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Initial Public Offering

June 21, 2000



HSBC Canada Asset Trust

(a trust established under the laws of British Columbia)

\$200,000,000

200,000 HSBC Canada Asset Trust Securities — Series 2010 (HSBC HaTS™)

HSBC Canada Asset Trust (the "Trust") is a closed-end trust established under the laws of British Columbia by HSBC Trust Company (Canada) (the "Trustee"), a subsidiary of HSBC Bank Canada (also referred to as the "Bank"), pursuant to a declaration of trust (the "Declaration of Trust"). The Trust proposes to issue and sell to investors pursuant to this prospectus (the "Offering") transferable trust units called HSBC Canada Asset Trust Securities — Series 2010 or "HSBC HaTS", each of which represents an undivided beneficial ownership interest in the Trust Assets (as defined herein), principally comprised of co-ownership interests in a pool or pools of first mortgages on residential property insured by Canada Mortgage and Housing Corporation. This Offering will provide investors with the opportunity to invest, through the holding of HSBC HaTS, in the Trust Assets and will provide the Bank with a cost-effective means of raising Tier 1 capital for Canadian bank regulatory purposes. The Trust will also issue securities called Special Trust Securities (the "Special Trust Securities" and, collectively with the HSBC HaTS, the "Trust Securities") to the Bank or affiliates of the Bank. The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction.

The Trust will distribute its Net Distributable Funds (as defined herein) on the last day of June and December of each year commencing December 31, 2000 (each, a "Distribution Date"). On each Distribution Date, unless the Bank has failed to declare Dividends (as defined herein) on the basis described herein, a holder of HSBC HaTS will be entitled to receive a non-cumulative cash distribution of (i) in the case of any such Distribution Date on or before December 31, 2010, other than December 31, 2000, \$38.90 per HSBC HaTS, representing an annual yield of 7.78% on the \$1,000 initial issue price, and (ii) in the case of any such Distribution Date after December 31, 2010, an amount per HSBC HaTS determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate (as defined herein) for the Distribution Period (as defined herein) immediately preceding such Distribution Date plus 2.37% (in each case, an "Indicated Yield"). The initial Indicated Yield payable on December 31, 2000 in respect of the period from and including June 28, 2000 up to but excluding December 31, 2000 will be \$39.86 per HSBC HaTS, based on an anticipated closing date for this Offering (the "Closing Date") of June 28, 2000. Each Distribution Date will be either a Regular Distribution Date (as defined herein) or a Distribution Diversion Date (as defined herein). A Distribution Date will be a Regular Distribution Date if the Bank has declared Dividends in the ordinary course as described under "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Indicated Yield". On a Regular Distribution Date, the Indicated Yield will be payable by the Trust on the HSBC HaTS and the Bank, as holder of the Special Trust Securities, will be entitled to receive the Net Distributable Funds, if any, of the Trust remaining after payment of the Indicated Yield on the HSBC HaTS. A Distribution Date will be a Distribution Diversion Date if the Bank has failed to declare Dividends on the basis described herein. **The Indicated Yield will not be payable by the Trust on the HSBC HaTS on a Distribution Diversion Date and, instead, the Net Distributable Funds of the Trust as at such Distribution Diversion Date will be payable to the Bank as the sole holder of the Special Trust Securities.** For the purposes of this prospectus, the periods commencing on and including the Closing Date to but excluding December 31, 2000, being the initial Distribution Date, and thereafter from and including each Distribution Date to but excluding the next following Distribution Date are referred to as "Distribution Periods".

Pursuant to the terms of a Bank Share Exchange Trust Agreement between the Bank, the Exchange Trustee (as defined herein) and the Trust (the "Bank Share Exchange Agreement"), the Bank has covenanted for the benefit of holders of HSBC HaTS (the "Dividend Stopper Undertakings") that if, on any Regular Distribution Date, the Trust fails to pay the Indicated Yield in full on the HSBC HaTS, the Bank will not declare dividends of any kind on any Class 1 Preferred Shares of the Bank ("Bank Class 1 Preferred Shares"), Common Shares of the Bank ("Bank Common Shares"), Bank Parity Preferred Shares (as defined herein) or Bank Junior Preferred Shares (as defined herein) (collectively, the "Dividend Restricted Shares") until the month commencing immediately after the fourth Dividend Declaration Month (as defined herein) following the Trust's failure to pay the Indicated Yield on the HSBC HaTS unless the Trust first pays such Indicated Yield (or the unpaid portion thereof) to holders of HSBC HaTS. The Bank has also covenanted for the benefit of the holders of HSBC HaTS, pursuant to the Bank Share Exchange Agreement, that as long as any HSBC HaTS are outstanding, the Bank will have outstanding one or more series of preferred shares which are listed on a recognized stock exchange or quoted on a recognized quotation system or trading market. **It is in the interest of the Bank to ensure, to the extent within its control, that the Trust pays the Indicated Yield on the HSBC HaTS on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.** See "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Bank Dividend Stopper Undertakings" and "Risk Factors".

Each HSBC HaTS will be exchanged automatically (the "Automatic Exchange"), without the consent of the holder thereof, for one Bank Class 1 Preferred Share Series Z if (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-Up and Restructuring Act* (Canada) is filed by the Attorney-General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court, (ii) the Superintendent (as defined herein) advises the Bank in writing that the Superintendent has taken control of the

Bank or its assets pursuant to the *Bank Act* (Canada) (the “Bank Act”), (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 capital ratio of less than 5.0% or a risk-based total capital ratio of less than 8.0% or (iv) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein (each, a “Loss Absorption Event”). Following the Automatic Exchange, holders of HSBC HaTS will cease to have any claim or entitlement in relation to the Trust Assets. **If the Automatic Exchange were to occur and Bank Class 1 Preferred Share Series Z were issued in exchange for HSBC HaTS, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the HSBC HaTS would be lost. Accordingly, it is in the interest of the Bank to ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the control of the Bank.** See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Automatic Exchange” and “Description of Bank Class 1 Preferred Shares Series Z”.

Upon the occurrence of a Tax Event (as defined herein) or a Capital Disqualification Event (as defined herein and, collectively with a Tax Event, a “Special Event”), in each case prior to June 30, 2005, the Trust may, with Superintendent and FSA Approval (as defined herein), at its option, upon not less than 30 and not more than 90 days’ prior written notice, redeem the HSBC HaTS (the “Trust Special Event Redemption Right”) in whole (but not in part) without the consent of the holders thereof, for a cash amount per HSBC HaTS (the “Early Redemption Price”) equal to the greater of (i) the Redemption Price (as defined herein) and (ii) the HSBC HaTS Canada Yield Price (as defined herein). See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Trust Special Event Redemption Right”.

On June 30, 2005 and on any Distribution Date thereafter, the Trust may, with Superintendent and FSA Approval, at its option, upon not less than 30 and not more than 60 days’ prior written notice, redeem the HSBC HaTS (the “Trust Redemption Right”) in whole (but not in part) without the consent of the holders thereof, for a cash amount per HSBC HaTS equal to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2010 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2010. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Trust Redemption Right”.

It is expected that the Trust Assets will be purchased primarily from the Bank and/or its affiliates. The Bank will act as Administrative Agent (as defined herein) to the Trust and the Bank and/or its affiliates will, collectively, act as Servicer (as defined herein) of the Trust Assets. See “The Trust” and “Business of the Trust”.

An investment in HSBC HaTS could be replaced in certain circumstances, without the consent of the holder, by an investment in Bank Class 1 Preferred Shares Series Z. Investors should therefore carefully consider the disclosure with respect to the Bank included in this prospectus. An investment in HSBC HaTS is subject to certain risks. See “Risk Factors”. The Trust is a newly formed entity and, accordingly, it is not possible to determine interest or asset coverages with respect to the HSBC HaTS.

The Toronto Stock Exchange has conditionally approved the listing of the HSBC HaTS subject to the fulfillment of the usual requirements of such exchange on or prior to September 15, 2000.

The Trust is expected to be a registered investment for purposes of the *Income Tax Act* (Canada) (the “Tax Act”) and, as such, the HSBC HaTS will be qualified investments, and will not be foreign property, for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans and, if draft regulations to the Tax Act are proclaimed in force, registered education savings plans. See “Eligibility for Investment”.

Price: \$1,000 per HSBC HaTS

	Price to the Public	Underwriters’ Fee (1)	Net Proceeds to the Trust (1)(2)
Per HSBC HaTS	\$1,000	\$30	\$970
Total	\$200,000,000	\$6,000,000	\$194,000,000

(1) The Underwriters’ fee is \$10 for each HSBC HaTS sold to certain institutions and \$30 per HSBC HaTS for all other HSBC HaTS sold. The amounts set forth in the table represent the Underwriters’ Fee and the Net Proceeds to the Trust assuming no HSBC HaTS are sold to such institutions.

(2) Before deduction of expenses of this Offering, estimated at \$2,000,000, which, together with the Underwriters’ fee, are payable by the Trust.

The Underwriters (as defined herein), as principals, conditionally offer the HSBC HaTS, subject to prior sale, if, as and when issued by the Trust and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” subject to the approval of certain legal matters on behalf of the Trust and the Bank by McCarthy Tétrault and on behalf of the Underwriters by Stikeman Elliott. **HSBC Securities (Canada) Inc., one of the Underwriters, is a wholly owned subsidiary of the Bank. Each of the Trust and the Bank is a related issuer of HSBC Securities (Canada) Inc. under applicable securities legislation by virtue of the Bank’s interest in the Trust and HSBC Securities (Canada) Inc. See “Plan of Distribution”.** This prospectus also qualifies for distribution the Automatic Exchange and the Subscription Right (as defined herein).

Subscriptions for the HSBC HaTS will be received by the Underwriters subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Closing Date will be on or about June 28, 2000 or such later date as the Trust, the Bank and the Underwriters may agree, but in any event not later than August 3, 2000. The HSBC HaTS will be issued in “book-entry only” form and, accordingly, physical certificates representing HSBC HaTS will not be available except in limited circumstances. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Book-Entry Only Form”.

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ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault, counsel to the Trust and the Bank, and Stikeman Elliott, counsel to the Underwriters, subject to compliance with the prudent investment standards and the general investment provisions and restrictions of the statutes referred to below and, where applicable, the regulations thereunder and, in certain cases, subject to satisfaction of additional requirements relating to investments or lending policies or goals and, in certain cases, the filing of such policies or goals, the HSBC HaTS to be issued by the Trust hereunder would not, if issued on the date hereof, be precluded as investments under or by the following statutes:

Insurance Companies Act (Canada)
Trust and Loan Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Financial Institutions Act (British Columbia)
Insurance Act (Alberta)
Loan and Trust Corporations Act (Alberta)
Pension Benefits Act (Ontario)

Supplemental Pension Plans Act (Quebec)
*an Act respecting insurance (Quebec) (other than
by a guarantee fund corporation)*
*an Act respecting trust companies and savings
companies (Quebec) (for a trust company
investing its own funds and funds received as
deposits by it and for a savings company)*

The Trust is expected to be a registered investment for purposes of the Tax Act and, as such, in the opinion of such counsel, the HSBC HaTS would, if issued on the date hereof, be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans, and, if draft regulations to the Tax Act are proclaimed in force, registered education savings plans, and may be held in such plans subject to the terms of the particular plan or trust and will not be prohibited investments for registered pension plans. The HSBC HaTS will not be foreign property for purposes of the Tax Act.

THE HSBC HaTS, WHILE EXCHANGEABLE IN CERTAIN CIRCUMSTANCES FOR PREFERRED SHARES OF THE BANK, DO NOT REPRESENT OBLIGATIONS OF OR INTERESTS IN AND ARE NOT GUARANTEED OR INSURED BY HSBC BANK CANADA, HSBC HOLDINGS plc, HSBC TRUST COMPANY (CANADA) OR ANY OF THEIR RESPECTIVE AGENTS OR AFFILIATES. THE HSBC HaTS ARE NOT INSURED OR GUARANTEED BY THE CANADA DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY.

PROSPECTUS SUMMARY

The following is a summary only and is qualified in its entirety by and should be read in conjunction with the more detailed information and financial statements appearing elsewhere in this prospectus. Reference is made to the Glossary for the meaning of certain defined terms.

The Offering

- Issuer:** HSBC Canada Asset Trust, a closed-end trust established under the laws of the Province of British Columbia pursuant to the Declaration of Trust.
- Offering:** 200,000 HSBC Canada Asset Trust Securities — Series 2010 (HSBC HaTS), being a class of units of the Trust.
- Amount of Offering:** \$200,000,000.
- Price:** \$1,000 per HSBC HaTS.
- Ratings:** The HSBC HaTS have been rated “A(low)” yn by DBRS and P-2 (Low) by CBR.
- Use of Proceeds:** The proceeds to the Trust from this Offering of \$200 million, together with the net proceeds to be received on the Closing Date by the Trust of approximately \$117 million from the subscription by the Bank for Special Trust Securities, will be used to fund the acquisition by the Trust of the Initial Trust Assets from the Bank and/or its Mortgage Subsidiaries. See “Use of Proceeds”.

Summary of Attributes of HaTS:

Each HSBC HaTS represents an undivided beneficial ownership interest in the assets of the Trust, principally comprised of co-ownership interests in a pool or pools of first mortgages on residential property insured by Canada Mortgage and Housing Corporation.

Unless the Bank has failed to declare dividends on its senior preferred shares, the Trust will make non-cumulative semi-annual cash distributions to the holders of HSBC HaTS in amounts to provide an effective annual yield of 7.78% to December 31, 2010 and the Bankers’ Acceptance Rate (reset semi-annually) plus 2.37% thereafter.

Under the Dividend Stopper Undertakings, the Bank has covenanted that if the Trust fails to pay the Indicated Yield in full on the HSBC HaTS on any Distribution Date, the Bank will not declare dividends on any of its shares for a specified period unless the Trust first pays such Indicated Yield.

The HSBC HaTS are not redeemable by the holders. The Trust may redeem the HSBC HaTS on June 30, 2005 and on any Distribution Date thereafter. Prior to June 30, 2005, the Trust may redeem the HSBC HaTS upon the occurrence of a Tax Event or a Capital Disqualification Event. Upon the occurrence of a Loss Absorption Event, each HSBC HaTS will be exchanged automatically for one Bank Class 1 Preferred Share Series Z. In such event the holder would cease to have any direct claim or entitlement with respect to the assets of the Trust.

Indicated Yield:

The effective annual yield payable on the HSBC HaTS will be 7.78% to December 31, 2010 and the Bankers’ Acceptance Rate (reset semi-annually) plus 2.37% thereafter, as more particularly set forth below.

The Trust will distribute its Net Distributable Funds on the last day of June and December of each year commencing December 31, 2000. Each HSBC HaTS entitles the holder to receive an Indicated Yield of \$38.90 on each Distribution Date on or before December 31, 2010, other than December 31, 2000, provided that such date is a Regular Distribution Date. The initial Indicated Yield, payable on December 31, 2000, will be \$39.86 per HSBC HaTS for the period from and

including the anticipated Closing Date of June 28, 2000 to but excluding December 31, 2000. For each Distribution Date after December 31, 2010, the Indicated Yield will be an amount determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate for the Distribution Period immediately preceding such Distribution Date plus 2.37%, payable on the last day of June and December of each year commencing June 30, 2011 provided that such date is a Regular Distribution Date. A Distribution Date will be a Regular Distribution Date unless the Bank has failed to declare (such failure being a "Distribution Diversion Event") regular dividends on the Bank Class 1 Preferred Shares of any series and the Bank Parity Preferred Shares (if any) in accordance with the Bank's intended dividend practice in effect from time to time (a "Dividend") in the Reference Dividend Declaration Month. The Reference Dividend Declaration Month in respect of any Distribution Date (other than December 31, 2000) is the most recent Dividend Declaration Month preceding the commencement of the Distribution Period ending on the day preceding such Distribution Date. The Reference Dividend Declaration Month in respect of the December 31, 2000 Distribution Date is the month of April 2000 and, for the purposes of the HSBC HaTS, a Dividend will be deemed to have been declared in such month. Accordingly, whether the Indicated Yield on the HSBC HaTS will be payable by the Trust on any Distribution Date after December 31, 2000 will be determined prior to the commencement of the Distribution Period ending on the day preceding such Distribution Date. On any Regular Distribution Date, the Indicated Yield will be payable by the Trust to each holder of HSBC HaTS and the Net Distributable Funds, if any, of the Trust, after payment of the Indicated Yield, will be payable to the Bank as the sole holder of the Special Trust Securities. In the event of the occurrence of a Distribution Diversion Event in any Reference Dividend Declaration Month, the Distribution Date occurring on the day following the first Distribution Period commencing following such Distribution Diversion Event will be a Distribution Diversion Date. The Indicated Yield on the HSBC HaTS will not be payable by the Trust on a Distribution Diversion Date and, instead, the Net Distributable Funds of the Trust will be distributed to the Bank as the sole holder of the Special Trust Securities. See "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Indicated Yield".

**Bank Dividend Stopper
Undertakings:**

Pursuant to the terms of the Bank Share Exchange Agreement, the Bank has covenanted for the benefit of holders of HSBC HaTS that, in the event that the Trust fails to pay the Indicated Yield in full on the HSBC HaTS on any Regular Distribution Date, the Bank will not declare dividends of any kind on the Dividend Restricted Shares, being the Bank Class 1 Preferred Shares, Bank Common Shares, Bank Parity Preferred Shares and Bank Junior Preferred Shares, until the Dividend Declaration Resumption Month, being the month commencing immediately after the fourth Dividend Declaration Month following the Trust's failure to pay the Indicated Yield in full on the HSBC HaTS, unless the Trust first pays such Indicated Yield (or the unpaid portion thereof) to holders of HSBC HaTS. The Bank has also covenanted for the benefit of the holders of HSBC HaTS, pursuant to the Bank Share Exchange Agreement, that as long as any HSBC HaTS are outstanding, the Bank will have outstanding one or more series of preferred shares which are listed on a recognized stock exchange or quoted on a recognized quotation system or trading market. **It is in the interest of the Bank to ensure, to the extent within its control, that the Trust pays the Indicated Yield on the HSBC HaTS on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.** See "Description of the Trust Securities — The HSBC Canada

Asset Trust Securities — Bank Dividend Stopper Undertakings’ and ‘Risk Factors’.

Set forth below is a table indicating the relationship among the Reference Dividend Declaration Month, the Distribution Period, the Distribution Date and the Dividend Declaration Resumption Month:

<u>Reference Dividend Declaration Month (1)</u>	<u>Commencement of Current Distribution Period (2)</u>	<u>Distribution Date</u>	<u>Dividend Declaration Resumption Month (3)</u>
April 2000 (4)	June 28, 2000	December 31, 2000	November 2001
October 2000	December 31, 2000	June 30, 2001	May 2002
April 2001	June 30, 2001	December 31, 2001	November 2002

- (1) The Reference Dividend Declaration Months are based on the Bank’s intended practice with respect to declaring Dividends including, with respect to the Bank Class 1 Preferred Shares Series A being offered pursuant to the Bank Preferred Share Offering, its intention to declare Dividends thereon in the months of January, April, July and October of each year. If such practice were to change in the future in terms of the timing or frequency of the declaration of Dividends, the Reference Dividend Declaration Months referred to above may change. However, the Reference Dividend Declaration Month in respect of any Distribution Date would, in all events, continue to be the Dividend Declaration Month closest to but preceding the commencement of the Distribution Period ending on the day preceding such Distribution Date.
- (2) Given that the Reference Dividend Declaration Month precedes the commencement of the applicable Distribution Period, the question of whether the Distribution Date falling on the day immediately following such Distribution Period will be a Regular Distribution Date or a Distribution Diversion Date, and the entitlement of holders of HSBC HaTS to the Indicated Yield, will have been determined prior to the commencement of such Distribution Period.
- (3) The Dividend Declaration Resumption Month is only relevant if the Trust fails to pay the Indicated Yield in full on the HSBC HaTS on any Regular Distribution Date.
- (4) For purposes of the HSBC HaTS, Dividends will be deemed to have been declared in April 2000.

Voting Rights:

The HSBC HaTS are non-voting except in certain limited circumstances. See ‘Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Voting Rights’.

Automatic Exchange:

Each HSBC HaTS will be exchanged automatically, without the consent of the holder thereof, for one Bank Class 1 Preferred Share Series Z upon the occurrence of a Loss Absorption Event, being any one of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-up and Restructuring Act* (Canada) is filed by the Attorney-General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 capital ratio of less than 5.0% or a risk-based total capital ratio of less than 8.0%; or (iv) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time period specified therein. The Automatic Exchange will be deemed to occur as of 8:00 a.m. (Toronto time) on the date that a Loss Absorption Event occurs. Following the Automatic Exchange, holders of HSBC HaTS will cease to have any claim or entitlement in relation to the Trust Assets. If, for any reason, the Automatic Exchange does not result in the exchange of all HSBC HaTS then outstanding for Bank Class 1 Preferred Shares Series Z, the Trust will redeem each HSBC HaTS not so exchanged for consideration consisting of one Bank Class 1 Preferred Share Series Z. **If the Automatic Exchange were to occur and Bank Class 1 Preferred Shares Series Z were issued in exchange for the HSBC HaTS, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the HSBC HaTS would be lost.**

Accordingly, it is in the interest of the Bank to ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the Bank's control. See "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Automatic Exchange" and "Description of Bank Class 1 Preferred Shares Series Z".

No Redemption at the Option of the Holder:

The HSBC HaTS are not redeemable at the option of the holder.

Trust Special Event Redemption Right:

Upon the occurrence of a Tax Event or a Capital Disqualification Event, in each case prior to June 30, 2005, the HSBC HaTS will, upon not less than 30 and not more than 90 days' prior written notice by the Trust, with Superintendent and FSA Approval, be redeemable by the Trust, at its option in whole (but not in part) and without the consent of the holders thereof, for a cash amount per HSBC HaTS equal to the Early Redemption Price, being the greater of (i) the Redemption Price (being \$1,000 plus the Unpaid Indicated Yield) and (ii) a price per HSBC HaTS calculated to provide an annual yield thereon to December 31, 2010 equal to the Government of Canada Yield plus 0.46%, determined on the Business Day immediately preceding the date on which the Trust has given notice of the redemption of the HSBC HaTS as a consequence of the exercise of the Trust Special Event Redemption Right, plus the Unpaid Indicated Yield (the "HSBC HaTS Canada Yield Price"). For such purpose, the "Government of Canada Yield", on any day, will be the average of the yields determined by two specified Canadian investment dealers, as being the yield to maturity on such day, compounded semi-annually which a non-callable Government of Canada bond with a maturity date of December 31, 2010 would carry if issued on such day in Canadian dollars in Canada at 100% of its principal amount. See "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Trust Special Event Redemption Right".

Trust Redemption Right:

On June 30, 2005 and on any Distribution Date thereafter, the Trust may, with Superintendent and FSA Approval, at its option, upon not less than 30 and not more than 60 days' prior written notice, redeem the HSBC HaTS in whole (but not in part) and without the consent of the holders thereof, for a cash amount per HSBC HaTS equal to (i) the Early Redemption Price, if the redemption occurs prior to December 31, 2010, or (ii) the Redemption Price, if the redemption occurs on or after December 31, 2010. See "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Trust Redemption Right".

Purchase for Cancellation:

On or after the date that is five years after the Closing Date, the HSBC HaTS may be purchased, in whole or in part, by the Trust, with Superintendent and FSA Approval, in the open market or by tender or private contract at any price. HSBC HaTS purchased by the Trust will be cancelled and will not be reissued.

Rights on Termination of the Trust:

As long as any HSBC HaTS are outstanding, the Trust may only be terminated with the approval of the Bank, as holder of the Special Trust Securities, and with Superintendent and FSA Approval (i) upon the occurrence of a Special Event prior to June 30, 2005 or (ii) for any reason on June 30, 2005 or on any Distribution Date thereafter. The Declaration of Trust provides that holders of HSBC HaTS are not entitled to initiate proceedings for the termination of the Trust.

Pursuant to the Bank Share Exchange Agreement, the Bank has covenanted for the benefit of holders of HSBC HaTS that, as long as any HSBC HaTS are outstanding, the Bank will not approve the termination of the Trust unless the Trust has sufficient funds to pay the Early Redemption Price or the Redemption

Price, as applicable. Holders of HSBC HaTS and the Bank and/or its affiliates, as holders of the Special Trust Securities, will rank *pari passu* in the distribution of the property of the Trust in the event of a termination of the Trust, after the discharge of the claims of creditors, if any. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Rights on Termination of the Trust.”

Additional Bank Covenants:

In addition to the Dividend Stopper Undertakings, the Bank has covenanted for the benefit of the holders of HSBC HaTS, pursuant to the Bank Share Exchange Agreement, that:

- (a) all of the outstanding Special Trust Securities will be held at all times, directly or indirectly, by the Bank;
- (b) as long as any HSBC HaTS are outstanding, the Bank will not take any action to cause the termination of the Trust except as set forth under “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Rights on Termination of the Trust” and with Superintendent and FSA Approval;
- (c) the Bank will not assign or otherwise transfer its obligations under the Bank Share Exchange Agreement, except in the case of a merger, consolidation, amalgamation, reorganization or a sale of all or substantially all of the assets of the Bank; and
- (d) as long as any HSBC HaTS are outstanding, the Bank will have outstanding one or more series of preferred shares which are listed on a recognized stock exchange or quoted on a recognized quotation system or trading market.

Book-Entry Only Form:

The HSBC HaTS will be issued under the book-entry only system operated by The Canadian Depository for Securities Limited or its nominees (“CDS”) and must be purchased or transferred through participants (collectively, “Participants”) in the depository service of CDS. Participants include securities brokers and dealers, banks and trust companies. Accordingly, physical certificates representing the HSBC HaTS will not be available except in the limited circumstances described under “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Book-Entry Only Form”.

Concurrent Bank Preferred Share Offering:

Concurrently with this Offering, HSBC Bank Canada is offering, pursuant to a prospectus dated the same date as this prospectus, Bank Class 1 Preferred Shares Series A. The closing of this Offering is contingent on the closing of the Bank Preferred Share Offering. The closing of the Bank Preferred Share Offering is not contingent on the closing of this Offering.

The Trust

General

The Trust is a closed-end trust established under the laws of the Province of British Columbia by the Trustee pursuant to the Declaration of Trust. This Offering will provide investors with the opportunity to invest, through the holding of HSBC HaTS, in the Trust Assets and will provide the Bank with a cost-effective means of raising capital for Canadian bank regulatory purposes. All of the Special Trust Securities will be owned by the Bank, directly or indirectly. See “Description of the Trust Securities — The Special Trust Securities”. As a result of this Offering, the Trust will become a reporting issuer for the purposes of applicable securities laws of all of the provinces and territories of Canada and will be required, among other things, to make continuous disclosure filings with applicable securities regulatory authorities.

Business of the Trust

The Trust's business objective is to acquire and hold the Trust Assets that will generate net income for distribution to holders of Trust Securities. The Initial Trust Assets will consist primarily of undivided co-ownership interests ("Mortgage Co-Ownership Interests") in one or more pools of Canada Mortgage and Housing Corporation ("CMHC") insured first mortgages on residential property situated in Canada, such as single family dwellings, duplexes, townhouses, condominium units or multiple-unit family dwellings (collectively, "Residential Mortgages") originated by the Initial Sellers. The Initial Sellers will enter into one or more Mortgage Sales, Pooling and Servicing Agreements and Series 2010 Purchase Agreements which, together, will provide for the transfer of co-ownership interests in Residential Mortgages and the Mortgage Co-Ownership Interests. The Trust intends to acquire the Trust Assets primarily from the Bank and/or its affiliates. The Trust Assets will be serviced directly or indirectly by the Bank and/or its affiliates. The Trust will, from time to time, purchase additional Eligible Trust Assets out of proceeds received in connection with the Trust Assets. The price of any Trust Asset purchased by the Trust is intended to be equal to the fair market value thereof. See "Business of the Trust — Description of the Initial Trust Assets".

Capitalization

As a newly formed entity, the Trust has no prior operating history. Immediately after the issuance by the Trust of the HSBC HaTS pursuant to this Offering, the subscription by the Bank for the Special Trust Securities and the purchase by the Trust of the Initial Trust Assets, the Trust will have approximately \$325 million in Trust Assets, \$200 million of capital attributable to the HSBC HaTS, \$117 million of capital attributable to the Special Trust Securities, and \$8 million of estimated issue related costs, which will be paid from advances from the Bank under the Credit Facility. See "Business of the Trust — Certain Transactions Incidental to the Offering", "Capitalization of the Trust" and "Risk Factors".

Conflicts of Interest

Due to the nature of the Trust's relationship with the Bank and its affiliates, it is possible that conflicts of interest may arise with respect to certain transactions between the parties. It is intended that any agreements or transactions between the Trust, on the one hand, and the Bank or its affiliates, on the other hand, will be fair to all parties and consistent with market terms and conditions for such types of transactions. However, there can be no assurance that any such agreement or transaction will be on terms as favourable to the Trust as would have been obtained from unaffiliated third parties. See "Business of the Trust — Conflict of Interest Policies".

Servicing of Trust Assets

The Trust Assets will be serviced directly or indirectly by the Bank and/or its affiliates. The Trust Assets will generally be acquired by the Trust on a fully serviced basis. See "Business of the Trust — Description of Eligible Trust Assets — General".

Administration and Advisory Agreement

The Trustee has entered into an administration and advisory agreement with the Bank (the "Administration and Advisory Agreement") pursuant to which the Trustee has delegated certain of its duties in relation to the Trust to the Bank. The Bank, in its role as advisor and administrative agent under the Administration and Advisory Agreement (the "Administrative Agent"), will provide the Trust advice and counsel with respect to the management of the Trust Assets and will administer the day-to-day operations of the Trust and provide other advice or counsel as may be requested from time to time by the Trust. The Administrative Agent may from time to time delegate or sub-contract all or a portion of its obligations under the Administration and Advisory Agreement to one or more of its qualified affiliates. The Bank and certain of its affiliates and their respective personnel have substantial experience in mortgage finance and in the administration of Trust Assets. See "Business of the Trust — The Administrative Agent".

Liquidity

The Trust will only borrow funds from the Bank pursuant to the Credit Facility and will use borrowed funds for the purposes of ensuring liquidity in the normal course of the Trust's activities. The Bank will charge interest rates on any borrowings by the Trust that are not higher than prevailing market rates. See "Business of the Trust — Liquidity".

HSBC Bank Canada

HSBC Bank Canada is the pre-eminent full service, globally integrated foreign-owned bank in Canada. It is the only foreign-owned full service bank operating in every region in Canada. HSBC Bank Canada is the seventh largest bank overall in Canada, with total assets of \$26.4 billion as at March 31, 2000. As a wholly owned subsidiary of HSBC Holdings, HSBC Bank Canada provides its clients with access to one of the largest banking and financial services organizations in the world. Through its global network of more than 5,000 offices in 80 countries and territories, HSBC provides a comprehensive range of financial services to clients worldwide. HSBC enjoys a leading market position in trade services and products in many markets around the world. At December 31, 1999, HSBC had total assets of US\$569 billion and a market capitalization of US\$118 billion.

HSBC Bank Canada is a fully integrated financial services organization with approximately 150 offices across Canada and two offices in the United States. HSBC Bank Canada believes that its key corporate strengths are:

- **Global strength, reach and brand of HSBC** — HSBC Bank Canada views its ability to utilize and leverage HSBC's integrated worldwide financial services network as a significant competitive advantage.
- **Unique retail and commercial franchise** — Through its strong tradition of customer service excellence, HSBC Bank Canada is the only foreign-owned bank that has successfully established a large retail and commercial network in Canada.
- **Consistent growth in earnings** — Over the last ten years, HSBC Bank Canada's net income has increased at a compound annual growth rate of 16.8%.
- **Conservative financial management** — Through its conservative approach to lending, HSBC Bank Canada has achieved a superior loan loss experience compared to its competitors.

HSBC Bank Canada offers a wide range of products and services to targeted segments of the financial services market. The organization and structure of HSBC Bank Canada's operations are customer driven and uniquely integrated both across service and product lines and internationally through HSBC's global network. HSBC Bank Canada operates through four major business segments:

- **Personal Financial Services** provides a comprehensive range of financial products and services to individuals through HSBC Bank Canada's multi-channel distribution network.
- **Commercial Financial Services** provides a broad range of lending, treasury, trade finance, investment banking and other financial services to Canadian commercial and corporate clients.
- **Corporate and Institutional Banking** services the domestic and cross-border financial requirements of HSBC's large multinational clients.
- **Treasury and Markets** encompasses the Canadian operations of HSBC's global treasury and capital markets business, servicing the needs of domestic and international clients.

HSBC Bank Canada's objective is to be the leading international provider of financial services in Canada with a significant presence in each of its key markets. To achieve this, HSBC Bank Canada has developed a strategy designed to build on its affiliation with HSBC and its history of consistent growth. This strategy has the following key operating components:

- **Leverage global strength, reach and brand** — HSBC Bank Canada believes that the global strength, reach and brand of HSBC is its most significant competitive advantage. HSBC Bank Canada intends to increase Canadian awareness of HSBC's global capabilities to enhance its market share and realize economies of scale in Canada.
- **Deepen existing client relationships** — HSBC Bank Canada is focused on increasing penetration of its customer base by better understanding and meeting clients' needs and ensuring that they have ready access to the full range of HSBC's global products and services.
- **Expand customer base and geographic presence** — HSBC Bank Canada is devoting resources to grow its presence nationally, with special emphasis on selected markets in Ontario and Quebec. While HSBC Bank Canada's strategy is focused principally on organic growth, it also allows for opportunistic acquisitions.
- **Enhance multi-channel delivery systems** — HSBC Bank Canada is focused on improving the efficiency of delivering transactional services and commoditized products. While its branch network will remain a critical delivery channel, HSBC Bank Canada plans to improve its efficiency ratio by expanding the market for its telephone and PC based banking services. It is also implementing a focused e-business strategy to enhance its electronic delivery capabilities.
- **Attract, retain and motivate a high performance team of employees** — This policy has been critical to the success of HSBC Bank Canada and the development of a strong sales and service culture throughout the organization. In a recent independent survey conducted for *Report on Business Magazine*, HSBC Bank Canada was named as one of the 35 best companies to work for in Canada.

Summary Selected HSBC Bank Canada Financial Information and Other Data

The following table sets forth summary selected consolidated financial information and other data of HSBC Bank Canada for each of the periods and as at the dates indicated. The information under Statement of Income Data and Balance Sheet Data is derived from the Consolidated Financial Statements of HSBC Bank Canada contained in Appendix A. Effective for 1998, HSBC Bank Canada changed its fiscal year-end from October 31 to December 31 to be consistent with that of HSBC Holdings. The information under Statement of Income Data for the fourteen months ended December 31, 1998 has been annualized for comparative purposes. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths. The data under Risk-based Capital Ratios, Financial Ratios and Other Data are derived from financial information used to prepare the Consolidated Financial Statements of HSBC Bank Canada. The information and data set forth below should be read in conjunction with, and is qualified in its entirety by, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Consolidated Financial Statements in Appendix A.

