordance with our expectations. This resulted in a $47m increase in impaired loans, of which $124m was related to Energy and related exposures offset by reductions in other sectors. The bank uses the classification as outlined in the table below to measure the quality of its loans and advances.

	Wholesale and retail lending		
Quality classification	**External credit rating**	**Internal credit rating**	**12 month probability of default %**
Strong	A– and above	CRR1 to CRR2	0-0.169
Good	BBB+ to BBB-	CCR3	0.170-0.740
Satisfactory	BB+ to B+	CCR4 to CCR5	0.741-4.914
Sub-standard	B to C	CRR6 to CRR8	4.915-99.999
Impaired	Default	CRR9 to CRR10	100

Management's Discussion and Analysis (continued)

Credit quality of wholesale portfolio

	31 March 2016			31 December 2015		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**29,634**	**2,643**	**32,277**	34,860	3,295	38,155
Good	**15,802**	**5,782**	**21,584**	16,054	5,658	21,712
Satisfactory	**11,256**	**3,201**	**14,457**	12,165	3,660	15,825
Sub-standard	**2,331**	**690**	**3,021**	2,066	499	2,565
Impaired	**600**	**56**	**656**	531	78	609
	59,623	**12,372**	**71,995**	65,676	13,190	78,866

The proportion of exposures categorized as Strong or Good decreased from 75.9% at 31 December 2015 to 74.8% at 31 March 2016, while impaired loans increased from $609m to $656m. This was mainly due to deterioration in the quality of the portfolio related to energy and related exposures. This is consistent with the significant reduction in oil prices and was in accordance with our expectations. The wholesale portfolio credit risk EAD decreased by $6,871 million in the quarter due to removal of the trading book portfolio from credit risk EAD following OSFI approval of Market Risk model, a reduction in Balance Sheet Management activities and a reduction in unused loan commitments.

Credit quality of retail portfolio

	March 31, 2016			December 31, 2015		
	EAD Drawn	**EAD Undrawn**	**EAD Total**	EAD Drawn	EAD Undrawn	EAD Total
	$m	**$m**	**$m**	$m	$m	$m
Strong	**10,252**	**—**	**10,252**	10,010	2	10,012
Good	**10,919**	**1,197**	**12,116**	10,989	1,231	12,220
Satisfactory	**2,291**	**451**	**2,742**	2,211	434	2,645
Sub-standard	**663**	**51**	**714**	638	49	687
Impaired	**62**	**—**	**62**	85	—	85
	24,187	**1,699**	**25,886**	23,933	1,716	25,649

The portfolio was generally stable with the proportion of exposures categorized as Strong or Good decreasing from 86.7% at 31 December 2015 to 86.4% at 31 March 2016, while impaired loans declined from $85m to $62m.

Mortgages and home equity lines of credit

The bank's mortgage and home equity lines of credit portfolios are considered to be low-risk since the majority are secured by a first charge against the underlying real estate. The tables below detail how the bank mitigates risk further by diversifying the geographical markets in which it operates as well as benefiting from borrower default insurance. In addition the bank maintains strong underwriting and portfolio monitoring standards to ensure the quality of its portfolio is maintained.

	31 March 2016						
	Residential mortgages					**HELOC[2]**	
Insurance and geographic distribution[1]	**Insured[3]**		**Uninsured**		**Total**	**Uninsured**	
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**918**	**7**	**11,350**	**93**	**12,268**	**895**	**100**
Western Canada[4]	**235**	**18**	**1,086**	**82**	**1,321**	**245**	**100**
Ontario	**689**	**12**	**5,109**	**88**	**5,798**	**608**	**100**
Quebec and Atlantic provinces	**165**	**15**	**950**	**85**	**1,115**	**107**	**100**
Total at 31 March 2016	**2,007**	**10**	**18,495**	**90**	**20,502**	**1,855**	**100**

	31 December 2015						
	Residential mortgages					HELOC[2]	
Insurance and geographic distribution[1]	Insured[3]		Uninsured		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	972	8	10,940	92	11,912	898	100
Western Canada[4]	235	18	1,103	82	1,338	248	100
Ontario	657	12	5,010	88	5,667	606	100
Quebec and Atlantic provinces	166	15	950	85	1,116	110	100
Total at 31 March 2015	2,030	10	18,003	90	20,033	1,862	100

Amortization period[5]	**Residential mortgages**				
	Less than 20 years	**20 - 24 years**	**25- 29 years**	**30 - 34 years**	**35 years and greater**
Total at 31 March 2016	**25%**	**35%**	**39%**	**1%**	**—%**
Total at 31 December 2015	26%	36%	37%	1%	—%

Management's Discussion and Analysis (continued)

For the three months ended:

Average loan-to-value ratios of new originations[6, 7]

	31 March 2016	
	Residential mortgages	HELOC
	%	%
British Columbia	**59**	**51**
Western Canada[4]	**63**	**56**
Ontario	**62**	**56**
Quebec and Atlantic provinces	**60**	**52**
Total at 31 March 2016	**60**	**53**
Total at 31 December 2015	62	55

1 Geographic location is determined by the address of the originating branch.

2 HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.

3 Insured mortgages are protected from potential losses caused by borrower default through the purchase of insurance coverage, either from the Canadian Housing and Mortgage Corporation or other accredited private insurers.

4 Western Canada excludes British Columbia.

5 Amortization period is based on the remaining term of residential mortgages.

6 All new loans and home equity lines of credit were originated by the bank; there were no acquisitions during the period.

7 Loan-to-value ratios are simple averages, based on property values at the date of mortgage origination.

Potential impact of an economic downturn on residential mortgage loans and home equity lines of credit

The bank performs stress testing on its Retail portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macroeconomic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan to Value in the portfolio and risk mitigation strategies in place. The aging analysis below includes past due loans on which collective impairment allowances have been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

Days past due but not impaired loans and advances

	31 March 2016	31 December 2015
	$m	$m
Up to 29 days	**549**	920
30-59 days	**320**	200
60-89 days	**29**	113
90-179 days	**3**	30
Over 180 days	**13**	7
	914	1,270

Impaired loans and allowances for credit losses

When impairment losses occur, we reduce the carrying amount of loans through the use of an allowance account with a charge to income. The allowance for credit losses consists of both individually assessed and collectively assessed allowances, each of which is reviewed on a regular basis. The allowance for credit losses reduces the gross value of an asset to its net carrying value.

