



## First Quarter 2015 Interim Report

### 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 6,100 offices in over 73 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,670bn at 31 March 2015, 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 2015 was \$231m, in line with the same period in 2014 but an increase of 12.1% compared with the fourth quarter of 2014.
- Profit attributable to common shareholder was \$163m for the quarter ended 31 March 2015, an increase of 1.9% compared with the same period in 2014.
- Return on average common equity was 14.5% for the quarter ended 31 March 2015 compared with 15.0% for the same period in 2014.
- The cost efficiency ratio was 54.0% for the quarter ended 31 March 2015 compared with 51.9% for the same period in 2014.
- Total assets were \$91.0bn at 31 March 2015 compared with \$88.2bn at 31 December 2014.
- Common equity tier 1 capital ratio was 10.5%, tier 1 ratio 11.8% and total capital ratio 13.1% at 31 March 2015 compared with 10.6%, 12.0% and 13.5% respectively at 31 December 2014.

### 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 30 April 2015, the date that our unaudited consolidated financial statements and MD&A for the first quarter ended 31 March 2015 were approved by the Audit and Risk Committee of our Board of Directors.

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

The references to 'notes' throughout this MD&A refer to notes on the unaudited consolidated financial statements for the first quarter ended 31 March 2015.

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](http://www.sedar.com).

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## Management's Discussion and Analysis

### Financial summary

( \$ millions, except where otherwise stated)

	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
<b>Financial performance for the period</b>			
Total operating income .....	530	532	519
Profit before income tax expense .....	231	233	206
Profit attributable to common shareholder .....	163	160	118
Basic earnings per common share (\$) .....	0.33	0.32	0.24
<b>Financial position at period-end</b>			
Loan and advances to customers .....	42,660	41,208	41,219
Customer accounts .....	50,490	49,456	50,843
Ratio of customer advances to customer accounts (%) <sup>f</sup> .....	84.5	83.3	81.1
Shareholders' equity .....	4,959	4,969	4,800
Average total shareholders' equity to average total assets (%) <sup>f</sup> .....	5.4	5.8	5.5
<b>Capital measures<sup>2</sup></b>			
Common equity tier 1 capital ratio (%) .....	10.5	10.8	10.6
Tier 1 ratio (%) .....	11.8	12.9	12.0
Total capital ratio (%) .....	13.1	14.5	13.5
Assets-to-capital multiple <sup>3</sup> .....	n/a	15.3	17.1
Leverage ratio (%) <sup>3</sup> .....	4.6	n/a	n/a
Risk-weighted assets .....	41,659	38,466	40,269
<b>Performance ratios (%)<sup>1</sup></b>			
<b>Return ratios (%)</b>			
Return on average common shareholder's equity .....	14.5	15.0	10.5
Post-tax return on average total assets .....	0.73	0.76	0.54
Pre-tax return on average risk-weighted assets <sup>2</sup> .....	2.3	2.5	2.0
<b>Credit coverage ratios (%)</b>			
Loan impairment charges to total operating income .....	3.0	4.9	7.0
Loan impairment charges to average gross customer advances and acceptances .....	0.2	0.3	0.3
Total impairment allowances to impaired loans and acceptances at period-end .....	74.8	62.0	69.9
<b>Efficiency and revenue mix ratios (%)</b>			
Cost efficiency ratio .....	54.0	51.9	53.6
Adjusted cost efficiency ratio .....	54.2	51.7	53.5
As a percentage of total operating income:			
- net interest income .....	54.2	57.7	56.8
- net fee income .....	32.5	29.1	32.6
- net trading income .....	2.8	7.3	7.5

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 OSFI 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<sup>(continued)</sup>

### 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 to which 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 year-end balances.

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

#### 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 annual profit attributable to the common shareholder divided by average common equity (determined using month-end balances).

**Post-tax return on average total assets** is calculated as annual profit attributable to common shareholders divided by average assets (determined using average month-end balances).

**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 year. Risk-weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel III capital adequacy framework (2012: Risk weighted assets are calculated using the guidelines issued by OSFI in accordance with the Basel II capital adequacy framework).

#### 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 year.

**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).

**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 year-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 annual total operating expenses as a percentage of annual total operating income.

**Adjusted cost efficiency ratio** is calculated similar to the cost efficiency ratio; however, annual total operating income excludes annual 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 annual net interest income, annual net fee income and annual net trading income divided by annual total operating income.

## Financial performance

### Summary consolidated income statement

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Net interest income .....	287	307	295
Net fee income.....	172	155	169
Net trading income.....	15	39	39
Net income / (expense) from financial instruments designated at fair value .....	2	(2)	(1)
Gains less losses from financial investments.....	36	19	3
Other operating income.....	18	14	14
Total operating income .....	530	532	519
Loan impairment charges and other credit risk provisions .....	(16)	(26)	(37)
Net operating income.....	514	506	482
Total operating expenses.....	(286)	(276)	(278)
Operating profit.....	228	230	204
Share of profit in associates .....	3	3	2
Profit before income tax expense .....	231	233	206
Income tax expense.....	(61)	(61)	(81)
Profit for the period.....	170	172	125

### Overview

HSBC Bank Canada reported a profit before income tax expense of \$231m for the first quarter of 2015, a decrease of \$2m, or 0.9%, compared with the first quarter of 2014 and an increase of \$25m, or 12.1%, compared with the fourth quarter of 2014.

The impact of higher fee income arising from increased capital market activities, growth in our Commercial and Global Banking and Market portfolios and increased gains on sales of available-for-sale securities was more than offset by the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met. Results also continue to be negatively impacted by competitive pressures in the low interest rate environment and run-off of the consumer finance portfolio.

The increase in profit before income tax expense compared with the fourth quarter of 2014, in addition to

the factors noted above, also benefitted from lower specific loan impairment charges.

Commenting on the results, Paulo Maia, President and Chief Executive Officer of HSBC Bank Canada, said: I am happy to report growth in both fees and business volumes across all three business lines. There have been increases in Global Banking and Commercial lending, residential mortgages, wealth balances and capital markets activity in the quarter, and there is good momentum carrying us into the second quarter. The business continues to face challenges from the low interest rate environment and a delicate balance needs to be kept between investing in our business and managing costs. However, I am pleased with the growth we have achieved by providing the expertise and tools our clients need to do business internationally and helping internationally minded individuals to manage their finances.”

## Management's Discussion and Analysis (continued)

### Performance by income and expense item

#### Net interest income

Net interest income for the first quarter of 2015 was \$287m, a decrease of \$20m, or 6.5%, compared with the first quarter of 2014 and a decrease of \$8m, or 2.7%, compared with the fourth quarter of 2014. The decrease was primarily due to competitive low interest rate environment including the impact of the Bank of Canada rate cut and the impact of the continued run-off of the

higher yielding consumer finance portfolio. This was partially offset by increases associated with the growth in commercial loans and residential mortgages. The reduction of net interest income for the first quarter of 2015 compared to the fourth quarter of 2014 also reflects the impact of two less days in the quarter.

#### Net fee income

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Credit facilities.....	76	68	72
Funds under management .....	44	37	42
Account services .....	18	19	19
Credit cards.....	14	14	16
Corporate finance.....	14	8	9
Remittances.....	8	8	8
Brokerage commissions .....	4	3	4
Immigrant Investor Program .....	3	4	4
Insurance.....	3	3	3
Trade finance import/export.....	3	2	1
Trustee fees .....	2	1	1
Other.....	2	5	8
Fee income.....	191	172	187
Less: fee expense .....	(19)	(17)	(18)
Net fee income.....	172	155	169

Net fee income for the first quarter of 2015 was \$172m, an increase of \$17m, or 11.0%, compared with the first quarter of 2014 and an increase of \$3m, or 1.8%, compared with the fourth quarter of 2014. These increases were primarily due to higher credit fees resulting from

increased standby and syndication fees as well as higher fees from growth in funds under management. Corporate finance fees were higher due to increased advisory, debt capital market and leveraged and acquisition finance activities.

#### Net trading income

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Trading activities .....	12	33	27
Net interest from trading activities.....	7	3	11
Hedge effectiveness .....	(4)	3	1
Net trading income.....	15	39	39

Net trading income for the first quarter of 2015 was \$15m, a decrease of \$24m, or 61.5%, compared with both the first quarter of 2014 and the fourth quarter of 2014. The decrease is mostly due to the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met. This was

partially offset by the improved performance of the rates trading desk and from the flow of derivative transactions. The initial adoption in the fourth quarter of 2014 of a fair value adjustment reflecting the funding of uncollateralised derivative exposures also had an impact.