	Three months ended March 31,		Year ended December 31, 1999	Fourteen months ended December 31, 1998 (annualized)	Year ended October 31, 1997
	2000	1999			
	(unaudited)		(in millions, except ratios)		
Statement of Income Data					
Net interest income	\$ 152	\$ 133	\$ 540	\$ 519	\$ 493
Provision for credit losses	11	16	43	77	38
Net interest income after provision for credit losses	141	117	497	442	455
Other income	125	93	384	285	240
Net interest and other income	266	210	881	727	695
Non-interest expenses:					
Salaries and employee benefits	101	81	339	266	230
Premises and equipment expenses, including amortization	28	26	101	86	72
Other	62	49	197	183	172
Total non-interest expenses	191	156	637	535	474
Income before provision for income taxes	75	54	244	192	221
Provision for income taxes	28	16	79	36	83
Net income	<u>\$ 47</u>	<u>\$ 38</u>	<u>\$ 165</u>	<u>\$ 156</u>	<u>\$ 138</u>
Balance Sheet Data (at period end)					
Total assets	\$26,360	\$26,429	\$25,051	\$24,836	\$23,910
Total loans	17,491	17,724	17,130	17,459	16,454
Commercial loans	9,780	9,721	9,634	9,934	7,940
Residential mortgage loans	5,853	6,368	5,769	6,057	6,876
Total deposits	21,152	21,245	20,170	20,550	20,115
Personal deposits: individuals	11,188	10,345	10,858	10,213	9,922
Subordinated debt	393	618	392	620	549
Shareholder's equity	1,295	855	1,252	817	671
Risk-based Capital Ratios (%) (at period end) (unaudited)					
Tier 1 capital	7.7	5.3	7.9	5.4	4.7
Total capital	10.6	9.7	10.9	10.0	8.9
Financial Ratios (%) (at period end) (unaudited)					
Return on average common equity	18.92	18.41	18.36	20.98	20.19
Return on average total assets	0.72	0.60	0.63	0.63	0.61
Other income percentage(1)	45.1	41.2	41.6	35.4	32.7
Efficiency ratio(2)	69.0	69.0	68.9	66.5	64.7
Net non-performing loans as a percentage of loans and acceptances(3)	(0.39)	(0.46)	(0.55)	(0.67)	(0.39)
Liquidity ratio(4)	27.30	25.09	22.63	24.30	25.01
Other Data (at period end) (unaudited)					
Funds under administration	\$13,842	\$ 9,988	\$13,013	\$ 9,998	\$ 7,874

- (1) Other income percentage is other income as a percentage of the total of net interest income and other income ("other income percentage").
- (2) Efficiency ratio is total non-interest expenses as a percentage of the total of net interest income and other income ("efficiency ratio").
- (3) Net of specific and general allowances for credit losses.
- (4) Liquidity ratio is liquid assets as a percentage of total deposits ("liquidity ratio").

Risk Factors

The purchase of HSBC HaTS is subject to certain risks including the following: (i) in certain specified circumstances, including at a time when the Bank's financial condition is deteriorating or proceedings for the winding-up of the Bank have been commenced, the HSBC HaTS will be automatically exchanged for Bank Class 1 Preferred Shares Series Z without the consent of the holders of HSBC HaTS and, as a result, holders of HSBC HaTS will have no claim or entitlement to the Trust Assets other than indirectly in their capacity as preferred shareholders of the Bank; (ii) there can be no assurance that the income of the Trust from the Trust Assets will be sufficient to pay the Indicated Yield on the HSBC HaTS in full on Regular Distribution Dates; (iii) there can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Trust's ability to pay the Indicated Yield on the HSBC HaTS in full on Regular Distribution Dates; (iv) the ownership of shares of the Bank is subject to certain restrictions; (v) the Trust will be dependent in virtually every phase of its operations on the diligence and skill of the Bank or its sub-contractors and delegates under the Administration and Advisory Agreement and the Bank and its Mortgage Subsidiaries as Servicer; (vi) there can be no assurance that an active trading market in the HSBC HaTS will develop or be sustained or that the HSBC HaTS may be resold at or above the initial public offering price; (vii) the Indicated Yield is not cumulative and, as a result, if the Indicated Yield is not paid on a Distribution Date by reason of the occurrence of a Distribution Diversion Event, a holder of HSBC HaTS will not be entitled to receive such Indicated Yield subsequently; and (viii) the HSBC HaTS have no fixed final maturity date and holders of HSBC HaTS have no right to call for the redemption of the HSBC HaTS. See "Risk Factors".

GLOSSARY

In this prospectus (including Appendix A), unless the context otherwise requires:

Accumulated Unpaid Indicated Yield means, at any time, an amount per HSBC HaTS equal to the Indicated Yield payable by the Trust thereon in respect of all previous Regular Distribution Dates remaining unpaid by the Trust, if any.

Administration and Advisory Agreement means the agreement between the Trust and the Bank pursuant to which the Bank will serve as Administrative Agent to the Trust.

Administrative Action means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of an intention to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction.

Administrative Agent means the Bank in its capacity as advisor and administrative agent to the Trust pursuant to the Administration and Advisory Agreement or any successor to the Bank in such capacity.

Automatic Exchange means the automatic exchange of each HSBC HaTS for one Bank Class 1 Preferred Share Series Z upon the occurrence of a Loss Absorption Event.

Bank or **HSBC Bank Canada** means HSBC Bank Canada, either alone or together with its subsidiaries.

Bank Act means the *Bank Act* (Canada), as amended from time to time.

Bank Class 1 Preferred Shares means the Class 1 Preferred Shares without par value in the capital of the Bank (including the Bank Class 1 Preferred Shares Series A, the Bank Class 1 Preferred Shares Series B and the Bank Class 1 Preferred Shares Series Z).

Bank Class 1 Preferred Shares Series A means the Non-Cumulative Redeemable Class 1 Preferred Shares Series A in the capital of the Bank.

Bank Class 1 Preferred Shares Series B means the Non-Cumulative Redeemable Class 1 Preferred Shares Series B in the capital of the Bank.

Bank Class 1 Preferred Shares Series Z means the Non-Cumulative Redeemable Class 1 Preferred Shares Series Z in the capital of the Bank.

Bank Class 2 Preferred Shares means the Class 2 Preferred Shares without par value in the capital of the Bank.

Bank Class 2 Preferred Shares Series A means the Non-Cumulative Redeemable Class 2 Preferred Shares Series A in the capital of the Bank.

Bank Common Shares means the common shares without par value in the capital of the Bank.

Bank Junior Preferred Shares means preferred or preference shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares (including the Bank Class 2 Preferred Shares).

Bank Parity Preferred Shares means preferred or preference shares in the capital of the Bank ranking *pari passu* with the Bank Class 1 Preferred Shares.

Bank Preferred Share Offering means the concurrent offering by the Bank of Bank Class 1 Preferred Shares Series A pursuant to a prospectus dated the same date as this prospectus.

Bank Share Exchange Agreement means the bank share exchange trust agreement between the Bank, the Trust and the Exchange Trustee providing for, among other things, the Dividend Stopper Undertakings and other covenants of the Bank as well as the respective rights and obligations of the Bank, the Trust and the holders of the HSBC HaTS with respect to the Subscription Right and with respect to the exchange of HSBC HaTS for Bank Class 1 Preferred Shares Series Z in connection with the Automatic Exchange.

Bankers' Acceptance Rate means, for any Distribution Period or other period, the average bid rate of interest (expressed as an annual percentage rate) rounded to the nearest one hundred-thousandth of one percent (with 0.000005 percent being rounded up) for Canadian dollar bankers' acceptances with maturities of six months which appears on the Reuters Screen CDOR Page as of 10:00 a.m. (Toronto time) on the first Business Day of such period, provided that if such rate does not appear on the Reuters Screen CDOR Page on such day, the Bankers' Acceptance Rate for such period will be the average of the bid rates of interest (expressed and rounded as set forth above) for Canadian dollar

bankers' acceptances with maturities of six months for same day settlement as quoted by such of the Schedule I Canadian chartered banks as may quote such a rate as of 10:00 a.m. (Toronto time) on the first Business Day of such period.

Board of Directors means the board of directors of the Bank.

Business Day means a day on which the Bank is open for business in the cities of Vancouver and Toronto, other than a Saturday, Sunday or any statutory or civic holiday in either of such cities.

Capital Disqualification Event means a Tier 1 Capital Disqualification Event or a Total Capital Disqualification Event.

Capital Guidelines means the Canadian bank regulatory guidelines issued by the Superintendent or other governmental authority in Canada concerning the maintenance of adequate capital reserves by Canadian chartered banks, including the Bank, from time to time.

CBRS means CBRS Inc.

CDS means The Canadian Depository for Securities Limited and its nominees, or any successor thereto, carrying on the business of a depository.

CDS Procedures means the customary practices and procedures of CDS.

Closing Date means the date of closing of this Offering.

CMHC means Canada Mortgage and Housing Corporation.

Co-Owner means each person who acquires a co-ownership interest in the assets held by the Custodian.

Co-Ownership Assets means Residential Mortgages, the proceeds thereof and any additional assets acquired with such proceeds held by the Custodian from time to time on behalf of the Co-Owners.

Credit Facility means the unsecured credit facility to be provided by the Bank to the Trust.

Current Unpaid Indicated Yield means, at any time, an amount per HSBC HaTS equal to the unpaid Indicated Yield payable by the Trust thereon, if any, in respect of the current Distribution Period and, for the purposes of calculating the Early Redemption Price in respect of a Trust Special Event Redemption Right, "Current Unpaid Indicated Yield" means an amount per HSBC HaTS equal to the unpaid Indicated Yield from and including the preceding Distribution Date to but excluding the Trust Special Event Redemption Right redemption date.

Custodian means HSBC Trust Company (Canada) as agent, nominee and bare trustee under the Mortgage Sales, Pooling and Servicing Agreements.

DBRS means Dominion Bond Rating Service Limited.

Declaration of Trust means the declaration of trust by the Trustee dated May 26, 2000 establishing the Trust and the rights, privileges, restrictions and conditions attached to the Trust Securities, as it may be amended and restated from time to time.

Deferred Income Plans means registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans and registered pension plans.

Determining Banks means any two Schedule I Canadian chartered banks (or respective successors thereto), as may be designated from time to time by the Board of Directors.

Distribution Date means the last day of June and December of each year, commencing December 31, 2000, which will be either (i) a Regular Distribution Date, if the Bank declares Dividends in the Reference Dividend Declaration Month or (ii) a Distribution Diversion Date, if the Bank does not declare Dividends in the Reference Dividend Declaration Month.

Distribution Diversion Date means a Distribution Date, other than a Regular Distribution Date, on which the Indicated Yield on the HSBC HaTS is not payable by the Trust and, instead, the Bank as sole direct or indirect holder of the Special Trust Securities is entitled to receive the Net Distributable Funds of the Trust.

Distribution Diversion Event means the failure of the Bank to declare Dividends in a Reference Dividend Declaration Month, in which event the Distribution Date occurring on the day following the first Distribution Period commencing following such month will be a Distribution Diversion Date.

Distribution Period means the periods from and including the Closing Date to but excluding December 31, 2000 and thereafter from and including each Distribution Date to but excluding the next following Distribution Date.

Dividend Declaration Month means each month in which the Bank intends to declare Dividends, from time to time, before giving effect to any stoppage on the declaration of Dividends pursuant to the Dividend Stopper Undertakings.

Dividend Declaration Resumption Month means the month commencing immediately after the fourth Dividend Declaration Month following the Trust's failure to pay the Indicated Yield in full on the HSBC HaTS, being the month in which the Bank may resume declaring dividends on the Dividend Restricted Shares.

Dividend Restricted Shares means, collectively, the Bank Class 1 Preferred Shares, the Bank Parity Preferred Shares (if any), the Bank Junior Preferred Shares and the Bank Common Shares, being the shares of the Bank that are subject to the Dividend Stopper Undertakings.

Dividend Stopper Undertakings means the undertakings of the Bank, for the benefit of the holders of HSBC HaTS, which are set forth in the Bank Share Exchange Agreement, to refrain from declaring dividends of any kind on the Dividend Restricted Shares until the Dividend Declaration Resumption Month in the event that, on any Regular Distribution Date, the Trust fails to pay the Indicated Yield in full on the HSBC HaTS.

Dividends means the regular cash dividends declared by the Bank on the Bank Class 1 Preferred Shares and the Bank Parity Preferred Shares in accordance with the Bank's intended dividend practice in effect from time to time.

Early Redemption Price means a cash amount per HSBC HaTS equal to the greater of (i) the Redemption Price and (ii) the HSBC HaTS Canada Yield Price.

Eligible Investments means money and any debt obligation that is a qualified investment under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans, except where the qualification of such property contains conditions regarding the annuitant, the beneficiary, the employer or the subscriber under the plan unless the Trust is satisfied that such conditions are satisfied.

Eligible Trust Assets means Residential Mortgages, Mortgage Co-Ownership Interests, Mortgage-Backed Securities, Eligible Investments and certain contractual rights in respect of the business and operations of the Trust.

Exchange Trustee means Montreal Trust Company of Canada, as trustee for the holders of HSBC HaTS, pursuant to the Bank Share Exchange Agreement.

Extraordinary Resolution means a resolution passed by the holders of HSBC HaTS representing not less than 66 $\frac{2}{3}$ % of the total number of outstanding HSBC HaTS represented and voted at a meeting of holders of HSBC HaTS at which a quorum is present, or a resolution in writing signed by the holders of HSBC HaTS representing not less than 66 $\frac{2}{3}$ % of the outstanding HSBC HaTS.

FSA means the Financial Services Authority (United Kingdom) and includes any successor organization responsible for the supervision of banks in the United Kingdom.

Government of Canada Yield means, on any day, the average of the yields determined by any two registered Canadian investment dealers (or their respective successors), as may be designated from time to time by the Board of Directors, as being the yield to maturity on such day, compounded semi-annually, which a non-callable Government of Canada bond, with a maturity date of December 31, 2010 in the case of the HSBC HaTS or a term to maturity of five years in the case of the Bank Class 1 Preferred Shares Series B, would carry if issued on such day in Canadian dollars in Canada at 100% of its principal amount.

HSBC means HSBC Holdings, either alone or together with its subsidiaries.

HSBC HaTS means the HSBC Canada Asset Trust Securities — Series 2010 to be issued by the Trust pursuant to this Offering.

HSBC HaTS Canada Yield Price means a price per HSBC HaTS calculated to provide an annual yield thereon to December 31, 2010 equal to the Government of Canada Yield plus 0.46%, determined on the Business Day immediately preceding the date on which the Trust has given notice of the redemption of the HSBC HaTS (whether pursuant to the Trust Special Event Redemption Right or the Trust Redemption Right) or the Business Day immediately preceding the date of the termination of the Trust, as the case may be, plus the Unpaid Indicated Yield. For such purposes, the Indicated Yield will be assumed to be paid on each Distribution Date to December 31, 2010.

HSBC Holdings means HSBC Holdings plc.

Indicated Yield means the non-cumulative cash distribution per HSBC HaTS payable by the Trust on Regular Distribution Dates (i) in the case of any such Distribution Date on or before December 31, 2010, in the amount of \$38.90 (except in the case of the Regular Distribution Date on December 31, 2000, on which the Indicated Yield payable by the Trust will be \$39.86 assuming a Closing Date of June 28, 2000) and (ii) in the case of any such Distribution Date after December 31, 2010, in an amount determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate for the Distribution Period immediately preceding such Distribution Date plus 2.37%.

Ineligible Person means any person whose address is in, or whom the Bank or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that the issuance by the Bank to such person, pursuant to the Automatic Exchange, of Bank Class 1 Preferred Shares Series Z would require the Bank to take any action to comply with securities, banking or analogous laws of such jurisdiction.

Initial Sellers means the Bank and/or its Mortgage Subsidiaries.

Initial Trust Assets means the Trust Assets to be acquired by the Trust from the Initial Sellers on the Closing Date pursuant to the Mortgage Sales, Pooling and Servicing Agreements and the Series 2010 Purchase Agreements.

Invested Amount means, in respect of the Special Trust Securities, the aggregate of all amounts from time to time paid by the Bank as holder of the Special Trust Securities then outstanding to the Trust as the subscription price for such Special Trust Securities.

Loss Absorption Event means an event giving rise to the Automatic Exchange, being the occurrence of any one of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-up and Restructuring Act* (Canada) is filed by the Attorney-General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 capital ratio of less than 5.0% or a risk-based total capital ratio of less than 8.0%; or (iv) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the Automatic Exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein.

Minister of Finance means the Minister of Finance (Canada).

Mortgage-Backed Securities means securities representing undivided co-ownership interests in a pool of Residential Mortgages.

Mortgage Co-Ownership Interests means undivided co-ownership interests in one or more pools of Residential Mortgages or Eligible Investments.

Mortgage Sales, Pooling and Servicing Agreements means one or more master Mortgage Sales, Pooling and Servicing Agreements between the Bank and the Initial Sellers as sellers and initial Servicers and the Custodian as agent, nominee and bare trustee for and on behalf of such sellers, the co-owners as defined therein and persons who from time to time are parties to series purchase agreements providing for the transfer of and servicing of Mortgage Co-Ownership Interests.

Mortgage Subsidiaries means any or all of HSBC Mortgage Corporation (Canada) and other subsidiaries of the Bank, from time to time, engaged in mortgage operations.

Net Distributable Funds means, at any time, the amount by which the sum of (i) income and gains derived by the Trust from the Eligible Trust Assets and (ii) amounts received by the Trust from the Bank that are designated by the Bank as such, in each case that have not previously been distributed to holders of HSBC HaTS or the Bank as holder of the Special Trust Securities, exceeds expenses of the Trust and any required reserves for expenses established by the Trust.

New Bank Preferred Shares means the Bank Class 1 Preferred Shares of a new series that may be created by the Bank as contemplated by the rights attached to the Bank Class 1 Preferred Shares Series Z.

Offering means the offering of HSBC HaTS by the Trust pursuant to this prospectus.

Participants means the participants in the depository service of CDS.

Prime Rate means, on any day, the average rounded to the nearest one ten-thousandth of one percent (with 0.00005 percent being rounded up) of the annual prime commercial lending rates of interest, established and announced from time to time by the Determining Banks, as a reference rate of interest per annum in effect on such day for determining interest rates in Canadian dollars for commercial loans made in Canada, provided that if either of such Determining Banks ceases to be a Schedule I Canadian chartered bank or if for any reason either of such Determining Banks does not have such a prime commercial lending rate of interest in effect on such day, the Prime Rate for such day will be the annual prime commercial lending rate of interest in effect on such day of the other, provided further that if both Determining Banks cease to be Schedule I Canadian chartered banks or if for any reason neither of the Determining Banks has such a prime commercial lending rate of interest in effect on such day, the Prime Rate for such day will be deemed to be the average yield per annum on Government of Canada 91-day treasury bills, as reported by the Bank of Canada, for the weekly tender which immediately precedes such day, plus 1.25%.

Redemption Price means, at any time in respect of each HSBC HaTS, an amount equal to \$1,000 plus the Unpaid Indicated Yield thereon, if any.

Reference Dividend Declaration Month means, in respect of any Distribution Date (other than December 31, 2000), the most recent Dividend Declaration Month occurring prior to the commencement of the Distribution Period ending on the day preceding such Distribution Date, such months intended to be April and October in respect of Distribution Dates from December 31, 2000 forward, and, in respect of the December 31, 2000 Distribution Date, will be deemed to be the month of April 2000.

Regular Distribution Date means a Distribution Date on which the Indicated Yield on the HSBC HaTS is payable by the Trust, by virtue of the Bank having declared Dividends in the Reference Dividend Declaration Month.

Reorganization means the reorganization of the share capital of the Bank to facilitate this Offering and the Bank Preferred Share Offering.

Residential Mortgages means CMHC-insured first mortgages on residential property situated in Canada such as single family dwellings, duplexes, townhouses, condominium units or multiple-unit family dwellings.

Reuters Screen CDOR Page means the display designated as page “CDOR” on the Reuters Monitor Money Rates Service (or such other page as may replace the CDOR page on that service) for the purpose of displaying, among other things, Canadian dollar bankers’ acceptance rates.

Series 2010 Purchase Agreements means one or more Series 2010 Purchase Agreements between the Initial Sellers, the Custodian and the Trust respectively dated as of the Closing Date providing for the transfer to the Trust of the Mortgage Co-Ownership Interests.

Servicer means, collectively, the Bank and its Mortgage Subsidiaries, in their respective capacities as servicer of the Trust Assets pursuant to the terms of the Mortgage Sales, Pooling and Servicing Agreements.

Significant Shareholder means any person who beneficially owns directly, or indirectly through entities controlled by such person or persons associated with or acting jointly or in concert with such person, shares of any class of the Bank in excess of 10% of the total number of outstanding shares of that class.

Special Event means a Tax Event or a Capital Disqualification Event, as the case may be.

Special Trust Securities mean the Special Trust Securities to be issued by the Trust to the Bank.

Subscription Agreement means an agreement between the Bank and the Trust pursuant to which the Bank subscribes for Special Trust Securities.

Subscription Right means the right of the Trust to require the Bank to issue to it, upon receipt of appropriate consideration therefor, sufficient number of Bank Class 1 Preferred Shares Series Z to enable the Trust to redeem HSBC HaTS, if any, remaining outstanding following the Automatic Exchange.

Superintendent means the Superintendent of Financial Institutions (Canada) and includes any successor authority responsible for the supervision of banks in Canada.

Superintendent and FSA Approval means the prior approval of the Superintendent and of the FSA in respect of an act or event, which will not, for greater certainty, be required in the case of an act or event constituting or arising as a consequence of a Total Capital Disqualification Event.

Tax Act means the *Income Tax Act* (Canada), as amended from time to time.

Tax Event means the receipt by the Bank of an opinion of a nationally recognized law firm in Canada experienced in such matters (who may be counsel to the Bank or the Trust) to the effect that, as a result of (i) any amendment to, clarification of, or change (including any pronounced prospective change) in, the laws, or any regulations thereunder, of Canada or any political subdivision or taxing authority thereof or therein, affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in, the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective or such pronouncement or decision is announced on or after the date of issue of the HSBC HaTS, there is more than an insubstantial risk that (x) the treatment of any of the Bank's or the Trust's items of income or expense (including the treatment by the Bank or the Trust of distributions made on the Trust Securities) as reflected in the tax returns filed (or to be filed) will not be respected by a taxing authority, which subjects the Bank or the Trust to more than a de minimis amount of additional taxes, duties or other governmental charges or civil liabilities or (y) the Bank or the Trust is, or will be, subject to more than a de minimis amount of taxes, duties or other governmental charges or civil liabilities.

Termination Distribution Ratio means a fraction, the numerator of which is the value of the Trust Assets to be distributed to holders of Trust Securities in connection with a termination of the Trust and the denominator of which is an amount equal to the sum of (i) the aggregate Early Redemption Price of all HSBC HaTS then outstanding (if the termination is as a result of action taken by the Bank and occurs prior to December 31, 2010) or the aggregate Redemption Price of all HSBC HaTS then outstanding (in all other cases) and (ii) the total Invested Amount in respect of the Special Trust Securities then outstanding.

Tier 1 Capital Disqualification Event means the determination by the Bank, after consultation with the Superintendent, that the HSBC HaTS cannot be included in calculating the risk-based Tier 1 capital of the Bank on a consolidated basis under the Capital Guidelines but that the HSBC HaTS can be included in calculating the risk-based total capital of the Bank on a consolidated basis under the Capital Guidelines.

Total Capital Disqualification Event means the determination by the Bank, after consultation with the Superintendent, that the HSBC HaTS cannot be included in calculating the risk-based total capital of the Bank on a consolidated basis under the Capital Guidelines.

Trust means HSBC Canada Asset Trust, the issuer of the Trust Securities.

Trust Assets means the Eligible Trust Assets held by the Trustee on behalf of the Trust from time to time and all income, profit and gains which may from time to time be derived therefrom or accrue thereon.

Trust Redemption Right means the right of the Trust, at its option, to redeem all, but not less than all, of the HSBC HaTS at a price per HSBC HaTS equal to (i) the Early Redemption Price, if the redemption occurs on June 30, 2005 or on any Distribution Date thereafter and prior to December 31, 2010, or (ii) the Redemption Price, if the redemption occurs on December 31, 2010, or on any Distribution Date thereafter, subject, in each case, to Superintendent and FSA Approval.

Trust Securities means, collectively, the HSBC HaTS and the Special Trust Securities.

Trust Special Event Redemption Right means the right of the Trust, at its option, to redeem all, but not less than all, of the HSBC HaTS at a price per HSBC HaTS equal to the Early Redemption Price upon the occurrence of a Special Event prior to June 30, 2005, subject to Superintendent and FSA Approval.

Trustee means HSBC Trust Company (Canada), trustee of the Trust.

TSE means The Toronto Stock Exchange.

Underwriters means, collectively, HSBC Securities (Canada) Inc., TD Securities Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., National Bank Financial Inc. and Trilon Securities Corporation.

Underwriting Agreement means the agreement dated June 21, 2000 between the Trust, the Bank and the Underwriters.

Unpaid Indicated Yield means, at any time, an amount per HSBC HaTS equal to the sum of (i) the Accumulated Unpaid Indicated Yield and (ii) the Current Unpaid Indicated Yield.

Except as set forth in the Consolidated Financial Statements of the Bank in Appendix A or unless otherwise indicated, all information in this prospectus assumes the completion of the Reorganization as described under “Description of Share Capital and Subordinated Debt” in Appendix A. Unless otherwise indicated, all dollar amounts in this prospectus are expressed in Canadian dollars. Subject to applicable law, in the event that any date on or by which a payment or any other action in respect of the HSBC HaTS or the Bank Class 1 Preferred Shares is required to be made or taken by the Trust or the Bank, as the case may be, is not a Business Day, then such payment will be payable, or such other action will be required to be taken, on or by the next succeeding day that is a Business Day.

Originally established in 1981, HSBC Bank Canada, a chartered bank operating as a foreign bank subsidiary under the provisions of the Bank Act, was formed on April 1, 2000 through the amalgamation of HSBC Bank Canada and Republic National Bank of New York (Canada). HSBC Bank Canada’s head office is located at 300 – 885 West Georgia Street, Vancouver, British Columbia V6C 3E9. HSBC Holdings is a public limited company incorporated in England and Wales. HSBC Holdings’ office is located at 10 Lower Thames Street, London, United Kingdom, EC3R 6AE.

THE TRUST

The Trust is a closed-end trust formed by the Trustee under the laws of British Columbia pursuant to the Declaration of Trust. The Trust has been formed for the purposes of creating and selling the Trust Securities and acquiring the Trust Assets, which will generate income for distribution to holders of Trust Securities, and providing the Bank with a cost-effective means of raising Tier 1 capital for Canadian bank regulatory purposes.

It is expected that the Trust will acquire the Trust Assets from the Bank and/or its affiliates. However, the Trust may also from time to time acquire Trust Assets from unrelated third parties. Pursuant to the Administration and Advisory Agreement, the Trustee will delegate certain of its duties with respect to the Trust to the Bank as Administrative Agent. As Administrative Agent, the Bank will provide advice and counsel to the Trust and will administer the day-to-day operations of the Trust as set forth under “Business of the Trust — The Administrative Agent”. The Bank and/or its affiliates will service the Trust Assets in their collective role as Servicer under the Mortgage Sales, Pooling and Servicing Agreements. Immediately following the completion of this Offering, the Trust will have outstanding 200,000 HSBC HaTS and the Special Trust Securities. Pursuant to the Bank Share Exchange Agreement, the Bank has covenanted for the benefit of holders of HSBC HaTS that, for so long as any HSBC HaTS are outstanding, the Bank will maintain ownership, directly or indirectly, of all of the Special Trust Securities. For a further description of the operations of the Trust, see “Business of the Trust”.

As a result of this Offering, the Trust will become a reporting issuer for the purposes of applicable securities laws of the provinces and territories of Canada and will be required, among other things, to make continuous disclosure filings with applicable securities regulatory authorities.

The principal office of the Trust is located at the 300 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3E9. The Trustee is a wholly owned subsidiary of the Bank.

The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction. Trust Securities are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

HSBC BANK CANADA

HSBC Bank Canada is the pre-eminent full service, globally integrated foreign-owned bank in Canada. It is the seventh largest bank overall in Canada, with total assets of \$26.4 billion as at March 31, 2000. As a wholly owned subsidiary of HSBC Holdings, HSBC Bank Canada provides its clients with access to one of the largest banking and financial services organizations in the world. Through its global network of more than 5,000 offices in 80 countries and territories, HSBC provides a comprehensive range of financial services to clients worldwide. HSBC has a long-standing tradition of excellence in trade finance and enjoys a leading market position in trade services and products in many markets around the world. At December 31, 1999, HSBC had total assets of US\$569 billion and a market capitalization of US\$118 billion.

Further information concerning HSBC Bank Canada is set forth in Appendix A.

BUSINESS OF THE TRUST

General and Capitalization

The Trust’s business objective is to acquire and hold Trust Assets that will generate income for distribution to holders of Trust Securities. As a newly formed entity, the Trust has no prior operating history. Immediately after the issuance by the Trust of the HSBC HaTS pursuant to this Offering, the subscription by the Bank for the Special Trust Securities and the purchase by the Trust of the Initial Trust Assets, the Trust will have approximately \$325 million in Trust Assets, \$200 million of capital attributable to the HSBC HaTS, \$117 million of capital attributable to the Special Trust Securities, and \$8 million of estimated issue related costs, which will be paid from advances from the Bank under the Credit Facility. See “Capitalization of the Trust”.

Certain Transactions Incidental to the Offering

Prior to or concurrently with the Closing Date, the Trust, the Bank, the relevant Mortgage Subsidiaries and the Trustee will engage in the transactions described below which are designed to facilitate this Offering and transfer to the Trust the Initial Trust Assets:

- (i) Prior to the Closing Date, the Trust will create the HSBC HaTS.
- (ii) Prior to the closing of this Offering, the Bank and the Trust will enter into the Subscription Agreement, pursuant to which the Trust will issue Special Trust Securities to the Bank and the Bank will pay \$117 million on closing on account of the subscription price for the Special Trust Securities. See “Description of the Trust Securities — The Special Trust Securities”.
- (iii) The Trustee has entered into the Administration and Advisory Agreement with the Bank, as Administrative Agent, pursuant to which the Bank will provide certain advice to the Trust and administer the day-to-day operations of the Trust. See “Business of the Trust — The Administrative Agent”.
- (iv) Concurrently with the closing of this Offering and on the Closing Date, the Initial Sellers will enter into one or more Mortgage Sales, Pooling and Servicing Agreements with the Custodian as agent, nominee and bare trustee and the Initial Sellers, the Trust and the Custodian will enter into the Series 2010 Purchase Agreements which, together, provide for the transfer and servicing of the Mortgage Co-ownership Interests.
- (v) Concurrently with the closing of this Offering, the Bank, the Trust and the Exchange Trustee, as trustee for the holders of the HSBC HaTS, will enter into the Bank Share Exchange Agreement providing for, among other things, the Dividend Stopper Undertakings, the Subscription Right and the respective rights and obligations of the Bank, the Trust and such holders with respect to the Subscription Right and with respect to the exchange of HSBC HaTS for Bank Class 1 Preferred Shares Series Z in connection with the Automatic Exchange. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Bank Share Exchange Agreement”.
- (vi) Concurrently with the closing of this Offering, the Bank and the Trust will enter into an agreement in respect of the Credit Facility. See “Business of the Trust — Liquidity”.
- (vii) Immediately following the closing of this Offering and on the Closing Date, the Trust will acquire the Initial Trust Assets from the Initial Sellers on a fully serviced basis, for an aggregate purchase price equal to approximately \$317 million, pursuant to the terms of the Series 2010 Purchase Agreements.

Concurrently with this Offering, HSBC Bank Canada is effecting the Bank Preferred Share Offering. The closing of this Offering is contingent on the closing of the Bank Preferred Share Offering. The closing of the Bank Preferred Share Offering is not contingent on the closing of this Offering.

Liquidity

The Trust will only borrow funds from the Bank pursuant to the Credit Facility extended by the Bank to the Trust and will use borrowed funds for the purposes of ensuring liquidity in the normal course of the Trust’s business. The Bank will charge interest rates on any borrowings by the Trust that are not higher than prevailing market rates.

Description of the Initial Trust Assets

The Initial Trust Assets will consist primarily of Mortgage Co-Ownership Interests acquired by the Trust under the Mortgage Sales, Pooling and Servicing Agreements and the Series 2010 Purchase Agreements.

On the Closing Date, one or more Mortgage Sales, Pooling and Servicing Agreements will be entered into by the Initial Sellers, and the Custodian, as agent, nominee and bare trustee for the Initial Sellers and each person who acquires a co-ownership interest in the assets held by the Custodian (each a “Co-Owner”), which will provide (i) for the sale and conveyance by the Initial Sellers to the Custodian, as agent, nominee and bare trustee for the Initial Sellers and the Co-Owners from time to time under separate series purchase agreements (the first of which in respect of the Initial Trust Assets are the Series 2010 Purchase Agreements) of all of the Initial Sellers’ right, title and interest in pools of Residential Mortgages designated by the Initial Sellers, (ii) that the Custodian will hold such Residential Mortgages, the proceeds thereof and any additional assets acquired with such proceeds (collectively, the “Co-Ownership Assets”) as agent, nominee and bare trustee for the Initial Sellers and each Co-Owner as undivided co-owners thereof, (iii) that the Initial Sellers as initial Servicer will service the Co-Ownership Assets and remit

collections thereof to the Custodian or directly to an account for the applicable Co-Owner and, if replaced, will pay the reasonable fees and expenses of any successor Servicer, and (iv) the Custodian, or the Servicer on its behalf, will perform certain other duties, including providing monthly reports to the Co-Owners on the performance of the Co-Ownership Assets and investing the proceeds of the Co-Ownership Assets in other Eligible Trust Assets on behalf of the Initial Sellers and the Co-Owners, as undivided co-owners. Pursuant to the Mortgage Sales, Pooling and Servicing Agreement, the Custodian will delegate to the Initial Sellers as initial Servicer substantially all of its duties in connection with the Co-Ownership Assets.

The Trust, the Initial Sellers and the Custodian will, on the Closing Date, enter into the Series 2010 Purchase Agreements in respect of the Initial Trust Assets which will provide, among other things, for: (i) the sale and conveyance to the Trust of a Mortgage Co-ownership Interest to be held by the Custodian on behalf of the Initial Sellers and the Co-Owners, as undivided co-owners, and (ii) the principal terms and attributes of such Mortgage Co-ownership Interest, including the right of the Trust to participate as an undivided co-owner in the income and gains derived therefrom and to receive its proportionate share of collections therefrom. The Residential Mortgages forming part of the Co-Ownership Assets will remain registered in the name of the Initial Sellers unless the Initial Sellers are replaced as Servicer. It is expected that substantially all of the collections of principal from the Co-Ownership Assets held by the Custodian on behalf of the Initial Sellers and the Co-Owners, as undivided co-owners, will be invested by the Custodian on behalf of the Initial Sellers and the Co-Owners, as undivided co-owners, in additional Residential Mortgages acquired from the Bank and/or its affiliates.

Description of Eligible Trust Assets

General

The Trust Assets will consist of Residential Mortgages, Mortgage Co-Ownership Interests, Mortgage-Backed Securities and Eligible Investments and contractual rights in respect of the business and operations of the Trust (the “Eligible Trust Assets”). On the Closing Date, the Trust Assets will consist only of the Initial Trust Assets. Collections received in respect of Trust Assets will be reinvested in additional Eligible Trust Assets. The Trust Assets will consist primarily of Mortgage Co-Ownership Interests. The Trust intends to acquire the Trust Assets primarily from the Bank and/or its affiliates. The Trust Assets will be serviced directly or indirectly by the Bank and/or its affiliates. The price of any Trust Asset purchased by the Trust is intended to be equal to the fair market value thereof. The net income and gains received by the Trust from the Trust Assets will be distributed by way of payment of the aggregate Indicated Yield on the HSBC HaTS on Regular Distribution Dates. Any balance will be distributed to the Bank as holder of the Special Trust Securities. There can be no assurance that the net income and gains derived from the Trust Assets by the Trust, from time to time, will be sufficient to satisfy the Indicated Yield in full on the HSBC HaTS on any Regular Distribution Date. However, it is in the interest of the Bank to ensure, to the extent within its control, that the Trust complies with its obligation to pay the Indicated Yield on the HSBC HaTS on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Bank Dividend Stopper Undertakings” and “Risk Factors.”

Residential Mortgages

“Residential Mortgages” means CMHC-insured first mortgages on residential property situated in Canada, such as single family dwellings, duplexes, townhouses, condominium units or multiple-unit family dwellings. CMHC-insured mortgages are mortgages securing loans made by an approved lender in respect of which the principal amount is insured by CMHC as agent of the Government of Canada. The insurable amount of these mortgages is determined by CMHC and, under current regulations, the loans may be up to 95% of the lesser of the purchase price and the appraised value. These loans are generally drawn for a term of one to five years and have an amortization period which is generally between 25 and 30 years.

Mortgage Co-Ownership Interests

Mortgage Co-Ownership Interests are undivided co-ownership interests in one or more pools of Residential Mortgages.