An allowance is maintained for credit losses which, in management's opinion, is considered adequate to absorb all incurred credit-related losses in our portfolio, of both on and off-balance sheet items, including deposits with other regulated financial institutions, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates that may be susceptible to significant change. This includes the amount and timing of expected future cash flows and incurred losses for loans that are not individually identified as being impaired.

Individually significant accounts are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used to determine that there is objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past-due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realization.

Individually assessed impairment allowances are recorded on these individual accounts on an account-by-account basis to reduce their carrying value to estimated realizable amount.

The collectively assessed impairment allowance is our best estimate of incurred losses in the portfolio for those individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant. In determining an appropriate level of collectively assessed impairment, we apply the following methodologies:

- *Business and government* - For these loans, the underlying credit metrics including PD, LGD and EAD, for each customer are derived from the bank's internal rating system as a basis for the collectively assessed impairment allowance. In order to reflect the likelihood of a loss event not being identified and assessed an emergence period assumption is applied which reflects the period between a loss occurring and its identification. The emergence period is estimated by management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The emergence period is assessed empirically on a periodic basis and may vary over time as these factors change. The bank also incorporates a quantitative management judgment framework which includes internal and external indicators, to establish an overall collective impairment allowance consistent with recent loss experience and uncertainties in the environment.
- *Residential mortgages* - Historic average loss rates are used to determine the collective provision for these portfolios. Management may consider other current information should they believe that these historic loss rates do not fully reflect incurred losses in these portfolios.
- *Consumer Finance and other consumer loans* - Analysis of historical delinquency movements by product type is used as the basis for the collectively assessed impairment allowance for these loan portfolios. By tracking delinquency movement among pools of homogeneous loans, an estimate of incurred losses in each pool is determined. These estimates can be amended should management believe they do not fully reflect incurred losses. This judgemental adjustment employs an established framework and references both internal and external indicators of credit quality.

In addition to the methodologies outlined above, the balance of the collectively assessed impairment allowance is also analyzed as a function of risk-weighted assets and referenced to the allowances held by our peer group.

Management's Discussion and Analysis (continued)

Impaired financial assets

	EAD 31 March 2016 $m	EAD 31 December 2015 $m
Impaired wholesale portfolio[1]		
Real estate	**55**	62
Energy	**378**	254
Construction services	**51**	18
Manufacturing	**32**	56
Wholesale trade	**43**	48
Agriculture	**2**	5
Automotive	**12**	12
Hotels and accommodation	**7**	7
Mining, logging and forestry	**17**	19
Business services	**25**	81
Sole proprietors	**4**	5
Transportation and storage	**6**	6
Services	**19**	21
Finance and insurance	**1**	1
Retail trade	**4**	14
Total impaired wholesale portfolio	**656**	609
Impaired retail portfolio		
Residential mortgages	**40**	45
Other retail loans	**31**	29
Run off consumer finance portfolio	**39**	44
Total impaired retail portfolio	**110**	118
Total impaired financial assets	**110**	118

1 *Includes $141m (2015: $193m) of impaired acceptances, letters of credit and guarantees*

Impairment allowances

	31 March 2016 $m	31 December 2015 $m
Gross loans and advances to customers		
Individually assessed impaired loans and advances[1] (A)	**521**	502
Collectively assessed loans and advances (B)	**47,863**	48,387
- impaired loans and advances[1]	**47**	48
- non-impaired loans and advances	**47,816**	48,339
Total gross loans and advances to customers (C)	**48,384**	48,889
Less: impairment allowances (c)	**511**	511
-individually assessed (a)	**249**	253
- collectively assessed (b)	**262**	258
Net loans and advances to customers	**47,873**	48,378
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A)	**47.8%**	50.3%
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)	**1.06%**	1.05%

1 *Includes restructured loans with a higher credit quality than 'impaired' and for which there is insufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, or the absence of other indicators of impairment.*

Movement in impairment allowances and provision for credit losses (Audited)

	31 March 2016				31 December 2015			
	Customers individually assessed	**Customers collectively assessed**	**Other credit risk provisions**	**Total**	Customers individually assessed	Customers collectively assessed	Other credit risk provisions	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Opening balance at the beginning of the period	**253**	**258**	**105**	**616**	170	192	76	438
Movement								
Loans and advances written off net of recoveries of previously written off amounts[1]	**(75)**	**(2)**	**—**	**(77)**	(43)	(10)	—	(53)
Charge to income	**77**	**6**	**2**	**85**	129	48	57	234
Other movements	**(6)**	**—**	**—**	**(6)**	(3)	28	(28)	(3)
Closing balance at the end of the period	**249**	**262**	**107**	**618**	253	258	105	616

1 Recovered $7m (2015: $27m) of loans and advances written off in prior periods

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.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time.

Liquidity and funding risk management

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our Annual Report and Accounts 2015 continues to apply. As described therein, from 1 January 2016 the bank, in line with HSBC Group, implemented a new internal liquidity and funding risk management framework. The new internal framework uses the external liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds additional metrics, limits and overlays to address the risks that the bank considers are not adequately reflected by the external regulatory framework.

We continue to monitor liquidity and funding risk within our stated risk appetite and management framework

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards effective 1 January 2015, the bank is required to maintain a Liquidity Coverage Ratio ('LCR') above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 31 March 2016, the bank was compliant with both

The bank's OSFI LCR is summarized in the following table. For the quarter ended 31 March 2016, the bank's average LCR of 129% is calculated as the ratio of the stock of High-Quality Liquid Assets (HQLA) to the total net stressed cash outflows over the next 30 calendar days

OSFI liquidity coverage ratio[1]

Average for the three months ended[1]	**31 Mar 2016**	31 Dec 2015
Total HQLA[2]($m)	**24,299**	24,691
Total net cash outflows[2] ($m)	**18,881**	19,074
Liquidity coverage ratio (%)	**129**	130

1 The data in this table has been calculated using averages of the three month-end figures in the quarter. Consequently, the LCR is an average ratio for the three months of the quarter and might not equal the LCR ratios calculated dividing total weighted HQLA by total weighted net cash outflows.