## Other items of income

	Quarter ended		
	31 March	31 March	31 December
	2015	2014	2014
	\$m	\$m	\$m
Net income / (expense) from financial instruments designated at fair value .....	2	(2)	(1)
Gains less losses from financial investments.....	36	19	3
Other operating income.....	18	14	14
Other items of income.....	56	31	16

The bank has previously designated certain of its own subordinated debentures to be recorded at fair value. Net income from financial instruments designated at fair value for the first quarter of 2015 was \$2m, compared with an expense of \$2m and \$1m respectively in the first and fourth quarters of 2014. The net income from financial instruments designated at fair value results from marginal widening of the bank's own credit spread which decreased the fair value of these subordinated debentures. This compared with an expense recorded in comparative periods which arose from the narrowing of the bank's own credit spread.

Gains less losses from financial investments for the first quarter of 2015 were \$36m, an increase of \$17m, or 89.5%, compared with the first quarter of 2014 and an increase of \$33m compared with the fourth quarter of 2014. Higher gains on sale of available-for-sale debt securities arose from the continued rebalancing of the Balance Sheet Management portfolio.

Other operating income for the first quarter of 2015 was \$18m, an increase of \$4m, or 28.6%, compared with the first and fourth quarters of 2014. This was primarily due to income received from the sale in the first quarter of 2015 of a small portfolio of impaired loans.

## Loan impairment charges and other credit risk provisions

	Quarter ended		
	31 March	31 March	31 December
	2015	2014	2014
	\$m	\$m	\$m
Individually assessed allowances .....	16	15	43
Collectively assessed allowances/(releases) .....	(1)	6	(12)
Loan impairment charges.....	15	21	31
Other credit risk provisions.....	1	5	6
Loan impairment charges and other credit risk provisions .....	16	26	37

Loan impairment charges and other credit risk provisions for the first quarter of 2015 were \$16m, a decrease of \$10m and \$21m respectively compared with the first quarter and the fourth quarter of 2014. The decrease in loan impairment charges and other credit risk provisions is primarily as a result of lower specifically assessed wholesale allowances and lower collectively assessed personal allowances due to the smaller consumer finance portfolio as the run-off continues, and lower levels of

other personal lending. As a result of deteriorating credit metrics relating to the bank's energy portfolio and related services, there has been an increase in the component of the wholesale collective allowance related to these exposures. However, this has been offset by a reduction in the collective allowance relating to the loss emergence period. This is further addressed in the impaired allowance section on page 14.

## Total operating expenses

	Quarter ended		
	31 March	31 March	31 December
	2015	2014	2014
	\$m	\$m	\$m
Employee compensation and benefits .....	169	159	152
General and administrative expenses .....	106	104	114
Depreciation of property, plant and equipment .....	7	8	8
Amortization and impairment of intangible assets .....	4	5	4
Total operating expenses.....	286	276	278

## Management's Discussion and Analysis<sup>(continued)</sup>

Total operating expenses for the first quarter of 2015 were \$286m, an increase of \$10m or 3.6%, and \$8m or 2.9% compared with the first and the fourth quarters of 2014 respectively. Total operating expenses are higher than the first quarter last year primarily due to continued investment in growing our Global Businesses capabilities, and to continued investments in the implementation of HSBC's Global Standards and other risk and compliance

### Share of profit in associates

Share of profit in associates for the first quarter of 2015 was \$3m, little changed compared with the first and fourth quarters of 2014.

### Income taxes expense

The effective tax rate in the first quarter of 2015 was 26.8%, compared with 26.5% in the first quarter of 2014 and 39.7% in the fourth quarter of 2014. The higher income tax expense in the fourth quarter of 2014 resulted

activities. Employee compensation and benefits are higher than the fourth quarter last year mainly due to front-loaded social security costs and increase in health care costs, while the fourth quarter of 2014 also included a reduction of performance-based compensation. General and administrative expenses are lower than in the fourth quarter of 2014 mainly due to the timing of certain expenditures.

from 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 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
<b>ASSETS</b>			
Trading assets .....	8,254	5,962	8,914
Derivatives.....	5,604	2,121	4,082
Loans and advances to banks .....	950	1,188	1,264
Loans and advances to customers .....	42,660	41,208	41,219
Reverse repurchase agreements – non-trading .....	7,361	7,748	6,714
Financial investments.....	19,462	19,570	20,122
Customers' liability under acceptances .....	5,740	5,578	5,023
Other assets .....	993	956	866
Total assets.....	<b>91,024</b>	<b>84,331</b>	<b>88,204</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits by banks .....	1,177	645	681
Customer accounts.....	50,490	49,456	50,843
Repurchase agreements – non-trading.....	4,754	2,037	4,054
Trading liabilities .....	4,020	5,471	4,227
Derivatives.....	5,449	1,859	3,885
Debt securities in issue.....	10,316	10,320	10,610
Acceptances .....	5,740	5,578	5,023
Other liabilities .....	3,919	3,796	3,881
Total liabilities.....	<b>85,865</b>	<b>79,162</b>	<b>83,204</b>
<b>Equity</b>			
Share capital and other reserves .....	1,809	1,974	1,692
Retained earnings.....	3,150	2,995	3,108
Non-controlling interests.....	200	200	200
Total equity.....	<b>5,159</b>	<b>5,169</b>	<b>5,000</b>
Total equity and liabilities.....	<b>91,024</b>	<b>84,331</b>	<b>88,204</b>

### Assets

Total assets at 31 March 2015 were \$91.0bn, an increase of \$2.8bn over 31 December 2014. Loans and advances to

customers increased by \$1.4bn and customer acceptances increased by \$0.7bn due to increased utilization of



customer credit facilities. Derivatives increased by \$1.5bn due to the impact of recent changes in the value of the US dollar on values of forward foreign exchange contracts. This was matched by similar increases in the mark to

market value of derivative liabilities, offset by a reduction in trading assets of \$0.7bn due to lower outstanding settlement balances.

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## Liabilities

Total liabilities at 31 March 2015 were \$85.8bn, an increase of \$2.6bn from 31 December 2014. Derivatives increased \$1.6bn due to client activities and the impact of foreign exchange movements on forward foreign

exchange positions as noted above. Liabilities under customer acceptances increased by \$0.7bn arising from increased customer utilization.

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## Equity

Total equity at 31 March 2015 was \$5.2bn, an increase of \$0.2bn from 31 December 2014, primarily due to profits generated in the period.

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## Global lines of business

### Commercial Banking

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

### Review of financial performance

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Net interest income.....	152	168	161
Net fee income.....	80	79	85
Net trading income.....	8	6	7
Other operating income.....	5	6	5
Total operating income.....	245	259	258
Loan impairment charges and other credit risk provisions.....	(11)	(12)	(38)
Net operating income.....	234	247	220
Total operating expenses.....	(101)	(101)	(103)
Operating profit.....	133	146	117
Share of profit in associates.....	3	3	2
Profit before income tax expense.....	136	149	119

### Overview

Commercial Banking continues to make progress in growing our business and streamlining processes. Lending balances grew by over \$1bn in the first quarter of 2015 and the number of new-to-bank lending customers increased 17% since the first quarter of 2014. Significant improvements were seen in the credit application and client on-boarding processes.

Profit before income tax expense was \$136m for the first quarter of 2015, a decrease of \$13m, or 9%, compared with the first quarter of 2014 and an increase of \$17m, or 14%, compared with the fourth quarter of 2014. The decrease from the first quarter of 2014 was primarily due to lower net interest income arising from competitive pressures in the low interest rate environment. The increase over the fourth quarter of 2014 is due to lower specific loan impairment charges partially offset by lower net interest and net fee income.

### Financial performance by income and expense item

*Net interest income* for the first quarter of 2015 was \$152m, a decrease of \$16m, or 10% compared with the first quarter of 2014 and a decrease of \$9m, or 6%, compared with the fourth quarter of 2014 as a result of competitive pressures in the low interest rate environment, including the impact of a prime rate reduction in the first

quarter. This was partially offset by higher asset balances driven by increased drawdowns of client facilities.

*Net fee income* for the first quarter of 2015 was \$80m, marginally higher than the first quarter of 2014 and a decrease of \$5m, or 6% compared with the fourth quarter

## Management's Discussion and Analysis (continued)

of 2014. Net fee income is higher than the same quarter last year mainly as a result of higher banker's acceptances and other credit products. Net fee income is lower than the fourth quarter of 2014 was due to recognition in the fourth quarter of fees following the successful conclusion of a merchant banking transaction.

**Net trading income** for the first quarter of 2015 was \$8m, an increase of \$2m, or 33%, compared with the same period of 2014, primarily from higher foreign exchange trading volume.