Mortgage-Backed Securities

While no Mortgage-Backed Securities will be included in the Initial Trust Assets, the Trust may from time to time acquire fixed-rate or variable-rate Mortgage-Backed Securities. “Mortgage-Backed Securities” means securities

representing undivided co-ownership interests in a pool of Residential Mortgages. The Trust Assets underlying such Mortgage-Backed Securities will be secured by single-family residential properties located throughout Canada. The Trust intends to acquire only investment-grade Mortgage-Backed Securities. The Trust does not intend to acquire any interest-only, principal-only or high-risk Mortgage-Backed Securities.

Eligible Investments

To the extent that the proceeds of the Trust Assets are not invested in Residential Mortgages, Mortgage Co-Ownership Interests or Mortgage-Backed Securities, the Trust will invest any remaining proceeds in “Eligible Investments”, i.e. money and any debt obligation that is a qualified investment under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans, except where the qualification of such property contains conditions regarding the annuitant, the beneficiary, the employer or the subscriber under the plan unless the Trust is satisfied that such conditions are satisfied.

Conflict of Interest Policies

Due to the nature of the Trust’s relationship with the Bank and its affiliates, it is likely that conflicts of interest will arise with respect to certain transactions including, without limitation, the Trust’s acquisition of Trust Assets from, or disposition of Trust Assets to, the Bank and/or its affiliates. In addition, the entity which is the Trustee and the Custodian is a subsidiary of the Bank. It will be the Trust’s policy that the terms of any financial dealings with the Bank or any of its affiliates will be consistent with those available from third parties.

Conflicts of interest between the Trust and the Bank or its affiliates may also arise in connection with making decisions that bear upon the credit arrangements that the Bank or one of its affiliates may have with a borrower or in connection with actions taken by the Bank as the holder of the Special Trust Securities. It is intended that any agreements and transactions between the Trust, on the one hand, and the Bank or its affiliates, on the other hand, including, without limitation, the Mortgage Sales, Pooling and Servicing Agreements and the Administration and Advisory Agreement, will be fair to all parties and consistent with market terms and conditions for such types of transactions. The Mortgage Sales, Pooling and Servicing Agreements provide that dispositions of the Trust Assets are to be made with a view toward maximizing the recovery by the Trust as owner of the Trust Assets, and the Servicer will service the Trust Assets solely with a view toward the interests of the Trust, and without regard to the interests of the Bank or any of its affiliates. However, there can be no assurance that any such agreement or transaction will be on terms as favourable to the Trust as would have been obtained from unaffiliated third parties.

The Administrative Agent

The Trustee has entered into the Administration and Advisory Agreement with the Bank, as Administrative Agent, pursuant to which the Trustee has delegated to the Bank certain of its obligations in relation to the administration of the Trust. The Bank and its affiliates and their respective personnel have substantial experience in mortgage finance and in the administration of assets such as the Trust Assets.

The Administrative Agent will, at the request of the Trustee, provide advice and counsel with respect to the acquisition, disposition and origination of Trust Assets, will administer the day-to-day operations of the Trust and such other matters as may be requested by the Trustee from time to time. The Administrative Agent may, from time to time, delegate or sub-contract all or a portion of its obligations under the Administration and Advisory Agreement to one or more of its qualified affiliates. The Administrative Agent will not, in connection with the delegation or sub-contracting of any of such obligations, be discharged or relieved in any respect from its obligations under the Administration and Advisory Agreement. The Administrative Agent will be entitled to receive an annual administration fee to a maximum of \$10,000 per year consistent with market terms and conditions.

The Administration and Advisory Agreement has an initial 10-year term and will be automatically renewed each year thereafter subject to the right of the Trustee to terminate the Administration and Advisory Agreement at any time upon 90 days’ prior written notice upon the occurrence of one or more events generally related to the failure of the Administrative Agent to perform its obligations under the Administrative and Advisory Agreement in a proper and timely manner.

As a result of the relationship between the Bank, in its capacity as Administrative Agent, and the Trust, certain conflicts of interest may arise. See “Risk Factors — Dependence Upon the Bank and its Affiliates”.

CAPITALIZATION OF THE TRUST

The following table sets forth the capitalization of the Trust as of the date of this prospectus and as adjusted to give effect to (i) the completion of this Offering and (ii) the transactions described in “Business of the Trust — Certain Transactions Incidental to the Offering” and the use of the proceeds of this Offering as described under “Use of Proceeds”.

	Outstanding as at May 26, 2000	Outstanding as at May 26, 2000 after giving effect to this Offering	Outstanding as at May 26, 2000 after giving effect to this Offering and to the use of proceeds
Credit Facility	\$ —	\$ 8,000,000	\$ 8,000,000
HSBC HaTS	—	200,000,000	200,000,000
Special Trust Securities	1,000	117,001,000	117,001,000
Contributed surplus (1)	—	—	8,000,000
Original settlement amount (2)	1,000	1,000	1,000
Estimated underwriting fee and expenses applicable to this Offering	—	(8,000,000)	(8,000,000)
Trust capital	<u>\$2,000</u>	<u>\$317,002,000</u>	<u>\$325,002,000</u>

(1) Reflects difference between the carrying value of the Initial Trust Assets and actual purchase price of the Initial Trust Assets. See “Unaudited Pro Forma Balance Sheet of HSBC Canada Asset Trust”.

(2) Amount settled on the Trust’s formation.

The Superintendent has, to date, approved the contribution on the Closing Date of up to \$117 million by the Bank to the Trust.

DESCRIPTION OF THE TRUST SECURITIES

The HSBC Canada Asset Trust Securities

The following is a summary of the rights, privileges, restrictions and conditions attaching to the HSBC HaTS. This summary is qualified in its entirety by the provisions of the Declaration of Trust. For information concerning the Bank Class 1 Preferred Shares Series Z into which the HSBC HaTS are, in certain circumstances, exchangeable as described below, see “Description of Bank Class 1 Preferred Share Series Z”. Holders of HSBC HaTS will have no recourse to the assets of the Trustee in connection with any payments in respect of the HSBC HaTS.

Indicated Yield

The effective annual yield payable on the HSBC HaTS will be 7.78% to December 31, 2010 and the Bankers’ Acceptance Rate (reset semi-annually) plus 2.37% thereafter, as more particularly set forth below.

Holders of HSBC HaTS will be entitled to receive, on each Distribution Date unless the Bank fails to declare Dividends in the Reference Dividend Declaration Month, an Indicated Yield, being a cash amount of (i) in the case of any such Distribution Date on or before December 31, 2010, other than December 31, 2000, \$38.90 per HSBC HaTS and (ii) in the case of any such Distribution Date after December 31, 2010, an amount per HSBC HaTS determined by multiplying \$1,000 by one half of the sum of the Bankers’ Acceptance Rate for the Distribution Period immediately preceding such Distribution Date plus 2.37%. Each period from and including the Closing Date to but excluding December 31, 2000 and, thereafter from and including each Distribution Date to but excluding the next following Distribution Date will be a Distribution Period. **The initial Indicated Yield, payable on December 31, 2000, will be \$39.86 per HSBC HaTS based on an anticipated Closing Date of June 28, 2000.**

The Indicated Yield is payable by the Trust on the HSBC HaTS on each Distribution Date that is a Regular Distribution Date. The determination of whether any Distribution Date is a Regular Distribution Date or a Distribution Diversion Date will depend on whether the Bank has declared Dividends in the Reference Dividend Declaration Month. The Reference Dividend Declaration Month in respect of any Distribution Date will be that Dividend Declaration Month closest to but preceding the commencement of the Distribution Period ending on the day preceding such Distribution Date. If the Bank declares Dividends in the Reference Dividend Declaration Month, the Distribution

Date in question will be a Regular Distribution Date, with the result that the Trust will be obligated to pay the Indicated Yield on the HSBC HaTS to the holders thereof and the Net Distributable Funds, if any, of the Trust following payment of the Indicated Yield, will be payable to the Bank as the sole holder of the Special Trust Securities. If the Bank fails to declare Dividends in such Reference Dividend Declaration Month, the Distribution Date in question will be a Distribution Diversion Date, with the result that the Trust will not be obligated to and will not pay the Indicated Yield on the HSBC HaTS and, instead, the Net Distributable Funds of the Trust will be payable to the Bank as holder of the Special Trust Securities. On any Regular Distribution Date, in circumstances where the Net Distributable Funds of the Trust are insufficient to meet the obligation of the Trust to pay the Indicated Yield on all HSBC HaTS then outstanding, the Trust will, nevertheless, pay such portion of the Indicated Yield as may then be paid with such Net Distributable Funds and the amount of the Indicated Yield payable on such Regular Distribution Date and remaining unpaid will form part of the Accumulated Unpaid Indicated Yield until such time as it is paid. Holders of HSBC HaTS will have no right to sue the Trust to accelerate payment of that portion of the Indicated Yield payable by the Trust on a Regular Distribution Date, but not so paid, in excess of the Net Distributable Funds of the Trust on such Regular Distribution Date. Such amounts, which will form part of the Accumulated Unpaid Indicated Yield, will be paid by the Trust to the holders of HSBC HaTS on the occurrence of any event giving rise to the obligation of the Trust to pay the Early Redemption Price or the Redemption Price.

Bank Dividend Stopper Undertakings

In the event that the Trust fails, on any Regular Distribution Date, to pay the Indicated Yield on the HSBC HaTS in full, the Bank has, pursuant to the Bank Share Exchange Agreement, covenanted for the benefit of holders of HSBC HaTS that it will not declare dividends of any kind on the Dividend Restricted Shares until the Dividend Declaration Resumption Month, being the month commencing immediately after the fourth Dividend Declaration Month following the Trust’s failure to pay the Indicated Yield in full on the HSBC HaTS following the Regular Distribution Date in question, unless the Trust first pays such Indicated Yield (or the unpaid portion thereof) to holders of HSBC HaTS. Any Indicated Yield (or portion thereof) that the Trust fails to pay to the holders of HSBC HaTS on a Regular Distribution Date will form part of the Accumulated Unpaid Indicated Yield and is payable on the occurrence of any event giving rise to the obligation of the Trust to pay the Early Redemption Price or the Redemption Price, as the case may be, as part of such price and not prior thereto. The first dividend in respect of the Dividend Restricted Shares declared by the Bank in or following the Dividend Declaration Resumption Month will be paid by the Bank no earlier than would ordinarily be the case. The Bank has covenanted for the benefit of the holders of HSBC HaTS, pursuant to the Bank Share Exchange Agreement, that as long as any HSBC HaTS are outstanding, the Bank will have outstanding one or more series of preferred shares which are listed on a recognized stock exchange or quoted on a recognized quotation system or trading market. **It is in the interest of the Bank to ensure, to the extent within its control, that the Trust pays the Indicated Yield on the HSBC HaTS on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.**

Set forth below is a table indicating the relationship among the Reference Dividend Declaration Month, the Distribution Period, the Distribution Date and the Dividend Declaration Resumption Month:

<u>Reference Dividend Declaration Month (1)</u>	<u>Commencement of Current Distribution Period (2)</u>	<u>Distribution Date</u>	<u>Dividend Declaration Resumption Month (3)</u>
April 2000 (4)	June 28, 2000	December 31, 2000	November 2001
October 2000	December 31, 2000	June 30, 2001	May 2002
April 2001	June 30, 2001	December 31, 2001	November 2002

- (1) The Reference Dividend Declaration Months are based on the Bank’s intended practice with respect to declaring Dividends being, including, with respect to the Bank Class 1 Preferred Shares Series A being offered pursuant to the Bank Preferred Share Offering, its intention to declare Dividends thereon in the months of January, April, July and October of each year. If such practice were to change in the future in terms of the timing or frequency of the declaration of Dividends, the Reference Dividend Declaration Months referred to above may change. However, the Reference Dividend Declaration Month in respect of any Distribution Date would, in all events, continue to be the Dividend Declaration Month closest to but preceding the commencement of the Distribution Period ending on such Distribution Date.
- (2) The June 28, 2000 date for the commencement of the initial Distribution Period assumes a Closing Date of June 28, 2000. Given that the Reference Dividend Declaration Month precedes the commencement of the applicable Distribution Period, the question of whether the Distribution Date falling on the last day of such Distribution Period will be a Regular Distribution Date or a Distribution Diversion Date, and the entitlement of holders of HSBC HaTS to the Indicated Yield, will have been determined prior to the commencement of the Distribution Period.
- (3) The Dividend Declaration Resumption Month is only relevant if the Trust fails to pay the Indicated Yield in full on the HSBC HaTS on any Regular Distribution Date.
- (4) For the purposes of the HSBC HaTS, Dividends will be deemed to have been declared in April 2000.

Automatic Exchange

Each HSBC HaTS will be exchanged automatically (the “Automatic Exchange”), without the consent of the holder thereof, for one Bank Class 1 Preferred Share Series Z upon the occurrence of a Loss Absorption Event, being any one of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 capital ratio of less than 5.0% or a risk-based total capital ratio of less than 8.0%; or (iv) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or to provide additional liquidity and the Bank elects to cause the exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time period specified therein.

The Automatic Exchange will be deemed to occur as of 8:00 a.m. (Toronto time) on the date that a Loss Absorption Event occurs. As of the time of exchange, each holder of HSBC HaTS will be deemed to have exchanged and transferred to the Bank all of such holder’s right, title and interest in and to its HSBC HaTS and will cease to be a holder thereof and all rights of such holder as a securityholder of the Trust will cease and such person will therefrom be deemed to be and will be for all purposes a holder of Bank Class 1 Preferred Shares Series Z. If, for any reason, the Automatic Exchange does not result in the exchange of all HSBC HaTS then outstanding for Bank Class 1 Preferred Shares Series Z, the Trust will redeem each HSBC HaTS not so exchanged for consideration consisting of one Bank Class 1 Preferred Share Series Z. The Trust will pursuant to the Subscription Right have the right to require the Bank to issue to it, upon receipt of appropriate consideration therefor, a sufficient number of Bank Class 1 Preferred Shares Series Z to enable the Trust to redeem the HSBC HaTS, if any, remaining outstanding following the Automatic Exchange. As of the time of redemption, each holder of HSBC HaTS so redeemed will cease to be a holder thereof and all rights of such holder as a securityholder of the Trust will cease and such person will therefrom be deemed to be and will be for all purposes a holder of Bank Class 1 Preferred Shares Series Z unless payment in the form of Bank Class 1 Preferred Shares Series Z is not made. It will not be necessary for the Trust, in such circumstances, to provide any prior written notice of redemption to holders of HSBC HaTS. The Trust will acquire the Bank Class 1 Preferred Shares Series Z required by it for purposes of such redemption, if any, from the Bank pursuant to the Subscription Right. The Bank will mail notice of the occurrence of the Loss Absorption Event to the Trustee within 10 days of such event.

Upon the exchange for Bank Class 1 Preferred Shares Series Z pursuant to the Automatic Exchange, or a redemption of HSBC HaTS for Bank Class 1 Preferred Shares Series Z, the Bank reserves the right not to issue Bank Class 1 Preferred Shares Series Z to an Ineligible Person. In such circumstances, all Bank Class 1 Preferred Shares Series Z that would otherwise be issued to Ineligible Persons will be delivered to the Exchange Trustee, as agent for Ineligible Persons, and the Exchange Trustee will attempt to sell such Bank Class 1 Preferred Shares Series Z (to parties other than the Bank and its affiliates) on behalf of such Ineligible Persons. Such sales, if any, will be made at such times and at such prices as the Exchange Trustee may, in its sole discretion, determine. Neither the Bank, the Trustee nor the Exchange Trustee will be subject to any liability for failure to sell such Bank Class 1 Preferred Shares Series Z on behalf of any such Ineligible Persons or at any particular price on any particular day. The net proceeds received by the Exchange Trustee from the sale of any such Bank Class 1 Preferred Shares Series Z will be divided among the Ineligible Persons in proportion to the number of Bank Class 1 Preferred Shares Series Z that would otherwise have been issuable to them, after deducting the costs of sale, net of any applicable withholding taxes. The Exchange Trustee will provide a cheque representing the aggregate net proceeds to CDS (if the HSBC HaTS are then held in the book-entry only system) or to the Trustee (in all other cases) for distribution to such Ineligible Persons in accordance with CDS Procedures or otherwise. A similar procedure will be followed with respect to each person who by virtue of the exercise of the Automatic Exchange would become a Significant Shareholder, but only to the extent of that number of Bank Class 1 Preferred Shares Series Z in excess of the maximum number of Bank Class 1 Preferred Shares Series Z that would be issued to such person pursuant to the Automatic Exchange without such person becoming a Significant Shareholder.

If the Automatic Exchange were to occur and Bank Class 1 Preferred Shares Series Z were issued in exchange for HSBC HaTS as a result thereof, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the HSBC HaTS would be lost. Accordingly, it is in the interest of the Bank to

ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the Bank's control.

Redemption at the Option of the Holder

The HSBC HaTS are not redeemable at the option of the holder.

Trust Special Event Redemption Right

Upon the occurrence of a Tax Event or a Capital Disqualification Event, in each case prior to June 30, 2005, the HSBC HaTS will, upon not less than 30 and not more than 90 days' prior written notice by the Trustee, with Superintendent and FSA Approval, be redeemable by the Trust, at its option in whole (but not in part) and without the consent of the holders thereof, for a cash price per HSBC HaTS equal to the Early Redemption Price.

Trust Redemption Right

On June 30, 2005 and on any Distribution Date thereafter, the Trust may, with Superintendent and FSA Approval, at its option, upon not less than 30 and not more than 60 days' prior written notice, redeem the HSBC HaTS in whole (but not in part) and without the consent of the holders thereof, for a cash amount per HSBC HaTS equal to (i) the Early Redemption Price, if the redemption occurs prior to December 31, 2010, or (ii) the Redemption Price, if the redemption occurs on or after December 31, 2010.

Purchase for Cancellation

On or after the date that is five years after the Closing Date, the HSBC HaTS may be purchased, in whole or in part, by the Trust, with Superintendent and FSA Approval, in the open market or by tender or private contract at any price. HSBC HaTS purchased by the Trust will be cancelled and will not be reissued.

Rights on Termination of the Trust

As long as any HSBC HaTS are outstanding, the Trust may only be terminated with the approval of the Bank and/or its affiliates, as the holders of the Special Trust Securities, and with Superintendent and FSA Approval (i) upon the occurrence of a Special Event prior to June 30, 2005 or (ii) for any reason on June 30, 2005 or on any Distribution Date thereafter. The Declaration of Trust provides that holders of HSBC HaTS are not entitled to initiate proceedings for the termination of the Trust.

Pursuant to the Bank Share Exchange Agreement, the Bank has covenanted for the benefit of holders of HSBC HaTS that, as long as any HSBC HaTS are outstanding, the Bank will not approve the termination of the Trust unless the Trust has sufficient funds to pay the Early Redemption Price or the Redemption Price, as applicable.

Holders of HSBC HaTS and holders of Special Trust Securities will rank *pari passu* in the distribution of the property of the Trust in the event of a termination of the Trust, after the discharge of claims of creditors, if any. The entitlement of the holder of each HSBC HaTS on a termination of the Trust will be determined by multiplying the Early Redemption Price (if the termination is as a result of action taken by the Bank and occurs prior to December 31, 2010) or the Redemption Price (in all other cases), in either case, by a fraction, the numerator of which is the value of the Trust Assets to be distributed to holders of Trust Securities and the denominator of which is an amount equal to the sum of (i) the aggregate Early Redemption Price of all HSBC HaTS then outstanding (if the termination is as a result of action taken by the Bank and occurs prior to December 31, 2010) or the aggregate Redemption Price of all HSBC HaTS then outstanding (in all other cases) and (ii) an amount equal to the Invested Amount in respect of all Special Trust Securities then outstanding (such fraction being the "Termination Distribution Ratio"). The entitlement of the Bank and/or its affiliates, as the holders of the Special Trust Securities, will be determined by multiplying the Invested Amount in respect of all Special Trust Securities then outstanding by the Termination Distribution Ratio.

Additional Bank Covenants

In addition to the Dividend Stopper Undertakings, the Bank has covenanted, for the benefit of holders of HSBC HaTS pursuant to the Bank Share Exchange Agreement, that:

- (a) all of the outstanding Special Trust Securities will be held at all times, directly or indirectly, by the Bank;
- (b) as long as any HSBC HaTS are outstanding, the Bank will not take any action to cause the termination of the Trust except as set forth under “— Rights on Termination of the Trust” and only with Superintendent and FSA Approval;
- (c) the Bank will not assign or otherwise transfer its obligations under the Bank Share Exchange Agreement, except in the case of a merger, consolidation, amalgamation or reorganization or a sale of substantially all of the assets of the Bank; and
- (d) as long as any HSBC HaTS are outstanding, the Bank will have outstanding one or more series of preferred shares which are listed on a recognized stock exchange or quoted on a recognized quotation system or trading market.

Issue of Bank Class 1 Preferred Shares Series Z in Connection with Automatic Exchange

All corporate action necessary for the Bank to issue Bank Class 1 Preferred Shares Series Z pursuant to the Automatic Exchange will be completed prior to the closing of this Offering. The issuance of Bank Class 1 Preferred Shares Series Z pursuant to the Automatic Exchange is subject to approval, or the obtaining of an exemption, under applicable securities legislation in certain of the provinces and territories of Canada and to Superintendent and FSA Approval. Applications for the foregoing approvals and exemptions have been or will be filed by the Bank.

Bank Share Exchange Agreement

Contemporaneously with the completion of this Offering, the Trust, the Bank and the Exchange Trustee, as trustee for the holders of the HSBC HaTS, will enter into the Bank Share Exchange Agreement providing for the Dividend Stopper Undertakings as well as the grant of and certain rights and obligations relating to the Automatic Exchange and the Subscription Right. Pursuant to that agreement, the Bank will grant to the Exchange Trustee for the benefit of the holders of HSBC HaTS the right to exchange HSBC HaTS for Bank Class 1 Preferred Shares Series Z upon an Automatic Exchange and the Exchange Trustee on behalf of the holders of HSBC HaTS will grant to the Bank the right to exchange HSBC HaTS for Bank Class 1 Preferred Shares Series Z upon an Automatic Exchange. Pursuant to the Bank Share Exchange Agreement, the Bank will covenant to take or refrain from taking certain actions so as to ensure that holders of HSBC HaTS will receive the benefit of the Automatic Exchange, including obtaining the requisite approval of holders of the HSBC HaTS to any amendment to the provisions of the Bank Class 1 Preferred Shares Series Z (other than any amendments relating to the Bank Class 1 Preferred Shares as a class).

Voting Rights

The HSBC HaTS are non-voting, except in the limited circumstances set forth in the Declaration of Trust involving changes to the terms and conditions of the HSBC HaTS. The Declaration of Trust provides that such terms and conditions may be changed if authorized by the holders of HSBC HaTS by way of Extraordinary Resolution. Any such change must be approved by the Bank and, in addition, any such change that would affect the status of the HSBC HaTS as capital of the Bank is subject to Superintendent and FSA Approval. The term “Extraordinary Resolution” is defined in the Declaration of Trust to mean, in effect, a resolution passed by the holders of HSBC HaTS representing not less than 66⅔% of the total number of outstanding HSBC HaTS represented and voted at a meeting of holders of HSBC HaTS, or a resolution in writing signed by the holders of HSBC HaTS representing not less than 66⅔% of the outstanding HSBC HaTS. The quorum at any such meeting will be one or more holders of HSBC HaTS present in person or represented by proxy and owning or representing not less than 25% of the aggregate number of HSBC HaTS then outstanding, provided that if a quorum is not present and the meeting is adjourned, at the meeting following such adjournment those holders present in person or represented by proxy will constitute a quorum notwithstanding that they may represent less than 25% of the aggregate number of HSBC HaTS then outstanding. Notwithstanding the foregoing, the Trustee may, without the consent of holders of HSBC HaTS, execute instruments supplemental to the Declaration of Trust and any other relevant instruments for certain limited purposes, including curing ambiguities or defects and making any modification that, in the opinion of the Trustee, would not be prejudicial

to the interest of holders of HSBC HaTS and making such changes as may be required to conform with applicable regulatory requirements from time to time.

Capital Reorganizations and Amalgamations

In the event of a capital reorganization, merger or amalgamation of the Bank, the terms and conditions of the HSBC HaTS provide that holders of HSBC HaTS will be entitled to receive pursuant to the Automatic Exchange, after such capital reorganization, merger or amalgamation, the number of Bank shares or other securities or consideration of the Bank, or of a corporation resulting, surviving or continuing from the capital reorganization, merger or amalgamation, that such holder would have received had his or her HSBC HaTS been exchanged, pursuant to the Automatic Exchange, for Bank Class 1 Preferred Shares Series Z immediately prior to the record date of the capital reorganization, merger or amalgamation. The entitlement of the Trust under the Subscription Right will be similarly adjusted.

Issue of Additional Trust Securities

The Trust may, at any time and from time to time, issue additional Special Trust Securities or HSBC Canada Asset Trust Securities of any series without the authorization of holders of HSBC HaTS. In the event that the Trust issues additional series of HSBC Canada Asset Trust Securities, the rights, privileges, restrictions and conditions attached to such additional series may vary materially from those of the HSBC HaTS. In such event, the rights of the holders of HSBC HaTS to receive the Indicated Yield from the Net Distributable Funds of the Trust on any Regular Distribution Date and the right of the holder of HSBC HaTS to receive property of the Trust on a termination of the Trust may rank *pari passu* with the rights of the holders of HSBC Canada Asset Trust Securities of such other series.

Book-Entry Only Form

Except as otherwise provided below, the HSBC HaTS will be issued in ‘‘book-entry only’’ form and must be purchased or transferred through Participants in the depository service of CDS. Participants include securities brokers and dealers, banks and trust companies. On the Closing Date, the Trust will cause a global certificate representing the HSBC HaTS to be delivered to, and registered in the name of, CDS. Except as described below, no beneficial owner of HSBC HaTS will be entitled to a certificate or other instrument from the Trust or CDS evidencing that beneficial owner’s ownership thereof, and no beneficial owner will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such beneficial owner. Each beneficial owner of HSBC HaTS will receive a customer confirmation of purchase from the registered dealer from which the HSBC HaTS are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order.

CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the HSBC HaTS. If (i) required to do so by applicable law or the rules of any securities exchange, (ii) the book-entry only system ceases to exist, (iii) the Trust determines that CDS is no longer willing or able to discharge properly the responsibilities as depository with respect to the HSBC HaTS and the Trust is unable to locate a qualified successor, or (iv) the Trust at its option elects, or is required by law, to withdraw the HSBC HaTS from the book-entry only system, then physical certificates representing the HSBC HaTS will be issued to beneficial owners thereof or their nominees.

None of the Bank, the Trust, the Trustee or the Underwriters will assume any liability for (i) any aspect of the records relating to the beneficial ownership of the HSBC HaTS held by CDS or the payments or deliveries relating thereto, (ii) maintaining, supervising or reviewing any records relating to the HSBC HaTS unless certificated, or (iii) any advice or representation made by or with respect to CDS relating to the rules governing CDS or any action to be taken by CDS or at the direction of Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS, and persons other than Participants having an interest in the HSBC HaTS must look solely to Participants, for payments or deliveries made by or on behalf of the Trust to CDS in respect of the HSBC HaTS.

Transfers

Transfers of ownership of the HSBC HaTS will be effected only through records maintained by CDS for such HSBC HaTS with respect to interests of Participants and on the records of Participants with respect to interests of persons other than Participants. Beneficial owners of HSBC HaTS who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of, or other interests in, the HSBC HaTS, may do so only through Participants. The

ability of a beneficial owner to pledge HSBC HaTS or otherwise take action with respect to such beneficial owner's interest in HSBC HaTS (other than through a Participant) may be limited due to the lack of a physical certificate. See "Risk Factors — Liquidity of and Dealings in HSBC HaTS".

Payments and Deliveries

The Trust will make or cause to be made payments of the Indicated Yield in respect of HSBC HaTS to CDS as the registered holder of the HSBC HaTS and the Trust understands that such payments will be forwarded by CDS to Participants in accordance with the CDS Procedures. Deliveries of Bank Class 1 Preferred Shares Series Z in respect of the exercise or operation of the Automatic Exchange or upon a redemption of the HSBC HaTS by the Trust in the limited circumstances described under "— Automatic Exchange" will be made by the Bank or the Trust, as the case may be, to CDS as the registered holder of the HSBC HaTS and the Bank and the Trust understand that such shares will be forwarded by CDS to Participants in accordance with CDS Procedures. As long as CDS is the registered owner of the HSBC HaTS, CDS will be considered the sole owner of the HSBC HaTS for the purposes of receiving payments on the HSBC HaTS or the delivery of Bank Class 1 Preferred Shares Series Z upon the exercise or operation of the Automatic Exchange or upon a redemption of the HSBC HaTS by the Trust. As long as the HSBC HaTS are held in the CDS book-entry only system, the responsibility and liability of the Trustee and/or the Bank in respect of the HSBC HaTS is limited to making payment of any amount due on the HSBC HaTS and/or making delivery of Bank Class 1 Preferred Shares Series Z in respect thereof to CDS or its nominee, as registered holder of HSBC HaTS.

The Special Trust Securities

Voting Rights

The Declaration of Trust provides that the Special Trust Securities are voting. Pursuant to the Declaration of Trust, holders of Special Trust Securities are entitled to vote in respect of, among other things (i) the termination of the Trust as set forth under "— The HSBC Canada Asset Trust Securities — Rights on Termination of the Trust", (ii) the removal and replacement of the Trustee, and (iii) the removal and replacement of the Administrative Agent.

Distributions

On any Regular Distribution Date, the Bank and/or its affiliates, as holders of the Special Trust Securities, will be entitled to receive the Net Distributable Funds, if any, of the Trust remaining after payment of the Indicated Yield on the HSBC HaTS. On a Distribution Date that is a Distribution Diversion Date, the Bank, as sole holder of the Special Trust Securities, will be entitled to receive the Net Distributable Funds of the Trust and no payment of the Indicated Yield will be made on the HSBC HaTS.

Redemption

The Special Trust Securities are not redeemable at the option of the Trust or at the option of the holder.

Rights on Termination of the Trust

In the event of a termination of the Trust, after the discharge of the obligations of the Trust to creditors, the Bank and/or its affiliates, as holders of the Special Trust Securities, will be entitled to participate, *pari passu* with the holders of the HSBC HaTS, in the distribution of the remaining property of the Trust. On a termination of the Trust, the Bank, as holder of the Special Trust Securities, will be entitled to receive an amount equal to the Invested Amount in respect of all Special Trust Securities then outstanding multiplied by the Termination Distribution Ratio.

DESCRIPTION OF BANK CLASS 1 PREFERRED SHARES SERIES Z

A reorganization (the “Reorganization”) of the share capital of the Bank will be carried out and completed prior to the Closing Date in order to facilitate this Offering and the Bank Preferred Share Offering. Pursuant to the Reorganization, the Bank will create the Bank Class 1 Preferred Shares, including the Bank Class 1 Preferred Shares Series A, Bank Class 1 Preferred Shares Series B and Bank Class 1 Preferred Shares Series Z, and redesignate the existing Bank Preferred Shares Series I as Bank Class 2 Preferred Shares.

After giving effect to the Reorganization, the authorized share capital of the Bank will consist of 993,677,000 Common Shares, an unlimited number of Bank Class 1 Preferred Shares and an unlimited number of Bank Class 2 Preferred Shares.

The following is a summary of the rights, privileges, restrictions and conditions of or attaching to the Bank Class 1 Preferred Shares as a class and the Bank Class 1 Preferred Shares Series Z as a series.

Certain Provisions of the Bank Class 1 Preferred Shares as a Class

The Bank is authorized to issue an unlimited number of Bank Class 1 Preferred Shares in one or more series. The Board of Directors may from time to time divide any unissued Bank Class 1 Preferred Shares into series and fix the number of shares in each series and the rights, privileges, restrictions and conditions thereof.

Priority

The Bank Class 1 Preferred Shares of each series will rank on a parity with Bank Class 1 Preferred Shares of every other series. The Bank Class 1 Preferred Shares are entitled to preference over the Bank Class 2 Preferred Shares, the Bank Common Shares and any other class of shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares with respect to the payment of dividends and upon any distribution of assets of the Bank in the event of liquidation, dissolution or winding-up of the Bank, whether voluntary or involuntary, or any other distribution of assets of the Bank among its shareholders for the purpose of winding-up its affairs.

Restrictions

The Bank may not, without the approval of the holders of the Bank Class 1 Preferred Shares, create any other class of shares ranking prior to the Bank Class 1 Preferred Shares or amend the provisions attaching to the Bank Class 1 Preferred Shares.

Shareholder Approval

Any approval to be given by the holders of the Bank Class 1 Preferred Shares, voting as a class or as a series, may be given by a resolution carried by the affirmative vote of not less than two-thirds of the votes cast at a meeting of holders of the outstanding Bank Class 1 Preferred Shares or of a particular series at which a majority of the outstanding shares is represented either in person or by proxy, or if no quorum is present at such meeting, at any adjourned meeting at which no quorum requirements would apply.

Certain Provisions of Bank Class 1 Preferred Shares Series Z

Issue Price

Each Bank Class 1 Preferred Shares Series Z will have an issue price of \$1,000 per share.

Dividends

Subject to the provisions of the Bank Act, the holders of the Bank Class 1 Preferred Shares Series Z will be entitled to receive and the Bank will pay thereon, if, as and when declared by the Board of Directors, out of the moneys of the Bank properly applicable to the payment of dividends, semi-annual non-cumulative preferential cash dividends equal to (i) \$38.90 per share or (ii) from and after the later of December 31, 2010 and the date on which a Loss Absorption Event occurs, an amount per share determined by multiplying \$1,000 by one half of the sum of the Bankers’ Acceptance Rate for the semi-annual period ending on the payment date for which the dividends are declared plus 2.37%. Dividends on the Class 1 Preferred Shares Series Z, if, as and when declared by the Board of Directors, will be payable on the last day of June and December of each year. If the Board of Directors in its discretion does not declare and the Bank does not subsequently pay any dividend, or any part thereof, on the Bank Class 1 Preferred Shares Series Z on or before the dividend payment date for a particular semi-annual period, then the right of the holders of

Bank Class 1 Preferred Shares Series Z to receive such dividend, or any part thereof, for such semi-annual period will be forever extinguished.

The terms of the Bank Class 1 Preferred Shares Series Z require the Bank to make the necessary election under Part VI.1 of the Tax Act so that the holders will not be subject to tax under Part IV.1 on dividends paid (or deemed to be paid) by the Bank on the Bank Class 1 Preferred Shares Series Z.

Redemption

The Bank Class 1 Preferred Shares Series Z may not be redeemed prior to December 31, 2010. On and after December 31, 2010, but subject to the provisions of the Bank Act, Superintendent and FSA Approval and the provisions described below under “— Restrictions on Dividends and Retirement of Shares”, the Bank may, on not more than 60 and not less than 30 days’ prior notice, redeem at any time all, or from time to time any part, of the outstanding Bank Class 1 Preferred Shares Series Z, at the Bank’s option without the consent of the holders, by the payment of an amount in cash for each such share so redeemed equal to \$1,000 plus the amount of all declared and unpaid dividends thereon to the date fixed for redemption. If less than all the outstanding Bank Class 1 Preferred Shares Series Z are at any time to be redeemed, the shares to be redeemed will be selected by lot or *pro rata* disregarding fractions or in such other manner as the Bank may determine.

Conversion into Another Series of Bank Class 1 Preferred Shares at Option of the Holder

The Bank may, by resolution of the Board of Directors, constitute a further series of Bank Class 1 Preferred Shares (the “New Bank Preferred Shares”) having rights, privileges, restrictions and conditions attaching thereto which would qualify such New Bank Preferred Shares as risk-based Tier 1 capital or equivalent of the Bank under the then current Capital Guidelines, if applicable, or, if not applicable, having such rights, privileges, restrictions and conditions as the Board of Directors may determine, provided that, in either case, such New Bank Preferred Shares do not constitute “short term preferred shares” under the Tax Act. In such event, the Bank may, with the prior approval of the Superintendent, give holders of the Bank Class 1 Preferred Shares Series Z written notice that they have the right pursuant to the terms of the Bank Class 1 Preferred Shares Series Z, at their option, to convert their Bank Class 1 Preferred Shares Series Z on the date specified in the notice into fully paid New Bank Preferred Shares on a share for share basis. Notice will be given by the Bank in writing not more than 60 and not less than 30 days prior to such conversion date.