Management's Discussion and Analysis (continued)

2 These are weighted values and are calculated after the application of the weights prescribed under the OSFI LAR Guideline for HQLA and cash inflows and outflows.

Liquid Assets

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorised as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Our liquid assets decreased by $1.1bn from 31 December 2015, primarily due to seasonal movement of commercial deposits.

Liquid Assets[1, 2]

	At 31 March 2016 $m	At 31 December 2015 $m
Level 1	**20,276**	21,543
Level 2a	**3,095**	2,959
Level 2b	**92**	98
	23,463	24,600

1 *The Liquid Asset balances stated here are as at the above dates (spot rate) and are unweighted and therefore do not match the Liquid Asset balances stated in the LCR ratio calculations which are the average for the quarter and are weighted.*

2 *As described herein, effective 1 January 2016, the bank implemented a new internal liquidity and funding risk management framework which uses the external LCR regulatory framework. The categorization of liquid assets presented above is based on OSFI LCR regulations. Prior period numbers have been re-stated to be in line with this new liquidity framework.*

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 2015 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 average trading VaR was up by $0.7m in March 2016 from March 2015 due to an increase in interest rate risk. Average non-trading VaR over the same period increased by $8m compared to the prior period. The increase in both non-trading and trading VaR is due to the inclusion of more granular risks into the VaR calculation. The VaR model has been enhanced to capture interest rate basis risks.

VAR by risk type for trading activities[1]

	Foreign exchange and commodity	Interest rate	Equity	Credit Spread	Portfolio diversification[2]	Total[3]
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
January - March 2016 .						
At period end	**0.0**	**2.1**	**0.0**	**0.9**	**(0.7)**	**2.2**
Average	**0.1**	**1.6**	**0.0**	**1.0**	**(0.8)**	**1.9**
Minimum	**0.0**	**1.2**	**0.0**	**0.6**		**1.3**
Maximum	**0.5**	**2.4**	**0.0**	**1.2**		**2.5**

	Foreign exchange and commodity	Interest rate	Equity	Credit Spread	Portfolio diversification[2]	Total[3]
	$m	$m	$m	$m	$m	$m
January - March 2015						
At period end.................	0.0	0.5	0.0	1.0	(0.5)	1.1
Average	0.1	0.6	0.0	1.1	(0.5)	1.2
Minimum	0.0	0.2	0.0	0.8		0.8
Maximum	0.3	1.3	0.0	2.8		2.8

1 *Trading portfolios comprise positions arising from the market-making and warehousing of customer derived positions.*

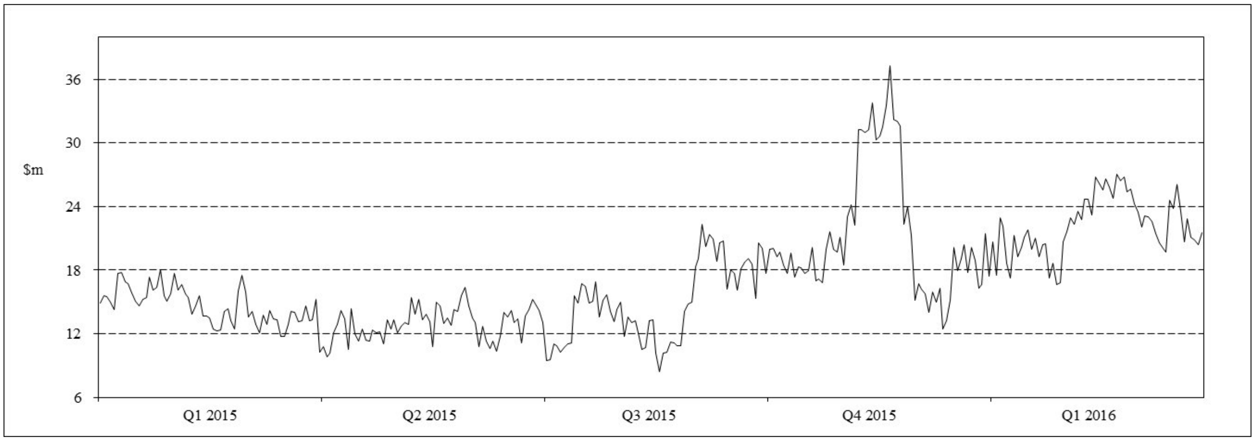
2 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VAR by individual risk type and the combined total VAR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures. Some small differences in figures presented are due to rounding.*

3 The total VAR is non-additive across risk types due to diversification effects

Non-trading value at risk

	Quarter ended 31 March	
	2016	2015
	$m	$m
At period end	**22**	15
Average..	**22**	14
Minimum	**17**	11
Maximum	**27**	18

Total daily VaR



Management's Discussion and Analysis (continued)

Structural Interest Rate Risk

Structural interest rate risk arises primarily out of differences in the term to maturity or repricing of our assets and liabilities, both on- and off-balance sheet.