**Other operating income** for the first quarter of 2015 was \$5m, marginally lower than the first quarter of 2014 and unchanged compared with the fourth quarter of 2014.

**Loan impairment charges and other credit risk provisions** for the first quarter of 2015 were \$11m,

marginally lower than the first quarter of 2014 and \$27m or 71% lower than the fourth quarter of 2014, where increased specific allowances were recorded against small number of exposures.

**Total operating expenses** for the first quarter of 2015 were \$101m unchanged from the first quarter of 2014, and a decrease of \$2m or 2% compared with the fourth quarter of 2014. This was due to active and ongoing efforts to manage our cost base down in line with strategic initiatives.

**Share of profit in associates** for the first quarter of 2015 was \$3m, unchanged compared with the first quarter of 2014 and marginally higher than the fourth quarter of 2014.

### 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 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Net interest income.....	48	44	44
Net fee income.....	35	24	26
Net trading (loss) / income.....	(6)	21	16
Gains less losses from financial investments.....	36	19	3
Total operating income.....	113	108	89
Loan impairment charges and other credit risk provisions.....	(1)	(1)	(2)
Net operating income.....	112	107	87
Total operating expenses.....	(31)	(30)	(28)
Profit before income tax expense.....	81	77	59

#### Overview

Global Banking and Markets continued to see an increase in lending and credit activities and the Capital Financing business had increased activity in Capital Markets and Leverage and Acquisition Finance during the quarter.

Profit before income tax expense was \$81m for the first quarter of 2015, an increase of \$4m, or 5%, compared with the first quarter of 2014 and an increase of \$22m, or 37%, compared with the fourth quarter of 2014.

#### Financial performance by income and expense item

**Net interest income** for the first quarter of 2015 was \$48m, an increase of \$4m, or 9% compared both with the first and fourth quarters of 2014. This increase compared with both the same quarter last year and the prior quarter was primarily due to higher loan balances with Global Banking customers.

The increase over comparative periods was mainly due to higher gains on disposals of financial investments from re-balancing of the financial investments portfolio and higher fees on increased capital markets activities, offset by the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met.

**Net fee income** for the first quarter of 2015 was \$35m, an increase of \$11m, or 46%, compared with the first quarter of 2014 and an increase of \$9m, or 35%, compared with the fourth quarter of 2014 primarily due to increased fees from advisory, debt capital market and leveraged and acquisition finance activities.

**Net trading income** for the first quarter of 2015 was a loss of \$6m, a decrease of \$27m, compared with the first quarter of 2014 and a decrease of \$22m, compared with the fourth quarter of 2014. This was due to the impact of derivative fair value movements recycled to the income statement due to hedge accounting criteria not having been met, partially offset by the performance of the rates trading desk, the flow of derivative transactions and the impact of the initial adoption in the fourth quarter of 2014 of a fair value adjustment reflecting the funding of uncollateralised derivative exposures.

**Gains less losses from financial investments** for the first quarter of 2015 was \$36m, an increase of \$17m, or 89%, compared with the first quarter of 2014 and an increase of

\$33m compared with the fourth quarter of 2014, as a result of the bank's continuous balance sheet management activities. The bank realizes gains and losses from financial investments from disposals of available-for-sale financial investments driven by balance sheet management activities.

**Total operating expenses** for the first quarter of 2015 were \$31m, marginally increased compared with the first quarter of 2014 and an increase of \$3m or 11% compared with the fourth quarter of 2014. The increase over the fourth quarter of 2014 was mainly due to front-loaded social security costs while the fourth quarter of 2014 included a reduction in performance based compensation.

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## Retail Banking and Wealth Management

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

### Review of financial performance

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Net interest income.....	94	102	102
Net fee income.....	57	52	58
Net trading income.....	6	5	6
Other operating income.....	6	2	1
Total operating income.....	163	161	167
Loan impairment charges and other credit risk provisions.....	(4)	(13)	3
Net operating income.....	159	148	170
Total operating expenses.....	(136)	(133)	(134)
Profit before income tax expense.....	23	15	36

### Profit before income tax expense

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Ongoing Retail Banking and Wealth Management business.....	11	9	28
Run-off consumer finance portfolio.....	12	6	8
Profit before income tax expense.....	23	15	36

### Overview

During the quarter RBWM continued to benefit from the growth in residential mortgages and wealth balances, although revenues continue to be impacted by the highly competitive low interest rate environment. Profit before income tax expense for the first quarter of 2015 was \$23m, an increase of \$8m, or 53%, compared with first quarter of 2014 and a decrease of \$13m, or 36%, compared with the fourth quarter of 2014. Profit before income tax expense relating to ongoing business (excluding the run-off consumer finance portfolio) was

\$11m, an increase of \$2m, or 22%, and a decrease of \$17m or 61%, compared with the first and fourth quarters of 2014 respectively. Profit before income tax expense relating to the ongoing business increased over the first quarter of 2014 mainly from increased fees from wealth management products during the first quarter investment season and lower loan impairment charges partially offset by increased operating expenses. The decrease from the fourth quarter of 2014 resulted from a reduction in net interest income, primarily due to lower net interest spreads, increased loan impairment charges resulting from

## Management's Discussion and Analysis (continued)

a release of provisions in the fourth quarter of 2014 and increased operating costs. This arose from front-loaded social security costs, increased investment in Premier relationship managers and other business support costs.

Profit before income tax expense relating to the run-off consumer finance portfolio for the first quarter of 2015 was \$12m, an increase of \$6m, or 100%, compared with

### Financial performance by income and expense item

**Net interest income** relating to the ongoing business for the first quarter of 2015 was \$82m, a decrease of \$1m or 1%, and \$6m or 7%, respectively, compared with the first and fourth quarters of 2014. The decrease was primarily due to lower net interest spread in the competitive low interest rate environment partially offset by the impact of increased mortgage balances.

**Net fee income** relating to ongoing business for the first quarter of 2015 was \$57m, an increase of \$6m, or 12%, compared with the first quarter of 2014 and a marginal decrease compared with the fourth quarter of 2014. The increase over the first quarter 2014 was mainly due to the continued growth in sales of wealth management products.

**Net trading income** relating to ongoing business for the first quarter of 2015 was \$6m, marginally higher than the first quarter of 2014 and unchanged from the fourth quarter of 2014.

**Loan impairment charges and other credit risk provisions** relating to ongoing business for the first

the first quarter of 2014 and an increase of \$4m, or 50%, compared with the fourth quarter of 2014. The reduction of interest income in this portfolio was more than offset by a reduction in both loan impairment charges and operating expenses as well as income received from the sale of a small portfolio of impaired loans.

quarter of 2015 were \$4m, a decrease of \$3m, or 41%, compared with the first quarter of 2014 and an increase of \$7m, compared with the fourth quarter of 2014. Credit quality improved in the current quarter, leading to lower collectively assessed provisions and lower loan impairment charges. Provisions were closer to historic norms in the current quarter when compared to the fourth quarter of 2014 when collective provisions were released.

**Total operating expenses** relating to ongoing business for the first quarter of 2015 were \$132m, an increase of \$6m, or 5%, compared with the first quarter of 2014 and an increase of \$5m, or 4%, compared with the fourth quarter of 2014. The increases were due to increased staff in our Wealth and Premier businesses, increased business operating expenses and increased investment in HSBC's Global Standards and risk and compliance activities and an increase in allocation of Branch network support costs. The increase over the fourth quarter of 2014 also included the impact of front-loaded social security costs.

### 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 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Net interest expense.....	(7)	(7)	(12)
Net trading income.....	7	7	10
Net income /(expense) from financial instruments designated at fair value .....	2	(2)	(1)
Other operating income.....	7	6	8
Total operating income .....	9	4	5
Total operating expenses.....	(18)	(12)	(13)
Loss before income tax expense.....	(9)	(8)	(8)

Loss before income tax expense was \$9m for the quarter ended 31 March 2015, little changed from the first and fourth quarters of 2014. The increase in operating expenses compared to the first and fourth quarters of 2014

arise primarily from foreign exchange losses on settlements of US dollar denominated services provided by HSBC Group companies as well as the timing of recoveries from other Group companies.

## Summary quarterly performance

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Refer to the 'Summary quarterly performance' section of our Annual Report and Accounts 2014 for more information regarding quarterly trends in performance for 2014 and 2013.