Upon exercise by any holder of the right to convert Bank Class 1 Preferred Shares Series Z into New Bank Preferred Shares, the Bank reserves the right not to issue New Bank Preferred Shares in certain circumstances, including the right not to issue such shares to any person whose address is in, or whom the Bank or its transfer agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Bank to take any action to comply with the securities, banking or analogous laws of such jurisdictions. See also “— Limitations Affecting Holders of Bank Shares”.

Presentation for Conversion, Redemption or Sale

A conversion, redemption or sale to the Bank of Bank Class 1 Preferred Shares Series Z will be effected by the holder transferring such holder’s Bank Class 1 Preferred Shares Series Z to be converted, redeemed or sold, as the case may be, to the account of the Bank in CDS (or, in the event that the Bank Class 1 Preferred Shares Series Z are not then issued in book-entry only form, by depositing with the transfer agent for the Bank Class 1 Preferred Shares Series Z, at one of its principal offices, certificates representing such Bank Class 1 Preferred Shares Series Z).

Purchase for Cancellation

Subject to the provisions of the Bank Act, to Superintendent and FSA Approval, and to the provisions described below under “— Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any Bank Class 1 Preferred Shares Series Z at the lowest price or prices at which, in the opinion of the Board of Directors, such shares may be obtained.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Bank Class 1 Preferred Shares Series Z will be entitled to receive \$1,000 per share plus the amount of all declared and unpaid dividends thereon to the date of payment, before any amount will be paid or any assets of the Bank distributed to the holders of

Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series Z. The holders of the Bank Class 1 Preferred Shares Series Z will not be entitled to participate in any further distribution of the property or assets of the Bank.

Restrictions on Dividends and Retirement of Shares

So long as any of the Bank Class 1 Preferred Shares Series Z are outstanding, the Bank will not, without the approval of the holders of the Bank Class 1 Preferred Shares Series Z given as provided herein:

- (a) pay any dividends on the Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series Z (other than stock dividends payable in any shares ranking junior to the Bank Class 1 Preferred Shares Series Z);
- (b) redeem, purchase or otherwise retire any Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series Z (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Bank Class 1 Preferred Shares Series Z);
- (c) redeem, purchase or otherwise retire fewer than all the Bank Class 1 Preferred Shares Series Z; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provision attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire for value any other shares ranking on parity with the Bank Class 1 Preferred Shares Series Z;

unless, in each case, all dividends up to and including the dividend payment date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of the Bank Class 1 Preferred Shares Series Z then issued and outstanding.

Issue of Additional Series of Bank Class 1 Preferred Shares

The Bank may issue other series of Bank Class 1 Preferred Shares without the authorization of the holders of the Bank Class 1 Preferred Shares Series Z.

Amendments to Bank Class 1 Preferred Share Series Z

The Bank will not, without the approval of the holders of the Bank Class 1 Preferred Shares Series Z and any holders of HSBC HaTS then outstanding given as described herein, delete or vary any rights, privileges, restrictions and conditions attaching to the Bank Class 1 Preferred Shares Series Z. In addition to the aforementioned approval, the Bank will not without, but may from time to time with, the prior approval of the Superintendent make any such deletion or variation which might affect the classification afforded the Bank Class 1 Preferred Shares Series Z from time to time for capital adequacy requirements pursuant to the Bank Act or the Capital Guidelines.

Shareholder Approvals

The approval of any amendments to the rights, privileges, restrictions and conditions attaching to the Bank Class 1 Preferred Shares Series Z may be given by a resolution carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast at a meeting of holders of Bank Class 1 Preferred Shares Series Z at which a majority of the outstanding Bank Class 1 Preferred Shares Series Z is represented or, if no quorum is present at meeting, at a meeting following such adjourned meeting at which no quorum would apply. Pursuant to the Bank Share Exchange Agreement, the Bank will covenant that for so long as the HSBC HaTS remain outstanding no amendment will be made to the rights, privileges, restrictions and conditions of the Bank Class 1 Preferred Shares Series Z (other than any amendments relating to the Bank Class 1 Preferred Shares as a class) without the prior approval of 66 $\frac{2}{3}$ % of the holders of the HSBC HaTS.

Voting Rights

The holders of the Bank Class 1 Preferred Shares Series Z as such will not be entitled to receive notice of, or to attend or to vote at, any meeting of the shareholders of the Bank unless and until the first time at which the rights of such holders to any undeclared or unpaid dividends or part thereof have become extinguished as described above. In that event, the holders of the Class 1 Preferred Shares Series Z will be entitled to receive notice of, and to attend, all meetings of shareholders at which directors are to be elected and, in respect of the election of directors, will be entitled to one vote for each share held. The voting rights of the holders of the Bank Class 1 Preferred Shares Series Z, and the rights to receive notice of and to attend meetings, will forthwith cease upon payment by the Bank of the whole amount

of the first dividend declared on the Bank Class 1 Preferred Shares Series Z after the time such rights first arose. At such time as the entitlement of such holders to any subsequent undeclared or unpaid dividends or part thereof on the Bank Class 1 Preferred Shares Series Z has again become extinguished, such voting rights and rights to receive notice of and to attend meetings will become effective again and so on from time to time.

Book-Entry Only Form

Unless the Bank elects otherwise, the Bank Class 1 Preferred Shares Series Z will be issued in “book-entry only” form, and may be purchased, held and transferred in substantially the same manner as the HSBC HaTS. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Book-Entry Only Form”.

Limitations Affecting Holders of Bank Shares

The Bank Act contains restrictions on the allotment, issuance, transfer, acquisition, beneficial ownership, holding and voting of all shares of a chartered bank. By way of summary, no person, or persons acting jointly or in concert, will have a “significant interest” in any class of shares of any Schedule II bank, a category which includes HSBC Bank Canada, without the consent of the Minister of Finance. For the purposes of the Bank Act, a person (a “Significant Shareholder”) has a significant interest in a class of shares of a bank if the total number of shares of that class beneficially owned by that person and entities controlled by that person and by any person associated or acting jointly or in concert with that person exceeds or would thereby exceed 10% of the outstanding shares of that class. Purchasers of HSBC HaTS and Bank Class 1 Preferred Shares Series Z (and Participants) may be required to furnish declarations relating to ownership (and ownership by clients of such Participants) in a form prescribed by HSBC Bank Canada.

Under the Bank Act, HSBC Bank Canada cannot redeem or purchase any of its shares, including the HSBC HaTS and the Bank Class 1 Preferred Shares Series Z, unless the consent of the Superintendent has been obtained. In addition, the Bank Act prohibits any payment to purchase or redeem any shares or any payment of a dividend if there are reasonable grounds for believing that HSBC Bank Canada is, or the payment would cause HSBC Bank Canada to be, in contravention of the Bank Act requirement to maintain, in relation to its operations, adequate capital and appropriate forms of liquidity and to comply with any regulations or directions of the Superintendent in relation thereto. The Minister of Finance recently proposed amendments to the Bank Act which, if enacted, would also prohibit any payment of a dividend without the approval of the Superintendent if dividends in any year would exceed net income for that year and retained net income for the two preceding years.

DIVIDEND AND INTEREST COVERAGE

The following sets forth dividend and interest coverage amounts of the Bank after giving effect to this Offering, the Bank Preferred Share Offering and the redemption by the Bank of Bank Class 2 Preferred Shares Series A as described under “Use of Proceeds” and assumes (i) for such purposes only, that the HSBC HaTS are securities of the Bank and (ii) an effective tax rate of 44.7%. The annual interest requirement and amortization of discounts and premiums and issue expenses on the Bank’s subordinated debt (the “debentures”) for the year ended December 31, 1999 and the 12 months ended March 31, 2000 would amount to approximately \$41.5 million and \$38.4 million, respectively. The annual Indicated Yield requirements on the HSBC HaTS and dividend requirements on a pre-tax equivalent basis on the Bank Class 1 Preferred Shares Series A would amount to approximately \$29.7 million for a 12 month period. The adjusted income of the Bank before the deduction of income taxes and before deduction of interest and amortization of discounts and premiums and issue expenses on the debentures for the year ended December 31, 1999 and the 12 months ended March 31, 2000 amounted to approximately \$285.5 million and \$304.1 million, respectively. These amounts are approximately 4.0 and 4.5 times, respectively, the aggregate debenture interest and amortization of discounts and premiums and issue expenses on the debentures, the Indicated Yield requirements on the HSBC HaTS and the dividend requirements on a pre-tax equivalent basis on the Bank Class 1 Preferred Shares Series A of approximately \$71.9 million for the year ended December 31, 1999 and approximately \$68.1 million for the 12 months ended March 31, 2000.

The annual Indicated Yield requirements on the HSBC HaTS and the annual dividend requirements on a pre-tax equivalent basis on the Bank Class 1 Preferred Shares Series A would amount to approximately \$29.7 million for a 12 month period. The Bank’s adjusted net income before income taxes for the year ended December 31, 1999 was approximately \$244 million and for the 12 months ended March 31, 2000 was approximately \$265.7 million. These amounts are approximately 8.2 and 8.9 times, respectively, such annual Indicated Yield and dividend requirements.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault, counsel to the Trust, and Stikeman Elliott, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to the Trust and a holder of HSBC HaTS who acquires and beneficially owns HSBC HaTS under this Offering and who, for purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada, deals at arm's length and is not affiliated with the Bank and the Trust, holds the HSBC HaTS as capital property and is not exempt from tax under Part I of the Tax Act and does not hold the HSBC HaTS or any Bank Class 1 Preferred Shares Series Z acquired on an exchange or redemption of HSBC HaTS for Bank Class 1 Preferred Shares Series Z in a Deferred Income Plan. This summary does not take into account (other than in respect of the Trust) the "mark-to-market" rules contained in the Tax Act which apply to certain financial institutions. Furthermore, the part of this summary dealing with the Bank Class 1 Preferred Shares Series Z does not apply to a "specified financial institution" (as defined in the Tax Act) that, either alone or together with non-arms' length persons, receives (or is deemed to receive), alone or together with persons with whom it does not deal at arm's length, in the aggregate dividends in respect of more than 10% of the Bank Class 1 Preferred Shares Series Z outstanding at the time a dividend is received.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Consequently, investors are urged to consult their own tax advisers with respect to their particular circumstances.

This summary is based upon the current provisions of the Tax Act and the regulations issued thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by the Minister of Finance prior to the date hereof and counsel's understanding of the current administrative and assessing policies of the Canada Customs and Revenue Agency. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not take into account any changes in law or administrative and assessing policies, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any other federal tax considerations or provincial, territorial or foreign tax considerations. With respect to the proposed amendments to the Tax Act and the regulations, no assurance can be given that the proposed amendments will become law as proposed or at all.

HSBC HaTS

Taxation of the Trust

In each taxation year of the Trust, the net income and net realized capital gains, if any, of the Trust as would otherwise be taxable in the Trust will be payable to holders of HSBC HaTS or the Bank as holder of the Special Trust Securities. Consequently, the Trust will not be liable for income tax under Part I of the Tax Act. Capital or income losses incurred by the Trust cannot be allocated to holders of the HSBC HaTS or the Bank as holder of the Special Trust Securities but may, subject to certain limitations, be deducted by the Trust from taxable capital gains or net income realized in other years.

As a registered investment, the Trust is potentially subject to special taxes under the Tax Act. The Trust intends to restrict its investments in a manner that it will not be subject to any of these special taxes.

The Tax Act provides for a special tax on the designated income of certain trusts which have designated beneficiaries. This special tax will not apply to the Trust.

Taxation of Holders of HSBC HaTS

Distributions

A holder of HSBC HaTS will be required to include in computing the holder's income for a taxation year all net income and net realized capital gains, if any, payable to the holder in such taxation year. Substantially all of the amounts payable to holders of HSBC HaTS are expected to be treated as income from a trust, rather than capital gains, for income tax purposes.

Disposition

A holder of HSBC HaTS who disposes of or is deemed to dispose of the HSBC HaTS will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the HSBC HaTS to the holder thereof. A disposition or

deemed disposition of a holder's HSBC HaTS will be considered to occur on, amongst other events (a) an exchange of the HSBC HaTS for Bank Class 1 Preferred Shares Series Z pursuant to the Automatic Exchange (on which event a holder's proceeds of disposition will be equal to the fair market value of the Bank Class 1 Preferred Shares Series Z received on the exchange); (b) a redemption of the HSBC HaTS on the Trust Special Event Redemption Right or the Trust Redemption Right (on which event a holder's proceeds of disposition will be equal to the Early Redemption Price or the Redemption Price, as the case may be); and (c) a termination of the Trust.

Generally, two-thirds of any such capital gain will be included in computing the holder's income as a taxable capital gain and two-thirds of any such capital loss may be deducted from the holder's taxable capital gains, subject to certain transitional rules, in accordance with the rules contained in the Tax Act. Taxable capital gains of a Canadian-controlled private corporation may be subject to an additional refundable tax of $6\frac{2}{3}\%$ on certain investment income, including amounts in respect of net taxable capital gains. Capital gains realized by an individual may give rise to a liability for alternative minimum tax under the Tax Act.

Automatic Exchange

The Bank and the Exchange Trustee have been advised by HSBC Securities (Canada) Inc. and TD Securities Inc. that the value to holders of the HSBC HaTS of the Automatic Exchange is nominal. Accordingly, no gain will be realized by holders of HSBC HaTS upon the granting of such rights.

Bank Class 1 Preferred Shares Series Z

Dividends

Dividends (including deemed dividends) received on the Bank Class 1 Preferred Shares Series Z by an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. Dividends (including deemed dividends) on the Bank Class 1 Preferred Shares Series Z received by a corporation will be included in computing its income and will generally be deductible in computing its taxable income.

The Bank Class 1 Preferred Shares Series Z will be taxable preferred shares as defined in the Tax Act. The terms of the Bank Class 1 Preferred Shares Series Z require the Bank to make the necessary election under Part VI.1 of the Tax Act so that corporate shareholders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Bank Class 1 Preferred Shares Series Z.

A private corporation, as defined in the Tax Act, or any other corporation controlled whether by reason of a beneficial interest in one or more trusts or otherwise by or for the benefit of an individual or a related group of individuals, will generally be liable to pay a $33\frac{1}{3}\%$ refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Bank Class 1 Preferred Shares Series Z to the extent such dividends are deductible in computing its taxable income.

Disposition

A holder of Bank Class 1 Preferred Shares Series Z who disposes of or is deemed to dispose of the Bank Class 1 Preferred Shares Series Z (either on purchase for cancellation or redemption of the shares for cash or otherwise but not on a conversion of the Bank Class 1 Preferred Shares Series Z) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the holder thereof. The amount of any deemed dividend arising on the redemption, acquisition or cancellation by the Bank of the Bank Class 1 Preferred Shares Series Z will generally not be included in computing a holder's proceeds of disposition for purposes of computing the capital gain or loss arising on the disposition of such shares. If the shareholder is a corporation, any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. See “— HSBC HaTS — Taxation of Holders of HSBC HaTS — Disposition” for a discussion of the tax treatment of capital gains or losses.

Redemption

If the Bank redeems for cash or otherwise acquires the Bank Class 1 Preferred Shares Series Z, other than by a purchase in the manner in which shares are normally purchased by a member of the public in the open market or by reason of a conversion of the Bank Class 1 Preferred Shares Series Z, the holder will be deemed to have received a

dividend equal to the amount, if any, paid by the Bank in excess of the paid-up capital of such shares at such time. The difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

Conversion

The conversion of the Bank Class 1 Preferred Shares Series Z into New Bank Preferred Shares pursuant to the exercise of the conversion privilege will not constitute a disposition thereof and, accordingly, will not give rise to a capital gain or capital loss. The cost to a holder of the New Bank Preferred Shares so obtained will be deemed to be the adjusted cost base to such holder of the converted Bank Class 1 Preferred Shares Series Z immediately before the conversion. The cost of a New Bank Preferred Share so obtained will be averaged with the adjusted cost base of all other New Bank Preferred Shares held by such holder as capital property for the purpose of determining thereafter the adjusted cost base of such shares.

The Canadian federal income tax considerations described above for a holder of Bank Class 1 Preferred Shares Series Z will generally be applicable, with necessary changes, to the beneficial ownership of New Bank Preferred Shares.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the “Underwriting Agreement”) dated June 21, 2000 between the Trust, the Bank and HSBC Securities (Canada) Inc., TD Securities Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., National Bank Financial Inc. and Trilon Securities Corporation (collectively, the “Underwriters”), the Trust has agreed to sell, and the Underwriters have agreed to purchase, on June 28, 2000, or on such other date not later than August 3, 2000 as may be agreed upon, all but not less than all of the 200,000 HSBC HaTS at a price of \$1,000 per HSBC HaTS, subject to the terms and conditions set forth therein. The Trust has agreed to pay to the Underwriters a fee per HSBC HaTS equal to \$10 with respect to HSBC HaTS sold to certain institutions and \$30 with respect to all other HSBC HaTS. Assuming that no HSBC HaTS are sold to such institutions, the aggregate Underwriters’ fee will be \$6 million.

The Underwriting Agreement also provides that the Underwriters may, at their discretion, terminate their obligations thereunder on the basis of their assessment of the financial markets and upon the occurrence of certain stated events. The Underwriters have agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase all of the HSBC HaTS to be purchased by them if any of the HSBC HaTS being sold pursuant to the Underwriting Agreement are purchased.

This Offering is being made concurrently in all provinces and territories of Canada. The HSBC HaTS have not been and will not be registered under the United States *Securities Act of 1933*, as amended.

Concurrently with this Offering, HSBC Bank Canada is offering, pursuant to a prospectus dated the same date as this prospectus, Bank Class 1 Preferred Shares Series A for estimated net proceeds of \$120.25 million. The closing of this Offering is contingent on the closing of the Bank Preferred Share Offering. The closing of the Bank Preferred Share Offering is not contingent on the closing of this Offering.

HSBC Securities (Canada) Inc., one of the Underwriters, is a wholly owned subsidiary of the Bank. As a result, each of the Bank and the Trust is a related issuer of HSBC Securities (Canada) Inc. The terms of this Offering were negotiated at arm’s length between the Bank, the Trust and the Underwriters. HSBC Securities (Canada) Inc. will not receive any benefit in connection with this Offering other than as described herein. TD Securities Inc., an underwriter in respect of which the Trust and the Bank are not a related or connected issuer, participated in the due diligence, pricing and structuring of this Offering as well as in the preparation of this prospectus.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase HSBC HaTS. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSE relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution provided that the bid or purchase was not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities. Pursuant to the first mentioned exception, in

connection with this Offering and subject to applicable law, the Underwriters may effect transactions which stabilize or maintain the market price of such securities at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

RATINGS

The HSBC HaTS have been rated “A(low)” yn by DBRS, the third highest of ten rating categories granted by DBRS for debt generally. The “n” designation is attached to all ratings for securities that are non-cumulative and the “y” designation is used to indicate a hybrid security. The HSBC HaTS have been rated P-2(Low) by CBRS, the second highest of five rating categories granted by CBRS for preferred shares generally. In certain cases, “high” and “low” characterizations are used to reflect relative strength within a rating category.

Neither of the foregoing ratings should be construed as a recommendation to buy, sell or hold the HSBC HaTS offered hereby. Either of the foregoing ratings may be revised or withdrawn at any time by the respective rating organization.

USE OF PROCEEDS

The gross proceeds to the Trust from the sale of the HSBC HaTS offered hereby will be \$200 million. The Trust will use the proceeds to be received on closing of approximately \$317 million in connection with both this Offering and the subscription by the Bank for the Special Trust Securities to purchase the Initial Trust Assets on a fully serviced basis from the Initial Sellers upon the closing of this Offering. See “Business of the Trust.”

The following table illustrates the use of the proceeds received by the Trust on the Closing Date from the sale of the HSBC HaTS offered hereby and the subscription by the Bank for the Special Trust Securities described above.

Gross proceeds from the sale of Special Trust Securities to the Bank	\$117,000,000
Gross proceeds from this Offering	<u>200,000,000</u>
Gross proceeds to be applied to the purchase of the Initial Trust Assets	<u>\$317,000,000</u>

The estimated Underwriters’ fee and expenses applicable to this Offering will be paid from advances from the Bank under the Credit Facility.

The Bank intends to use the proceeds from the sale to the Trust of the Initial Trust Assets and the estimated net proceeds received on the closing of the Bank Preferred Share Offering to redeem all of the issued and outstanding Bank Class 2 Preferred Shares Series A and for general corporate purposes. The Bank Class 2 Preferred Shares Series A were issued in December 1999 to the Bank’s immediate parent and the proceeds therefrom were used to redeem subordinated debt of the Bank held by such parent, and thereby increase the Bank’s Tier 1 capital ratio to meet the Superintendent’s revised capital ratio targets. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition — Capital Management” in Appendix A.

MATERIAL CONTRACTS

The material contracts to be entered into by the Trust and/or the Bank in connection with this Offering are as follows:

1. the Administration and Advisory Agreement described under “Business of the Trust — The Administrative Agent”;
2. the Mortgage Sales, Pooling and Servicing Agreements described under “Business of the Trust — Description of the Initial Trust Assets”;
3. the Series 2010 Purchase Agreements described under “Business of the Trust — Description of the Initial Trust Assets”;
4. the Bank Share Exchange Agreement described under “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Bank Share Exchange Agreement”;
5. an agreement in respect of the Credit Facility described under “Business of the Trust — Liquidity”;
6. the Underwriting Agreement described under “Plan of Distribution”;
7. the Declaration of Trust described under “The Trust”; and
8. the Subscription Agreement described under “Business of the Trust — Certain Transactions Incidental to the Offering”.

RISK FACTORS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this prospectus before purchasing HSBC HaTS.

Automatic Exchange of HSBC HaTS for Bank Class 1 Preferred Shares Series Z

The purchase of HSBC HaTS involves risk with respect to the performance and capital levels of the Bank. In the event of decline in the performance and capital levels of the Bank or the Bank becoming insolvent or bankrupt or resolving to wind-up or liquidate or being ordered wound-up or liquidated or the occurrence of any other event constituting a Loss Absorption Event, the HSBC HaTS will be automatically exchanged for Bank Class 1 Preferred Shares Series Z, without the consent of the holders thereof, which shares would be an investment in the Bank and not in the Trust. As a result, holders of HSBC HaTS could become shareholders of the Bank at a time when the Bank's financial condition was deteriorating or when the Bank had become insolvent or bankrupt or resolved to wind-up or had been ordered wound-up or liquidated or upon the occurrence of any other event constituting a Loss Absorption Event. An investment in the Bank is also subject to certain risks that are distinct from the risks associated with an investment in the Trust including the general risks inherent in equity investments in depository institutions. In the event of a liquidation of the Bank, the claims of depositors and creditors of the Bank would be entitled to a priority of payment over the claims of holders of equity interests such as the Bank Class 1 Preferred Shares Series Z. As a result, if the Bank were to become insolvent or bankrupt or resolved to wind-up or was ordered wound-up or liquidated after the Automatic Exchange or if the Automatic Exchange were to occur after the insolvency of the Bank, the holders of the Bank Class 1 Preferred Shares Series Z may receive, if anything, substantially less than the holders of the HSBC HaTS would have received had the HSBC HaTS not been exchanged for Bank Class 1 Preferred Shares Series Z. In the event of the occurrence of the Automatic Exchange, with the result that the holder of a HSBC HaTS receives Bank Class 1 Preferred Shares Series Z in exchange for such HSBC HaTS, such holder will thereupon cease to have any direct claim or entitlement with respect to the assets of the Trust and the only claim or entitlement of such holder will be in its capacity as a shareholder of the Bank. Potential investors in the HSBC HaTS should carefully consider the description of the Bank set out in Appendix A. See also "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Automatic Exchange".

Interest Rate Risk

The Trust's income will consist primarily of interest payments on the Trust Assets held by it. Because the Indicated Yield in respect of the HSBC HaTS is fixed, there can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Trust's ability to pay the Indicated Yield on the HSBC HaTS in full on each Regular Distribution Date. It is, however, in the Bank's interest to ensure, to the extent within its control, that the Trust complies with its obligation to pay the Indicated Yield on the HSBC HaTS on each Regular Distribution Date to avoid triggering the Dividend Stopper Undertakings.

Restrictions on Ownership of Bank Shares

Under the Bank Act, no person, or persons acting jointly or in concert, is permitted to have a significant interest in the Bank except with the approval of the Minister of Finance. See "Description of Bank Class 1 Preferred Shares Series Z — Limitations Affecting Holders of Bank Shares". Accordingly, the right of a holder to exchange all or some of the HSBC HaTS held by it may be restricted. In addition, certain holders of HSBC HaTS who are to acquire Bank Class 1 Preferred Shares Series Z upon the exercise or operation of the Automatic Exchange may have some or all of such shares disposed of on their behalf pursuant to the procedures referred to under and "Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Automatic Exchange".

Dependence Upon the Bank and its Affiliates

The Trust will be dependent for the selection, structuring and monitoring of the Trust Assets on the diligence and skill of the employees of the Bank as Administrative Agent. In addition, potential conflicts of interest may arise between the Trust and the Bank and its affiliates. See "Business of the Trust". The Administrative Agent may also delegate or subcontract all or a portion of its obligations under the Administration and Advisory Agreement to one or more affiliates, and under certain conditions to non-affiliates, involved in the business of managing assets such as the Trust Assets. In the event that the Administrative Agent delegates or subcontracts its obligations in such a manner, the

Administrative Agent will remain liable for its obligations under the Administration and Advisory Agreement. See “Business of the Trust — The Administrative Agent”.

The Trust will be dependent upon the expertise of the Servicer for the servicing of the Trust Assets. In addition, potential conflicts of interest may arise between the Trust and the Bank and its affiliates. The Servicer of the Trust Assets may also subcontract all or a portion of its obligations under the Mortgage Sales, Pooling and Servicing Agreements to one or more affiliates, and under certain conditions to non-affiliates, involved in the business of managing assets such as the Trust Assets. In the event that the Servicer subcontracts its obligations in such a manner, the Servicer will remain liable for its obligations under the Mortgage Sales, Pooling and Servicing Agreements.

The Trustee and the Custodian is a wholly owned subsidiary of the Bank. See “The Trust”.

Liquidity of and Dealings in HSBC HaTS

There can be no assurance that an active trading market will develop or be sustained or that the HSBC HaTS may be resold at or above the initial public offering price. The ability of a beneficial owner to pledge HSBC HaTS or otherwise take action with respect to such beneficial owner’s interest in HSBC HaTS (other than through a Participant) may be limited due to the lack of a physical certificate.

Indicated Yield is Non-Cumulative

The Indicated Yield on the HSBC HaTS is non-cumulative. The Indicated Yield on the HSBC HaTS is payable by the Trust on each Regular Distribution Date out of Net Distributable Funds of the Trust. If the Indicated Yield on the HSBC HaTS for any Distribution Date is not paid by reason of the occurrence of a Distribution Diversion Event, holders of HSBC HaTS will not be entitled to receive such Indicated Yield. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Indicated Yield”.

Perpetual Nature of HSBC HaTS

The HSBC HaTS have no fixed final maturity date and holders of HSBC HaTS have no rights to call for the redemption of the HSBC HaTS.

PRINCIPAL HOLDER OF SECURITIES

It is intended that, at all times following the Closing Date, the Bank and/or its affiliates will own all of the Special Trust Securities. See “Capitalization of the Trust” and “Use of Proceeds”.

INTERESTS OF THE BANK AND ITS AFFILIATES IN MATERIAL TRANSACTIONS

Pursuant to the Administration and Advisory Agreement, the Bank will provide certain advice to the Trust and will administer the day-to-day operations of the Trust. In addition, the Bank and its Mortgage Subsidiaries will service the Trust Assets pursuant to the Mortgage Sales, Pooling and Servicing Agreements. In addition, HSBC Trust Company (Canada) is an affiliate of the Bank and is the Trustee and the Custodian. In addition, HSBC Securities (Canada) Inc., one of the Underwriters, is an affiliate of the Bank and will receive a portion of the underwriting fee payable by the Trust on account of services rendered in connection with this Offering. See “Plan of Distribution”.

The Bank and its affiliates may have interests which are not identical to those of the Trust. Consequently, conflicts of interest may arise with respect to transactions, including, without limitation, the sale of the Initial Trust Assets, future acquisitions and dispositions of the Trust Assets from or to the Bank and/or its affiliates, and the renewal, termination or modification of the Administration and Advisory Agreement or the Mortgage Sales, Pooling and Servicing Agreements. It is the intention of the Trust and the Bank that any agreements and transactions between the Trust, on the one hand, and the Bank and/or its affiliates, on the other hand, are fair to all parties and consistent with market terms and conditions, including the prices paid and received for Trust Assets or in connection with the servicing of Trust Assets.

LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon by McCarthy Tétrault, on behalf of the Trust and the Bank, and by Stikeman Elliott, on behalf of the Underwriters. The partners, counsel and associates of McCarthy Tétrault and Stikeman Elliott, respectively as a group, beneficially own, directly or indirectly, less than one per cent of any class of security issued by the Trust or the Bank.

TRANSFER AGENT AND REGISTRAR AND EXCHANGE TRUSTEE

Montreal Trust Company of Canada will be appointed as transfer agent and registrar and Exchange Trustee in respect of the HSBC HaTS. The HSBC HaTS will be issued in book-entry only form through CDS. See “Description of the Trust Securities — The HSBC Canada Asset Trust Securities — Book-Entry Only Form”. Subject to the CDS Procedures, registration and transfer of the HSBC HaTS may be effected at the principal offices of Montreal Trust Company of Canada in Vancouver, Toronto and Montreal.

AUDITORS

KPMG LLP, Chartered Accountants, Vancouver, British Columbia have been appointed as auditors of the Trust.

LEGAL PROCEEDINGS

The Trust is not involved in any litigation or arbitration proceedings which may have or have had during the twelve months prior to the date hereof a significant effect on the financial position of the Trust, nor is the Trust aware that any such proceedings are pending or threatened.

PROMOTER

The Bank is the promoter of the Trust by reason of its taking the initiative in creating, structuring and promoting the Trust. The Bank will not receive any benefits, directly or indirectly, from the issuance of the HSBC HaTS other than as described in this prospectus. The Initial Sellers will sell the Initial Trust Assets to the Trust. See “Business of the Trust — Acquisition of the Initial Trust Assets”. The Bank will receive an administrative fee pursuant to the Administration and Advisory Agreement. The Servicer may receive a servicing fee.

Under the Administration and Advisory Agreement, the Bank will provide services required in connection with this Offering of the HSBC HaTS and the ongoing operations, maintenance and regulatory compliance of the Trust.

The following are the names, municipality of residence and offices of the officers of the Bank directly involved in its capacity as Administrative Agent of the Trust:

<u>Name and Municipality of Residence</u>	<u>Office</u>
John T. Mould Maple Ridge, B.C.	Chief Financial Officer
Robert W. Bakos Vancouver, B.C.	Vice President, Strategic Development & Financial Management

Each of the officers of the Bank listed above has been engaged for more than five years in his present office or in other capacities within the Bank.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in several of the provinces and territories provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal advisor.

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**UNAUDITED PRO FORMA
BALANCE SHEET
OF HSBC CANADA ASSET TRUST**

(Prepared in Accordance with Accounting Principles
Generally Accepted in Canada)

See the Compilation Report and the notes accompanying
the unaudited pro forma balance sheet
for the basis of presentation.

COMPILATION REPORT

To The Trustee of HSBC Canada Asset Trust

We have reviewed, as to compilation only, the accompanying pro forma balance sheet of HSBC Canada Asset Trust as at May 26, 2000 which has been prepared for inclusion in the prospectus relating to the sale and issue of HSBC Canada Asset Trust Securities — Series 2010 of HSBC Canada Asset Trust. In our opinion, the pro forma balance sheet has been properly compiled to give effect to the proposed transactions and assumptions described in the accompanying notes thereto.

(signed) KPMG LLP
Chartered Accountants
Vancouver, Canada
June 21, 2000

HSBC Canada Asset Trust

PRO FORMA BALANCE SHEET

As at May 26, 2000
(unaudited)
(in thousands)

	<u>As at May 26, 2000</u>	<u>Pro Forma Adjustments</u>	<u>Notes</u>	<u>Pro Forma As at May 26, 2000</u>
Assets				
Cash	\$ 2	\$ —	—	\$ 2
Mortgage Co-Ownership Interests	<u>—</u>	<u>325,000</u>	2(e)	<u>325,000</u>
	<u>\$ 2</u>	<u>\$325,000</u>		<u>\$325,002</u>
Indebtedness				
	<u>\$—</u>	<u>\$ 8,000</u>	2(d)	<u>\$ 8,000</u>
Trust Capital				
HSBC Canada Asset Trust Securities — Series 2010	\$—	\$200,000	2(a)	\$200,000
Special Trust Securities	1	117,000	2(c)	117,001
Contributed surplus	—	8,000	2(e)	8,000
Original settlement amount	1	—	2(c)	1
Issue costs	<u>—</u>	<u>(8,000)</u>	2(b)	<u>(8,000)</u>
Total Trust Capital	<u>\$ 2</u>	<u>\$317,000</u>		<u>\$317,002</u>
	<u>\$ 2</u>	<u>\$325,000</u>		<u>\$325,002</u>

See accompanying notes

HSBC Canada Asset Trust

NOTES TO PRO FORMA BALANCE SHEET

May 26, 2000

(unaudited)

(in thousands of dollars except unit amounts)

1. Basis of Presentation

The pro forma balance sheet is based upon the audited balance sheet of HSBC Canada Asset Trust (the “Trust”) as at May 26, 2000, adjusted to reflect the issue of HSBC Canada Asset Trust Securities — Series 2010, the issue of Special Trust Securities to HSBC Bank Canada (“HSBC Bank Canada” or the “Bank”), the payment of estimated issue related costs of \$8,000, advances of \$8,000 from the Bank pursuant to a credit facility and the purchase of the Initial Trust Assets (as defined in the accompanying prospectus) from HSBC Bank Canada and/or its affiliates.

2. Pro Forma Assumptions and Adjustments

The pro forma balance sheet gives effect to the following transactions as if they had occurred on May 26, 2000:

- (a) the issue of 200,000 HSBC Canada Asset Trust Securities — Series 2010 for \$1 each, for total gross proceeds of \$200,000;
- (b) the payment of estimated costs, including underwriters’ fees and expenses of the offering, relating to the issuance of the HSBC Canada Asset Trust Securities — Series 2010 of \$8,000;
- (c) the issue of Special Trust Securities to the Bank for total proceeds received on closing of \$117,000, plus the original settlement amount of \$1,
- (d) advances from the Bank received on closing of \$8,000 pursuant to a credit facility, and
- (e) the purchase of the Initial Trust Assets from the Bank and/or its affiliates having a carrying amount of \$325,000. The Trust accounts for the transfer of the Initial Trust Assets acquired from the Bank and/or its affiliates as a related party transaction whereby the carrying value of the asset transferred is retained in the Trust. The difference between the carrying amount and the exchange amount is accounted for as contributed surplus.

AUDITORS' REPORT

To The Trustee of HSBC Canada Asset Trust

We have audited the balance sheet of HSBC Canada Asset Trust (the "Trust") as at May 26, 2000. This financial statement is the responsibility of HSBC Bank Canada, as the administrative agent of the Trust. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit of a balance sheet includes examining, on a test basis, evidence supporting the amounts and disclosures in that balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by HSBC Bank Canada, as administrative agent, as well as evaluating the overall balance sheet presentation.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of the Trust as at May 26, 2000 in accordance with Canadian generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants
Vancouver, Canada
June 21, 2000

HSBC CANADA ASSET TRUST

BALANCE SHEET

As at May 26, 2000

Cash	<u>\$2,000</u>
Trust Capital	<u>\$2,000</u>

On behalf of HSBC Bank Canada, Administrative Agent of the Trust:

(signed) J.T. MOULD

(signed) R.W. BAKOS

See accompanying notes

HSBC CANADA ASSET TRUST

NOTES TO BALANCE SHEET

MAY 26, 2000

1. Establishment and Organization

HSBC Canada Asset Trust (the "Trust") is a closed-end trust formed on May 26, 2000 by HSBC Trust Company (Canada), a subsidiary of HSBC Bank Canada (the "Bank"), pursuant to the Declaration of Trust. An amount of \$1,000 was settled on the Trust's formation and that amount will be held for the benefit of the beneficiaries. The Bank subscribed for a Special Trust Security for cash of \$1,000. The Trust intends to make investments and to operate its business at all times in such a manner as to qualify as a registered investment under the provisions of the *Income Tax Act* (Canada) (the "Tax Act"). Unless otherwise noted, defined terms within this financial statement are consistent with those in the accompanying prospectus.