Refer to the 'Structural Interest Rate Risk' section of our Annual Report and Accounts 2015 for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

Sensitivity of Structural Interest Rate Risk in the non-trading portfolio

At 31 March

	2016		2015	
	Economic value $m	**Earnings at $m**	Economic value $m	Earnings at risk $m
Impact as a result of 100 basis point change in interest rate:				
Increase	**(261)**	**96**	(210)	34
Decrease	**392**	**(80)**	211	(46)

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 2015 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 2015 for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below 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 2016.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

	31 March 2016	31 December 2015
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	**10.0%**	10.1%
Tier 1 capital ratio	**12.0%**	12.1%
Total capital ratio	**13.2%**	13.5%
Leverage ratio	**4.8%**	4.7%
Required regulatory capital limits		
Minimum common equity tier 1 capital ratio	**7.0%**	7.0%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimum total capital ratio	**10.5%**	10.5%

Regulatory capital

Regulatory capital and risk weighted assets

	31 March 2016	31 December 2015
	$m	$m
Tier 1 capital	**5,178**	5,178
Common equity tier 1 capital	**4,328**	4,328
Gross common equity[1]	**4,561**	4,526
Regulatory adjustments	**(233)**	(198)
Additional tier 1 eligible capital[2]	**850**	850
Tier 2 capital[3]	**499**	585
Total capital available for regulatory purposes	**5,677**	5,763
Total risk-weighted assets	**43,069**	42,846

1 *Includes common share capital, retained earnings and accumulated other comprehensive income.*

2 *Includes directly issued capital instruments and instruments issued by a subsidiary which are subject to phase out.*

3 *Includes directly issued capital instruments subject to phase out and collective allowances*

Outstanding Shares and Securities

	At 30 April 2016		
	Dividend or distribution[1]	Number of issued shares and securities	**Carrying value**
	$ per share or security	000's	**$m**
Common shares		498,668	**1,225**
Class 1 Preferred Shares - Class 1			
Series C	0.31875	7,000	**175**
Series D	0.3125	7,000	**175**
Series G	0.25	20,000	**500**
			850

1 *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*

During the first quarter of 2016, the bank declared and paid $48m in dividends on HSBC Bank Canada common shares, a decrease of $40m compared with the same quarter last year. Regular quarterly dividends have been declared on all series of HSBC Bank Canada Class 1 Preferred Shares in the amounts per share noted above and will be paid on 30 June 2016 for shareholders of record on 15 June 2016.

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Financial Statements and Notes on the Financial Statements

Consolidated income statement (unaudited)

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Interest income	**418**	434	417
Interest expense	**(137)**	(147)	(135)
Net interest income	**281**	287	282
Fee income	**178**	191	183
Fee expense	**(17)**	(19)	(18)
Net fee income	**161**	172	165
Trading income excluding net interest income	**62**	8	(35)
Net interest income on trading activities	**5**	7	12
Net trading income	**67**	15	(23)
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Gains less losses from financial investments	**21**	36	7
Other operating income	**15**	18	18
Total operating income	**544**	530	448
Loan impairment charges and other credit risk provisions	**(85)**	(16)	(164)
Net operating income	**459**	514	284
Employee compensation and benefits	**(169)**	(169)	(169)
General and administrative expenses	**(122)**	(106)	(131)
Depreciation of property, plant and equipment	**(7)**	(7)	(8)
Amortization and impairment of intangible assets	**(3)**	(4)	(3)
Total operating expenses	**(301)**	(286)	(311)
Operating profit/(loss)	**158**	228	(27)
Share of profit in associates	**—**	3	(1)
Profit/(loss) before income tax expense	**158**	231	(28)
Income tax expense	**(43)**	(61)	—
Profit/(loss) for the period	**115**	170	(28)
Profit attributable to the common shareholder	**106**	163	(38)
Profit attributable to preferred shareholders	**9**	4	10
Profit attributable to shareholders	**115**	167	(28)
Profit attributable to non-controlling interests	**—**	3	—
Average number of common shares outstanding (000's)	**498,668**	498,668	498,668
Basic earnings per common share	**$ 0.21**	$ 0.33	$ (0.08)

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

Consolidated statement of comprehensive income (unaudited)

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Profit for the period	**115**	170	(28)
Other comprehensive income			
Available-for-sale investments[1]	**(8)**	30	(6)
– fair value gain/(loss)	**10**	77	(1)
– fair value loss transferred to income statement on disposal	**(21)**	(36)	(7)
– income taxes/(recovery)	**3**	(11)	2
Cash flow hedges[1]	**6**	87	15
– fair value (loss)/gain	**81**	(74)	366
– fair value gain/(loss) transferred to income statement	**(72)**	191	(346)
– income (recovery)/taxes	**(3)**	(30)	(5)
Remeasurement of defined benefit plans[2]	**(22)**	(33)	18
– before income taxes	**(30)**	(45)	25
– income taxes	**8**	12	(7)
Other comprehensive loss for the period, net of tax	**(24)**	84	27
Total comprehensive income for the period	**91**	254	(1)
Total comprehensive income for the period attributable to:			
– shareholders	**91**	251	(1)
– non-controlling interests	**—**	3	—
	91	254	(1)

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 'Risk management' and 'Capital' sections within the Management's Discussion and Analysis form an integral part of these consolidated financial statements.

Consolidated balance sheet (unaudited)

	Notes	**31 March 2016 $m**	31 March 2015 $m	31 December 2015 $m
ASSETS				
Cash and balances at central banks		**54**	64	65
Items in the course of collection from other banks		**63**	128	73
Trading assets	4	**4,908**	8,254	3,893
Derivatives	5	**4,949**	5,604	4,909
Loans and advances to banks		**1,038**	950	1,400
Loans and advances to customers		**47,873**	42,660	48,378
Reverse repurchase agreements – non-trading		**6,040**	7,361	6,807
Financial investments	6	**22,588**	19,462	23,935
Other assets		**357**	384	365
Prepayments and accrued income		**254**	238	194
Customers’ liability under acceptances		**4,313**	5,740	3,834
Property, plant and equipment		**106**	118	110
Goodwill and intangible assets		**62**	61	61
Total assets		**92,605**	91,024	94,024
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**1,595**	1,177	2,049
Customer accounts		**53,830**	50,490	55,089
Repurchase agreements – non-trading		**5,780**	4,754	6,606
Items in the course of transmission to other banks		**250**	142	219
Trading liabilities	7	**2,672**	4,020	1,713
Financial liabilities designated at fair value	8	**411**	425	414
Derivatives	5	**5,140**	5,449	5,005
Debt securities in issue		**10,539**	10,316	10,896
Other liabilities		**1,931**	2,319	1,822
Acceptances		**4,313**	5,740	3,834
Accruals and deferred income		**378**	439	474
Retirement benefit liabilities		**316**	355	288
Subordinated liabilities		**39**	239	239
Total liabilities		**87,194**	85,865	88,648
Equity				
Preferred shares		**850**	350	850
Common shares		**1,225**	1,225	1,225
Other reserves		**90**	234	92
Retained earnings		**3,246**	3,150	3,209
Total shareholders’ equity		**5,411**	4,959	5,376
Non-controlling interests		**—**	200	—
Total equity		**5,411**	5,159	5,376
Total equity and liabilities		**92,605**	91,024	94,024