### Summary consolidated income statement

	Quarter ended							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	2015	2014	2014	2014	2014	2013	2013	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total operating income .....	530	519	520	539	532	524	522	531
Profit for the period.....	170	125	170	182	172	182	186	130
Profit attributable to common shareholder .....	163	118	163	172	160	164	168	113
Profit attributable to preferred shareholders .....	4	5	4	8	9	16	15	15
Profit attributable to non-controlling interests.....	3	2	3	2	3	2	3	2
Basic earnings per common share.....	0.33	0.24	0.32	0.35	0.32	0.33	0.34	0.23

## Accounting matters

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### 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 2014 for accounting policies that are deemed critical to our results and financial position, in terms of materiality of the items which the policy is applied and the high degree of judgement involved, including the use of assumptions and estimation.

## Off-balance sheet arrangements

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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 2014. Further information is disclosed in notes 4 and 11.

## Related Party Transactions

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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

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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 2015, 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 2015 that have materially affected or are reasonably likely to affect internal control over financial reporting.

## Management's Discussion and Analysis<sup>(continued)</sup>

### Risk Management

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Refer to the "Risk management" section of our Annual Report and Accounts 2014 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;

#### 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.

- 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 2014 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.

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.

*Loan portfolio by product type*

	<b>EAD</b> <b>At 31 March</b> <b>2015</b> <b>\$m</b>	<b>EAD</b> <b>At 31 December</b> <b>2014</b> <b>\$m</b>
<b>Wholesale loan portfolio</b>		
<b>Sovereign</b>		
Drawn exposures.....	<b>20,917</b>	21,186
Undrawn commitments.....	<b>38</b>	34
Derivatives.....	<b>67</b>	57
Other off-balance sheet exposures.....	<b>70</b>	70
	<b>21,092</b>	21,347
<b>Banks</b>		
Drawn exposures.....	<b>3,162</b>	3,269
Repurchase type transactions.....	<b>64</b>	8
Derivatives.....	<b>1,459</b>	2,375
Other off-balance sheet exposures.....	<b>802</b>	628
	<b>5,487</b>	6,280
<b>Corporate</b>		
Drawn exposures.....	<b>30,122</b>	27,950
Undrawn commitments.....	<b>12,356</b>	12,137
Repurchase type transactions.....	<b>13</b>	37
Derivatives.....	<b>1,815</b>	1,212
Other off-balance sheet exposures.....	<b>3,489</b>	3,650
	<b>47,795</b>	44,986
<b>Total wholesale loan portfolio.....</b>	<b>74,374</b>	72,613
<b>Retail loan portfolio</b>		
Residential mortgages.....	<b>18,266</b>	18,090
Home equity lines of credit.....	<b>2,971</b>	3,046
Personal unsecured revolving loan facilities.....	<b>514</b>	527
Other personal loan facilities.....	<b>2,047</b>	2,118
Other small to medium enterprises loan facilities.....	<b>554</b>	593
Run-off consumer finance loan portfolio.....	<b>377</b>	426
Retail Master Cards.....	<b>349</b>	372
<b>Total retail loan portfolio.....</b>	<b>25,078</b>	25,172
<b>Total loan portfolio exposure.....</b>	<b>99,452</b>	97,785

**Credit Quality of Financial Assets**

Although overall credit quality at 31 March 2015 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 an increase in the component of the Bank's collective allowance primarily related to Energy and related exposures.

## Management's Discussion and Analysis (continued)

### Impairment allowances and provision for credit losses

#### Impairment allowances

	At 31 March 2015 \$m	At 31 December 2014 \$m
Gross loans and advances to customers		
Individually assessed impaired loans and advances (A) .....	393	403
Collectively assessed loans and advances (B) .....	42,629	41,178
- impaired loans and advances .....	92	97
- non-impaired loans and advances .....	42,537	41,081
Total gross loans and advances to customers (C) .....	43,022	41,581
Less: impairment allowances (c) .....	362	362
- individually assessed (a) .....	176	170
- collectively assessed (b) .....	186	192
Net loans and advances to customers .....	42,660	41,219
Individually assessed impaired loans and advances coverage - (a) as a percentage of (A) .....	44.8%	42.2%
Collectively assessed loans and advances coverage - (b) as a percentage of (B) .....	0.4%	0.5%
Total loans and advances coverage - (c) as a percentage of (C) .....	0.8%	0.9%

As part of the determination of the bank's collective impairment allowance, an estimate is included for losses that have been incurred but not yet identified as evidenced by the establishment of an appropriate allowance against individual loans. Historically the loss emergence period ("LEP") between an underlying customer credit loss event occurring and it being identified and assessed for impairment for financial statement purposes, has been assessed as twelve months. Following a review of the Bank's commercial loan portfolio, it has been determined that a shorter LEP is more appropriate for this portfolio.

In light of the decline in oil prices in the latter part of 2014 and the first quarter of 2015, the bank has carried out a further assessment of its energy and related exposures assuming continuing weakness in oil prices for the next two years. Based on the internal rating changes in this period and the potential for additional downgrades that could occur, we have increased the component of our collective allowance relating primarily to energy and related exposures.

The overall net impact of the reduction in LEP and an increase in the collective allowance for energy and related exposures, taken together, results in a very modest reduction in the bank's wholesale collective allowance.

#### Movement in impairment allowances and provision for credit losses

	Quarter ended 31 March 2015			
	Customers individually assessed \$m	Customers collectively assessed \$m	Provision for credit losses \$m	Total \$m
Opening balance at the beginning of the period .....	170	192	76	438
Movement				
Loans and advances written off net of recoveries of previously written off amounts .....	(12)	(5)	-	(17)
Charge to/(release from ) income .....	16	(1)	1	16
Exchange Adjustments	4	-	-	4
Interest recognized on impaired loans and advances .....	(2)	-	-	(2)
Closing balance at the end of the period .....	176	186	77	439



*Movement in impairment allowances and provision for credit losses*

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

**Liquidity and funding risk**

Liquidity and funding 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.

There have been no material changes to our liquidity and funding management strategy as described in the ‘Liquidity and funding risk’ section of our Annual Report and Accounts 2014. 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 2015, the bank was compliant with both.

**Advances to core funding ratio**

The bank emphasizes the importance of core current accounts and savings accounts as a source of stable funding to finance lending to customers, and discourages reliance on short-term professional funding. The advances to core funding ratio describes loans and advances to customers as a percentage of the total of core customer

current and savings accounts and term funding with a remaining term to maturity in excess of one year.

The table below shows the extent to which loans and advances to customers were financed by reliable and stable sources of funding.

*Advances to core funding ratio*

	Quarter ended	
	31 March 2015 %	31 December 2014 %
End of period .....	104	100
Maximum.....	104	102
Minimum.....	101	93
Average.....	102	99

## Management's Discussion and Analysis (continued)

### Liquid Assets

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

#### Estimated liquidity value

	At 31 March 2015 \$m	At 31 December 2014 \$m
Level 1 <sup>1</sup> .....	17,337	17,342
Level 2 <sup>2</sup> .....	3,915	4,095
	<b>21,252</b>	<b>21,437</b>

1 Includes debt securities of central governments, central banks, supranationals and multilateral development banks.

2 Includes debt securities of local and regional governments, public sector entities and secured covered bonds.

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

### Net contractual cash flows

The following table quantifies the contractual cash flows from interbank and intra-Group loans and deposits, and reverse repurchase transactions, repurchase transactions (including intergroup transactions) and short positions.

#### Cash flows within three months

	At 31 March 2015 \$m	At 31 December 2014 \$m
Interbank and intra-Group loans and deposits .....	(1,796)	2,484
Reverse repo, repo and outright short positions (including intra-Group) .....	620	(1,298)

These contractual cash inflows and outflows should be considered alongside the level of liquid assets and are treated as such in our internal liquidity stress testing.

### Contingent liquidity risk arising from committed lending facilities

The bank provides commitments to various counterparts. In terms of liquidity risk, the most significant risk relates to committed lending facilities which, whilst undrawn, give rise to contingent liquidity risk, as these could be drawn during a period of liquidity stress. Commitments are given to customers and committed liquidity facilities

are provided to conduits, established to enable clients to access a flexible market-based source of finance.

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

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

	At 31 March 2015 \$m	At 31 December 2014 \$m
Commitments to conduits		
Total lines .....	245	245
Largest individual lines .....	194	194
Commitments to customers		
Five largest .....	1,539	1,928
Largest market sector .....	3,753	4,012

## 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

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.

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 2014 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 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.