2. Trust Capital

a. Authorized Trust Capital

The Trust's authorized capital consists of an unlimited number of Special Trust Securities and an unlimited number of HSBC Canada Asset Trust Securities, of which 200,000 have been designated as Series 2010 ("HSBC HaTS"), of which 200,000 HSBC HaTS will be offered to the public pursuant to a prospectus dated June 21, 2000.

b. HSBC HaTS

The HSBC HaTS are non-voting except in certain limited circumstances, and are not redeemable at the option of the holder.

The holders of HSBC HaTS will be entitled to receive non-cumulative cash distributions (i) in the case of a Distribution Date (as defined in the prospectus) on or before December 30, 2010, other than December 31, 2000, \$38.90 per HSBC HaTS, representing a per annum yield of 7.78% of the \$1,000 initial issue price, and (ii) in the case of any such Distribution Date after December 31, 2010, an amount per HSBC HaTS determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate (as defined in the prospectus) for the Distribution Period (as defined in the prospectus) immediately preceding such Distribution Date plus 2.37% (in each case, an "Indicated Yield"). The initial Indicated Yield payable on December 31, 2000 in respect of the period from and including June 28, 2000 up to but excluding December 31, 2000 will be \$39.86. The Indicated Yield is payable semi-annually on the last day of June and December of each year commencing December 31, 2000 provided that the Bank is paying dividends on its Bank Class 1 Preferred Shares of any series and the Bank Parity Preferred Shares.

On and after June 30, 2005 but subject to the prior approval of both the Superintendent of Financial Institutions Canada (the "Superintendent") and the Financial Services Authority (United Kingdom) (the "FSA"), HSBC HaTS will be redeemable at the option of the Trust in whole (but not in part) and without the consent of the holders thereof, payable as specified in the accompanying prospectus.

Subject to the approval of both the Superintendent and the FSA, upon the occurrence of a Tax Event or a Capital Disqualification Event, as defined, prior to June 30, 2005, the HSBC HaTS will be redeemable at the option of the Trust in whole (but not in part) and without the consent of the holders thereof for a redemption amount as specified in the accompanying prospectus.

Each HSBC HaTS will be automatically exchanged for one Bank Class 1 Preferred Share Series Z without the consent of the holder thereof in certain defined circumstances (the "Automatic Exchange").

c. Special Trust Securities

The holders of the Special Trust Securities are entitled to vote at all meetings of the holders of Special Trust Securities.

For as long as any HSBC HaTS are outstanding, the Bank has covenanted to maintain direct or indirect ownership of 100% of the outstanding Special Trust Securities.

Holders of Special Trust Securities will be entitled, after the payment of the Indicated Yield if due to holders of HSBC HaTS, to the Net Distributable Funds.

3. Related Party Transactions

The Trust has engaged HSBC Securities (Canada) Inc., a wholly owned subsidiary of the Bank, and other underwriters to offer for sale to the public on a firm underwritten basis 200,000 HSBC HaTS pursuant to a prospectus dated June 21, 2000. HSBC Securities (Canada) Inc. will receive a fee upon the issue of the HSBC HaTS.

The aggregate net proceeds in connection with both the aforementioned offering of the HSBC HaTS and the Bank's subscription for Special Trust Securities will be used to purchase a co-ownership interest in a pool of mortgage assets (the "Trust Assets") from the Bank and/or its affiliates.

The Trust Assets will be serviced by the Bank and/or its affiliates collectively. Accordingly, the Bank and its affiliates will receive compensation in connection with the servicing of such Trust Assets. Further, the Trustee will enter into an Administration and Advisory Agreement with the Bank pursuant to which the Bank will serve as administrative agent to the Trust. Accordingly, the Bank will receive an administration fee pursuant to such Administration and Advisory Agreement.

HSBC Trust Company (Canada) is the Trustee and Custodian for the Trust and Montreal Trust Company of Canada is the Exchange Trustee for the holders of the HSBC HaTS.

Concurrently with the closing of such offering, the Bank, the Trust and Montreal Trust Company of Canada, as Exchange Trustee for the holders of the HSBC HaTS, will enter into the Bank Share Exchange Agreement providing for, among other things, the respective rights and obligations of the Bank, the Trust and the holders of the HSBC HaTS with respect to the exchange of HSBC HaTS for Bank Class 1 Preferred Shares Series Z in connection with the Automatic Exchange.

Immediately following the closing of such offering, the Trust will acquire the Initial Trust Assets from the Bank and/or its affiliates on a fully serviced basis pursuant to the terms of one or more Mortgage Sales, Pooling and Servicing Agreements and Series 2010 Purchase Agreements.

4. Taxation of the Trust

In each taxation year of the Trust, the net income and net realized capital gains, if any, of the Trust as would otherwise be taxable in the Trust will be payable to holders of HSBC HaTS or the Bank as holder of the Special Trust Securities. Consequently, the Trust will not be liable for income tax under Part I of the Tax Act. Capital or income losses incurred by the Trust cannot be allocated to holders of the HSBC HaTS or the Bank as holder of the Special Trust Securities but may, subject to certain limitations, be deducted by the Trust from taxable capital gains or net income realized in other years.

As a registered investment, the Trust is potentially subject to special taxes under the Tax Act. The Trust intends to restrict its investments in a manner that it will not be subject to any of these special taxes.

The Tax Act provides for a special tax on the designated income of certain trusts which have designated beneficiaries. This special tax will not apply to the Trust.

**APPENDIX A
HSBC BANK CANADA**

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HSBC BANK CANADA

Overview

HSBC Bank Canada is the pre-eminent full service, globally integrated foreign-owned bank in Canada. It is the only foreign-owned full service bank operating in every region in Canada. HSBC Bank Canada is the seventh largest bank overall in Canada, with total assets of \$26.4 billion as at March 31, 2000. As a wholly owned subsidiary of HSBC Holdings, HSBC Bank Canada provides its clients with access to one of the largest banking and financial services organizations in the world. Through its global network of more than 5,000 offices in 80 countries and territories, HSBC provides a comprehensive range of financial services to clients worldwide. HSBC enjoys a leading market position in trade services and products in many markets around the world. At December 31, 1999, HSBC had total assets of US\$569 billion and a market capitalization of US\$118 billion.

HSBC Bank Canada is a fully integrated financial services organization with approximately 150 offices across Canada and two offices in the United States. HSBC Bank Canada believes that its key corporate strengths are:

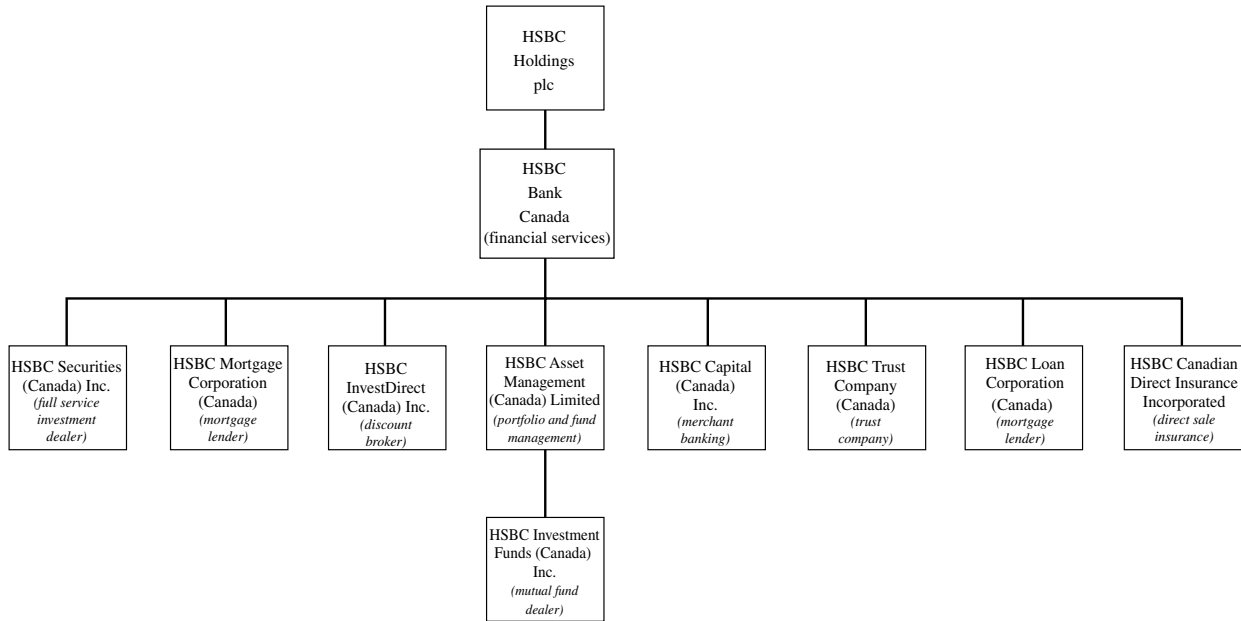
- **Global strength, reach and brand of HSBC** — HSBC Bank Canada views its ability to utilize and leverage HSBC's integrated worldwide financial services network as a significant competitive advantage.
- **Unique retail and commercial franchise** — Through its strong tradition of customer service excellence, HSBC Bank Canada is the only foreign-owned bank that has successfully established a large retail and commercial network in Canada.
- **Consistent growth in earnings** — Over the last ten years, HSBC Bank Canada's net income has increased at a compound annual growth rate of 16.8%.
- **Conservative financial management** — Through its conservative approach to lending, HSBC Bank Canada has achieved a superior loan loss experience compared to its competitors.

HSBC Bank Canada offers a wide range of products and services to targeted segments of the financial services market. The organization and structure of HSBC Bank Canada's operations are customer driven and uniquely integrated both across service and product lines and internationally through HSBC's global network. HSBC Bank Canada operates through four major business segments:

- **Personal Financial Services** provides a comprehensive range of financial products and services to individuals through HSBC Bank Canada's multi-channel distribution network.
- **Commercial Financial Services** provides a broad range of lending, treasury, trade finance, investment banking and other financial services to Canadian commercial and corporate clients.
- **Corporate and Institutional Banking** services the domestic and cross-border financial requirements of HSBC's large multinational clients.
- **Treasury and Markets** encompasses the Canadian operations of HSBC's global treasury and capital markets business, servicing the needs of domestic and international clients.

Corporate Organization

The following chart illustrates the primary intercorporate relationships between HSBC Holdings, HSBC Bank Canada and the principal operating subsidiaries of HSBC Bank Canada. HSBC Bank Canada is an indirect wholly owned subsidiary of HSBC Holdings. HSBC Bank Canada owns all of the outstanding voting shares of each of its subsidiaries and, with the exception of HSBC Securities (Canada) Inc. which is incorporated under the laws of Ontario, each such subsidiary is incorporated under the laws of Canada. The chart also identifies the principal business activity of each subsidiary.



Certain of HSBC Bank Canada’s senior liabilities, including deposits, are guaranteed by HSBC Holdings. The Bank Class 1 Preferred Shares Series A are not guaranteed or insured by HSBC Holdings.

HSBC

Established in 1865, HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of US\$118 billion at December 31, 1999. At the end of 1999, HSBC had total assets of US\$569 billion, shareholders’ equity of US\$33 billion and total funds under management of US\$200 billion. For the year ended December 31, 1999, HSBC’s consolidated operating profit was US\$7.4 billion on revenues of US\$21 billion. HSBC Holdings is strongly capitalized under United Kingdom standards (which are comparable to Canadian standards) with a Tier 1 capital ratio of 8.5% and a total capital ratio of 13.2% as at December 31, 1999. The ordinary shares of HSBC Holdings are listed on the London and Hong Kong stock exchanges and its American Depository Receipts are listed on the New York Stock Exchange.

Headquartered in London, HSBC operates through long-established businesses in five regions, Europe, Hong Kong SAR, rest of Asia-Pacific, North America and Latin America. Within each of these geographic regions, the businesses operate essentially as domestic banks and typically have a large retail deposit base, together with strong liquidity and capital ratios. By using HSBC’s highly efficient technological links, the local businesses are able to access HSBC’s wide range of products and services and adapt them to local individual, commercial, corporate and institutional customer needs. In addition, in certain locations such as London, Hong Kong SAR, New York and Toronto, HSBC has investment banking operations which service the requirements of its large commercial, corporate and institutional customers.

As part of its strategy, HSBC has created a global brand, using ‘‘HSBC’’ and its proprietary hexagon symbol everywhere it operates. The aim is to make HSBC and the hexagon symbol a strong brand synonymous with integrity, trust and excellent customer service.

HSBC continues to grow its global operations both organically and through significant acquisitions. Effective December 31, 1999, HSBC acquired Republic New York Corporation, a U.S. bank holding company, and its affiliate Safra Republic Holdings S.A. This acquisition doubled HSBC's private banking business to approximately 55,000 international clients with over US\$120 billion of client funds under management.

In April 2000, HSBC announced its planned acquisition of Crédit Commercial de France, a major French banking group with approximately €69.3 billion of total assets at December 31, 1999. After taking account of this acquisition and a related financing, HSBC's December 31, 2000 target Tier 1 and total capital ratios are expected to be 8.0% and 12.5%, respectively.

In April 2000, HSBC and Merrill Lynch announced the formation of a new company to create a global online banking and investment services company. The new company is being established to serve customers around the world (other than in the United States) and to provide a comprehensive and innovative range of online banking and brokerage services. The new company will be headquartered in London and intends to launch later this year in the United Kingdom, followed by Australia, Canada, Germany, Hong Kong SAR and Japan, with other parts of the world to follow. HSBC and Merrill Lynch together will provide up to US\$1 billion in start-up capital over the next five years. HSBC Bank Canada is involved in preliminary discussions with respect to its possible participation in the launch in Canada.

In May 2000, HSBC announced its planned acquisition of approximately 75% of the issued shares of Bangkok Metropolitan Bank, a Thailand bank, for approximately US\$940 million.

BUSINESS OF HSBC BANK CANADA

Growth and Development

HSBC Bank Canada has established its position in the Canadian financial services markets through consistent internal growth and a series of acquisitions. In the ten years ended December 31, 1999, net of acquisitions and securitizations, HSBC Bank Canada increased its total assets by approximately \$12 billion, representing a compound annual growth rate of 11.6%. In the same period, the total of net interest income and other income increased at a compound annual growth rate of 18.3% to \$924 million. In terms of total assets, HSBC Bank Canada is the largest foreign-owned bank and the seventh largest bank in Canada.

HSBC Bank Canada was established in 1981 and initially concentrated its activities in international trade finance, commercial banking services and retail services to Asian communities in Canada. In 1986, HSBC Bank Canada expanded its retail and commercial banking activities in Western Canada through the acquisition of the operations of The Bank of British Columbia. This acquisition added 41 branches in British Columbia and Alberta and moved HSBC Bank Canada from the twentieth to the ninth largest bank in Canada.

Since that acquisition, HSBC Bank Canada has geographically expanded its Personal Financial Services and Commercial Financial Services segments through internal growth and the successful acquisition of certain banks, including Midland Bank Canada (1988), Lloyds Bank Canada (1990), Barclays Bank of Canada (1996), National Westminster Bank of Canada (1998) and Republic National Bank of New York (Canada) ("Republic Canada") (2000).

HSBC Bank Canada has also grown and developed its retail and institutional brokerage and investment banking operations, primarily through selected acquisitions, including Brown, Baldwin, Nisker Limited (1987), Moss, Lawson & Co. Limited (1998) and Gordon Capital Corporation ("Gordon Capital") (1999). HSBC Bank Canada's full service brokerage and investment banking operations are now conducted through HSBC Securities. In 1995, HSBC Bank Canada introduced discount brokerage services through the establishment of HSBC InvestDirect. In 1996, HSBC Bank Canada enhanced its portfolio management services through the acquisition of M.K. Wong & Associates Ltd. Now operating as HSBC Asset Management, it is the Canadian arm of HSBC's global asset management business. In addition, HSBC Bank Canada expanded its product and service offerings through other acquisitions, including the acquisition of Metropolitan Trust Company of Canada in 1995, and the establishment of HSBC Canadian Direct Insurance in 1996.

Strategy

HSBC Bank Canada's objective is to be the leading international provider of financial services in Canada with a significant presence in each of its key markets. To achieve this, HSBC Bank Canada has developed a strategy designed to build on its affiliation with HSBC and its history of consistent growth. This strategy has the following key operating components:

- **Leverage global strength, reach and brand** — HSBC Bank Canada believes that the global strength, reach and brand of HSBC is its most significant competitive advantage. HSBC Bank Canada intends to increase Canadian awareness of HSBC's global capabilities to enhance its market share and realize economies of scale in Canada.
- **Deepen existing client relationships** — HSBC Bank Canada is focused on increasing penetration of its customer base by better understanding and meeting clients' needs and ensuring that they have ready access to the full range of HSBC's global products and services.
- **Expand customer base and geographic presence** — HSBC Bank Canada is devoting resources to grow its presence nationally, with special emphasis on selected markets in Ontario and Quebec. While HSBC Bank Canada's strategy is focused principally on organic growth, it also allows for opportunistic acquisitions.
- **Enhance multi-channel delivery systems** — HSBC Bank Canada is focused on improving the efficiency of delivering transactional services and commoditized products. While its branch network will remain a critical delivery channel, HSBC Bank Canada plans to improve its efficiency ratio by expanding the market for its telephone and PC based banking services. It is also implementing a focused e-business strategy to enhance its electronic delivery capabilities.
- **Attract, retain and motivate a high performance team of employees** — This policy has been critical to the success of HSBC Bank Canada and the development of a strong sales and service culture throughout the organization. In a recent independent survey conducted for *Report on Business Magazine*, HSBC Bank Canada was named as one of the 35 best companies to work for in Canada.

HSBC Bank Canada has adopted a Managing for Value initiative which is designed to create a culture to encourage value creation, enhance efficiency and optimize capital allocation and utilization. This initiative involves modifications to HSBC Bank Canada's compensation and incentive structure, motivational and educational techniques and information systems.

Business Segments

The following is a summary of selected consolidated financial information and other data for each of HSBC Bank Canada's major business segments. This summary and other financial information and data relating to HSBC Bank Canada's business segments contained in this prospectus are based upon the internal reporting systems of HSBC Bank Canada. Due to the complexity of HSBC Bank Canada, various estimates and allocation methodologies have been used in the preparation of such information and data.

	Year ended December 31, 1999				
	Personal Financial Services	Commercial Financial Services	Corporate and Institutional Banking	Treasury and Markets	Total
	(in millions, except ratios)				
Net interest income	\$ 249	\$ 236	\$ 25	\$ 30	\$ 540
Other income	165	127	12	80	384
Total net interest income and other income . . .	<u>\$ 414</u>	<u>\$ 363</u>	<u>\$ 37</u>	<u>\$ 110</u>	<u>\$ 924</u>
Net income(1)	<u>\$ 67</u>	<u>\$ 67</u>	<u>\$ 18</u>	<u>\$ 40</u>	<u>\$ 192</u>
Percentage of total net income	34.9%	34.9%	9.4%	20.8%	100%
Average assets	\$8,913	\$9,319	\$1,980	\$5,794	\$26,006
Percentage of total average assets	34.3%	35.8%	7.6%	22.3%	100%

(1) Before unallocated corporate expenses of \$27 million, net of income taxes.

Personal Financial Services

Client Base. Personal Financial Services provides services to individuals through a segmented approach to understanding and meeting customer needs.

Products and Services. Personal Financial Services offers a comprehensive range of financial products and services, including the following:

<u>Retail Banking</u>	<u>Asset Management</u>	<u>Brokerage</u>	<u>Direct Sale Insurance</u>	<u>Trust and Advisory</u>
Deposits and personal chequing accounts	Mutual funds	Full service	Auto	Estate planning
Residential mortgages	Segregated funds	Discount	Home	Wills
Lines of credit	Personal portfolio management			Investment administration
Personal loans				Executor and trustee services
Investments				
Credit cards				
Telephone, Internet and PC banking				

Delivery Channels. HSBC Bank Canada provides personal financial products and services through approximately 150 offices, including 121 full service branches, as well as ABMs and other electronic delivery channels such as the Internet, PC and telephone call centres. Customers of HSBC Investment Funds can access *Telefund*, a 24 hour telephone service which accepts mutual fund trading orders and also provides general mutual fund information, unit prices, market commentaries and fund performance for HSBC Bank Canada’s mutual funds. HSBC Securities delivers full service brokerage through 130 retail investment advisors located in cities across Canada. HSBC InvestDirect is HSBC Bank Canada’s discount broker and, through *netTRADER*, provides Internet, real time trading on stock exchanges in North America and Hong Kong SAR, and accepts telephone orders for all major exchanges in Europe, North America and the Asia Pacific region. Home and auto insurance is delivered on a direct sale basis to residents of British Columbia and Alberta through HSBC Canadian Direct Insurance.

Segmentation. HSBC Bank Canada is growing its individual client base and market share using a segmented approach to meet client needs. This is achieved by ensuring that clients with more extensive requirements receive a greater level of advisory service and by encouraging clients with more conventional transactions to utilize those delivery channels that most efficiently meet their needs. For example, private banking, through a relationship manager, provides targeted clients with a full complement of investment funds and services to plan, manage and protect their assets.

Selected Financial Information and Analysis. The following sets out selected consolidated financial information and other data for Personal Financial Services.

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31, 1998	Year ended October 31,
	2000	1999	1999	(annualized)(1)	1997
	(unaudited)	(unaudited)		(unaudited)	
	(in millions, except ratios)				
Net interest income	\$ 71	\$ 56	\$ 249	\$ 250	\$ 245
Provision for credit losses(2)	(3)	(3)	(9)	(23)	(8)
Other income	58	40	165	138	108
Non-interest expenses	(94)	(76)	(306)	(267)	(230)
Income before provision for income taxes	32	17	99	98	115
Provision for income taxes	(12)	(5)	(32)	(18)	(43)
Net income	<u>\$ 20</u>	<u>\$ 12</u>	<u>\$ 67</u>	<u>\$ 80</u>	<u>\$ 72</u>
Average assets	\$8,714	\$8,969	\$8,913	\$8,661	\$8,741
Other income percentage	45.0%	41.7%	39.9%	35.6%	30.6%
Efficiency ratio	72.9%	79.2%	73.9%	68.8%	65.2%

(1) Financial information and other data for the fourteen months ended December 31, 1998 have been annualized for comparative purposes (by multiplying the audited results for the period by 12/14ths).

(2) Including general provision for credit losses.

Personal Financial Services contributed \$67 million (34.9%) to HSBC Bank Canada's total net income for the year ended December 31, 1999, before unallocated corporate expenses. With \$8.9 billion in average assets, Personal Financial Services represented 34.3% of HSBC Bank Canada's total average assets for that year.

Despite consistent growth in assets, net interest income from Personal Financial Services has remained relatively flat during the last three years. This is largely due to a negative impact on net interest income resulting from interest rate discounting and from the securitization of consumer loans and mortgages. Other income increased significantly over the last three years partially as a result of acquisitions as well as from organic growth and securitizations. The contribution from wealth management products and services has grown, with the largest increases from discount and full service brokerage revenues. Non-interest expenses increased over the last three years due in part to performance-based compensation relating to the brokerage and mutual fund operations. Investments in lower cost delivery channels, such as telephone, PC and internet banking, and initiatives to centralize transaction processing and realize economies of scale also increased expenses, but are expected to realize future cost savings.

Recent Developments. In February 2000, HSBC Bank Canada's mutual fund family was ranked by *The Globe and Mail's Special Report on Mutual Funds* as the best mutual fund family in Canada, with 93% of its funds outperforming the average in their category based on one-year performance for the period ended December 31, 1999. The funds are managed by HSBC Asset Management and HSBC's global investment advisory and fund management business.

The acquisition of Republic Canada in April 2000 has expanded HSBC Bank Canada's presence in Ontario and Quebec. This merger will also allow HSBC Bank Canada to explore and capitalize on various cross-selling opportunities for providing the full range of its products and services to Republic Canada's customer base.

As part of its global initiatives, HSBC recently invested approximately \$17 million to expand its systems development facility in Burnaby, British Columbia. Products currently under development include interactive financial services which are expected to provide customers with anytime, anywhere access to their accounts through a variety of electronic media. HSBC Bank Canada is taking a leading role in these developments and expects to improve its operations and customer service as a result of these and other HSBC e-business initiatives.

Commercial Financial Services

Client Base. Commercial Financial Services provides a comprehensive range of financial services and products to Canadian commercial and corporate clients.

Products and Services. Commercial Financial Services provides lending, treasury, trade finance, investment banking and other financial services and products to businesses in Canada, including the following:

<u>Commercial and Corporate Banking</u>	<u>Asset Management</u>	<u>Investment Banking</u>	<u>Merchant Banking</u>	<u>Treasury</u>	<u>Trade Finance</u>
Lines of credit	Portfolio	Corporate finance	Mezzanine	Foreign	Import and
Term financing	and fund	Mergers and	finance	exchange	export finance
Deposits	management	acquisitions	Subordinated	Deposits	
Payments and cash management	Group RRSP	Advisory	debt	Fixed income	
Leasing			Working	Derivatives	
Merchant card			capital		
services and point of sale terminals			Private equity		

A report prepared by the Canadian Bankers Association for the year ended October 31, 1999 ranked HSBC Bank Canada's trade finance operations first in Canadian market share for import letters of credit, sixth for export letters of credit and fourth overall. Leveraging HSBC's global network, trade finance has traditionally been and continues to be a key competitive strength of HSBC Bank Canada.

Delivery Channels. HSBC Bank Canada provides commercial financial services through commercial branches and subsidiary offices, including those of HSBC Securities, HSBC Capital and HSBC Asset Management, as well as through HSBC offices in 79 other countries and territories. Other delivery channels include the Internet, PC and telephone banking. HSBC's proprietary global payments and cash management platform, *Hexagon*, enables electronic account balance and transaction information, transfer of funds, bill payment and processing of trade finance documents.

Commercial Financial Services customers are assigned a relationship manager to facilitate their interface with HSBC globally. HSBC Bank Canada also offers specialist relationship managers for professional partnerships and owner/operators in key markets. This has resulted in responsiveness and flexibility in the credit approval process, a factor which HSBC Bank Canada believes is a competitive advantage.

Recent Developments. HSBC Bank Canada is focused on enhancing its electronic banking platforms in the small and medium enterprise market to complement its branch network. The first phase of an expanded Internet banking service for commercial clients, which is designed to enhance HSBC's proprietary global payments and cash management platform, *Hexagon*, is planned for launch in 2001. The services planned for this phase include Internet foreign exchange dealing, bill presentment, and digital authentication. Internet trade services are expected to be launched in 2002. Automated credit scoring and management tools are also being developed to improve efficiency in Commercial Financial Services. At the systems development facility in Burnaby, an Internet-based gateway is currently being developed for origination of Commercial Financial Services transactions, particularly for small to medium sized enterprises.

The acquisition of Gordon Capital in 1999 has considerably strengthened HSBC Bank Canada's investment banking capabilities. Joint marketing initiatives between HSBC Securities and Commercial Financial Services relationship managers are aimed at cross-selling investment banking services to HSBC Bank Canada's commercial and corporate clients.

The acquisition of Republic Canada in April 2000 added a commercial loan portfolio of approximately \$930 million as at April 1, 2000, primarily concentrated in Ontario and Quebec. This portfolio has expanded HSBC Bank Canada's presence in these markets and added new industry segments to its existing loan portfolio.

Corporate and Institutional Banking

Client Base. Corporate and Institutional Banking provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. HSBC Bank Canada's Corporate and Institutional Banking focus is on entities that have a need for global value added products through investment banking, structured lending and trade services.

Products and Services. Corporate and Institutional Banking provides the following products and services:

Corporate Banking	Asset Management	Investment Banking	Treasury	Trade Finance
Lines of credit	Portfolio and fund	Corporate finance	Foreign exchange	Import and export
Term financing	management	Mergers and	Deposits	finance
Deposits	Group RRSP	acquisitions	Fixed income	
Payments and cash management		Advisory	Derivatives	
Leasing				

Delivery Channels. HSBC Bank Canada provides Corporate and Institutional Banking services through its principal branches and subsidiary offices, coordinated with HSBC global operations. HSBC's proprietary global payments and cash management platform, *Hexagon*, is linked electronically to HSBC offices around the world.

Corporate and Institutional Banking customers deal with HSBC worldwide through a relationship manager. HSBC Bank Canada provides relationship management coverage to Canadian-based multinational clients and delivers services to other multinational clients of HSBC. HSBC Bank Canada's ability to leverage HSBC's global network in providing comprehensive corporate and investment banking services to sophisticated multinational clients is a significant competitive advantage.

Selected Financial Information and Analysis. Systems were not implemented at HSBC Bank Canada prior to January 1, 1999 to report Corporate and Institutional Banking and Commercial Financial Services separately. Accordingly, for ease of comparison to prior periods, the results for Corporate and Institutional Banking and Commercial Financial Services have been combined in the following table of selected consolidated financial information and other data. For segmented information for Commercial Financial Services and for Corporate and Institutional Banking subsequent to December 31, 1998, see note 21 to the Consolidated Financial Statements of HSBC Bank Canada.

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31, 1998	Year ended October 31,
	2000	1999	1999	(annualized)(1)	1997
	(unaudited)	(unaudited)		(unaudited)	
(in millions, except ratios)					
Net interest income	\$ 74	\$ 69	\$ 261	\$ 232	\$ 202
Provision for credit losses(2)	(8)	(13)	(34)	(52)	(30)
Other income	46	34	139	110	112
Non-interest expenses	(70)	(59)	(241)	(209)	(195)
Income before provision for income taxes	42	31	125	81	89
Provision for income taxes	(16)	(9)	(40)	(16)	(34)
Net income	<u>\$ 26</u>	<u>\$ 22</u>	<u>\$ 85</u>	<u>\$ 65</u>	<u>\$ 55</u>
Average assets	\$11,667	\$11,427	\$11,299	\$10,118	\$8,710
Other income percentage	38.3%	33.0%	34.8%	32.2%	35.7%
Efficiency ratio	58.3%	57.3%	60.3%	61.1%	62.1%

(1) Financial information and other data for the fourteen months ended December 31, 1998 have been annualized for comparative purposes (by multiplying the audited results for the period by 12/14ths).

(2) Including general provision for credit losses.

Commercial Financial Services, excluding Corporate and Institutional Banking, contributed \$67 million (34.9%) to HSBC Bank Canada's total net income for the year ended December 31, 1999, before unallocated corporate expenses. With \$9.3 billion in average assets, Commercial Financial Services represented 35.8% of HSBC Bank Canada's total average assets for that year.

Corporate and Institutional Banking contributed \$18 million (9.4%) to HSBC Bank Canada's total net income for the year ended December 31, 1999, before unallocated corporate expenses. With \$2.0 billion in average assets, Corporate and Institutional Banking represented 7.6% of HSBC Bank Canada's total average assets for that year.

Average loan balances for both segments grew steadily over the last three years. This, together with a program designed to increase revenue and fees for services provided, enhanced margins and resulted in increased net interest income. The focus moved from commercial lending to fee-based activities. Trade finance activities and revenues from bankers' acceptances grew steadily and corporate finance income increased substantially following the Gordon Capital acquisition in 1999. The efficiency ratio has steadily improved during this period reflecting both the growth in revenues and the benefits derived from centralized administrative functions and staffing efficiencies.

Recent Developments. The acquisition of Gordon Capital in 1999 has expanded the investment banking capabilities of HSBC Securities to facilitate integration with other HSBC investment banking operations.

Treasury and Markets

The three principal activities of Treasury and Markets are client trading and facilitation, proprietary trading and balance sheet management.

Client Base. HSBC Bank Canada utilizes HSBC's global treasury and capital markets capabilities to enhance the opportunities to serve its clients. HSBC's presence in these markets ranks among the largest in the world, serving governments, supnationals, multinational and domestic corporations and institutional and private investors.

Products and Services. Treasury and Markets provides the following products and services:

<u>Client Trading and Facilitation</u>	<u>Proprietary Trading</u>	<u>Balance Sheet Management</u>
Foreign exchange	Foreign exchange	Foreign exchange hedging
Derivatives	Fixed income securities	Interest rate hedging
Bankers' acceptances	Derivatives	Funding
Treasury bills	Equity trading	Investment/money market
Commercial paper	Client facilitation	Liquidity management
Medium term notes	Equity structured trading	
Equity sales and trading		
Equity research		

Delivery Channels. HSBC Bank Canada services its domestic market through treasury operations in Toronto, Vancouver, Montreal and Calgary. Basic treasury products are also delivered through HSBC Bank Canada's branches and through HSBC's proprietary global payments and cash management platform, *Hexagon*.

Institutional equity research, sales and trading services in Canadian securities are provided from offices in Toronto, Montreal, Calgary, Vancouver, New York, Boston and London.

Equity structured trading, which capitalizes on short-term arbitrage opportunities in North American equity markets, operates through offices in Toronto.

Selected Financial Information and Analysis. The following sets out selected consolidated financial information and other data for Treasury and Markets.

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31, 1998 (annualized)(1)	Year ended October 31, 1997
	2000 (unaudited)	1999 (unaudited)	1999	(unaudited)	
	(in millions, except ratios)				
Net interest income.....	\$ 7	\$ 8	\$ 30	\$ 37	\$ 46
Provision for credit losses(2)	—	—	—	(2)	—
Other income	21	19	80	37	20
Non-interest expenses.....	(17)	(11)	(51)	(24)	(15)
Income before provision for income taxes	11	16	59	48	51
Provision for income taxes	(4)	(5)	(19)	(9)	(19)
Net income	<u>\$ 7</u>	<u>\$ 11</u>	<u>\$ 40</u>	<u>\$ 39</u>	<u>\$ 32</u>
Average assets	\$5,814	\$5,498	\$5,794	\$6,048	\$5,031
Other income percentage	75.0%	70.4%	72.7%	50.0%	30.3%
Efficiency ratio	60.7%	40.7%	46.4%	32.4%	22.7%

(1) Financial information and other data for the fourteen months ended December 31, 1998 have been annualized for comparative purposes (by multiplying the audited results for the period by 12/14ths).

(2) Including general provision for credit losses.

Treasury and Markets contributed \$40 million (20.8%) to HSBC Bank Canada's total net income for the year ended December 31, 1999, before unallocated corporate expenses. With \$5.8 billion in average assets, Treasury and Markets represented 22.3% of HSBC Bank Canada's total average assets for that year.

Treasury and Markets experienced strong net interest income during 1997 resulting from investments in high yielding government bonds and other high quality fixed income instruments made in earlier years. However, as these high yielding investments matured and the yield curve flattened during 1998 and the early part of 1999, net interest income declined. Foreign exchange activities have been the most significant contributors to other income for this segment during the last three years. During 1998 and 1999, exchange rate volatility favourably impacted revenues. Equity structured trading, which commenced in 1998, grew rapidly during 1999 and made a significant contribution to operating results.

Recent Developments. HSBC Bank Canada's ability to service institutional equity clients was significantly enhanced by its acquisition of Gordon Capital in 1999. The successful integration of Gordon Capital's equity research, sales and trading business resulted in HSBC Securities being ranked, for the first time, in the top ten equity block traders, ranked by volume, on the TSE during 1999.

Employees

HSBC Bank Canada currently has a total of approximately 6,050 employees. None of these employees are unionized and HSBC Bank Canada believes that its relationship with employees is good.

Properties

The business of HSBC Bank Canada and its subsidiaries is conducted primarily through branches and offices throughout Canada. The nature of HSBC Bank Canada's interests in these premises is a mixture of freehold and leasehold interests. In HSBC Bank Canada's Consolidated Financial Statements, as at March 31, 2000, before accumulated amortization, land and buildings were recorded at \$22 million and leasehold improvements were recorded at \$82 million. There was a minimum commitment under long-term leases for the remainder of 2000 of \$22 million.

Regulation of HSBC Bank Canada

In Canada, banking activities are governed at the federal level pursuant to the Bank Act. The Superintendent is responsible to the Minister of Finance for the administration of the Bank Act. The Bank Act recognizes and governs three classifications of chartered banks. Schedule I banks must be widely held. Schedule II banks include all foreign and Canadian-owned banks, the shares of which are closely held. Schedule III banks are authorized foreign banks that do not accept retail deposits. As a Schedule II chartered bank under the Bank Act, HSBC Bank Canada may engage in the same types of business as a Schedule I chartered bank. The Minister of Finance recently proposed new comprehensive legislation governing banks and other participants in the financial services industry. Although HSBC Bank Canada has not yet determined the full impact which this new legislation, if enacted, would have on its business, it intends to evaluate any opportunities which the new legislation may provide.