The accompanying notes and Risk management’ and ‘Capital’ sections within the Management’s Discussion and Analysis form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (unaudited)

		Quarter ended		
		31 March 2016	31 March 2015	31 December 2015
	Notes	**$m**	**$m**	**$m**
Cash flows from operating activities				
Profit before tax		**158**	231	(28)
Adjustments for:				
– non-cash items included in profit before tax	10	**101**	35	182
– change in operating assets	10	**820**	(2,806)	(3,178)
– change in operating liabilities	10	**(2,403)**	1,221	920
– tax paid		**(29)**	(54)	(41)
Net cash used in operating activities		**(1,353)**	(1,373)	(2,145)
Cash flows from investing activities				
Purchase of financial investments		**(4,664)**	(4,069)	(3,583)
Proceeds from the sale and maturity of financial investments		**6,003**	4,759	5,035
Purchase of intangibles and property, plant and equipment		**(6)**	(6)	(9)
Net cash from investing activities		**1,333**	684	1,443
Cash flows from financing activities				
Redemption of subordinated liabilities	13	**(200)**	—	—
Dividends paid to shareholders		**(57)**	(92)	(78)
Distributions to non-controlling interests		**—**	(3)	—
Net cash used in financing activities		**(257)**	(95)	(78)
Decrease in cash and cash equivalents		**(277)**	(784)	(780)
Cash and cash equivalents at the beginning of the period		**1,983**	2,337	2,763
Cash and cash equivalents at the end of the period	10	**1,706**	1,553	1,983

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

Consolidated statement of changes in equity (unaudited)

			Other reserves					
	Share capital[1]	**Retained earnings**	**Available-for-sale fair value reserve**	**Cash flow hedging reserve**	**Total other reserves**	**Total shareholders' equity**	**Non-controlling interests**	**Total equity**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 January 2016	**2,075**	**3,209**	**(33)**	**125**	**92**	**5,376**	**—**	**5,376**
Profit for the period	**—**	**115**	**—**	**—**	**—**	**115**	**—**	**115**
Other comprehensive income/(loss), net of tax	**—**	**(22)**	**(8)**	**6**	**(2)**	**(24)**	**—**	**(24)**
Available-for-sale investments	**—**	**—**	**(8)**	**—**	**(8)**	**(8)**	**—**	**(8)**
Cash flow hedges	**—**	**—**	**—**	**6**	**6**	**6**	**—**	**6**
Remeasurement of defined liability/ asset	**—**	**(22)**	**—**	**—**	**—**	**(22)**	**—**	**(22)**
Total comprehensive income for the period	**—**	**93**	**(8)**	**6**	**(2)**	**91**	**—**	**91**
Dividends paid on common shares	**—**	**(48)**	**—**	**—**	**—**	**(48)**	**—**	**(48)**
Dividends paid on preferred shares	**—**	**(9)**	**—**	**—**	**—**	**(9)**	**—**	**(9)**
Shares issued under employee plan	**—**	**1**	**—**	**—**	**—**	**1**	**—**	**1**
At 31 March 2016	**2,075**	**3,246**	**(41)**	**131**	**90**	**5,411**	**—**	**5,411**

			Other reserves					
	Share capital[1]	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Total other reserves	Total shareholders' equity	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2015	1,575	3,108	56	61	117	4,800	200	5,000
Profit for the period		167				167	3	170
Other comprehensive income/(loss), net of tax	—	(33)	30	87	117	84	—	84
Available-for-sale investments	—	—	30	—	30	30	—	30
Cash flow hedges	—	—	—	87	87	87	—	87
Remeasurement of defined liability/ asset	—	(33)	—	—	—	(33)	—	(33)
Total comprehensive income for the period	—	134	30	87	117	251	3	254
Dividends paid on common shares	—	(88)	—	—	—	(88)	—	(88)
Dividends paid on preferred shares	—	(4)	—	—	—	(4)	—	(4)
Distributions to unit holders	—	—	—	—	—	—	(3)	(3)
At 31 March 2015	1,575	3,150	86	148	234	4,959	200	5,159

1 *Share capital is comprised of common shares $1,225m and preferred shares $850m (2015: $350m).*

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

Notes on the Consolidated Financial Statements (unaudited)

1 Basis of preparation and significant accounting policies

HSBC Bank Canada (‘the bank’, ‘we’, ‘our’) is an indirectly wholly-owned subsidiary of HSBC Holdings plc. (‘the Parent’, ‘HSBC Holdings’, "HSBC Group'). Throughout these interim condensed consolidated financial statements (‘Financial Statements’), the ‘HSBC Group’ means the Parent and its subsidiary companies.

a *Compliance with International Financial Reporting Standards*

The Financial Statements have been prepared in accordance with International Accounting Standard (‘IAS’) 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (‘IASB’) and should be read in conjunction with the bank’s 2015 annual consolidated financial statements. The bank’s 2015 annual consolidated financial statements have been prepared in accordance with International Financial Accounting Standards (‘IFRSs’) and accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada (‘OSFI’), as required under Section 308(4) of the Bank Act.

IFRSs comprise accounting standards as issued or adopted by the IASB and its predecessor body as well as interpretations issued or adopted by the IFRS Interpretations Committee and its predecessor body.