### VAR by risk type for trading activities<sup>1</sup>

	Foreign exchange and commodity \$m	Interest rate \$m	Equity \$m	Credit Spread \$m	Portfolio diversification <sup>2</sup> \$m	Total <sup>3</sup> \$m
<b>January – March 2015</b>						
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
January – March 2014						
At period end	0.0	0.3	0.0	1.2	(0.3)	1.3
Average	0.1	0.4	0.0	1.0	(0.4)	1.1
Minimum	0.0	0.2	0.0	0.6		0.7
Maximum	0.4	1.1	0.1	1.4		1.7

### Notes

<sup>1</sup> Trading portfolios comprise positions arising from the market-making and warehousing of customer derived positions

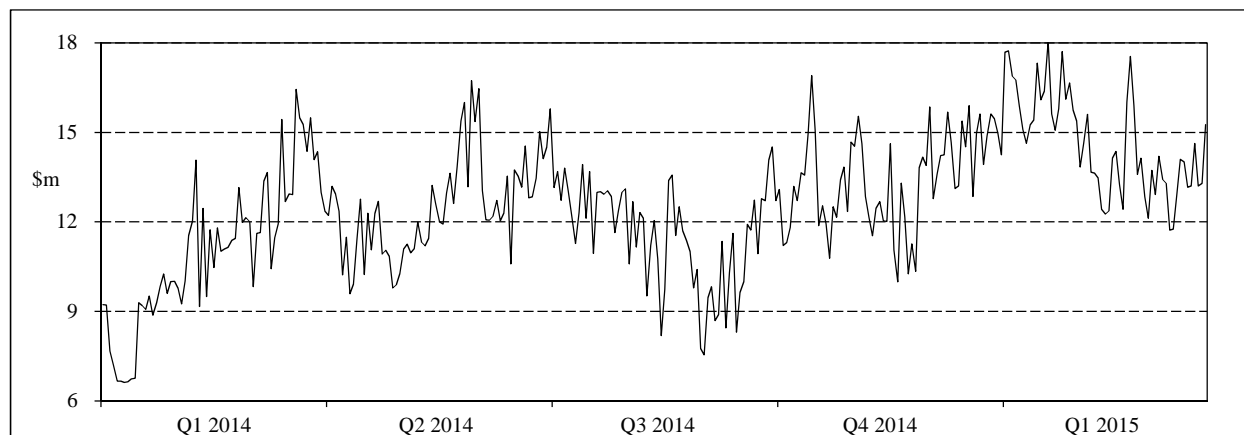
<sup>2</sup> Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, 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.

<sup>3</sup> The total VAR is non-additive across risk types due to diversification effects.

	Three months ended 31 March	
	2015 \$m	2014 \$m
Non-trading value at risk		
At period end .....	15	13
Average.....	14	13
Minimum .....	11	10
Maximum.....	18	17

## Management's Discussion and Analysis (continued)

### Total daily VaR



### 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 2014 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

	2015		2014	
	Economic value of equity \$m	Earnings at risk \$m	Economic value of equity \$m	Earnings at risk \$m
Impact as a result of 100 basis point change in interest rate:				
Increase	(210)	34	(107)	51
Decrease	211	(46)	53	(77)

### 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 2014 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 2014 for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below, with exception of the assets-to-capital multiple, are presented under a Basel III 'all-in' basis, which applies

Basel III regulatory adjustments from 1 January 2013, however phases out of non-qualifying capital instruments over 10 years starting 1 January 2013. The assets-to-capital multiple is presented under a Basel III 'transitional' basis, which phases in Basel III regulatory adjustments over 4 years starting 1 January 2014 and phases out of non-qualifying capital instruments over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2015.

## Regulatory capital ratios

### Actual regulatory capital ratios and capital requirements

	31 March 2015	31 December 2014
Actual regulatory capital ratios		
Common equity tier 1 capital ratio .....	10.5%	10.6%
Tier 1 capital ratio.....	11.8%	12.0%
Total capital ratio.....	13.1%	13.5%
Assets-to-capital multiple <sup>1</sup> .....	n/a	17.1x
Leverage ratio <sup>1</sup> .....	4.6%	n/a
(Note <sup>1</sup> Leverage ratio replaces assets-to-capital multiple effective 1 January 2015.)		
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 2015 \$m	31 December 2014 \$m
Tier 1 capital.....	4,924	4,830
Common equity tier 1 capital.....	4,374	4,280
Gross common equity <sup>1</sup> .....	4,548	4,450
Regulatory adjustments.....	(174)	(170)
Additional tier 1 eligible capital <sup>2</sup> .....	550	550
Tier 2 capital <sup>3</sup> .....	536	611
Total capital available for regulatory purposes.....	5,460	5,441
Total risk-weighted assets.....	41,659	40,269

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

2 Includes directly issued capital instruments and instruments issued by subsidiaries subject to phase out.

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

## Outstanding Shares and Securities

### Outstanding shares and securities

	At 30 April 2015		
	Dividend or distribution <sup>1</sup> \$ per share or security	Number of issued shares and securities Thousands	Carrying value \$m
Common shares.....		498,668	1,225
Preferred Shares – Class 1			
Class 1, Series C .....	0.31875	7,000	175
Class 1, Series D .....	0.3125	7,000	175
			350
HSBC HaTS™ - Series 2015 <sup>2</sup> .....	25.75	200,000	200

1 Cash dividends on preference shares are non-cumulative and are payable quarterly. Cash distributions on HSBC HaTS™ are non-cumulative and are payable semi-annually.

2 Presented as non-controlling interests in the consolidated balance sheet.

During the first quarter of 2015, the bank declared and paid \$88m in dividends on HSBC Bank Canada common shares, an increase of \$8m compared with the same quarter last year. Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. Dividends will be paid on 30 June 2015 for shareholders of record on 13 June 2015

## Consolidated Financial Statements (unaudited)

### Consolidated income statement

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Interest income .....	434	483	441
Interest expense .....	(147)	(176)	(146)
Net interest income .....	287	307	295
Fee income .....	191	172	187
Fee expense .....	(19)	(17)	(18)
Net fee income .....	172	155	169
Trading income excluding net interest income .....	8	36	28
Net interest income on trading activities .....	7	3	11
Net trading income .....	15	39	39
Net income/(expense) from financial instruments designated at fair value .....	2	(2)	(1)
Gains less losses from financial investments .....	36	19	3
Other operating income .....	18	14	14
<b>Total operating income</b> .....	<b>530</b>	<b>532</b>	<b>519</b>
Loan impairment charges and other credit risk provisions .....	(16)	(26)	(37)
<b>Net operating income</b> .....	<b>514</b>	<b>506</b>	<b>482</b>
Employee compensation and benefits .....	(169)	(159)	(152)
General and administrative expenses .....	(106)	(104)	(114)
Depreciation of property, plant and equipment .....	(7)	(8)	(8)
Amortization and impairment of intangible assets .....	(4)	(5)	(4)
<b>Total operating expenses</b> .....	<b>(286)</b>	<b>(276)</b>	<b>(278)</b>
<b>Operating profit</b> .....	<b>228</b>	<b>230</b>	<b>204</b>
Share of profit in associates .....	3	3	2
<b>Profit before income tax expense</b> .....	<b>231</b>	<b>233</b>	<b>206</b>
Income tax expense .....	(61)	(61)	(81)
<b>Profit for the period</b> .....	<b>170</b>	<b>172</b>	<b>125</b>
Profit attributable to common shareholder .....	163	160	118
Profit attributable to preferred shareholders .....	4	9	5
Profit attributable to shareholders .....	167	169	123
Profit attributable to non-controlling interests .....	3	3	2
Average number of common shares outstanding (000's) .....	498,668	498,668	498,668
Basic earnings per common share .....	\$ 0.33	\$ 0.32	\$ 0.24

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

## Consolidated statement of comprehensive income

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Profit for the period .....	170	172	125
<b>Other comprehensive income</b>			
Available-for-sale investments <sup>1</sup> .....	30	12	13
– fair value gains .....	77	35	20
– fair value gains transferred to income statement on disposal .....	(36)	(19)	(3)
– income taxes .....	(11)	(4)	(4)
Cash flow hedges <sup>1</sup> .....	87	3	(9)
– fair value (losses)/gains .....	(74)	(33)	6
– fair value losses/(gains) transferred to income statement .....	191	37	(18)
– income taxes .....	(30)	(1)	3
Actuarial (losses)/gains on defined benefit plans <sup>2</sup> .....	(33)	(11)	1
– before income taxes .....	(45)	(15)	2
– income taxes .....	12	4	(1)
Other comprehensive income for the period, net of tax .....	84	4	5
Total comprehensive income for the period .....	254	176	130
Total comprehensive income for the period attributable to:			
– shareholders .....	251	173	128
– non-controlling interests .....	3	3	2
	254	176	130

1 Other comprehensive income/(loss) items that can be reclassified into income.

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

The accompanying notes and the “Risk Management” and “Capital” sections within the Management’s Discussion and Analysis form an integral part of these Financial Statements.