Competition

The Canadian financial services industry is highly competitive. HSBC Bank Canada competes directly with other Canadian chartered banks, which, as a group, are the largest financial intermediaries in Canada, as well as with other financial institutions including investment dealers, insurance companies, trust companies, credit unions, mutual fund dealers and pension funds. Some of these competitors may have greater financial resources than HSBC Bank Canada and some may offer a wider range of services and financial products. HSBC Bank Canada competes primarily on the basis of customer service, breadth of products and services offered, price, accessibility through delivery channels and technological innovation and expertise.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The following table sets forth selected consolidated financial information and other data of HSBC Bank Canada for each of the periods and as at the dates indicated. The information under Statement of Income Data and Balance Sheet Data is derived from the Consolidated Financial Statements of HSBC Bank Canada contained elsewhere in this Appendix A. Effective for 1998, HSBC Bank Canada changed its fiscal year-end from October 31 to December 31 to be consistent with that of HSBC Holdings. As well as being presented on an actual basis, the information under Statement of Income Data for the fourteen months ended December 31, 1998 has been annualized for comparative purposes. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths. The data under Risk-based Capital Ratios, Financial Ratios and Other Data are derived from financial information used to prepare the Consolidated Financial Statements of HSBC Bank Canada. The information and data set forth below should be read in conjunction with, and is qualified in its entirety by, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Consolidated Financial Statements contained elsewhere in this Appendix A.

	Three months ended March 31,		Year ended December 31, 1999	Fourteen months ended December 31, 1998	Fourteen months ended December 31, 1998	Year ended October 31, 1997
	2000	1999		(annualized)		
	(unaudited)			(unaudited)		
	(in millions, except ratios)					
Statement of Income Data						
Net interest income	\$ 152	\$ 133	\$ 540	\$ 519	\$ 606	\$ 493
Provision for credit losses	11	16	43	77	90	38
Net interest income after provision for credit losses	141	117	497	442	516	455
Other income	125	93	384	285	332	240
Net interest and other income	266	210	881	727	848	695
Non-interest expenses:						
Salaries and employee benefits	101	81	339	266	310	230
Premises and equipment expenses, including amortization	28	26	101	86	100	72
Other	62	49	197	183	214	172
Total non-interest expenses	191	156	637	535	624	474
Income before provision for income taxes	75	54	244	192	224	221
Provision for income taxes	28	16	79	36	42	83
Net income	<u>\$ 47</u>	<u>\$ 38</u>	<u>\$ 165</u>	<u>\$ 156</u>	<u>\$ 182</u>	<u>\$ 138</u>
Balance Sheet Data (at period end)						
Total assets	\$26,360	\$26,429	\$25,051	\$24,836	\$24,836	\$23,910
Total loans	17,491	17,724	17,130	17,459	17,459	16,454
Commercial loans	9,780	9,721	9,634	9,934	9,934	7,940
Residential mortgage loans	5,853	6,368	5,769	6,057	6,057	6,876
Total deposits	21,152	21,245	20,170	20,550	20,550	20,115
Personal deposits: individuals	11,188	10,345	10,858	10,213	10,213	9,922
Subordinated debt	393	618	392	620	620	549
Shareholder's equity	1,295	855	1,252	817	817	671
Risk-based Capital Ratios (%)						
(at period end) (unaudited)						
Tier 1 capital	7.7	5.3	7.9	5.4	5.4	4.7
Total capital	10.6	9.7	10.9	10.0	10.0	8.9
Financial Ratios (%) (at period end) (unaudited)						
Return on average common equity	18.92	18.41	18.36	20.98	20.98	20.19
Return on average total assets	0.72	0.60	0.63	0.63	0.63	0.61
Other income percentage(1)	45.1	41.2	41.6	35.4	35.4	32.7
Efficiency ratio(2)	69.0	69.0	68.9	66.5	66.5	64.7
Net non-performing loans as a percentage of loans and acceptances(3)	(0.39)	(0.46)	(0.55)	(0.67)	(0.67)	(0.39)
Liquidity ratio(4)	27.30	25.09	22.63	24.30	24.30	25.01
Other Data (at period end) (unaudited)						
Funds under administration	\$13,842	\$ 9,988	\$13,013	\$ 9,998	\$ 9,998	\$ 7,874

(1) Other income percentage is other income as a percentage of the total of net interest income and other income.

(2) Efficiency ratio is total non-interest expenses as a percentage of the total of net interest income and other income.

(3) Net of specific and general allowances for credit losses.

(4) Liquidity ratio is liquid assets as a percentage of total deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Operating Results

Effective for 1998, HSBC Bank Canada changed its fiscal year-end from October 31 to December 31 to be consistent with that of HSBC Holdings. For the fiscal period ended December 31, 1998, the consolidated statements of income present the results of operations for the fourteen months ended December 31, 1998. Due to the change in year end for 1998, the results for the fourteen months ended December 31, 1998 have been annualized for comparative purposes in the following discussion and analysis. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths.

Three Months ended March 31, 2000 compared to Three Months ended March 31, 1999

Net Income. Net income for the three months ended March 31, 2000 was \$47 million, a 23.7% increase over the same period in 1999. The redemption of \$270 million of subordinated debentures held by HSBC Bank Canada's immediate parent and the issue to such parent of \$270 million of Class 2 Preferred Shares Series A increased net income by approximately \$2 million. The return of average common equity for the three months ended March 31, 2000 was 18.9% compared to 18.4% for the three months ended March 31, 1999.

Net Interest Income. Net interest income for the three months ended March 31, 2000 was \$152 million, 14.3% higher than the same period in 1999. This improvement resulted primarily from increases in prime and base rates, a continued focus on loan pricing and a strong contribution from loan fees included in interest income. In addition, approximately \$4 million of the increase was due to the net redemption of \$270 million of subordinated debentures.

Provision for Credit Losses. The provision for credit losses for the three months ended March 31, 2000 was reduced by \$5 million compared to the same period in 1999, as a result of stable credit quality requiring lower general and specific provisions.

Other Income. Other income of \$125 million for the three months ended March 31, 2000 was 34.4% higher than the same period in 1999. Other income as a percentage of the total of net interest and other income was 45.1% for the three months ended March 31, 2000, compared to 41.2% for the same period in 1999. This strong performance resulted primarily from volatile but improved equity markets during the three months ended March 31, 2000. Brokerage commissions increased sharply, with both full service and discount brokerage reporting increases of over 120% in retail commissions compared to the same period in 1999. The increase in other income was also enhanced by corporate finance revenues. Strong net sales, particularly of core equity funds, together with market appreciation of mutual fund assets, increased mutual funds under management during the quarter by \$226 million resulting in an increase in fee revenue. These increases were offset by unfavourable treasury trading conditions and lower securitization income.

Non-interest Expenses. Non-interest expenses increased to \$191 million for the three months ended March 31, 2000, an increase of 22.4% over the same period in 1999. This increase was primarily due to growth in performance-based compensation. Other factors affecting non-interest expenses included an adjustment arising from the Gordon Capital acquisition in 1999 and an increase in securities volume related expenses such as brokerage transactions and service and settlement costs. The efficiency ratio for the three months ended March 31, 2000 was 69%, the same as the three months ended March 31, 1999.

Provision for Income Taxes. The provision for income taxes increased to \$28 million for the three months ended March 31, 2000 from \$16 million for the same period in 1999. This resulted from higher net income before taxes, a higher effective tax rate and recording of the effect on future income tax assets of a decrease of 1% in the federal statutory tax rate effective January 1, 2001.

Changes in Accounting Policies. The accounting recommendations in section 3465 of the Canadian Institute of Chartered Accountants ("CICA") Handbook on accounting for income taxes were adopted by HSBC Bank Canada effective January 1, 2000, retroactively, without restatement of prior period results. As a result, HSBC Bank Canada recorded a charge to consolidated retained earnings of \$4 million. See "— Income Taxes — Change in Accounting Policy for Income Taxes".

The accounting recommendations in section 3461 of the CICA Handbook relating to employee future benefits were adopted on a prospective basis effective January 1, 2000. The transitional liability relating to future benefits other than pensions has been estimated at \$38 million, which is being amortized over the estimated average remaining

service lives of the employees, which is 20 years. The expense for the three months ended March 31, 2000 was not materially different than it would have been under the previous standard.

Assets. HSBC Bank Canada's assets grew by \$1.3 billion during the three months ended March 31, 2000. This increase was primarily due to an increase in commercial deposits which were invested in deposits with other banks.

Funds under administration grew to \$13.8 billion at March 31, 2000, an increase of 6.4% from the 1999 year end. The increase in funds under administration contributed to the growth in other income.

Liquidity and capital ratios were strong at March 31, 2000 with a liquidity ratio of 27.3%, a Tier 1 capital ratio of 7.7% and a total capital ratio of 10.6%.

Other. HSBC Bank Canada's Year 2000 initiative was successful and the millennium rollover passed without incident. All Year 2000 activities are considered to be complete.

The results and assets referred to above do not include the effect of the acquisition of Republic Canada which was completed effective April 1, 2000. The total assets of Republic Canada at March 31, 2000 were approximately \$1.3 billion. For further details of this acquisition, see note 25(a) to the Consolidated Financial Statements.

Year ended December 31, 1999 compared to Fourteen Months ended December 31, 1998 (annualized)

Due to the change in year end for 1998, the results for the fourteen months ended December 31, 1998 have been annualized for comparative purposes in the following discussion and analysis. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths.

Net Income. Net income was \$165 million for the year ended December 31, 1999, an increase of 5.8% over 1998. Improved net income reflected strong commercial loan growth and steady growth in fee income. A challenge for HSBC Bank Canada and the banking industry as a whole during 1999 was the continuing commoditization of retail bank loan and deposit products in the intensely competitive consumer market. This resulted in decreased margins. In addition, integration costs relating to the acquisitions of Moss Lawson and Gordon Capital adversely impacted results. The 1999 return on average common equity of 18.4% compared to 21.0% in 1998 reflected a continuing increase in net income, offset by increased capital retained in the business to meet the Superintendent's higher capital adequacy guidelines.

Net Interest Income. Net interest income for the year ended December 31, 1999 was \$540 million, up 4% over 1998. This increase was primarily due to growth in the retail and commercial loan portfolios, offset in part by narrowing interest rate spreads during 1999 caused by market competition. Higher loan fees and interest recoveries on non-performing loans also enhanced 1999 net interest income.

Provision for Credit Losses. The provision for credit losses declined to \$43 million in the year ended December 31, 1999, compared to \$77 million in 1998, due to lower specific provisions, lower rate of growth in the commercial loan portfolio and the adequacy of the existing level of general allowances.

Other Income. Other income was \$384 million for the year ended December 31, 1999, an increase of 35% over 1998. Other income comprised 42% of total net interest and other income in 1999, up from 35% in 1998, and indicated an increasing trend towards a greater contribution from fee-based businesses. Brokerage commissions increased 98% over the previous year, resulting partly from the acquisition of Gordon Capital in January 1999 and from a full year's impact of the Moss Lawson acquisition in August 1998. There was a further contribution resulting from increased sales of wealth management products through the branch network and the opening of more retail brokerage offices in branches in certain target areas. In addition, there were increased contributions from equity structured trading operations and the discount brokerage business. The discount brokerage operation experienced an increase in sales volume of 59%. Strong performance in the equity markets during the last quarter of 1999 also contributed to the increase in other income. Additional revenues from foreign exchange trading and higher volume in bankers' acceptances and guarantees were partially offset by lower fee income from mutual funds and lower income from asset securitizations.

Non-interest Expenses. Non-interest expenses were \$637 million for the year ended December 31, 1999, up 19.1% from 1998. The Gordon Capital and Moss Lawson acquisitions resulted in higher sales related expenses such as compensation and processing costs. Growth of HSBC Bank Canada's core retail operations and investment in new delivery channels also added to total employee, equipment and premises costs.

Provision for Income Taxes. The increase in the provision for income tax expense to \$79 million for the year ended December 31, 1999 compared to \$36 million for 1998 was due to an increase in net income before tax and a higher effective tax rate. The increase in the effective tax rate was the result of a decrease in non-taxable income and a reduction in income tax losses and other deductions available for utilization.

Assets. Assets totalled \$25.1 billion at December 31, 1999, up from \$24.8 billion at the end of 1998. Excluding securitizations, assets increased 2% or \$522 million, mainly as a result of the acquisition of Gordon Capital in early 1999. As a result of securitization activities during 1999, the asset profile shifted slightly from consumer loans to commercial loans.

Funds under administration grew to \$13 billion at the end of 1999, an increase of 30% over 1998. These funds were comprised of \$2.8 billion of loans and mortgages, \$5.6 billion of brokerage clients' assets and \$4.6 billion of portfolio management and mutual fund products. During 1999 portfolio management and mutual fund products increased by 17% and brokerage clients' assets increased more than 60%.

In response to new regulatory capital ratio targets recommended by the Superintendent, HSBC Bank Canada increased its Tier 1 capital ratio to 7.9% and its total capital ratio to 10.9% as at December 31, 1999. This increase was achieved by issuing \$270 million of new Tier 1 preferred shares, redeeming \$270 million of Tier 2 subordinated debentures, issuing a \$50 million Tier 2 subordinated debenture and retaining earnings within the business. Securitization activities also resulted in an improvement in Tier 1 and total capital ratios in 1999.

Fourteen Months ended December 31, 1998 (annualized) compared to Year ended October 31, 1997

Due to the change in year end for 1998, the results for the fourteen months ended December 31, 1998 have been annualized for comparative purposes in the following discussion and analysis. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths.

Net Income. Net income for the fiscal period ended December 31, 1998 was \$156 million, up 13.0% over 1997. Improved net income reflected strong commercial loan growth and growth in fee income. HSBC Bank Canada continued to decrease its reliance on revenues from intermediation activities as reflected by the growth in other income, relative to the total of net interest and other income. Return on average common equity was 21.0% compared to 20.2% for 1997.

Net Interest Income. Net interest income rose to \$519 million for the fiscal period ended December 31, 1998, an increase of 5.3% over 1997, reflecting growth in the loan portfolio particularly in commercial loans. New business was gained as a result of uncertainties arising from the proposed mergers of Canadian banks. In addition, the acquisition in May 1998 of National Westminster Bank of Canada increased the commercial loan portfolio. Margins expanded in 1998 as a result of the favourable change in asset mix due to the increase in higher yielding commercial loans and the securitization of a significant amount of lower yielding residential mortgages. The growth in net interest income was tempered by competitive pressure on spreads, securitization activities and the decision to increase liquidity ratios in view of economic uncertainties in the Asia Pacific region at that time.

Provision for Credit Losses. The provision for credit losses for the fiscal period ended December 31, 1998 increased substantially to \$77 million from \$38 million in 1997. This was due to increases in specific and general provisions as a result of increased market volatility and economic uncertainty in both the Asia Pacific region and in British Columbia. See “— Risk Management — Credit Risk Management — Impaired Loans and Allowances”.

Other Income. Other income increased to \$285 million for the fiscal period ended December 31, 1998, up 18.8% over 1997. This resulted primarily from investments made in newly acquired businesses and asset securitizations effected to manage the balance sheet within existing financial and capital adequacy ratio targets.

Investment management businesses performed well as a result of the strong market during the first nine months of the 1998 fiscal year. Volatile financial markets increased treasury trading and foreign exchange revenues in the latter part of the year, but had an adverse impact on corporate finance fees. Brokerage revenues, which benefited from the acquisition of Moss Lawson in July 1998, increased by 29.5% over 1997.

Non-interest Expenses. Non-interest expenses increased to \$535 million for the fiscal period ended December 31, 1998, an increase of 12.9% over 1997. Non-interest expenses were higher primarily due to the continued growth of the existing business, acquisitions made during the year and increased investment in both new businesses and existing operations. Salary and employee benefit expenses grew as a result of increases in variable compensation, acquisitions and investments in new delivery channels. Premises expenses also increased as a result of acquisitions. In

addition, general expansion of the business required a significant investment in technology, particularly at the branch level, for the purpose of enhancing service capabilities and customer response times.

Provision for Income Taxes. The decrease in the provision for income taxes from \$83 million in 1997 to \$36 million for the fiscal period ended December 31, 1998 resulted from lower net income before tax and a lower effective tax rate. The decrease in the effective tax rate was attributable to an increase in both non-taxable income and the utilization of income tax losses and other deductions. The losses and other deductions related to acquisitions in prior years.

Assets. Total assets at December 31, 1998 were \$24.8 billion, an increase of 3.9% over October 31, 1997. During 1998, the asset profile shifted from consumer loans and mortgages to commercial loans reflecting organic commercial loan growth, the acquisition of National Westminster Bank of Canada and increased securitization activities. In 1998, approximately \$2.5 billion in consumer loans and mortgages were securitized.

Funds under administration grew to \$10 billion at December 31, 1998, a 26.8% increase over October 31, 1997. These funds were comprised of \$2.7 billion of loans and mortgages, \$3.5 billion of brokerage clients' assets and \$3.8 billion of portfolio management and mutual fund products. The brokerage clients' assets increased by \$2.1 billion over the year primarily due to the acquisition of Moss Lawson and a strong investment climate.

HSBC Bank Canada's Tier 1 capital ratio was 5.4% and its total capital ratio was 10.0% as at December 31, 1998.

Income Taxes

Thin Capitalization

In its February 2000 budget, the Government of Canada proposed amendments to the thin capitalization rules, which, if enacted, would have denied a tax deduction for excess related party financing of foreign-owned companies. The specific amendments proposed were intended to include debt provided by third parties, but guaranteed by related parties, as related party financing ("Guaranteed Debt"). Certain of HSBC Bank Canada's senior liabilities, including deposits, are guaranteed by HSBC Holdings and the proposed amendments would have inadvertently included these senior liabilities as Guaranteed Debt. The amendments also would have adversely affected a significant number of other foreign-owned banks and finance companies as well as the Canadian capital markets generally. The Government of Canada recently announced an indefinite deferral of the budget measures relating to Guaranteed Debt to allow further consultation.

Change in Accounting Policy for Income Taxes

Effective January 1, 2000, HSBC Bank Canada adopted CICA Handbook section 3465 which required a change from the deferral method to the asset and liability method of accounting for income taxes. Under this new standard, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax basis and the accounting basis of assets and liabilities) and are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the provision for current income taxes and the difference between the opening and closing balances of the future income tax assets and liabilities.

The accounting recommendations in section 3465 were adopted by HSBC Bank Canada on a retroactive basis without restatement of any prior periods. The cumulative effect of this accounting policy change has been recorded at January 1, 2000 as a decrease in retained earnings of \$4 million, an increase in net future income tax assets of \$49 million (primarily related to the benefit of income tax losses carried forward recognized, as it is more likely than not that the asset will be realized) and an increase in deferred credits of \$53 million.

Reduction in Corporate Income Tax Rates

In the February 2000 budget, a reduction in corporate income tax rates to 21% from 28% within five years was announced with a one percent reduction in the rate effective January 1, 2001. Under the asset and liability method of accounting for income taxes, the value of net future income tax assets will decrease as tax rates are reduced.

To date, only the initial one percent tax rate reduction has been substantively enacted and, accordingly, the provision for income taxes for the three months ended March 31, 2000 was increased by \$3 million. However, in 2001, there will be a reduction of one percent in the rate of tax charged on HSBC Bank Canada's income.

Should further tax rate reductions proposed in the budget be enacted, additional increases in tax charges will be recorded as a result of reductions in the value of net future income tax assets. However, there will also be a reduction in rates of taxes on income in future years.

Capital Management

HSBC Bank Canada manages its capital resources to ensure their efficient use in the generation of shareholder value while supporting HSBC Bank Canada's activities, including its asset base and risk positions, providing prudent depositor security and complying with all applicable regulatory requirements.

HSBC Bank Canada's ultimate parent, HSBC Holdings, is strongly capitalized with a Tier 1 capital ratio of 8.5% and a total capital ratio of 13.2% at December 31, 1999. HSBC Bank Canada manages its capital in accordance with HSBC Holdings' corporate policies and external regulatory requirements. HSBC Holdings is regulated by the FSA.

Capital adequacy for Canadian federally incorporated financial institutions is regulated by the Superintendent and is based on guidelines provided by the Bank for International Settlements ("BIS"). In 1999, the Superintendent revised its capital adequacy targets, significantly increasing its recommended capital ratio targets. Specifically, the Superintendent recommended that Canadian banks maintain Tier 1 and total capital ratios of 7% and 10%, respectively. Prior to 1999, the Superintendent's minimum capital ratios were the same as those of BIS, which continues to recommend that financial institutions maintain 4% and 8% Tier 1 and total capital ratios, respectively.

Tier 1 capital is the permanent capital of a bank, comprising common shareholders' equity, qualifying non-cumulative preferred shares, contributed surplus and retained earnings. Tier 2 capital includes subordinated debentures and cumulative preferred shares. Total capital comprises both Tier 1 and Tier 2 capital.

Prior to the 1999 changes, HSBC Bank Canada was in full compliance with the Superintendent's requirements. Immediately subsequent to the Superintendent's publication of its revised capital ratio targets, HSBC Bank Canada implemented a plan to ensure that it would be in compliance with the new targets, including:

- \$270 million of Tier 1 preferred shares were issued to HSBC Bank Canada's immediate parent, HSBC Holdings B.V.;
- \$270 million of Tier 2 subordinated debentures held by HSBC Holdings B.V. were redeemed;
- \$50 million of Tier 2 subordinated debentures were issued to third party investors; and
- HSBC Bank Canada effected securitizations of consumer loans and residential mortgages.

These actions, together with the retention of net income, increased HSBC Bank Canada's Tier 1 capital ratio from 5.4% at December 31, 1998 to 7.9% at December 31, 1999 and its total capital ratio from 10.0% at December 31, 1998 to 10.9% at December 31, 1999. HSBC Bank Canada's capital ratios at March 31, 2000 were 7.7% for Tier 1 capital and 10.6% for total capital.

Canada Deposit Insurance Corporation ("CDIC") recently introduced a tiered, differential insurance premium ratings system, which includes targets for capital adequacy. One of the measures CDIC uses in determining whether a financial institution is well capitalized is an assets (as defined by CDIC) to regulatory capital leverage ratio. CDIC regards a financial institution as being well capitalized if it maintains an assets to regulatory capital leverage ratio of less than 85% of the Superintendent's maximum permitted leverage ratio for each individual institution.

The Superintendent permits HSBC Bank Canada to maintain a maximum leverage ratio of 20 times. HSBC Bank Canada targets to be prudently below CDIC's more conservative threshold of 17 times. At March 31, 2000 and December 31, 1999, HSBC Bank Canada's leverage ratios were 15.3 and 14.9 times, respectively.

HSBC Bank Canada has formal capital management policies which have been approved by the Board of Directors and HSBC Holdings, and which have been reviewed by the applicable regulatory authorities. The capital management policies lay out a strict regime of capital monitoring, targets, limits and maintenance actions. HSBC Bank Canada's Controllers and Treasury departments manage compliance with the policies on a day-to-day basis, with weekly monitoring by HSBC Bank Canada's Asset and Liability Committee ("ALCO"). ALCO is chaired by HSBC Bank Canada's Chief Financial Officer and includes its Chief Executive Officer, Chief Operating Officer and certain other senior executives, including those responsible for credit, risk management and treasury.

HSBC Bank Canada employs well-developed retail and commercial relationship management performance measurement tools to ensure that shareholder capital is efficiently deployed by its major business segments. These tools

measure the value added by each customer relationship against the capital required to support the risk-taking facilities granted. Capital necessary to support customers is determined according to the various requirements of the Superintendent, CDIC and BIS noted above.

HSBC Bank Canada monitors and adopts techniques in capital management, managing the dynamic of maximizing shareholder value against the fundamental need to be prudently capitalized.

Regulatory Capital and Capital Adequacy and Leverage Ratios

HSBC Bank Canada's regulatory capital and capital adequacy and leverage ratios are as follows:

	As at March 31, 2000	As at March 31, 1999	As at December 31, 1999	As at December 31, 1998	As at October 31, 1997
	(unaudited; in millions, except ratios)				
Tier 1 Capital					
Common shares	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75
Contributed surplus	165	165	165	165	165
Retained earnings	785	615	742	577	431
Non-cumulative preferred shares	270	—	270	—	—
Non-controlling interests in subsidiary	30	30	30	30	30
Goodwill	(7)	(8)	(8)	(8)	—
Total Tier 1 capital	1,318	877	1,274	839	701
Tier 2 Capital					
Subordinated indebtedness (net of amortization)	381	618	392	620	536
General allowance for credit losses(1)	127	123	121	116	90
Total Tier 2 capital	508	741	513	736	626
Total Tier 1 and Tier 2 capital	1,826	1,618	1,787	1,575	1,327
Securitization-related deductions	(21)	(14)	(23)	(17)	—
Total capital available for regulatory purposes	\$ 1,805	\$ 1,604	\$ 1,764	\$ 1,558	\$ 1,327
Total risk-weighted assets	\$17,017	\$16,469	\$16,228	\$15,544	\$14,930
Regulatory Capital Ratios					
Tier 1 capital	7.7%	5.3%	7.9%	5.4%	4.7%
Total capital	10.6%	9.7%	10.9%	10.0%	8.9%
Leverage ratio	15.3x	17.3x	14.9x	16.7x	18.6x

(1) The Superintendent permitted inclusion of general allowances in capital equivalent to 0.625% of risk-weighted assets at October 31, 1997, which increased to 0.75% of risk-weighted assets by December 31, 1998.

Risk-weighted Assets

Risk-weighted assets requiring capital support arise from the provision to customers of credit and other risk facilities. Risk-weighted assets are determined by HSBC Bank Canada by applying the specific weighting factors provided by the Capital Guidelines. HSBC Bank Canada's risk-weighted assets are as follows:

	Assets as at March 31, 2000	Risk-Weighted Amounts				
		As at March 31, 2000	As at March 31, 1999	As at December 31, 1999	As at December 31, 1998	As at October 31, 1997
		(unaudited, in millions)				
On-Balance Sheet Assets						
Cash resources	\$ 2,747	\$ 498	\$ 287	\$ 386	\$ 240	\$ 388
Securities issued or guaranteed by Canada, provinces, municipalities, OECD banks and governments	2,529	—	—	—	—	—
Other securities	446	395	415	407	232	223
Mortgage loans	6,007	2,781	3,066	2,746	2,922	3,390
Other loans	11,938	9,728	9,179	9,238	9,392	8,192
Acceptances	1,832	1,832	1,768	1,705	1,267	1,258
Other assets	861	610	599	593	468	809
Total on-balance sheet assets	\$26,360	\$15,844	\$15,314	\$15,075	\$14,521	\$14,260
Off-Balance Sheet Instruments						
Guarantees and letters of credit . .	\$ 1,194	\$ 918	\$ 902	\$ 880	\$ 807	\$ 535
Other	349	174	137	189	87	29
Subtotal	1,543	1,092	1,039	1,069	894	564
Derivatives(1)	24,038	81	116	84	129	106
Total off-balance sheet instruments	\$25,581	\$ 1,173	\$ 1,155	\$ 1,153	\$ 1,023	\$ 670
Total risk-weighted assets	\$ —	\$17,017	\$16,469	\$16,228	\$15,544	\$14,930

(1) Derivatives are stated at their notional amount.

Regulatory Capital Generation

HSBC Bank Canada's regulatory capital generation is as follows:

	Three months ended		Year ended	Fourteen months ended	Year ended
	March 31,				
	2000	1999	1999	1998	1997
	(unaudited, in millions)				
Internally Generated Capital					
Net income	\$ 47	\$38	\$165	\$182	\$138
Amounts charged to retained earnings	(4)	—	—	—	—
Capital from operations	43	38	165	182	138
Dividends	—	—	—	(36)	(90)
General allowance for credit losses(1)	6	7	5	26	90
Other	3	—	(6)	(25)	9
	52	45	164	147	147
External Financing					
Subordinated indebtedness (net of amortization)	(11)	(1)	(228)	83	(30)
Preferred shares	—	—	270	—	—
Total increase in regulatory capital	\$ 41	\$44	\$206	\$230	\$117

(1) The Superintendent permitted inclusion of general allowances in capital equivalent to 0.625% of risk-weighted assets at October 31, 1997, which increased to 0.75% of risk-weighted assets by December 31, 1998.

Risk Management

All of HSBC Bank Canada's business activities require the management of particular risks or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors which could adversely affect HSBC Bank Canada's resources, operations and financial results. The risk factors most likely to affect HSBC Bank Canada are credit risk, market risk, liquidity risk and operational risk. HSBC Bank Canada believes that it conservatively manages its exposure to these risk factors. Formal risk management policies have been established which identify and analyze these risk elements and set appropriate risk limits. HSBC Bank Canada continually monitors these risks and limits by means of internal control measures which management believes are up to date and reliable.

HSBC Bank Canada reviews and modifies its risk management policies and systems regularly to reflect changes within HSBC Bank Canada and within the markets in which it operates. The Board of Directors approves HSBC Bank Canada's risk management policies. HSBC Bank Canada's overall risk management limits are set taking into account HSBC Holdings's overall risk limits. ALCO monitors and reviews risk positions against prescribed limits.

Credit Risk Management

Credit risk arises when HSBC Bank Canada relies on a counterparty to honour contractual obligations arising out of credit, credit substitutes (such as letters of guarantee) and contingent risk relating to derivative contracts such as foreign exchange forward contracts. Concentration of credit risk arises when a group of counterparties operate in the same or a related industry or are located in the same geographic region. The ability of such counterparties to meet their obligations would be similarly affected by a change in economic, fiscal or industry conditions.

Credit limits for HSBC Bank Canada are established after consultation with HSBC Holdings and are approved by the Board of Directors. All credit exposure is subject to a credit approval and review process approved by the Board of Directors. Credit authorities are delegated to senior credit management who in turn direct delegation to line management. Credit exposures in excess of certain levels may require the concurrence of HSBC Holdings. The Board of Directors and the credit committee of the Board meet quarterly to set and review policies relating to large customer concentration and industry, product and geographic distribution.

Strict measurement of exposure is undertaken. A credit risk report is presented quarterly to the Board of Directors covering portfolio quality, geographic, product and industry distributions, large customer concentrations and loan

provisions. All new major authorized facilities, derivative exposure and special credit problem facilities are also reviewed quarterly by the Board of Directors.

Concentrations are managed through Commercial and Personal Credit Guidelines which set out HSBC Bank Canada's tolerance for various types of exposure. On a quarterly basis, guidelines are approved by the Board of Directors and disseminated throughout HSBC Bank Canada.

HSBC Bank Canada employs a disciplined approach to managing risk through ongoing monitoring of all credit exposures and strict exception approval policies and proactively managing problem and impaired accounts by a separate dedicated Special Credit management unit. Formal, strictly maintained risk gradings are assigned to all clients and are monitored closely. Credit scoring and related bureau-based management techniques along with judgmental management are used to manage risk associated with consumer clients.

Real estate lending is relationship based and strictly managed. Appraisal policy is approved annually by the Board of Directors and an approved list of appraisers is maintained to ensure appropriate valuation. Environmental risk is managed through the use of approved consultants to provide opinions wherever environmental risk is identified.

A review of all credit matters undertaken by line and staff managers is completed regularly by internal auditors to ensure that all policies, guidelines, practices, conditions and terms are followed.

Management believes adequate internal controls are in place to establish and maintain the credit quality of HSBC Bank Canada's financial assets.

Loan Portfolio

In assessing its loan portfolio, HSBC Bank Canada includes all of its credit exposures including bankers' acceptances, guarantees and letters of credit. The following is an analysis of the constituents of the portfolio:

	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
	(unaudited, in millions)				
Loans included in financial statements, net of					
allowances	\$17,491	\$17,724	\$17,130	\$17,459	\$16,454
Allowances	289	298	287	283	231
Bankers' acceptances	1,832	1,768	1,705	1,267	1,258
Letters of credit	345	330	389	416	263
Guarantees	<u>849</u>	<u>838</u>	<u>803</u>	<u>723</u>	<u>482</u>
Total loans	20,806	20,958	20,314	20,148	18,688
Non-performing loans	<u>(214)</u>	<u>(209)</u>	<u>(183)</u>	<u>(157)</u>	<u>(161)</u>
Total performing loans	<u>\$20,592</u>	<u>\$20,749</u>	<u>\$20,131</u>	<u>\$19,991</u>	<u>\$18,527</u>

HSBC Bank Canada's performing loan portfolio is comprised of commercial, personal and residential mortgage loans with an approximate split between commercial and personal loans (including residential mortgages) of 60% to 40%. The geographic distribution of the loan portfolio at March 31, 2000 was British Columbia (53.3%), Ontario (24.6%), Western Canada (including Alberta, Saskatchewan and Manitoba) (11.9%) and the Quebec and Atlantic Region (8.2%). With the acquisition of Republic Canada on April 1, 2000, loans in British Columbia as a percentage of the total loan portfolio declined to approximately 50%.

Performing commercial loans at March 31, 2000 aggregated \$12.6 billion and were distributed across various industry sectors with the highest concentrations in real estate (29.6%), wholesale/retail trade (24.2%) and service industries (18.2)%. Large customer concentrations are borrowing groups where approved facilities exceed 10% of HSBC Bank Canada's regulatory capital base. As at March 31, 2000, 10% of HSBC Bank Canada's regulatory capital base amounted to approximately \$180 million.

The following tables provide details of the overall performing loan portfolio, and geographic distribution, industry distribution and large customer concentration.

Performing Loan Portfolio(1)

	As at March 31, 2000		As at March 31, 1999		As at December 31, 1999		As at December 31, 1998		As at October 31, 1997	
	(unaudited; in millions, except percentages)									
Consumer loans	\$ 2,132	10.4%	\$ 1,916	9.2%	\$ 1,996	9.9%	\$ 1,736	8.7%	\$ 1,857	10.0%
Residential mortgages	5,830	28.3%	6,344	30.6%	5,752	28.6%	6,039	30.2%	6,851	37.0%
Total consumer	7,962	38.7%	8,260	39.8%	7,748	38.5%	7,775	38.9%	8,708	47.0%
Total commercial(1)	12,630	61.3%	12,489	60.2%	12,383	61.5%	12,216	61.1%	9,819	53.0%
Total performing loans	<u>\$20,592</u>	<u>100.0%</u>	<u>\$20,749</u>	<u>100.0%</u>	<u>\$20,131</u>	<u>100.0%</u>	<u>\$19,991</u>	<u>100.0%</u>	<u>\$18,527</u>	<u>100.0%</u>

(1) Includes bankers' acceptances, letters of credit and guarantees.