A balance sheet as at March 31, 2015 and an income statement, statement of changes in other comprehensive income and cash flows for the three month period ended December 31, 2015 have been included in these interim financial statements as supplementary information using the same accounting policies described above for the Bank's interim financial statements.

b *Future accounting developments*

Future accounting developments have been disclosed in note 1 (b) on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

c *Changes to the presentation of the Financial Statements and notes on the Financial Statements*

There have been no changes to the presentation of the Financial Statements and notes on the Financial Statements.

d *Presentation of information*

The Financial Statements are presented in Canadian dollars, the bank’s functional currency. The abbreviation ‘$m’ represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

e *Critical accounting estimates and assumptions*

The preparation of financial information requires the use of estimates and judgments about future conditions. Management’s selection of accounting policies which contain critical estimates and judgments include: collective impairment provision for loans and advances, accounting and valuation of certain financial instruments, deferred tax assets and measurement of defined benefit obligations. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of these items, it is possible that the outcomes in future reporting periods could differ from those on which management’s estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the Financial Statements. These items are described further in the ‘Critical accounting policies’ section of the Management’s Discussion and Analysis of the bank’s 2015 Annual Report and Accounts.

f *Consolidation*

The Financial Statements comprise the consolidated financial statements of the bank and its subsidiaries as at 31 March 2016. The method adopted by the bank to consolidate its subsidiaries is described in note 1(f) on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

g *Significant accounting policies*

There have been no significant changes to the bank’s significant accounting policies which are disclosed in note 1 (g) to (i) and within the respective notes on the 2015 annual consolidated financial statements of the bank’s 2015 Annual Report and Accounts.

2 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 2016	31 March 2015	31 December 2015
	$m	$m	$m
Pension plans – defined benefit	**4**	4	4
Pension plans – defined contribution	**9**	8	8
Healthcare and other post retirement benefit plans	**3**	4	3
	16	16	15

3 Segment analysis

We manage and report our operations according to the following global lines of business: Commercial Banking, Global Banking and Markets, as well as Retail Banking and Wealth Management. 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 global lines of business 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. The offset of the net impact of these charges and credits is reflected in Global Banking and Markets.

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Commercial Banking			
Net interest income	**142**	152	145
Net fee income	**79**	80	81
Net trading income	**7**	8	8
Gain less losses from financial instruments	**2**	—	—
Other operating income	**6**	5	9
Total operating income	**236**	245	243
Loan impairment charges and other credit risk provisions	**(81)**	(11)	(158)
Net operating income	**155**	234	85
Total operating expenses	**(103)**	(101)	(117)
Operating profit	**52**	133	(32)
Share of profit in associates	**—**	3	(1)
Profit before income tax expense	**52**	136	(33)

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

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Global Banking and Markets			
Net interest income	**47**	48	42
Net fee income	**28**	35	26
Net trading income	**50**	(6)	(40)
Gains less losses from financial investments	**19**	36	7
Other operating income	**—**	—	—
Net operating income	**144**	113	35
Loan impairment charges and other credit risk provisions	**—**	(1)	(3)
Net operating income	**144**	112	32
Total operating expenses	**(33)**	(31)	(38)
Profit before income tax expense	**111**	81	(6)
Retail Banking and Wealth Management			
Net interest income	**100**	94	98
Net fee income	**54**	57	57
Net trading income	**5**	6	5
Gain less losses from financial investments	**2**	6	2
Other operating income	**—**	—	—
Total operating income	**161**	163	162
Loan impairment charges and other credit risk provisions	**(4)**	(4)	(3)
Net operating income	**157**	159	159
Total operating expenses	**(147)**	(136)	(143)
Profit before income tax expense	**10**	23	16
Other			
Net interest expense	**(8)**	(7)	(3)
Net fee income	**—**	—	1
Net trading income	**5**	7	4
Net (expense)/income from financial instruments designated at fair value	**(1)**	2	(1)
Other operating income	**7**	7	7
Total operating income	**3**	9	8
Total operating expenses	**(18)**	(18)	(13)
Loss before income tax expense	**(15)**	(9)	(5)

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

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Other	Total
	$m	**$m**	**$m**	**$m**	**$m**
Quarter ended 31 March 2016					
Net operating income:	**155**	**144**	**157**	**3**	**459**
External	**153**	**132**	**168**	**6**	**459**
Inter-segment	**2**	**12**	**(11)**	**(3)**	**—**
Quarter ended 31 March 2015					
Net operating income:	234	112	159	9	514
External	225	98	182	9	514
Inter-segment	9	14	(23)	—	—
Quarter ended 31 December 2015					
Net operating income:	85	32	159	8	284
External	77	21	178	8	284
Inter-segment	8	11	(19)	—	—

Balance sheet information

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Other	Intersegment	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 31 March 2016						
Loans and advances to customers and acceptances	**24,138**	**3,658**	**24,390**	**—**	**—**	**52,186**
Total assets	**27,265**	**43,661**	**28,856**	**407**	**(7,584)**	**92,605**
Customer accounts	**20,812**	**7,130**	**25,888**	**—**	**—**	**53,830**
Acceptances	**3,127**	**1,186**	**—**	**—**	**—**	**4,313**
Total liabilities	**24,347**	**41,956**	**28,068**	**407**	**(7,584)**	**87,194**
At 31 March 2015						
Loans and advances to customers and acceptances	21,474	3,355	23,571	—	—	48,400
Total assets	28,380	45,579	27,935	420	(11,290)	91,024
Customer accounts	20,382	5,442	24,666	—	—	50,490
Acceptances	4,561	1,179	—	—	—	5,740
Total liabilities	25,435	44,062	27,238	420	(11,290)	85,865
At 31 December 2015						
Loans and advances to customers and acceptances	24,522	3,563	24,127	—	—	52,212
Total assets	28,801	50,161	28,669	411	(14,018)	94,024
Customer accounts	22,684	6,774	25,631	—	—	55,089
Acceptances	2,794	1,040	—	—	—	3,834
Total liabilities	25,828	48,537	27,890	411	(14,018)	88,648

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

4 Trading assets

	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Trading assets:			
not subject to repledge or resale by counterparties	**3,133**	6,997	2,651
which may be repledged or resold by counterparties	**1,775**	1,257	1,242
	4,908	8,254	3,893
Canadian and Provincial Government bonds[1]	**2,635**	2,879	2,247
Debt securities	**917**	442	778
Total debt securities	**3,552**	3,321	3,025
Bankers acceptances	**—**	3,326	—
Customer trading assets	**793**	1,170	226
Treasury and other eligible bills	**290**	335	642
Trading assets from other banks	**185**	83	—
Equity securities	**88**	19	—
	4,908	8,254	3,893

1 *Including government guaranteed bonds*

Banker's acceptances in the fourth quarter 2015 and onwards, were categorized as loans and advances on the balance sheet.