**Consolidated Financial Statements (unaudited)** (continued)**Consolidated balance sheet**

		<b>31 March</b>	31 March	31 December
		<b>2015</b>	2014	2014
	<i>Notes</i>	<b>\$m</b>	\$m	\$m
<b>ASSETS</b>				
Cash and balances at central bank .....		<b>64</b>	71	73
Items in the course of collection from other banks .....		<b>128</b>	104	76
Trading assets .....	3	<b>8,254</b>	5,962	8,914
Derivatives .....	4	<b>5,604</b>	2,121	4,082
Loans and advances to banks .....		<b>950</b>	1,188	1,264
Loans and advances to customers .....		<b>42,660</b>	41,208	41,219
Reverse repurchase agreements – non-trading .....	8	<b>7,361</b>	7,748	6,714
Financial investments .....	5	<b>19,462</b>	19,570	20,122
Other assets .....		<b>384</b>	368	345
Prepayments and accrued income .....		<b>238</b>	213	186
Customers' liability under acceptances .....		<b>5,740</b>	5,578	5,023
Property, plant and equipment .....		<b>118</b>	134	124
Goodwill and intangible assets .....		<b>61</b>	66	62
Total assets .....		<b>91,024</b>	84,331	88,204
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Deposits by banks .....		<b>1,177</b>	645	681
Customer accounts .....		<b>50,490</b>	49,456	50,843
Repurchase agreements – non-trading .....	8	<b>4,754</b>	2,037	4,054
Items in the course of transmission to other banks .....		<b>142</b>	124	105
Trading liabilities .....	6	<b>4,020</b>	5,471	4,227
Financial liabilities designated at fair value .....	7	<b>425</b>	430	425
Derivatives .....	4	<b>5,449</b>	1,859	3,885
Debt securities in issue .....		<b>10,316</b>	10,320	10,610
Other liabilities .....		<b>2,319</b>	2,203	2,279
Acceptances .....		<b>5,740</b>	5,578	5,023
Accruals and deferred income .....		<b>439</b>	516	524
Retirement benefit liabilities .....		<b>355</b>	284	309
Subordinated liabilities .....		<b>239</b>	239	239
Total liabilities .....		<b>85,865</b>	79,162	83,204
<b>Equity</b>				
Common shares .....		<b>1,225</b>	1,225	1,225
Preferred shares .....		<b>350</b>	600	350
Other reserves .....		<b>234</b>	149	117
Retained earnings .....		<b>3,150</b>	2,995	3,108
Total shareholders' equity .....		<b>4,959</b>	4,969	4,800
Non-controlling interests .....		<b>200</b>	200	200
Total equity .....		<b>5,159</b>	5,169	5,000
Total equity and liabilities .....		<b>91,024</b>	84,331	88,204

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



## Consolidated statement of cash flows

	Notes	Quarter ended		
		31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
<b>Cash flows from operating activities</b>				
Profit before tax .....		231	233	206
Adjustments for:				
– non-cash items included in profit before tax .....	9	35	47	59
– change in operating assets .....	9	(2,806)	(772)	(917)
– change in operating liabilities .....	9	1,221	(1,278)	2,038
– tax paid, net .....		(54)	(71)	(67)
Net cash from/(used in) operating activities .....		(1,373)	(1,841)	1,319
<b>Cash flows from investing activities</b>				
Purchase of financial investments .....		(4,069)	(3,291)	(1,757)
Proceeds from the sale and maturity of financial investments .....		4,759	5,547	1,427
Purchase of property, plant and equipment .....		(4)	(8)	(5)
Purchase of intangible assets .....		(2)	(3)	-
Net cash from/(used in) investing activities .....		684	2,245	(335)
<b>Cash flows from financing activities</b>				
Dividends paid to shareholders .....		(92)	(89)	(164)
Distributions to non-controlling interests.....		(3)	(3)	(2)
Net cash used in financing activities .....		(95)	(92)	(166)
<b>Net (decrease)/increase in cash and cash equivalents .....</b>		<b>(784)</b>	<b>312</b>	<b>818</b>
Cash and cash equivalents at the beginning of the period .....		2,337	1,896	1,519
Cash and cash equivalents at the end of the period.....	9	1,553	2,208	2,337

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

**Consolidated Financial Statements (unaudited)** (continued)**Consolidated statement of changes in equity for the three months ended 31 March 2015**

	Share capital \$m	Retained earnings \$m	Other reserves		Total other reserves \$m	Total shareholders' equity \$m	Non-controlling interests \$m	Total equity \$m
			Available-for-sale fair value reserve \$m	Cash flow hedging reserve \$m				
At 1 January .....	1,575	3,108	56	61	117	4,800	200	5,000
Profit for the period .....	–	167	–	–	–	167	3	170
Other comprehensive income (net of tax) ...	–	(33)	30	87	117	84	–	84
Available-for-sale investments .....	–	–	30	–	30	30	–	30
Cash flow hedges .....	–	–	–	87	87	87	–	87
Actuarial losses on defined benefit plans ....	–	(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 .....	1,575	3,150	86	148	234	4,959	200	5,159

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

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

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

## Notes on Financial Statements (unaudited)

### Note

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### 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'). Throughout these interim 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 2014 annual consolidated financial statements. The bank's 2014 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.

#### b *Future accounting developments*

Future accounting developments have been disclosed in note 1 (b) on the 2014 annual consolidated financial statements of the bank's 2014 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. Certain prior period amounts have been restated to conform with the current period presentation.

#### e *Use of estimates and assumptions*

The preparation of financial information requires the use of estimates and assumptions about future conditions. Management has identified the following accounting policies which contain critical estimates and judgments: impairment of loans and advances, valuation of financial instruments, deferred tax assets and 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 discussed in the 'Critical accounting policies' section of the Management's Discussion and Analysis of the bank's 2014 Annual Report and Accounts.

**Notes on the Financial Statements (unaudited)** (continued)**f Consolidation**

The Financial Statements comprise the consolidated financial statements of the bank and its subsidiaries as at 31 March 2015. The method adopted by the bank to consolidate its subsidiaries is described in note 1(f) on the 2014 annual consolidated financial statements of the bank's Annual Report and Accounts 2014.

**g Significant accounting policies**

There have been no changes to the bank's significant accounting policies which are disclosed in note 1(g) to (j) and within the respective notes on the 2014 annual consolidated financial statements of the bank's Annual Report and Accounts 2014.

**2 Post-employment 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 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
Pension plans - defined benefit .....	4	5	5
Pension plans - defined contribution.....	8	7	9
Healthcare and other post-employment benefit plans .....	4	3	3
	<b>16</b>	<b>15</b>	<b>17</b>

Actuarial valuations for the bank's registered defined pension plans are prepared annually and for non-registered plans and other retirement compensation arrangements triennially. The most recent actuarial valuations of the registered defined benefit pension plans for funding purposes were conducted as at 31 December 2013.

**3 Trading assets**

	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
Trading assets:			
Not subject to repledge or resale by counterparties.....	6,997	5,518	7,938
Which may be repledged or resold by counterparties .....	1,257	444	976
	<b>8,254</b>	<b>5,962</b>	<b>8,914</b>
Canadian and Provincial Government bonds <sup>1</sup> .....	2,879	1,544	1,963
Debt securities .....	442	313	815
Total debt securities .....	3,321	1,857	2,778
Bankers acceptances.....	3,326	2,654	3,254
Customer trading assets.....	1,170	981	2,208
Treasury and other eligible bills .....	335	451	664
Trading assets from other banks .....	83	10	10
Equity securities .....	19	9	-
	<b>8,254</b>	<b>5,962</b>	<b>8,914</b>

<sup>1</sup> Includes government guaranteed bonds.