Performing Loan Portfolio Geographic Distribution

Location	As at March 31, 2000		As at March 31, 1999		As at December 31, 1999		As at December 31, 1998		As at October 31, 1997	
	(unaudited; in millions, except percentages)									
British Columbia	\$10,967	53.3%	\$11,144	53.7%	\$10,716	53.3%	\$10,601	53.0%	\$11,064	59.7%
Western Canada	2,452	11.9%	2,385	11.5%	2,402	11.9%	2,258	11.3%	1,887	10.2%
Ontario	5,064	24.6%	5,181	25.0%	5,012	24.9%	5,160	25.8%	4,040	21.8%
Quebec and Atlantic	1,688	8.2%	1,666	8.0%	1,590	7.9%	1,598	8.0%	1,295	7.0%
US Branches	421	2.0%	373	1.8%	411	2.0%	374	1.9%	241	1.3%
Total Performing Loans	<u>\$20,592</u>	<u>100.0%</u>	<u>\$20,749</u>	<u>100.0%</u>	<u>\$20,131</u>	<u>100.0%</u>	<u>\$19,991</u>	<u>100.0%</u>	<u>\$18,527</u>	<u>100.0%</u>

Performing Commercial Loan Portfolio Industry Distribution

Industry	As at March 31, 2000		As at March 31, 1999		As at December 31, 1999		As at December 31, 1998		As at October 31, 1997	
	(unaudited; in millions, except percentages)									
Real estate	\$ 3,739	29.6%	\$ 3,682	29.5%	\$ 3,704	29.9%	\$ 3,617	29.6%	\$ 3,326	33.9%
Hotels and hospitality	1,000	7.9%	1,027	8.2%	983	7.9%	1,023	8.4%	894	9.1%
Trade	3,063	24.2%	2,943	23.6%	2,911	23.5%	2,657	21.7%	2,303	23.4%
Services	2,293	18.2%	2,050	16.4%	2,326	18.8%	2,091	17.1%	910	9.3%
Manufacturing	1,633	12.9%	1,602	12.8%	1,595	12.9%	1,384	11.3%	1,037	10.6%
Other	902	7.2%	1,185	9.5%	864	7.0%	1,444	11.9%	1,349	13.7%
Total commercial loans	<u>\$12,630</u>	<u>100.0%</u>	<u>\$12,489</u>	<u>100.0%</u>	<u>\$12,383</u>	<u>100.0%</u>	<u>\$12,216</u>	<u>100.0%</u>	<u>\$ 9,819</u>	<u>100.0%</u>
As a percentage of total performing loans	\$20,592	61.3%	\$20,749	60.2%	\$20,131	61.5%	\$19,991	61.1%	\$18,527	53.0%

Performing Commercial Loan Portfolio Large Customer Concentration

	As at March 31, 2000	As at March 31, 1999	As at December 31, 1999	As at December 31, 1998	As at October 31, 1997
	(unaudited; in millions, except percentages)				
Large customer concentration	\$1,634	\$1,370	\$1,228	\$1,436	\$1,678
As a percentage of total commercial loans	12.9%	11.0%	9.9%	11.8%	17.1%
As a percentage of total performing loans	7.9%	6.6%	6.1%	7.2%	9.1%

Credit Quality

HSBC Bank Canada categorizes the credit quality of its loan portfolio as follows:

- *Satisfactory* — Borrower's financial condition and future capacity to repay is considered satisfactory.
- *Watch* — Borrower's financial condition has shown sustained or continued deterioration and requires frequent monitoring. The capacity to repay remains satisfactory.
- *Sub-standard* — Borrower's financial condition is weak. However, it is still expected that full repayment will be received.
- *Impaired* — Loans are considered impaired if an amount is contractually 90 days in arrears or management is of the opinion that there is no longer reasonable assurance as to the ultimate collectibility of all or some portion of principal or interest. Impaired loans are classified as non-performing. Specific provision is made for any anticipated loss.

The following table sets forth an analysis of HSBC Bank Canada's total loan portfolio on the basis of the above credit quality categories.

Credit Quality Rating	Performing and Non-Performing Loan Portfolio Credit Quality									
	As at March 31, 2000		As at March 31, 1999		As at December 31, 1999		As at December 31, 1998		As at October 31, 1997	
	(unaudited; in millions, except percentages)									
Satisfactory	\$19,777	95.1%	\$19,835	94.7%	\$19,245	94.7%	\$19,150	95.0%	\$17,935	96.0%
Watch	530	2.5%	591	2.8%	599	2.9%	516	2.6%	364	1.9%
Sub-standard	285	1.4%	323	1.5%	287	1.4%	325	1.6%	228	1.2%
Impaired	214	1.0%	209	1.0%	183	1.0%	157	0.8%	161	0.9%
Total loans	<u>\$20,806</u>	<u>100.0%</u>	<u>\$20,958</u>	<u>100.0%</u>	<u>\$20,314</u>	<u>100.0%</u>	<u>\$20,148</u>	<u>100.0%</u>	<u>\$18,688</u>	<u>100.0%</u>

Approximately 95% of its total loan portfolio is categorized by HSBC Bank Canada to be satisfactory. Credit quality of the portfolio has remained stable over the past five years. As at March 31, 2000, \$214 million (1%) of the loan portfolio was impaired, with specific and general allowances providing 135% coverage of these loans.

Impaired Loans and Allowances

Allowances for credit losses are maintained at a level to absorb potential credit losses which may arise from both on and off balance sheet credit exposures. Specific provisions are recorded on a loan-by-loan basis to reduce the book value to expected recovery level. Impaired loans are reviewed at least quarterly and the appropriate specific provisions are recorded based on estimated net realizable amounts.

The criteria for general allowances include losses which are estimated to have occurred in the portfolio of loans relating to individual or groups of loans but are not yet identified as requiring specific provisions. The quality of HSBC Bank Canada's portfolio is monitored with the emphasis on the economic environment, industry concentration and other appropriate factors. The levels of general allowances will change in accordance with the overall condition of the portfolio and are expected to increase with upturns in the economic cycle and decline as specific provisions are established during a downturn.

HSBC Bank Canada has taken a conservative position relative to the banking industry in Canada in establishing its general loan loss allowances. In 1998, considerable economic uncertainty existed following the downturn of the economy in British Columbia and the Asia Pacific region and the reduction in commodity prices. In view of this, particularly given the geographic mix of its loan portfolio, HSBC Bank Canada increased its general allowance. Although economic circumstances improved during 1999, the British Columbia economy continued to underperform and the level of general allowances was maintained. The performance of the portfolio has been satisfactory and there has been no material change in the level of specific loan losses recorded. The level of HSBC Bank Canada's general allowance as a percentage of risk-weighted assets also continues to be conservative.

The following table provides details of the impaired loan portfolio.

Impaired Loan Portfolio					
	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
(unaudited, in millions)					
Commercial					
Real estate	\$ 40	\$ 37	\$ 23	\$ 28	\$ 44
Manufacturing	18	23	22	21	18
Trade	40	34	33	25	22
Services	37	17	26	15	12
Other	<u>41</u>	<u>57</u>	<u>44</u>	<u>35</u>	<u>28</u>
Total commercial loans	<u>176</u>	<u>168</u>	<u>148</u>	<u>124</u>	<u>124</u>
Personal					
Consumer loans	15	17	18	15	12
Residential mortgages	<u>23</u>	<u>24</u>	<u>17</u>	<u>18</u>	<u>25</u>
Total personal loans	<u>38</u>	<u>41</u>	<u>35</u>	<u>33</u>	<u>37</u>
Total	<u>\$214</u>	<u>\$209</u>	<u>\$ 183</u>	<u>\$ 157</u>	<u>\$161</u>
Specific allowances	\$ 71	\$ 86	\$ 72	\$ 76	\$ 75
General allowances	<u>218</u>	<u>212</u>	<u>215</u>	<u>207</u>	<u>156</u>
Total allowance for credit losses	<u>\$289</u>	<u>\$298</u>	<u>\$ 287</u>	<u>\$ 283</u>	<u>\$231</u>
Net impaired loans	<u>\$(75)</u>	<u>\$(89)</u>	<u>\$(104)</u>	<u>\$(126)</u>	<u>\$(70)</u>

The following table shows net non-accrual loans as a percentage of total loans. This ratio, which is a common industry statistic used to measure the total amount of the Bank's provision relative to total loans, is determined by dividing total impaired loans less specific and general allowances (being net impaired loans as indicated in the table above) by total loans, including bankers' acceptances, letters of credit and guarantees.

**Net Non-Accrual Loans as Percentage of Total Loans
Industry Comparison**

	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
(unaudited)					
HSBC Bank Canada	(0.4%)	(0.4%)	(0.5%)	(0.6%)	(0.4%)
Average of six largest Canadian banks(1)	(0.2%)	(0.1%)	(0.1%)	(0.1%)	0.1%

(1) This percentage is derived from publicly available financial information of the six largest Canadian Schedule I banks.

The following table shows the coverage of specific allowances as a percentage of the related impaired loans.

Coverage of Impaired Loans

	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
(unaudited)					
Coverage by Specific Allowance					
Commercial real estate	30%	32%	39%	36%	40%
Commercial manufacturing	55%	61%	50%	57%	67%
Commercial other	31%	44%	38%	56%	65%
All commercial	36%	43%	40%	48%	50%

The following table sets out the coverage of general provisions as a percentage of total performing loans and risk-weighted assets.

<u>Coverage by General Allowance</u>	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
			(unaudited)		
As a percentage of total performing loans(1)	0.94%	0.92%	0.94%	0.92%	0.81%
As a percentage of risk-weighted assets(1)	1.21%	1.23%	1.25%	1.25%	1.04%

(1) Includes off-balance sheet securitizations.

Provisions for Credit Losses

The following table sets out the provisions for credit losses charged to HSBC Bank Canada's consolidated statements of income. Specific provisions have been stable and are indicative of a high quality loan portfolio.

	<u>Three months ended March 31, 2000</u>	<u>Three months ended March 31, 1999</u>	<u>Year ended December 31, 1999</u>	<u>Fourteen months ended December 31, 1998</u>	<u>Year ended October 31, 1997</u>
			(unaudited; in millions, except percentages)		
Specific provisions	\$ 8	\$ 11	\$ 35	\$ 48	\$ 16
General provisions	<u>3</u>	<u>5</u>	<u>8</u>	<u>42</u>	<u>22</u>
Total provision for credit losses	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 43</u>	<u>\$ 90</u>	<u>\$ 38</u>
Specific provisions as a percentage of total loan portfolio	0.15%(1)	0.21%(1)	0.17%	0.21%(1)	0.09%

(1) Annualized.

Derivative Portfolio

The credit equivalent amount of derivative exposure is established by the current replacement cost of positions plus an allowance for future fluctuation of derivative contracts. Derivatives are entered into primarily to support customer requirements and to assist HSBC Bank Canada in its management of assets and liabilities. The credit equivalent amount of the derivative portfolio by product type is as follows:

<u>Products</u>	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>	<u>As at December 31, 1999</u>	<u>As at December 31, 1998</u>	<u>As at October 31, 1997</u>
			(unaudited; in millions)		
Interest rate contracts	\$ 69	\$ 75	\$ 75	\$ 99	\$ 87
Foreign exchange contracts	200	264	210	305	267
Equity contracts	<u>6</u>	<u>16</u>	<u>6</u>	<u>8</u>	<u>13</u>
Total	<u>\$275</u>	<u>\$355</u>	<u>\$291</u>	<u>\$412</u>	<u>\$367</u>

Market Risk Management

Market risk is the potential that interest rates, foreign exchange rates or equity prices will move and reduce the earnings of HSBC Bank Canada. Market risk arises on financial instruments that are valued at market prices and on those instruments valued at cost plus accrued interest.

HSBC Bank Canada makes markets in interest rate, exchange rate and equity derivative instruments, as well as in debt, equity and other securities. Trading risks arise either from customer-related business or principal investing activities by HSBC Bank Canada.

HSBC Bank Canada manages market risk through risk limits set out by ALCO and approved by the Board of Directors.

Risk limits are determined for each portfolio and are set by product and risk type, with market liquidity being a principal factor in determining the levels of limits set. Limits are reviewed annually using a combination of risk measurement techniques including present value of a basis point (PVBP), value at risk (VaR), foreign exchange exposure limits, maximum loss limits, options premium paid limits and product and issuance limits.

Risk limits are set for each operation and are dependent upon the size and financial and capital resources of the entity, market liquidity of the instruments traded, business plan, experience and track record of management and dealers, internal audit gradings, support function resources and computer systems. Risk limits are reviewed and set on an annual basis.

PVBP is a sensitivity measure which calculates the impact on the present value of a transaction (or a portfolio of transactions) of a one basis point movement in rates. VaR is a statistical technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence.

Interest Rate Risk

Interest rate risk arises primarily out of differences in the term to maturity or repricing of the assets and liabilities both on and off balance sheet. These interest rate risk exposures, or gaps, are monitored by ALCO on a weekly basis against prescribed limits. The gap position measures assets and liabilities based on contractual repricing data as well as incorporating assumptions on customer behaviour on products with a degree of optionality as to prepayment, redemption or repricing (such as redeemable deposit products and mortgages with prepayment options). These assumptions, which are based on historical behavioural patterns, are periodically reviewed by ALCO.

HSBC Bank Canada believes it takes a conservative approach in setting limits on these mismatched positions. Limits are established based on the impact on net interest income of an immediate and parallel upward shift in the relevant yield curves of one percent. HSBC Bank Canada also has established limits on these mismatched positions in terms of Dollars at Risk, VaR and PVBP.

A variety of cash and derivative instruments (principally interest rate swaps) are used to reduce interest rate risk. Derivatives are used to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions of price and liquidity are considered beneficial.

Interest rate risk also arises in the fixed income trading activities of HSBC Bank Canada. Limits have been established in terms of VaR, PVBP, maximum loss limits, product and issuance limits, and premium paid limits for option contracts.

Foreign Exchange Risk

Foreign exchange risk arises from foreign currency denominated asset and liability positions taken by HSBC Bank Canada. HSBC Bank Canada buys and sells currencies in the spot, forward, futures and options markets, on behalf of its customers and for its own account, to manage its own currency exposures arising from assets and liabilities denominated in currencies other than the Canadian dollar. Limits have been established as to the magnitude of the exposure on a currency-by-currency basis as well as maximum loss limits on any position held.

Equity Risk

Equity risk arises as a result of movements in the price of equity positions taken and held principally by HSBC Securities. Limits have been established in terms of permitted instruments, open positions, notional aggregate long or short positions, maximum loss limits, single stock limits, premium paid limits and currency limits.

Liquidity Risk Management

HSBC Bank Canada manages the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. HSBC Bank Canada also ensures compliance with Canadian regulatory requirements. HSBC Bank Canada's treasury department manages liquidity on a day-to-day basis.

ALCO oversees compliance with liquidity requirements on a weekly basis by monitoring:

- projected cash flows and the levels of related liquid assets,
- specified balance sheet liquidity ratios against prescribed limits,
- depositor concentration in terms of overall funding mix and to avoid undue reliance on large individual and non-core depositors, and
- the maintenance of liquidity contingency plans.

Customer deposits form a significant portion of HSBC Bank Canada's overall funding. Considerable importance is placed on the stability and growth of this core deposit base. Capital markets are accessed for the purposes of providing additional funding, maintaining a presence in the marketplace and aligning asset and liability maturities.

Limits have been established for balance sheet ratios and minimum periods of forecast positive cumulative cash flow as well as contingencies to meet a cash flow squeeze.

Operational Risk Management

Operational risk is the risk of economic loss arising through fraud, unauthorized activities, errors, omissions or significant inefficiency. It also covers settlement risk arising from the large number of banking transactions that occur daily in the normal course of business. It is inherent in every business organization and covers a wide spectrum of issues.

HSBC Bank Canada manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and reconciliation and monitoring of transactions on a regular and systematic basis. This is supported by an independent program of periodic reviews undertaken by HSBC Bank Canada's Internal Audit department. HSBC Bank Canada also maintains contingency facilities to support operations in the event of a disaster. Daily settlement limits are also maintained to ensure that the exposure to counterparties is kept at an acceptable level, assisted by certain transfer systems, such as the large value transfer system, which assure finality of payment for individual transactions greater than \$50,000.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of HSBC Bank Canada as at March 31, 2000 and April 30, 2000, as well as at April 30, 2000 adjusted to give effect to (i) the completion of the Bank Preferred Share Offering and (ii) the completion of the Bank Preferred Share Offering and this Offering.

	<u>Outstanding as at March 31, 2000</u>	<u>Outstanding as at April 30, 2000</u>	<u>Outstanding as at April 30, 2000 after giving effect to the Bank Preferred Share Offering</u>	<u>Outstanding as at April 30, 2000 after giving effect to the Bank Preferred Share Offering and this Offering</u>
(unaudited, in millions except ratios)				
Deposits				
Regulated financial institutions	\$ 1,150	\$ 964	\$ 964	\$ 964
Individuals	11,188	11,472	11,472	11,472
Businesses and governments	8,814	9,009	9,009	9,009
	<u>\$21,152</u>	<u>\$21,445</u>	<u>\$21,445</u>	<u>\$21,445</u>
Other				
Acceptances	\$ 1,832	\$ 1,958	\$ 1,958	\$ 1,958
Securities sold under repurchase agreements	145	9	9	9
Other liabilities	1,513	1,940	1,940	1,940
Non-controlling interest in subsidiary	30	30	30	30
	<u>\$ 3,520</u>	<u>\$ 3,937</u>	<u>\$ 3,937</u>	<u>\$ 3,937</u>
Tier 1 Capital				
Bank Common Shares (authorized — 993,677,000) ..	\$ 75	\$ 75	\$ 75	\$ 75
Contributed surplus	165	165	165	165
Retained earnings	785	800	797	793
Bank Class 1 Preferred Shares (authorized — unlimited)(1)	—	—	125	111(2)
Bank Class 2 Preferred Shares Series A (authorized — 10,800,000)	270	270	150	—
HSBC HaTS	—	—	—	200
Non-controlling interest in subsidiary	30	30	30	30
Goodwill(2)	(7)	(9)	(9)	(9)
Total Tier 1 capital	<u>1,318</u>	<u>1,331</u>	<u>1,333</u>	<u>1,365</u>
Tier 2 Capital				
Subordinated debt (net of amortization)	381	381	381	381
General allowances for credit losses	127	131	131	131
Bank Class 1 Preferred Shares(1)	—	—	—	14(2)
Total Tier 2 capital	<u>508</u>	<u>512</u>	<u>512</u>	<u>526</u>
Total Tier 1 and Tier 2 capital	<u>1,826</u>	<u>1,843</u>	<u>1,845</u>	<u>1,891</u>
Securitization-related deductions	(21)	(5)	(5)	(5)
Total capital available for regulatory purposes	<u>\$ 1,805</u>	<u>\$ 1,838</u>	<u>\$ 1,840</u>	<u>\$ 1,886</u>
Total risk-weighted assets (3)	<u>\$17,017</u>	<u>\$17,662</u>	<u>\$17,662</u>	<u>\$17,662</u>
Regulatory Capital Ratios				
Tier 1 capital ratio	7.7%	7.5%	7.5%	7.7%
Total capital ratio	10.6%	10.4%	10.4%	10.7%
Leverage ratio	15.3x	15.5x	15.5x	15.1x

(1) The Bank currently has no Bank Class 1 Preferred Shares outstanding. Upon completion of the Bank Preferred Share Offering, 5,000,000 Bank Class 1 Preferred Shares Series A will be outstanding.

(2) \$14 million of the Bank Class 1 Preferred Shares Series A must currently be classified as Tier 2 capital pursuant to the Capital Guidelines.

(3) The increase in goodwill and risk-weighted assets is a result of the amalgamation with Republic Canada.

DESCRIPTION OF SHARE CAPITAL AND SUBORDINATED DEBT

A reorganization (the “Reorganization”) of the share capital of the Bank will be carried out and completed prior to the Closing Date in order to facilitate this Offering and the Bank Preferred Share Offering. Pursuant to the Reorganization, the Bank will create the Bank Class 1 Preferred Shares, including the Bank Class 1 Preferred Shares Series A, Bank Class 1 Preferred Shares Series B and Bank Class 1 Preferred Shares Series Z, and redesignate the existing Preferred Shares Series I as Bank Class 2 Preferred Shares.

After giving effect to the Reorganization, the authorized share capital of the Bank will consist of 993,677,000 Bank Common Shares, an unlimited number of Bank Class 1 Preferred Shares and an unlimited number of Bank Class 2 Preferred Shares.

After giving effect to the completion of this Offering, the Bank Preferred Share Offering and the redemption of the Bank Class 2 Preferred Shares, there will be 280,168,000 Bank Common Shares outstanding, 5,000,000 Bank Class 1 Preferred Shares Series A outstanding and no Bank Class 2 Preferred Shares outstanding. There will also be reserved 5,000,000 Bank Class 1 Preferred Shares Series B for issuance upon conversion of the Bank Class 1 Preferred Shares Series A and 200,000 Bank Class 1 Preferred Shares Series Z for issuance pursuant to the Automatic Exchange.

Bank Common Shares

Holders of Bank Common Shares are entitled to one vote per share at all meetings of the shareholders of the Bank, except meetings at which holders of other classes or series of shares of the Bank are entitled to vote. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Bank, holders of Bank Common Shares have the right to receive dividends on the Bank Common Shares, if, as and when declared by the Board of Directors. Bank Common Shares, as a class, rank junior to all other classes of shares in the capital of the Bank with respect to priority in payment of dividends and upon any distribution of assets of the Bank in the event of the liquidation, dissolution or winding-up of the Bank, whether voluntary or involuntary, or any other distribution of the assets of the Bank among its shareholders for the purpose of winding-up its affairs.

Bank Class 1 Preferred Shares

For a detailed description of the rights and restrictions attached to the Bank Class 1 Preferred Shares as a class, and the series rights and restrictions attached to the Bank Class 1 Preferred Shares Series Z, see “Description of Class 1 Preferred Shares Series Z” in the prospectus.

Certain Provisions of the Bank Class 1 Preferred Shares Series A

Number and Issue Price

An aggregate of 5,000,000 Bank Class 1 Preferred Shares Series A will be issued at an issue price of \$25.00 per share.

Dividends

For the purposes hereof:

- (a) “Dividend Payment Date” means the last day of March, June, September and December of each year;
- (b) “Fixed Quarterly Dividend Rate” means one quarter of 6.25%; and
- (c) “Floating Quarterly Dividend Rate” means one quarter of the greater of (i) 95% of the amount expressed as a percentage (rounded downward to the nearest one ten-thousandth of one per cent (0.0001%)) obtained by aggregating the Prime Rate in effect on each day during the period of three calendar months which ends on the last day of the calendar month immediately preceding the month in which the Dividend Payment Date in respect of which the determination is being made occurs and dividing such aggregate by the number of days in such period and (ii) 6.00%.

Subject to the provisions of the Bank Act, the holders of the Bank Class 1 Preferred Shares Series A will be entitled to receive, and the Bank will pay thereon, if, as and when declared by the Board of Directors, out of the moneys of the Bank properly applicable to the payment of dividends, non-cumulative preferential cash dividends in the amounts determined from time to time as provided below.

The initial dividend, if, as and when declared, will be payable on September 30, 2000 in the amount of \$0.40668 per share, based upon an anticipated Closing Date of June 28, 2000. Thereafter, until and including September 30,

2005, the dividend payable on each Dividend Payment Date on each Bank Class 1 Preferred Share Series A, if, as and when declared, will be an amount equal to the product of (i) \$25.00 and (ii) the Fixed Quarterly Dividend Rate.

After September 30, 2005, the dividend payable on each Dividend Payment Date on each Bank Class 1 Preferred Share Series A, if, as and when declared, will be determined quarterly and will be an amount equal to the product of (i) \$25.00 and (ii) the Floating Quarterly Dividend Rate.

The Bank will make available at its head office, for inspection by the holders of the Bank Class 1 Preferred Shares Series A, the particulars of the calculation of each Floating Quarterly Dividend Rate.

The holders of Bank Class 1 Preferred Shares Series A will not be entitled to any dividends other than or in excess of the non-cumulative cash dividends described herein.

If the Board of Directors in its discretion does not declare and the Bank does not subsequently pay any dividend, or any part thereof, on the Bank Class 1 Preferred Shares Series A on or before the Dividend Payment Date for a particular quarter, then the right of the holders of the Bank Class 1 Preferred Shares Series A to receive such dividend, or any part thereof, for such quarter will be forever extinguished.

See also “Restrictions on Dividends and Retirement of Shares” and “Description of Bank Class 1 Preferred Shares Series Z” in the prospectus.

Voting Rights

The holders of Bank Class 1 Preferred Shares Series A as such will not be entitled to receive notice of, or to attend or to vote at, any meeting of the shareholders of the Bank unless and until the first time at which the rights of such holders to any undeclared or unpaid dividends or part thereof have become extinguished as described under “Dividends” above. In that event, the holders of the Bank Class 1 Preferred Shares Series A will be entitled to receive notice of, and to attend, all meetings of the shareholders at which directors are to be elected and, in respect of the election of directors, will be entitled to one vote for each share held. The voting rights of the holders of Bank Class 1 Preferred Shares Series A, and rights to receive notice of and to attend meetings, will forthwith cease upon the payment by the Bank of the whole amount of the first quarterly dividend declared on the Bank Class 1 Preferred Shares Series A after the time such rights first arose. At such time as the entitlement of such holders to any subsequent undeclared or unpaid dividends or part thereof on the Bank Class 1 Preferred Shares Series A has again become extinguished, such voting rights and rights to receive notice of, and to attend, meetings will become effective again and so on from time to time.

In connection with any action to be taken by the Bank which requires the approval of the holders of Bank Class 1 Preferred Shares Series A voting as a series or as part of a class, each such share will entitle the holder thereof to one vote.

Redemption

The Bank Class 1 Preferred Shares Series A may not be redeemed prior to September 30, 2005. Subject to the provisions described below under “Restrictions on Dividends and Retirement of Shares”, the Bank may, on not more than 60 and not less than 30 days’ notice at the Bank’s option without the consent of the holders, redeem for cash the Bank Class 1 Preferred Shares Series A (i) after September 30, 2005, other than on the dates specified in clause (ii) of this paragraph, in whole at any time or in part from time to time, at a price equal to \$25.50 per Bank Class 1 Preferred Share Series A plus the amount of all declared and unpaid dividends thereon to the date fixed for redemption and (ii) on September 30, 2005 and on the last day of every successive period of five years plus one day thereafter, in whole but not in part, at a price equal to \$25.00 per Bank Class 1 Preferred Share Series A plus the amount of all declared and unpaid dividends thereon to the date fixed for redemption.

If only part of the then outstanding Bank Class 1 Preferred Shares Series A is at any time to be redeemed, the Bank Class 1 Preferred Shares Series A to be redeemed will be selected by lot, pro rata, or in such other manner as the Board of Directors may determine.

If fewer than all the Bank Class 1 Preferred Shares Series A represented by any certificate will be redeemed, a new certificate for the balance will be issued without cost to the holder.

All redemptions of the Bank Class 1 Preferred Shares Series A are subject to the provisions of the Bank Act, the Superintendent and FSA Approval and to the provisions described below under “Restrictions on Dividends and Retirement of Shares”.

Purchase for Cancellation

Subject to applicable securities laws and the rules of any exchange upon which the Bank Class 1 Preferred Shares Series A are then listed and posted for trading, the Bank Act, obtaining the Superintendent and FSA Approval and the provisions described below under “Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any Bank Class 1 Preferred Shares Series A, in whole or in part, at the election of the Bank, in the market or by invitation for tenders addressed to all holders of the Bank Class 1 Preferred Shares Series A, at the lowest price or prices at which, in the opinion of the Board of Directors, such shares may be obtained.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Bank Class 1 Preferred Shares Series A will be entitled to receive \$25.00 per share plus all declared and unpaid dividends thereon to the date of payment, before any amount shall be paid or any assets of the Bank distributed to the holders of Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series A. The holders of the Bank Class 1 Preferred Shares Series A will not be entitled to participate in any further distribution of the property or assets of the Bank.

Restrictions on Dividends and Retirement of Shares

So long as any of the Bank Class 1 Preferred Shares Series A are outstanding, the Bank will not, without the approval of the holders of the Bank Class 1 Preferred Shares Series A given as provided herein:

- (a) pay any dividends on the Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series A (other than stock dividends payable in any shares ranking junior to the Bank Class 1 Preferred Shares Series A);
- (b) redeem, purchase or otherwise retire any Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 1 Preferred Shares Series A (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Bank Class 1 Preferred Shares Series A);
- (c) redeem, purchase or otherwise retire fewer than all the Bank Class 1 Preferred Shares Series A; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provision attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire for value any other shares ranking on parity with the Bank Class 1 Preferred Shares Series A;

unless, in each case, all dividends up to and including the Dividend Payment Date for the last completed period for which dividends will be payable will have been declared and paid or set apart for payment in respect of the Bank Class 1 Preferred Shares Series A then issued and outstanding.

Restriction on Issue of Prior Ranking Shares

The Bank may not issue any shares ranking prior to the Bank Class 1 Preferred Shares Series A with respect to the payment of dividends or the distribution of assets in the event of the liquidation, dissolution or winding-up of the Bank, without the approval of the holders of the Bank Class 1 Preferred Shares Series A.

Series to Rank Equally

The Bank Class 1 Preferred Shares Series A will rank on a parity with the Bank Class 1 Preferred Shares of every other series with respect to priority in payment of dividends and upon any distribution of assets of the Bank in the event of the liquidation, dissolution or winding-up of the Bank, whether voluntary or involuntary, or any other distribution of the assets of the Bank for the purpose of winding-up its affairs. No dividend will be declared, paid or set apart for payment on any other series of Bank Class 1 Preferred Shares (including the Bank Class 1 Preferred Shares Series B) on a Dividend Payment Date unless a dividend is declared on the Bank Class 1 Preferred Shares Series A on such Dividend Payment Date.

Conversion Right

Provided that the Bank has not delivered a notice of redemption as described above, each Bank Class 1 Preferred Share Series A will, on September 30, 2005 and on the last day of every successive period of five years plus one day thereafter (a “Conversion Date”), be convertible by the holder into one fully paid and non-assessable Bank Class 1 Preferred Share Series B.

At least 45 days and not more than 60 days prior to each Conversion Date, the Bank will give written notice to the registered holders of the Bank Class 1 Preferred Shares Series A as to the method by which such conversion right may be exercised, as set out in the following paragraphs.

Upon exercise by any holder of the right to convert Bank Class 1 Preferred Shares Series A into Bank Class 1 Preferred Shares Series B, the Bank reserves the right not to issue Bank Class 1 Preferred Shares Series B in certain circumstances, including the right not to issue such shares to any person whose address is in, or whom the Bank or its transfer agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Bank to take any action to comply with the securities, banking or analogous laws of such jurisdiction. See also “Description of Class 1 Preferred Shares Series Z — Limitations Affecting Holders of Bank Shares” in the prospectus.

If the Bank Class 1 Preferred Shares Series A are held in the CDS book-entry only system, a beneficial owner of Bank Class 1 Preferred Shares Series A may exercise conversion rights attached to Bank Class 1 Preferred Shares Series A by providing instructions to the Participant through whom such beneficial owner holds Bank Class 1 Preferred Shares Series A at least 15 days prior to the applicable Conversion Date, and such Participants will communicate such conversion instructions to CDS in accordance with the CDS Procedures.

If the Bank Class 1 Preferred Shares Series A are not held in the CDS book-entry only system, a holder of Bank Class 1 Preferred Shares Series A may exercise conversion rights attached to the Bank Class 1 Preferred Shares Series A by tendering to the transfer agent of the Bank (the “Transfer Agent”), not more than 30 and not less than 14 days prior to a Conversion Date, the certificate or certificates representing the Bank Class 1 Preferred Shares Series A to be converted with the conversion notice on the reverse side thereof duly completed. Such conversion notice will be irrevocable once it has been delivered to the Bank and will set out, unless all the Bank Class 1 Preferred Shares Series A held by the holder by whom such notice is given are to be converted, the number of Bank Class 1 Preferred Shares Series A so held which are to be converted.

The Bank will, on presentation and delivery to the Transfer Agent of the certificate or certificates representing the Bank Class 1 Preferred Shares Series A so tendered for conversion, deliver or cause to be delivered on the Conversion Date certificates representing the number of whole Bank Class 1 Preferred Shares Series B into which such Bank Class 1 Preferred Shares Series A are to be converted, registered in the name of the holder of the Bank Class 1 Preferred Shares Series A being converted, or as such holder shall have directed, as the case may be. The Bank Class 1 Preferred Shares Series A so converted will be converted, and the holder thereof will become a holder of Bank Class 1 Preferred Shares Series B of record, effective on the Conversion Date.

If fewer than all the Bank Class 1 Preferred Shares Series A represented by any certificate shall be converted, a new certificate representing the balance will be issued without cost to the holder.

Notwithstanding the foregoing, holders of Bank Class 1 Preferred Shares Series A will not be entitled to convert their shares into Bank Class 1 Preferred Shares Series B if, following the close of business on the fourteenth day preceding a Conversion Date, the Bank determines that there would remain outstanding on that Conversion Date fewer than 400,000 Bank Class 1 Preferred Shares Series B, after having taken into account all Bank Class 1 Preferred Shares Series A tendered for conversion into Bank Class 1 Preferred Shares Series B and all Bank Class 1 Preferred Shares Series B tendered for conversion into Bank Class 1 Preferred Shares Series A. If the Bank Class 1 Preferred Shares Series A are not then held in the CDS book-entry only system, the Bank will give notice in writing of such determination to all holders of Bank Class 1 Preferred Shares Series A at least seven days prior to the applicable Conversion Date and will issue, prior to such Conversion Date, to the holders of Bank Class 1 Preferred Shares Series A who have tendered Bank Class 1 Preferred Shares Series A for conversion, new certificates evidencing the Bank Class 1 Preferred Shares Series A tendered for conversion (or return tendered certificates). Comparable measures will be taken for Bank Class 1 Preferred Shares Series A held in the CDS book-entry only system. If, following the close of business on the fourteenth day preceding a Conversion Date, the Bank determines that there would remain outstanding on that Conversion Date fewer than 400,000 Bank Class 1 Preferred Shares Series A after having taken into account all Bank Class 1 Preferred Shares Series A tendered for conversion into Bank Class 1 Preferred Shares Series B and all Bank Class 1 Preferred Shares Series B tendered for conversion into Bank Class 1 Preferred Shares Series A, then, all, but not part, of the remaining outstanding Bank Class 1 Preferred Shares Series A will automatically be converted into Bank Class 1 Preferred Shares Series B on the basis of one Bank Class 1 Preferred Share Series B for each Bank Class 1 Preferred Share Series A at the close of business on the applicable Conversion Date and the Bank will give

notice in writing thereof to the holders of such remaining Bank Class 1 Preferred Shares Series A at least seven days prior to the applicable Conversion Date.

If the Bank gives notice to the holders of the Bank Class 1 Preferred Shares Series A on or prior to a Conversion Date of a redemption of all of the Bank Class 1 Preferred Shares Series A, the Bank will not be required to give notice as provided above to the holders of the Bank Class 1 Preferred Shares Series A of the conversion right of holders of Bank Class 1 Preferred Shares Series A, and the right of any holder of Bank Class 1 Preferred Shares Series A to convert such Bank Class 1 Preferred Shares Series A shall cease and terminate in that event.

Tax Election

The Bank will elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that corporate holders of the Bank Class 1 Preferred Shares Series A will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on the Bank Class 1 Preferred Shares Series A.

Amendment of Series Provisions

The rights, privileges, restrictions and conditions of the Bank Class 1 Preferred Shares Series A may be amended, deleted, varied, modified or amplified by resolution enacted by the Board of Directors and confirmed by at least two-thirds of the Bank Class 1 Preferred Shares Series A voted at a meeting of the holders of Bank Class 1 Preferred Shares Series A duly called for the purpose and at which a quorum is present and subject to any other approval required by law and subject to the provisions described under “Description of Bank Class 1 Preferred Shares Series Z — Certain Provisions of the Bank Class 1 Preferred Shares as a Class — Shareholder Approvals”.

Certain Provisions of the Bank Class 1 Preferred Shares Series B

Number and Issue Price

An aggregate of 5,000,000 Bank Class 1 Preferred Shares Series B are authorized to be issued, at a price per share equal to \$25.00 to be satisfied by the conversion of one Bank Class 1 Preferred Share Series A into one Bank Class 1 Preferred Share Series B. Except as set out below, the provisions of the Bank Class 1 Preferred Shares Series B as a series are the same as the provisions of the Bank Class 1 Preferred Shares Series A as a series set out above with necessary changes. See “— Certain Provisions of the Preferred Shares Series A”.

Dividends

For the purposes hereof:

- (a) “Dividend Payment Date” means the last day of March, June, September and December of each year; and
- (b) “Fixed Quarterly Dividend Rate” means one quarter of the Government of Canada Yield determined on the twenty-first day preceding each Conversion Date, or if such date is not a Business Day, on the first Business Day thereafter.

Subject to the provisions of the Bank Act, the holders of the Bank Class 1 Preferred Shares Series B will be entitled to receive and the Bank will pay thereon, if, as and when declared by the Board of Directors, out of the moneys of the Bank properly applicable to the payment of dividends, non-cumulative preferential cash dividends in the amounts determined from time to time as provided below.

The dividend payable on each Dividend Payment Date on each Bank Class 1 Preferred Share Series B, if, as and when declared, will be an amount equal to the product of (i) \$25.00 and (ii) the Fixed Quarterly Dividend Rate.

The holders of Bank Class 1 Preferred Shares Series B will not be entitled to any dividends other than or in excess of the non-cumulative preferential cash dividends described herein.