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 11 of the bank's Annual Report and Accounts 2015.

Fair values of derivatives by product contract type held

	At 31 March 2016					
	Assets			**Liabilities**		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Foreign exchange	**3,376**	**—**	**3,376**	**3,303**	**159**	**3,462**
Interest rate	**1,243**	**293**	**1,536**	**1,214**	**432**	**1,646**
Commodity	**32**	—	**32**	**32**	—	**32**
Equity	**5**	**—**	**5**	**—**	**—**	**—**
Gross total fair values	**4,656**	**293**	**4,949**	**4,549**	**591**	**5,140**

	At 31 March 2015					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	3,906	287	4,193	3,757	340	4,097
Interest rate	979	321	1,300	942	310	1,252
Commodity	100	—	100	100	—	100
Equity	11	—	11	—	—	—
Gross total fair values	4,996	608	5,604	4,799	650	5,449

	At 31 December 2015					
	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	$m	$m	$m	$m	$m	$m
Foreign exchange	3,729	—	3,729	3,637	190	3,827
Interest rate	827	286	1,113	841	276	1,117
Commodity	61	—	61	61	—	61
Equity	6	—	6	—	—	—
Gross total fair values	4,623	286	4,909	4,539	466	5,005

Trading derivatives

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

	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Foreign exchange contracts	**124,333**	119,937	137,005
Interest rate contracts	**82,872**	54,332	53,356
Commodity contracts	**122**	208	91
Equities	**44**	126	67
	207,371	174,603	190,519

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 Consolidated Financial Statements (unaudited) (continued)

Hedging instruments

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

	31 March 2016		31 March 2015		31 December 2015	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**1,977**	**—**	4,271	—	2,056	—
Interest rate	**9,068**	**14,642**	12,218	12,076	10,027	15,485

Fair value of derivatives designated as fair value hedges

	31 March 2016		31 March 2015		31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Interest rate	**97**	**409**	97	290	104	258

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

	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Gains/(losses)			
- on hedging instruments	**(177)**	(113)	30
- on hedged items attributable to the hedged risk	**176**	112	(30)

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

	31 March 2016		31 March 2015		31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
	$m	**$m**	$m	$m	$m	$m
Foreign exchange	**—**	**159**	287	340	—	190
Interest rate	**195**	**24**	224	20	182	18

6 Financial investments

	31 March 2016 $m	31 March 2015 $m	31 December 2015 $m
Financial investments			
Not subject to repledge or resale by counterparties	**19,539**	17,490	20,325
Which may be repledged or resold by counterparties	**3,049**	1,972	3,610
	22,588	19,462	23,935
Available-for-sale			
Canadian and Provincial Government bonds[1]	**16,734**	13,043	16,752
International Government bonds[1]	**3,192**	3,768	4,729
Debt securities issued by banks and financial institutions	**2,338**	1,907	2,139
Treasury and eligible bills	**287**	726	279
Other securities	**37**	18	36
	22,588	19,462	23,935

1 *Includes government guaranteed bonds.*

7 Trading liabilities

	31 March 2016 $m	31 March 2015 $m	31 December 2015 $m
Other liabilities – net short positions	**2,208**	1,987	1,571
Customer trading liabilities	**257**	1,326	134
Trading liabilities due to other banks	**201**	690	—
Other debt securities in issue	**6**	17	8
	2,672	4,020	1,713

8 Financial liabilities designated at fair value

	31 March 2016 $m	31 March 2015 $m	31 December 2015 $m
Subordinated debentures	**411**	425	414

The carrying amount at 31 March 2016 of financial liabilities designated at fair value was $11m higher (31 March 2015: $25m higher; 31 December 2015: $14m higher) than the contractual amount at maturity. At 31 March 2016, the cumulative amount of change in fair value attributable to changes in credit risk was nil (31 March 2015: $2m gain; 31 December 2015: nil).

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

9 Fair values of financial instruments

Control framework

Basis 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 Financial Statements.

	Valuation techniques			
	Level 1 Quoted market price	**Level 2 using observable inputs**	**Level 3 with significant unobservable inputs**	**Total**
	$m	**$m**	**$m**	**$m**
At 31 March 2016				
Assets				
Trading assets	**2,943**	**1,965**	**—**	**4,908**
Derivatives	**—**	**4,949**	**—**	**4,949**
Financial investments: available-for-sale	**19,260**	**3,328**	**—**	**22,588**
Liabilities				
Trading liabilities	**1,812**	**855**	**5**	**2,672**
Financial liabilities at fair value	**—**	**411**	**—**	**411**
Derivatives	**—**	**5,140**	**—**	**5,140**
At 31 March 2015				
Assets				
Trading assets	2,980	5,274	—	8,254
Derivatives	—	5,562	42	5,604
Financial investments: available-for-sale	16,258	3,204	—	19,462
Liabilities				
Trading liabilities	1,848	2,166	6	4,020
Financial liabilities at fair value	—	425	—	425
Derivatives	—	5,407	42	5,449
At 31 December 2015				
Assets				
Trading assets	2,770	1,123	—	3,893
Derivatives	—	4,909	—	4,909
Financial investments: available-for-sale	21,204	2,731	—	23,935
Liabilities				
Trading liabilities	1,235	472	6	1,713
Financial liabilities at fair value	—	414	—	414
Derivatives	—	5,005	—	5,005

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

	Assets	Liabilities	
	Derivatives	**Held for trading**	**Derivatives**
	$m	**$m**	**$m**
At 1 January 2016	**—**	**6**	**—**
Settlements	—	**(1)**	—
At 31 March 2016	—	**5**	—
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

	Assets	Liabilities	
	Derivatives	Held for trading	Derivatives
	$m	$m	$m
At 1 January 2015	40	6	40
Total gains or losses recognized in profit or loss	9	—	9
Transfer out	(7)	—	(7)
At 31 March 2015	42	6	42
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

During 2016 and 2015, 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 24 of the bank's 2015 Annual Report and Accounts.