## 4 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 2014.

### *Fair values of derivatives by product contract type held*

	At 31 March 2015					
	Assets			Liabilities		
	Trading \$m	Hedging \$m	Total \$m	Trading \$m	Hedging \$m	Total \$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
Equities.....	11	–	11	–	–	–
Gross total fair values .....	<b>4,996</b>	<b>608</b>	<b>5,604</b>	<b>4,799</b>	<b>650</b>	<b>5,449</b>

	At 31 March 2014					
	Assets			Liabilities		
	Trading \$m	Hedging \$m	Total \$m	Trading \$m	Hedging \$m	Total \$m
Foreign exchange .....	1,181	254	1,435	1,132	131	1,263
Interest rate .....	475	157	632	425	125	550
Commodity .....	46	–	46	46	–	46
Equities.....	8	–	8	–	–	–
Gross total fair values .....	<b>1,710</b>	<b>411</b>	<b>2,121</b>	<b>1,603</b>	<b>256</b>	<b>1,859</b>

	At 31 December 2014					
	Assets			Liabilities		
	Trading \$m	Hedging \$m	Total \$m	Trading \$m	Hedging \$m	Total \$m
Foreign exchange .....	2,861	328	3,189	2,789	177	2,966
Interest rate .....	603	163	766	573	230	803
Commodity .....	116	–	116	116	–	116
Equities.....	11	–	11	–	–	–
Gross total fair values .....	<b>3,591</b>	<b>491</b>	<b>4,082</b>	<b>3,478</b>	<b>407</b>	<b>3,885</b>

### **Trading derivatives**

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

	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
Foreign exchange .....	119,937	97,266	132,057
Interest rate .....	54,332	38,948	47,239
Commodity.....	208	290	167
Equities.....	126	255	154
Total derivatives .....	<b>174,603</b>	<b>136,759</b>	<b>179,617</b>

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

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

### Hedging instruments

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

	At 31 March 2015		At 31 March 2014		At 31 December 2014	
	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	\$m	\$m	\$m	\$m	\$m	\$m
Interest rate .....	12,218	12,076	19,359	11,150	17,328	12,439
Foreign exchange.....	4,271	–	2,997	–	3,460	–
Total derivatives .....	<b>16,489</b>	<b>12,076</b>	<b>22,356</b>	<b>11,150</b>	<b>20,788</b>	<b>12,439</b>

Fair value of derivatives designated as fair value hedges

	At 31 March 2015		At 31 March 2014		At 31 December 2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Interest rate .....	97	290	35	73	32	163

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

	Quarter ended		
	31 March 2015	31 March 2014	31 December 2014
	\$m	\$m	\$m
Gains/(losses)			
On hedging instruments .....	(113)	(38)	(67)
On hedged items attributable to the hedged risk .....	112	37	67

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

Fair value of derivatives designated as cash flow hedges

	At 31 March 2015		At 31 March 2014		At 31 December 2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange.....	287	340	254	130	327	176
Interest rate .....	224	20	121	52	130	67

## 5 Financial investments

	At 31 March 2015	At 31 March 2014	At 31 December 2014
	\$m	\$m	\$m
Financial investments			
Not subject to repledge or resale by counterparties.....	17,490	17,811	17,648
Which may be subject to repledge or resale by counterparties.....	1,972	1,759	2,474
	<b>19,462</b>	<b>19,570</b>	<b>20,122</b>
Available-for-sale			
Canadian and Provincial Government bonds <sup>1</sup> .....	13,043	15,018	14,846
International Government bonds <sup>1</sup> .....	3,768	2,601	2,947
Debt securities issued by banks and other financial institutions .....	1,907	1,453	1,901
Treasury and other eligible bills .....	726	482	422
Other securities .....	18	16	6
	<b>19,462</b>	<b>19,570</b>	<b>20,122</b>

<sup>1</sup> Includes government guaranteed bonds

## 6 Trading liabilities

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	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
Other liabilities – net short positions .....	1,987	4,002	3,910
Customer trading liabilities .....	1,326	950	282
Trading liabilities due to other banks .....	690	483	18
Other debt securities in issue .....	17	36	17
	<u>4,020</u>	<u>5,471</u>	<u>4,227</u>

## 7 Financial liabilities designated at fair value

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	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
Subordinated debentures .....	<u>425</u>	<u>430</u>	<u>425</u>

The carrying amount at 31 March 2015 of financial liabilities designated at fair value was \$25m higher (31 March 2014: \$30m higher; 31 December 2014: \$25m higher) than the contractual amount at maturity. At 31 March 2015, the cumulative amount of change in fair value attributable to changes in credit risk was \$1m gain (31 March 2014: immaterial; 31 December 2014: \$2m gain).

## 8 Non-trading reverse repurchase and repurchase agreements

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	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
<b>Assets</b>			
Banks .....	402	810	744
Customers .....	<u>6,959</u>	<u>6,938</u>	<u>5,970</u>
Reverse repurchase agreements – non-trading.....	<u>7,361</u>	<u>7,748</u>	<u>6,714</u>
<b>Liabilities</b>			
Banks .....	1,421	770	765
Customers .....	<u>3,333</u>	<u>1,267</u>	<u>3,289</u>
Repurchase agreements – non-trading.....	<u>4,754</u>	<u>2,037</u>	<u>4,054</u>

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

### 9 Notes on the statement of cash flows

	Quarter ended		
	31 March	31 March	31 December
	2015	2014	2014
	\$m	\$m	\$m
<i>Non-cash items included in profit before tax</i>			
Depreciation and amortization .....	11	13	13
Share-based payment expense .....	4	3	4
Loan impairment charges and other credit risk provisions .....	16	26	37
Charge for defined benefit plans .....	4	5	5
	<b>35</b>	<b>47</b>	<b>59</b>
<i>Change in operating assets</i>			
Change in prepayment and accrued income .....	(52)	(7)	37
Change in net trading securities and net derivatives .....	448	1,912	(943)
Change in loans and advances to customers .....	(1,457)	(710)	278
Changes in reverse repurchase agreements – non-trading .....	(989)	(1,110)	(515)
Change in other assets .....	(756)	(857)	226
	<b>(2,806)</b>	<b>(772)</b>	<b>(917)</b>
<i>Change in operating liabilities</i>			
Change in accruals and deferred income .....	(85)	(35)	(10)
Change in deposits by banks .....	496	10	(127)
Change in customer accounts .....	(353)	(1,470)	1,145
Changes in repurchase agreements – non-trading .....	700	550	1,782
Change in debt securities in issue .....	(294)	(1,028)	(682)
Change in other liabilities .....	757	695	(70)
	<b>1,221</b>	<b>(1,278)</b>	<b>2,038</b>
<i>Interest</i>			
Interest paid .....	(169)	(161)	(168)
Interest received .....	400	479	480
<i>Cash and cash equivalents</i>			
	At 31 March	At 31 March	At 31 December
	2015	2014	2014
	\$m	\$m	\$m
Cash and balances at central bank .....	64	71	73
Items in the course of collection to other banks, net .....	(14)	(20)	(29)
Loans and advances to banks of one month or less .....	950	1,188	1,264
Reverse repurchase agreements with banks of one month or less .....	402	810	744
T-Bills and certificates of deposits – three months or less .....	151	159	285
	<b>1,553</b>	<b>2,208</b>	<b>2,337</b>



## 10 Contingent liabilities, contractual commitments and guarantees

	At 31 March 2015 \$m	At 31 March 2014 \$m	At 31 December 2014 \$m
<b>Guarantees and other contingent liabilities</b>			
Guarantees and irrevocable letters of credit pledged as collateral security .....	<b>5,216</b>	4,098	5,230
<b>Commitments</b>			
Documentary credits and short-term trade-related transactions .....	<b>613</b>	593	572
Undrawn formal standby facilities, credit lines and other commitments to lend <sup>1</sup> .....	<b>37,916</b>	34,368	37,239
	<b>38,529</b>	34,961	37,811

1 Based on original contractual maturity.

### Legal and regulatory proceedings

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

## 11 Segment analysis

We manage and report our operations according to our main global lines of business. Information on each business line is included in the Management's Discussion and Analysis and the 2014 Annual Report and Accounts. Various estimate and allocation methodologies are used in the preparation of the global lines of business' financial information. We allocate expenses directly related to earning revenues to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to global lines of business using appropriate allocation formulas. Global lines of business net interest income reflects internal funding charges and credits on the global lines of business' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in the Global Banking and Markets.