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

	31 March 2016		31 March 2015		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
	$m	**$m**	$m	$m	$m	$m
Assets						
Loans and advances to banks	**1,038**	**1,038**	950	950	1,400	1,400
Loans and advances to customers	**47,873**	**47,928**	42,660	42,749	48,378	48,444
Reverse repurchase agreement	**6,040**	**6,040**	7,361	7,361	6,807	6,807
Liabilities						
Deposits by banks	**1,595**	**1,595**	1,177	1,177	2,049	2,049
Customer accounts	**53,800**	**53,843**	50,490	50,558	55,089	55,121
Repurchase agreements	**5,780**	**5,780**	4,754	4,754	6,606	6,606
Debt securities in issue	**10,539**	**10,610**	10,316	10,522	10,896	10,960
Subordinated liabilities	**40**	**16**	239	234	239	217

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

10 Notes on the statement of cash flows

	Quarter ended		
	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Non-cash items included in profit before tax			
Depreciation and amortization	**10**	11	11
Share-based payment expense	**2**	4	3
Loan impairment charges and other credit risk provisions	**85**	16	164
Charge for defined benefit pension plans	**4**	4	4
	101	35	182
Change in operating assets			
Change in prepayment and accrued income	**(60)**	(52)	63
Change in net trading securities and net derivatives	**(23)**	448	2,588
Change in loans and advances to customers	**420**	(1,457)	(5,634)
Change in reverse repurchase agreements - non-trading	**972**	(989)	(1,040)
Change in other assets	**(489)**	(756)	845
	820	(2,806)	(3,178)
Change in operating liabilities			
Change in accruals and deferred income	**(96)**	(85)	18
Change in deposits by banks	**(454)**	496	(10)
Change in customer accounts	**(1,259)**	(353)	3,252
Change in repurchase agreements – non-trading	**(826)**	700	(665)
Change in debt securities in issue	**(357)**	(294)	(507)
Change in financial liabilities designated at fair value	**(3)**	—	(3)
Change in other liabilities	**592**	757	(1,165)
	(2,403)	1,221	920
Interest			
Interest paid	**(146)**	(169)	(142)
Interest received	**363**	400	478

Cash and cash equivalents

	At 31 March 2016	At 31 March 2015	At 31 December 2015
	$m	$m	$m
Cash and balances at central bank	**54**	64	65
Items in the course of collection from other banks, net	**(187)**	(14)	(146)
Loans and advances to banks of one month or less	**1,038**	950	1,400
Reverse repurchase agreements with banks of one month or less	**640**	402	435
T-Bills and certificates of deposits – three months or less	**161**	151	229
	1,706	1,553	1,983

11 Contingent liabilities, contractual commitments and guarantees

	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**5,698**	5,216	5,585
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend[1]	**38,127**	37,916	39,951
Documentary credits and short-term trade-related transactions	**436**	613	557
	38,563	38,529	40,508

1 *Based on original contractual maturity.*

12 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings 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

	31 March 2016	31 March 2015	31 December 2015
	$m	$m	$m
Income Statement			
Interest income	**4**	9	5
Interest expense	**(6)**	(2)	(4)
Fee income	**4**	8	16
Fee expense	**(1)**	(1)	(1)
Other operating income	**11**	9	12
General and administrative expenses	**(42)**	(29)	(44)

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

13 Subordinated liabilities

Subordinated debentures, which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors, comprise:

		Carrying amount		
	Year of Maturity	**31 March 2016**	31 March 2015	31 December 2015
Interest rate (%)		**$m**	$m	
Issued to third parties				
4.94[1]	2021	**—**	200	200
4.80[2]	2022	**411**	425	414
30 day bankers' acceptance rate plus 0.50%	2083	**39**	39	39
Total debentures		**450**	664	653
Less: designated at fair value		**(411)**	(425)	(414)
Debentures at amortized cost		**39**	239	239

1 *The interest rate is fixed at 4.94% until March 2016 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1%. On 18 January 2016, the bank announced its intention to redeem all $200m of its 4.94% subordinated debentures. In accordance with the terms, it will be redeemed at 100% of their principal amount plus accrued interest to the redemption date. The redemption occurred on 16 March 2016.*

2 *Interest rate is fixed at 4.8% until April 2017 and thereafter interest is payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%. These debentures are designated as held for trading under the fair value option.*

14 Legal proceedings and regulatory matters

The bank is subject to a number of legal proceedings arising in the normal course of our business. The bank does not expect the outcome of any of these proceedings, in aggregate, to have a material effect on its consolidated balance sheet or its consolidated income statement.

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 2016 consolidated financial statements.

These accounts were approved by the Board of Directors on 29 April 2016 and authorized for issue.

Shareholder Information

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HSBC BANK CANADA SECURITIES ARE LISTED ON TORONTO STOCK EXCHANGE:

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

SHAREHOLDER CONTACT:

For change of address, shareholders are requested to contact their brokers.

For general information, please write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address or by e-mail to service@computershare.com.

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

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8th Floor, 100 University Avenue
Toronto, Ontario
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DIVIDEND DATES:

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

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

Designation of eligible dividends:
For the purposes of the *Income Tax Act* (Canada), and any similar provincial legislation, HSBC Bank Canada advises that all of its dividends paid to Canadian residents in 2006 and subsequent years are eligible dividends unless indicated otherwise.

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