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
<b>Commercial Banking</b>			
Net interest income .....	152	168	161
Net fee income .....	80	79	85
Net trading income .....	8	6	7
Other operating income .....	5	6	5
Total operating income .....	245	259	258
Loan impairment charges and other credit risk provisions .....	(11)	(12)	(38)
Net operating income .....	234	247	220
Total operating expenses .....	(101)	(101)	(103)
Operating profit .....	133	146	117
Share of profit in associates .....	3	3	2
Profit before income tax expense .....	136	149	119
<b>Global Banking and Markets</b>			
Net interest income .....	48	44	44
Net fee income .....	35	24	26
Net trading (loss)/income .....	(6)	21	16
Gain less losses from financial investments .....	36	19	3
Total operating income .....	113	108	89
Loan impairment charges and other credit risk provisions .....	(1)	(1)	(2)
Net operating income .....	112	107	87
Total operating expenses .....	(31)	(30)	(28)
Profit before income tax expense .....	81	77	59

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

	Quarter ended		
	31 March	31 March	31 December
	2015	2014	2014
	\$m	\$m	\$m
<b>Retail Banking and Wealth Management</b>			
Net interest income .....	94	102	102
Net fee income .....	57	52	58
Net trading income .....	6	5	6
Other operating income .....	6	2	1
Total operating income .....	163	161	167
Loan impairment (charges)/reversals and other credit risk provisions .....	(4)	(13)	3
Net operating income .....	159	148	170
Total operating expenses .....	(136)	(133)	(134)
Profit before income tax expense .....	23	15	36
<b>Other</b>			
Net interest expense .....	(7)	(7)	(12)
Net trading income .....	7	7	10
Net income/(expense) from financial instruments designated at fair value .....	2	(2)	(1)
Other operating income .....	7	6	8
Total operating income .....	9	4	5
Total operating expenses .....	(18)	(12)	(13)
Loss before income tax expense .....	(9)	(8)	(8)

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

	Commercial Banking \$m	Global Banking and Markets \$m	Retail Banking and Wealth Management \$m	Other \$m	Total \$m
<b>Quarter ended 31 March 2015</b>					
Net operating income:	234	112	159	9	514
External .....	225	98	182	9	514
Inter-segment .....	9	14	(23)	–	–
<b>Quarter ended 31 March 2014</b>					
Net operating income:	247	107	148	4	506
External .....	234	97	171	4	506
Inter-segment .....	13	10	(23)	–	–
<b>Quarter ended 31 December 2014</b>					
Net operating income:	220	87	170	5	482
External .....	204	78	195	5	482
Inter-segment .....	16	9	(25)	–	–

Statement of balance sheet information

	Commercial Banking \$m	Global Banking and Markets \$m	Retail Banking and Wealth Management \$m	Other \$m	Intersegment \$m	Total \$m
<b>At 31 March 2015</b>						
Loans and advances to customers .....	16,913	2,176	23,571	–	–	42,660
Customers' liability under acceptances .....	4,561	1,179	–	–	–	5,740
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
<b>At 31 March 2014</b>						
Loans and advances to customers .....	16,434	1,465	23,309	–	–	41,208
Customers' liability under acceptances .....	4,649	929	–	–	–	5,578
Total assets .....	28,463	38,375	27,038	427	(9,972)	84,331
Customer accounts .....	20,523	5,968	22,965	–	–	49,456
Acceptances .....	4,649	929	–	–	–	5,578
Total liabilities .....	25,587	36,990	26,130	427	(9,972)	79,162
<b>At 31 December 2014</b>						
Loans and advances to customers .....	16,093	1,642	23,484	–	–	41,219
Customers' liability under acceptances .....	4,168	855	–	–	–	5,023
Total assets .....	29,210	44,194	27,585	421	(13,206)	88,204
Customer accounts .....	21,645	4,939	24,259	–	–	50,843
Acceptances .....	4,168	855	–	–	–	5,023
Total liabilities .....	26,312	42,853	26,824	421	(13,206)	83,204

## 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*

	Quarter ended		
	31 March 2015 \$m	31 March 2014 \$m	31 December 2014 \$m
<b>Income Statement</b>			
Interest income.....	9	12	10
Interest expense.....	(2)	(2)	(2)
Fee income.....	8	4	2
Fee expense.....	(1)	(1)	(6)
Other operating income.....	9	10	11
General and administrative expenses .....	(29)	(27)	(18)

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

### 13 Fair values of financial instruments

#### Control framework

*Bases of valuing assets and liabilities measured at fair value*

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

	Valuation techniques			Total \$m
	Level 1 Quoted market price \$m	Level 2 Observable inputs \$m	Level 3 Significant unobservable inputs \$m	
<b>At 31 March 2015</b>				
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 designated at fair value .....	–	425	–	425
Derivatives .....	–	5,407	42	5,449
<b>At 31 March 2014</b>				
Assets				
Trading assets .....	2,185	3,777	–	5,962
Derivatives .....	–	2,091	30	2,121
Financial investments: available-for-sale .....	17,239	2,331	–	19,570
Liabilities				
Trading liabilities .....	3,872	1,591	8	5,471
Financial liabilities designated at fair value .....	–	430	–	430
Derivatives .....	–	1,829	30	1,859
<b>At 31 December 2014</b>				
Assets				
Trading assets .....	2,680	6,234	–	8,914
Derivatives .....	–	4,042	40	4,082
Financial investments: available-for-sale .....	17,078	3,044	–	20,122
Liabilities				
Trading liabilities .....	3,753	468	6	4,227
Financial liabilities designated at fair value .....	–	425	–	425
Derivatives .....	–	3,845	40	3,885

Non-financial assets measured at fair value include pension plan assets. The majority of pension plan assets are considered Level 1 with an insignificant amount in Level 2 or Level 3. The fair value of these assets is \$575m, (31 March 2014: \$509m; 31 December 2014: \$544m) which has been recorded as a reduction of the related pension plan obligation.

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

	Assets	Liabilities	
	Derivatives \$m	Held for trading \$m	Derivatives \$m
<b>At 1 January 2015</b> .....	<b>40</b>	<b>6</b>	<b>40</b>
Total gains or losses recognized in profit or loss .....	<b>9</b>	–	<b>9</b>
Transfer out .....	<b>(7)</b>	–	<b>(7)</b>
<b>At 31 March 2015</b> .....	<b>42</b>	<b>6</b>	<b>42</b>
At 1 January 2014.....	34	9	34
Total gains or losses recognized in profit or loss .....	–	–	–
Transfer out .....	(4)	(1)	(4)
At 31 March 2014.....	30	8	30
Total gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period .....	–	–	–

During the first quarter in 2015 and 2014, 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 2014 Annual Report and Accounts.

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

	At 31 March 2015		At 31 March 2014		At 31 December 2014	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Assets						
Loans and advances to banks .....	<b>950</b>	<b>950</b>	1,188	1,188	1,264	1,264
Loans and advances to customers .....	<b>42,660</b>	<b>42,749</b>	41,208	41,292	41,219	41,311
Reverse repurchase agreements .....	<b>7,361</b>	<b>7,361</b>	7,748	7,748	6,714	6,714
Liabilities						
Deposits by banks .....	<b>1,177</b>	<b>1,177</b>	645	645	681	681
Customer accounts .....	<b>50,490</b>	<b>50,558</b>	49,456	49,522	50,843	50,882
Repurchase agreements.....	<b>4,754</b>	<b>4,754</b>	2,037	2,037	4,054	4,054
Debt securities in issue.....	<b>10,316</b>	<b>10,522</b>	10,320	10,492	10,610	10,765
Subordinated liabilities .....	<b>239</b>	<b>234</b>	239	236	239	247

Further discussion of the bank's liquidity and funding management can be found in the audited sections of 'Risk management' within the Management's Discussion and Analysis of the 2014 Annual Report and Accounts.

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

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### 14 Events after the reporting period

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There have been no material events after the reporting period which would require disclosure or adjustment to the 31 March 2015 Financial Statements.

These Financial Statements were approved by the Audit and Risk Committee on 30 April 2015 and authorized for issue.

**PRINCIPAL ADDRESSES:**

**Vancouver:**

HSBC Bank Canada  
885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Tel: (604) 685-1000  
Fax: (604) 641-3098

**Toronto:**

HSBC Bank Canada  
70 York Street  
Toronto, Ontario  
Canada M5J 1S9  
Tel: (416) 868-8000  
Fax: (416) 868-3800

**MEDIA ENQUIRIES:**

Vancouver (English) (604) 641-1905  
Toronto (English) (416) 868-3878  
Toronto (French) (416) 868-8282

**WEBSITE:**

www.hsbc.ca

**OTHER AVAILABLE INFORMATION:**

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

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

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

**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:

HSBC Bank Canada Shareholder Relations – Finance Department  
4th Floor  
2910 Virtual Way  
Vancouver, British Columbia  
Canada V5M 0B2

E-mail: shareholder\_relations@hsbc.ca

**Shareholder Relations:**

Chris Young (604) 642-4389  
Harry Krentz (604) 641-1013

**TRANSFER AGENT AND REGISTRAR:**

Computershare Investor Services Inc.  
Shareholder Service Department  
8th Floor, 100 University Avenue  
Toronto, Ontario  
Canada M5J 2Y1  
Tel: 1 (800) 564-6253

**DIVIDENDS DATES:**

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

	2015	
	<i>Record Date</i>	<i>Payable Date</i>
	15 June	30 June
	15 September	30 September
	15 December	31 December

Distribution dates on our HSBC HaTS™ are 30 June and 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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