If the Board of Directors in its discretion does not declare and the Bank does not subsequently pay any dividend, or any part thereof, on the Bank Class 1 Preferred Shares Series B on or before the Dividend Payment Date for a particular quarter, then the right of the holders of the Bank Class 1 Preferred Shares Series B to receive such dividend, or any part thereof, for such quarter will be forever extinguished.

See also “— Certain Provisions of the Bank Class 1 Preferred Shares Series A — Restrictions on Dividends and Retirement of Shares” and “Description of Bank Class 1 Preferred Shares Series Z — Limitations Affecting Holders of Bank Shares” in the prospectus.

Redemption

The Bank Class 1 Preferred Shares Series B may not be redeemed prior to October 1, 2010. Subject to the provisions described above under “— Certain Provisions of the Bank Class 1 Preferred Shares Series A — Restrictions on Dividends and Retirement of Shares” which apply to the Bank Class 1 Preferred Shares Series B with necessary changes, the Bank may, on not more than 60 and not less than 30 days’ notice, at the Bank’s option without the consent of the holders, redeem the Bank Class 1 Preferred Shares Series B on October 1, 2010, and on the last day of every successive period of five years plus one day thereafter, in whole but not in part, at a price equal to \$25.00 per Bank Class 1 Preferred Share Series B, plus the amount of all declared and unpaid dividends thereon to the date fixed for redemption.

All redemptions of the Bank Class 1 Preferred Shares Series B are subject to the provisions of the Bank Act, to obtaining the Superintendent and FSA Approval, and to the provisions described above under “— Certain Provisions of the Bank Class 1 Preferred Shares Series A — Restrictions on Dividends and Retirement of Shares”.

Conversion Right

Provided that the Bank has not delivered a notice of redemption in respect of the Bank Class 1 Preferred Shares Series B, each Bank Class 1 Preferred Share Series B will, on October 1, 2010 and on each Conversion Date thereafter, be convertible by the holder into one fully paid and non-assessable Bank Class 1 Preferred Share Series A.

At least 45 days and not more than 60 days prior to each Conversion Date, the Bank will give written notice to the registered holders of the Bank Class 1 Preferred Shares Series B of this conversion right and as to the method by which such conversion right may be exercised, as set out in the following paragraphs.

Upon exercise by any holder of the right to convert Bank Class 1 Preferred Shares Series B into Bank Class 1 Preferred Shares Series A, the Bank reserves the right not to issue Bank Class 1 Preferred Shares Series A in certain circumstances, including the right not to issue such shares to any persons whose address is in, or whom the Bank or its transfer agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Bank to take any action to comply with the securities, banking or analogous laws of such jurisdiction. See also “Description of Bank Class 1 Preferred Shares Series Z — Limitations Affecting Holders of Bank Shares.”

If the Bank Class 1 Preferred Shares Series B are held in the CDS book-entry only system, a beneficial owner of Bank Class 1 Preferred Shares Series B may exercise conversion rights attached to Bank Class 1 Preferred Shares Series B by providing instructions to the Participant through whom such beneficial owner holds Bank Class 1 Preferred Shares Series B at least 15 days prior to the applicable Conversion Date, and such Participants will communicate such conversion instructions to CDS in accordance with the CDS Procedures.

If the Bank Class 1 Preferred Shares Series B are not held in the CDS book-entry only system, a holder of Bank Class 1 Preferred Shares Series B may exercise conversion rights attached to the Bank Class 1 Preferred Shares Series B by tendering to the Transfer Agent, not more than 30 and not less than 14 days prior to a Conversion Date, the certificate or certificates representing the Bank Class 1 Preferred Shares Series B to be converted with the conversion notice on the reverse side thereof duly completed. Such conversion notice will be irrevocable once it has been delivered to the Bank and shall set out, unless all the Bank Class 1 Preferred Shares Series B held by the holder by whom such notice is given are to be converted, the number of Bank Class 1 Preferred Shares Series B so held which are to be converted.

The Bank will, on presentation and delivery to the Transfer Agent of the certificate or certificates representing the Bank Class 1 Preferred Shares Series B so tendered for conversion, deliver or cause to be delivered on the Conversion Date certificates representing the number of whole Bank Class 1 Preferred Shares Series A into which such Bank Class 1 Preferred Shares Series B are to be converted, registered in the name of the holder of the Bank Class 1 Preferred Shares Series B being converted, or as such holder shall have directed, as the case may be. The Bank Class 1 Preferred Shares Series B so converted will be converted and the holder thereof will become a holder of Bank Class 1 Preferred Shares Series A of record, effective on the Conversion Date.

If fewer than all the Bank Class 1 Preferred Shares Series B represented by any certificate shall be converted, a new certificate for the balance will be issued without cost to the holder.

Notwithstanding the foregoing, holders of Bank Class 1 Preferred Shares Series B will not be entitled to convert their shares into Bank Class 1 Preferred Shares Series A if, following the close of business on the fourteenth day preceding a Conversion Date, the Bank determines that there would remain outstanding on such Conversion Date fewer

than 400,000 Bank Class 1 Preferred Shares Series A, after having taken into account all Bank Class 1 Preferred Shares Series B tendered for conversion into Bank Class 1 Preferred Shares Series A and all Bank Class 1 Preferred Shares Series A tendered for conversion into Bank Class 1 Preferred Shares Series B. If the Bank Class 1 Preferred Shares Series B are not then held in the CDS book-entry only system, the Bank will give notice in writing of such determination to all holders of Bank Class 1 Preferred Shares Series B at least seven days prior to the applicable Conversion Date and will issue, prior to such Conversion Date, to the holders of Bank Class 1 Preferred Shares Series B who have tendered Bank Class 1 Preferred Shares Series B for conversion, new certificates evidencing the Bank Class 1 Preferred Shares Series B tendered for conversion (or return tendered certificates). Comparable measures will be taken for Bank Class 1 Preferred Shares Series B held in the CDS book-entry only system. If, following the close of business on the fourteenth day preceding a Conversion Date, the Bank determines that there would remain outstanding on that Conversion Date fewer than 400,000 Bank Class 1 Preferred Shares Series B after having taken into account all Bank Class 1 Preferred Shares Series B tendered for conversion into Bank Class 1 Preferred Shares Series A and all Bank Class 1 Preferred Shares Series A tendered for conversion into Bank Class 1 Preferred Shares Series B, then, all, but not part, of the remaining outstanding Bank Class 1 Preferred Shares Series B will automatically be converted into Bank Class 1 Preferred Shares Series A on the basis of one Bank Class 1 Preferred Share Series A for each Bank Class 1 Preferred Share Series B at the close of business on the applicable Conversion Date and the Bank will give notice in writing thereof to the holders of such remaining Bank Class 1 Preferred Shares Series B at least seven days prior to the applicable Conversion Date.

If the Bank gives notice to the holders of the Bank Class 1 Preferred Shares Series B on or prior to a Conversion Date of a redemption of all of the Bank Class 1 Preferred Shares Series B, the Bank will not be required to give notice as provided above to the holders of the Bank Class 1 Preferred Shares Series B of the conversion right of holders of Bank Class 1 Preferred Shares Series B, and the right of any holder of Bank Class 1 Preferred Shares Series B to convert such Bank Class 1 Preferred Shares Series B shall cease and terminate in that event.

Bank Class 2 Preferred Shares

The Bank is authorized to issue an unlimited number of Bank Class 2 Preferred Shares in one or more series. The Board of Directors may from time to time divide any unissued Bank Class 2 Preferred Shares into series and fix the number of shares in each series and the rights, privileges, restrictions and conditions thereof.

The Bank Class 2 Preferred Shares of each series will rank on a parity with the Bank Class 2 Preferred Shares of every other series. The Bank Class 2 Preferred Shares rank junior to the Bank Class 1 Preferred Shares, and are entitled to preference over the Bank Common Shares and any other class of shares in the capital of the Bank ranking junior to the Bank Class 2 Preferred Shares with respect to the payment of dividends and upon distribution of assets of the Bank in the event of the liquidation, dissolution or winding-up of the Bank, whether voluntary or involuntary, or any other distribution of the assets of the Bank among its shareholders for the purpose of winding-up its affairs.

The Bank's by-laws provide that 10,800,000 of the Bank Class 2 Preferred Shares are deemed to be designated by the Board of Directors as Bank Class 2 Preferred Shares Series A and are divided into Tranche 1, Tranche 2 and Tranche 3 with 4,000,000 shares, 4,000,000 shares and 2,800,000 shares in each of such tranches, respectively.

The Bank Class 2 Preferred Shares Series A have an issue price of \$25.00 per share. Subject to the provisions of the Bank Act, the holders of the Bank Class 2 Preferred Shares Series A are entitled to receive and the Bank will pay thereon, if, as and when declared by the Board of Directors, out of the moneys of the Bank properly applicable to the payment of dividends, annual non-cumulative preferential cash dividends payable on the last day of December of each year commencing December 31, 2000. For any period ending on or prior to October 31, 2002, the dividend, if declared, will be at an annual rate of 8.5% and, for any five year period thereafter, at an annual rate equal to the sum of (i) the rate designated as the 5-year On-The-Run Government of Canada Rate on Reuters Screen CDBN or Telerate page 30105 at 10:00 a.m. (Toronto time) on the last Business Day immediately preceding the commencement of such five year period and (ii) 2.5%. The Bank Class 2 Preferred Shares Series A are by their terms not redeemable prior to December 31, 2009.

On and after December 31, 2009, subject to the provisions of the Bank Act and obtaining Superintendent and FSA Approval, the Bank may redeem at any time all, or from time to time any part of, the outstanding Bank Class 2 Preferred Shares Series A, at the Bank's option without the consent of the holders, by the payment of an amount in cash for each share so redeemed equal to \$25.00 plus the amount of all declared and unpaid dividends thereon to the date fixed for redemption.

In the event of liquidation, dissolution or winding-up of the Bank, the holders of the Bank Class 2 Preferred Shares Series A will be entitled to receive \$25.00 per share plus the amount of declared and unpaid dividends thereon to the date of payment, before any amount shall be paid or any assets of the Bank distributed to the holders of Bank Common Shares or any other shares in the capital of the Bank ranking junior to the Bank Class 2 Preferred Shares Series A.

The holders of Bank Class 2 Preferred Shares Series A are entitled to receive notice of, and to attend and to vote at, any meeting of shareholders of the Bank and are entitled to one vote for each share held.

There are also certain restrictions on dividends on or retirement of other shares in the capital of the Bank ranking junior to the Bank Class 2 Preferred Shares Series A unless all dividends on the Bank Class 2 Preferred Shares Series A, in respect of which the rights of holders thereof have been extinguished, have been declared and paid or set apart for payment.

All of the issued and outstanding Bank Class 2 Preferred Shares Series A are held by HSBC Bank Canada's immediate parent, HSBC Holdings B.V. It is intended that the net proceeds from this Offering, together with the proceeds to the Bank from the Bank Preferred Share Offering, will be used in part to redeem all of the Bank Class 2 Preferred Shares Series A. The Superintendent has consented to the redemption. After such redemption, the holder of the Bank Class 2 Preferred Shares will not be entitled to participate in any further distribution of the property and assets of the Bank. See "Use of Proceeds".

Subordinated Debt

HSBC Bank Canada has outstanding several series of debentures, each of which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors. These debentures are currently comprised of US\$85 million principal amount of 6.84% debentures due 2094 (the interest rate being fixed until July 2000 and thereafter the rate will be reset every five years at the then five-year U.S. Treasury rate plus 0.80%), \$60 million principal amount of 11.0% debentures due 2005, \$60 million principal amount of 5.73% debentures due 2009, \$50 million principal amount of 6.79% debentures due 2009, \$60 million principal amount of 7.70% debentures due 2011 and \$40 million principal amount of floating rate debentures due 2083. The interest rates on the 5.73%, 6.79% and 7.70% debentures are fixed until November 2004, December 2004 and February 2006, respectively. Thereafter, the rates will be reset at the 90-day bankers' acceptance rate plus 1.0%. The interest rate on the floating rate debentures floats at the 30-day bankers' acceptance rate plus 0.50%.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, position held with the Bank and the principal occupation of each of the directors and officers of the Bank:

<u>Name and Municipality of Residence</u>	<u>Office with the Bank</u>	<u>Principal Occupation</u>
JAMES H. CLEAVE(3)(4) Blaine, Washington	Chairman of the Board	Chairman of the Board, HSBC Bank Canada
MARTIN J.G. GLYNN(3)(4) Vancouver, British Columbia	President, Chief Executive Officer and Director	President and Chief Executive Officer, HSBC Bank Canada
JACQUELINE L. BOUTET(1)(2)(3) Montreal, Quebec	Director	President, Jacqueline L. Boutet Inc. (real estate development company)
PETER Y.L. ENG(1)(2) Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Allied Holdings Group (real estate development company)
KWOK YUEN HO Toronto, Ontario	Director	President, ATI Technologies Inc. (graphics and multimedia technology company)
TAK-CHING HO(3) Vancouver, British Columbia	Director	Retired Banker

<u>Name and Municipality of Residence</u>	<u>Office with the Bank</u>	<u>Principal Occupation</u>
DONALD C. LOWE(1)(2) Toronto, Ontario	Director	Director, Advisory Board, Marsh Canada Limited (insurance brokerage firm)
ROBERT W. MARTIN(1)(2)(4) Toronto, Ontario	Director	Corporate Director
GWYN MORGAN(4) Calgary, Alberta	Director	President and Chief Executive Officer, Alberta Energy Company Ltd. (oil and gas exploration, production, storage and transportation company)
YOUSSEF A. NASR(3)(4) New York, New York	Director	President and Chief Executive Officer, HSBC Bank USA
ROSS S. SMITH(1)(2)(3) North Vancouver, British Columbia	Director	Corporate Director
CAROLE S. TAYLOR(4) Vancouver, British Columbia	Director	Corporate Director
KEITH R. WHITSON(3)(4) London, England	Director	Chief Executive Officer, HSBC Holdings plc
J. LINDSAY GORDON Toronto, Ontario	Chief Operating Officer	Chief Operating Officer, HSBC Bank Canada
JOHN RANALDI Vancouver, British Columbia	Senior Executive Vice-President	Senior Executive Vice-President, HSBC Bank Canada
JEFFREY C. DOWLE West Vancouver, British Columbia	Executive Vice-President	Executive Vice-President, HSBC Bank Canada
JAMES F. MAHAFFY Oakville, Ontario	Executive Vice-President	Executive Vice-President, HSBC Bank Canada
SARAH A. MORGAN-SILVESTER North Vancouver, British Columbia	Executive Vice-President	Executive Vice-President, HSBC Bank Canada
JOHN T. MOULD Maple Ridge, British Columbia	Chief Financial Officer	Chief Financial Officer, HSBC Bank Canada
RAYMOND MORGAN West Vancouver, British Columbia	Chief Technology Officer	Chief Technology Officer, HSBC Bank Canada
ROBERT S. ANTHONY Delta, British Columbia	Senior Vice-President, Credit	Senior Vice-President, Credit, HSBC Bank Canada
WILLIAM C. CRAWFORD West Vancouver, British Columbia	Senior Vice-President, Marketing	Senior Vice-President, Marketing, HSBC Bank Canada
MARTIN DUFRESNE St. Lambert, Quebec	Senior Vice-President, Quebec & Atlantic Region	Senior Vice-President, Quebec & Atlantic Region, HSBC Bank Canada
I. DEWAR HARPER Delta, British Columbia	Senior Vice-President, British Columbia Region	Senior Vice-President, British Columbia Region, HSBC Bank Canada
JAMES B. HOWDEN Grimsby, Ontario	Senior Vice-President, Risk Management and Credit Services	Senior Vice-President, Risk Management and Credit Services, HSBC Bank Canada

<u>Name and Municipality of Residence</u>	<u>Office with the Bank</u>	<u>Principal Occupation</u>
W. GEOFFREY HOY Oakville, Ontario	Senior Vice-President & Manager, Toronto Main Branch	Senior Vice-President & Manager, Toronto Main Branch, HSBC Bank Canada
DAVID S. LEE Vancouver, British Columbia	Senior Vice-President, British Columbia Region	Senior Vice-President, British Columbia Region, HSBC Bank Canada
KENNETH C. MATHESON Calgary, Alberta	Senior Vice-President, Western Region	Senior Vice-President, Western Region, HSBC Bank Canada
GRAHAM A. MCISAAC West Vancouver, British Columbia	Senior Vice-President and Controller	Senior Vice-President and Controller, HSBC Bank Canada
J. BRADLEY MEREDITH Toronto, Ontario	Senior Vice-President, Treasury	Senior Vice-President, Treasury, HSBC Bank Canada
NICHOLAS A. NICOLAOU Toronto, Ontario	Senior Vice-President, Ontario Region	Senior Vice-President, Ontario Region, HSBC Bank Canada
SEAN P. O'SULLIVAN Vancouver, British Columbia	Senior Vice-President, Distribution Systems	Senior Vice-President, Distribution Systems, HSBC Bank Canada
A. MICHAEL PAPADATOS Toronto, Ontario	Senior Vice-President, Ontario Region	Senior Vice-President, Ontario Region, HSBC Bank Canada
TRACEY J.E. REDIES Surrey, British Columbia	Senior Vice-President, E-Business	Senior Vice-President, E-Business, HSBC Bank Canada
JOEY S.C. SIT Vancouver, British Columbia	Senior Vice-President, Human Resources	Senior Vice-President, Human Resources, HSBC Bank Canada
ALFRED H. TONG Vancouver, British Columbia	Senior Vice-President, Group Systems Development Centre	Senior Vice-President, Group Systems Development Centre, HSBC Bank Canada
DAVID TUNNICLIFFE Surrey, British Columbia	Senior Vice-President & Manager, Vancouver Main Branch	Senior Vice-President & Manager, Vancouver Main Branch, HSBC Bank Canada

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- (1) Member of the Audit Committee.
 - (2) Member of the Conduct Review Committee.
 - (3) Member of the Credit Committee.
 - (4) Member of the Human Resources Committee.

During the past five years, all of the directors and officers of HSBC Bank Canada have been associated in various capacities with HSBC Bank Canada, affiliates thereof or the companies or organizations indicated opposite their names in the table above, except Mr. Ross S. Smith, who was a partner of KPMG LLP from 1978 to 1998, Ms. Carole S. Taylor, who was Chair of Canada Ports Corporation and Vancouver Ports Corporation from 1997 to 1999, and Mr. Joey S.C. Sit, who was with Royal Pacific Realty from 1995 to 1996.

EXECUTIVE COMPENSATION

Compensation

The following table sets forth, for the periods indicated, the compensation paid to the President and Chief Executive Officer and the four most highly compensated executive officers of the Bank other than the Chief Executive Officer for the year ended December 31, 1999. The President and Chief Executive Officer and such executive officers are referred to, collectively, as the "Named Officers".

Name & Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation \$
		Salary(1) \$	Bonus(1) \$	Other Annual Compensation(1) \$	Award		Payouts	
					Securities Under Options/SARs Granted(6) #	Restricted Shares(7) \$	LTIP Payouts \$	
Y.A. Nasr	1999	466,795	593,800	nil(3)	nil	248,900(8)	nil	nil
President and	1998	483,066	625,300	nil(3)	45,000	nil	nil	nil
Chief Executive Officer (transferred December 1999)	1997	334,205	329,000	nil(3)	37,500	nil	nil	nil
M.J.G. Glynn	1999	332,165	382,500	nil(3)	nil	196,130(8)	nil	567
President and	1998	336,666	393,800	nil(3)	30,000	nil	nil	135
Chief Executive Officer (appointed December 1999)	1997	255,525	268,000	nil(3)	30,000	nil	nil	320
J.L. Gordon	1999	278,053	275,000	nil(3)	nil	147,000(8)	nil	3,804
Chief Operating Officer	1998	299,166	303,300	nil(3)	28,500	nil	nil	4,465
(appointed December 1999)	1997	239,655	218,800	nil(3)	28,500	nil	nil	1,563
R. Morgan(2)	1999	818,607	103,192	74,210(4)	19,500	nil	nil	nil
Chief Technology Officer	1998	727,416	70,257	82,974(4)	9,000	nil	nil	nil
	1997	567,572	52,138	81,431(4)	7,500	nil	nil	nil
J.B. Meredith	1999	198,915	317,680	nil(3)	15,300	80,703(9)	nil	nil
Senior Vice-President, Treasury	1998	224,250	384,297	nil(3)	nil	nil	nil	nil
	1997	185,823	322,850	nil(3)	nil	87,150(9)	nil	nil
N.A. Nicolaou(2)	1999	525,135	74,734	90,100(5)	15,300	nil	nil	nil
Senior Vice President, Ontario Region	1998	441,152	44,529	60,925(5)	nil	nil	nil	nil
	1997	208,774	37,827	35,900(5)	nil	nil	nil	nil

- (1) HSBC Bank Canada changed its fiscal year end from October 31 to December 31 in 1998. Salary, Bonus, and Other Annual Compensation for the year 1998 reflect payments made during the fourteen months ended December 31, 1998.
- (2) Messrs. Morgan and Nicolaou are International Managers of HSBC Holdings which indirectly owns HSBC Bank Canada. While working in Canada, all elements of their compensation are determined by the parent company and paid by HSBC Bank Canada. Gross income has been increased to offset certain aspects of the Canadian taxation system. Mr. Morgan will be in Canada for an indefinite period, after which it is expected that he will be assigned to other international postings. Mr. Nicolaou will be reassigned to a posting in Japan in 2000. This table reflects all of their compensation.
- (3) The aggregate value of perquisites paid to Messrs. Nasr, Glynn, Gordon and Meredith does not exceed 10% of their salary plus bonus.
- (4) Mr. Morgan received a housing allowance of \$42,000 per annum which is included in these totals.
- (5) Mr. Nicolaou received a housing allowance of \$42,000 for 1999 and 1998 and \$21,000 for 1997. He also received an education allowance of \$22,580 for 1999, \$20,180 for 1998 and \$14,900 for 1997. All of these amounts are included in these totals.
- (6) In July 1999, HSBC Holdings issued three new ordinary US\$0.50 shares to replace each existing 75p share. Grants referred to in this prospectus reflect options for ordinary US\$0.50 shares of HSBC Holdings.
- (7) Restricted Shares granted are restricted shares of HSBC Holdings.
- (8) Restricted share awards to Messrs. Nasr, Glynn, and Gordon were as follows:

<u>Name</u>	<u>Grant Date</u>	<u>Number of Shares</u>	<u>Vesting</u>
Y.A. Nasr	March 1999	15,480	March 2002
M.J.G. Glynn.....	March 1999	12,281	March 2002
J.L. Gordon	March 1999	9,285	March 2002

Dividends accrue to each officer during the vesting period.

(9) Mr. Meredith has been granted a total of 8,997 restricted shares as follows:

<u>Grant Date</u>	<u>Number of Shares</u>	<u>Vesting</u>	<u>Value</u>
1997.....	3,552	3,552 shares on December 1, 2000	\$43,575
1999.....	5,445	2,721 shares on day of announcement of the Bank's annual results for 2000 in 2001 and 2,724 shares on day of announcement of the Bank's annual results for 2001 in 2002	\$80,703

Dividends accrue to Mr. Meredith during the vesting period.

Options

The following tables sets forth the details of options to acquire ordinary US\$0.50 shares of HSBC Holdings granted to the Named Officers.

Option Grant Awards in the Year ended December 31, 1999

<u>Name</u>	<u>Securities Under Options Granted (#)</u>	<u>% of Total Options Granted to Employees in Financial Year</u>	<u>Exercise or Base Price (per Security)</u>	<u>Market Value of Securities Underlying Options on the Date of Grant (per Security)</u>	<u>Expiration Date</u>
Y.A. Nasr.....	nil	n/a	n/a	n/a	n/a
M.J.G. Glynn.....	nil	n/a	n/a	n/a	n/a
J.L. Gordon.....	nil	n/a	n/a	n/a	n/a
R. Morgan.....	19,500	0.0008%	£6.375	£6.66	March 29, 2009
J.B. Meredith.....	15,300	0.0006%	£6.375	£6.66	March 29, 2009
N.A. Nicolaou.....	15,300	0.0006%	£6.375	£6.66	March 29, 2009

Aggregated Option Exercises During the Year ended December 31, 1999 and the Financial Year-End Option Value

<u>Name</u>	<u>Securities Acquired On Exercise (#)</u>	<u>Aggregate Value Realized</u>	<u>Unexercised Options At Year-End (#) Exercisable/Unexercisable</u>	<u>Value of Unexercised In-The-Money Options At Year-End Exercisable/Unexercisable</u>
Y.A. Nasr.....	nil	nil	18,000/108,000	£116,232/£376,488
M.J.G. Glynn.....	6,000	£76,092	0/82,500	£0/£298,194
J.L. Gordon.....	4,500	£58,689	0/79,500	£0/£289,243
R. Morgan.....	nil	nil	0/45,000	£0/£139,919
J.B. Meredith.....	nil	nil	0/15,300	£0/£34,495
N.A. Nicolaou.....	nil	nil	0/15,300	£0/£34,495

Defined Benefit Pension Plan

Messrs. Nasr, Glynn, Gordon and Meredith are covered by the registered pension plan maintained by HSBC Bank Canada. This pension plan limits the pension payable to the maximum allowed by Canada Customs and Revenue Agency and the following table takes such maximum into account. Although the pension formula contains an offset in respect of the Canada Pension Plan, the earnings of the Named Officers are at a level such that all of them are expected to receive a pension from the pension plan which is equal to the maximum allowed by law. The following table assumes payments in the normal form of pension which is a life annuity guaranteed for 10 years.

<u>\$ Compensation</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
225,000	25,833	34,444	43,056	51,667	60,278
250,000	25,833	34,444	43,056	51,667	60,278
300,000	25,833	34,444	43,056	51,667	60,278
400,000	25,833	34,444	43,056	51,667	60,278
500,000	25,833	34,444	43,056	51,667	60,278
600,000	25,833	34,444	43,056	51,667	60,278

The estimated full years of actual credited service in the pension plan, at their normal retirement date (age 60), for the Named Officers, are as follows:

Y.A. Nasr — 35 years;
M.J.G. Glynn — 28 years;
J.G. Gordon — 24 years; and
J.B. Meredith — 24 years.

Each of Messrs. Nasr, Glynn, Gordon and Meredith is entitled upon retirement from HSBC Bank Canada to receive an annual pension during his lifetime pursuant to supplemental retirement agreements with HSBC Bank Canada. The terms of such agreements as of December 31, 1999 were as follows:

- (1) the supplemental allowance is forfeited if the executive leaves before age 55 and goes to work for a competitor within two years;
- (2) supplemental allowances are calculated based on an executive's highest three years' average base salary in the ten years prior to retirement, excluding all bonuses; and
- (3) the normal form of pension is for life with a guarantee of ten years.

Each of Messrs. Nasr and Glynn is entitled to an annual supplemental pension equal to 2.5% of his highest three years' average salary times his years of service with HSBC Bank Canada. In respect of Mr. Nasr, from this amount is subtracted the amount payable from HSBC Bank Canada's registered pension plan and the amount payable from the Pension Plan of HSBC Bank USA (a related company) to which he belonged from 1979 to 1990.

Each of Messrs. Gordon and Meredith is entitled to a supplemental pension equal to years of service times approximately 1.3% of highest average earnings up to the yearly maximum pension equivalent ("YMPE") plus 2.0% of highest average earnings over the YMPE minus the amount payable from HSBC Bank Canada's registered pension plan.

Based on compensation at December 31, 1999, the estimated total annual retirement benefits (including that from the Bank's registered pension plan) payable upon normal retirement were as follows:

Y.A. Nasr — \$416,000;
M.J.G. Glynn — \$175,000;
J.G. Gordon — \$143,500; and
J.B. Meredith — \$84,600.

Messrs. Morgan and Nicolaou are members of HSBC Holdings' International Staff Retirement Benefit Scheme ("ISRBS") which is a contributory (employer and employee contributions) defined benefit scheme administered and controlled by Hongkong and Shanghai Bank Trustee (Jersey) Limited.

A member's Sterling Basic Salary (as defined in ISRBS) constitutes the pensionable salary for determining benefit entitlements and level of the member's contribution. The formula for determining the pension benefit is as follows:

- (1) one four hundred and eightieth (1/480) of the final salary for each completed month of service in Executive Membership Section (as defined in ISRBS) (Grades A - G inclusive); and
- (2) one and one quarter four hundred and eightieth (1.25/480) of the Final Salary for each completed month of service in the Senior Management Section (as defined in ISRBS) (Grades H - L inclusive).

Mr. Morgan joined ISRBS on January 1, 1980. His Normal Retirement Age (as defined in ISRBS) is 53 years. Based on a projected total pensionable service of 23 years and four months to his normal retirement date, Mr. Morgan's anticipated pension would be £74,951.86 per annum assuming no further change to his current Sterling Basic Salary of £113,214.52 per annum.

Mr. Nicolaou joined ISRBS on February 1, 1978. His Normal Retirement Age is 53 years. Based on a projected total pensionable service of 31 years and four months to his normal retirement date, Mr. Nicolaou's anticipated pension would be £59,648.73 per annum assuming no further change to his current Sterling Basic Salary of £76,147.32 per annum.

Employment Agreements

There are no employment contracts or termination agreements for the Named Officers.

Options of the Bank

There are no outstanding options to acquire securities of HSBC Bank Canada or any of its subsidiaries.

Directors' Compensation

The Chairman of the Board receives a retainer of \$50,000 per annum payable quarterly. Directors who are officers of HSBC Bank Canada or its subsidiaries or who are officers of an affiliated member of HSBC, do not receive retainers or fees. All other directors receive a retainer of \$19,000 per annum payable quarterly and a fee of \$1,000 per board meeting attended. These directors also receive an attendance fee of \$1,000 for each meeting of a committee they attend. Those who are committee chairpersons are entitled to receive an additional annual retainer of \$3,500. Certain directors on the credit committee receive an additional \$18,000 per annum payable quarterly and certain non-credit committee directors receive an additional \$11,000 per annum payable quarterly. All directors are reimbursed for travel and other out-of-pocket expenses incurred in attending board or committee meetings, and for any reasonable expenses incurred while on Bank business.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

As at March 27, 2000, the aggregate amount of indebtedness incurred by all officers and employees and former officers and employees of HSBC Bank Canada or any of its subsidiaries (including some routine indebtedness) amounted to \$235,234,787. This amount represents 2,156 mortgage loans in the aggregate amount of \$171,844,542, 4,200 personal loans in the aggregate amount of \$33,092,144, lines of credit in the aggregate amount of \$19,301,895, business loans in the aggregate amount of \$971,594 and indebtedness related to credit extended in margin accounts by subsidiaries of HSBC Bank Canada in the aggregate amount of \$10,024,612.

Indebtedness incurred by all directors and former directors of HSBC Bank Canada (other than directors who are officers of HSBC Bank Canada) is considered routine indebtedness.

The following table sets forth the indebtedness incurred by executive officers and senior officers of HSBC Bank Canada and their associates. Indebtedness that had been entirely repaid as of the date of this prospectus and some routine indebtedness is not included in the table. For the purpose of this section, ‘‘Prime’’ means the prime lending rate on interest announced from time to time by HSBC Bank Canada.

Table of Indebtedness of Directors, Executive Officers and Senior Officers

<u>Name and Principal Position of Borrower</u>	<u>Involvement of Issuer or Subsidiary</u>	<u>Largest \$ Amount outstanding during year ended December 31, 1999</u>	<u>\$ Amount Outstanding as at March 27, 2000</u>
R.S. Anthony(1) Senior Vice-President, Credit	Bank as Lender	\$ 10,000	\$ 856
W.C. Crawford(2) Senior Vice-President, Marketing	Bank as Lender	241,739	196,115
J.C. Dowle(3) Executive Vice-President	Bank as Lender	365,344	294,714
M. Dufresne(4) Senior Vice-President, Quebec and Atlantic Region	Bank as Lender	40,500	37,033
M.J.G. Glynn(5) President and Chief Executive Officer	Bank as Lender	105,000	65,021
I.D. Harper(6) Senior Vice-President, British Columbia Region	Bank as Lender	1,525	1,525
J.B. Howden(7) Senior Vice-President, Risk Management and Credit Services	Bank as Lender Subsidiary — Credit Extended	174,387 36,126	165,565 85,146
D. Lee(8) Senior Vice-President, British Columbia Region	Bank as Lender	200,000	196,880
J.F. Mahaffy(9) Executive Vice-President	Bank as Lender	2,354	2,354
K.C. Matheson(10) Senior Vice-President, Western Region	Bank as Lender	480,268	450,591
S.A. Morgan-Silvester(11) Executive Vice-President	Bank as Lender	102,503	39,185
Y.A. Nasr(12) Former President and Chief Executive Officer	Bank as Lender	830,576	809,084
S.P. O’Sullivan(13) Senior Vice-President, Distribution Systems	Bank as Lender	248,640	237,489

<u>Name and Principal Position of Borrower</u>	<u>Involvement of Issuer or Subsidiary</u>	<u>Largest \$ Amount outstanding during year ended December 31, 1999</u>	<u>\$ Amount Outstanding as at March 27, 2000</u>
A.M. Papadatos(14) Senior Vice-President, Ontario Region	Bank as Lender	198,711	192,612
D. Tunnicliffe(15) Senior Vice-President and Manager, Vancouver Main Branch	Bank as Lender	68,890	66,766

- (1) Mr. R.S. Anthony, Senior Vice-President, Credit, has an unsecured revolving line of credit in the amount of \$856 at a floating rate of Prime plus 0.5%.
- (2) Mr. W.C. Crawford, Senior Vice-President, Marketing, has a mortgage loan secured by real estate maturing July 29, 2001 in the amount of \$176,175 at a fixed rate of 6.0%, a personal loan secured by real estate maturing August 31, 2000 in the amount of \$20,000 at a floating rate of Prime less 2%, an unsecured personal loan maturing December 22, 2003 in the amount of \$18,847 at a floating rate of Prime less 2%, and two revolving lines of credit secured by real estate in the amounts of \$615 and \$5,478 at Prime. Portions of the personal loans are considered routine indebtedness.
- (3) Mr. J.C. Dowle, Executive Vice-President, has a mortgage loan secured by real estate maturing October 5, 2000 in the amount of \$229,370 at a fixed rate of 6.05%. Mr. Dowle also has four unsecured personal loans each maturing on February 10, 2001 at a floating rate of Prime less 2% in the amounts of \$28,000, \$37,344, \$8,376 and \$16,624. Portions of these loans are considered routine indebtedness.
- (4) Mr. M. Dufresne, Senior Vice-President, Quebec and Atlantic Region, has a personal loan maturing December 14, 2003 in the amount of \$27,000, a personal loan maturing December 14, 2003 in the amount of \$3,000, a personal loan maturing May 15, 2004 in the amount of \$9,341, a personal loan maturing August 6, 2004 in the amount of \$6,262, a personal loan maturing September 17, 2004 in the amount of \$5,457, a personal loan maturing December 15, 2004 in the amount of \$8,598, and a personal loan maturing December 15, 2004 in the amount of \$2,375. Each of these loans is unsecured and Prime less 2%. Portions of these loans are considered routine indebtedness.
- (5) Mr. M.J.G. Glynn, Chief Operating Officer until December 20, 1999 when he was appointed President and Chief Executive Officer, has an unsecured personal loan maturing February 26, 2001 in the amount of \$5,000 at a floating rate of interest of Prime less 2%, and an unsecured personal loan maturing December 19, 2001 in the amount of \$85,021 (a portion of which is considered routine indebtedness) at a floating rate of interest of Prime less 2%.
- (6) Mr. I.D. Harper, Senior Vice-President, British Columbia Region, has an unsecured interest free personal loan maturing October 13, 2002 in the amount of \$1,525.
- (7) Mr. J.B. Howden, Senior Vice-President, Risk Management and Credit Services, has a personal loan secured by real estate maturing January 15, 2001 in the amount of \$165,565 at a fixed annual rate of interest of 6%. Mr. Howden also has indebtedness to HSBC InvestDirect related to credit extended in a margin account in the amount of \$85,146.
- (8) Mr. D. Lee, Senior Vice-President, British Columbia Region, has a mortgage loan secured by real estate maturing August 13, 2000 in the amount of \$196,880 at a fixed annual rate of interest of 5.95%.
- (9) Mr. J.F. Mahaffy, Executive Vice-President, has an unsecured interest free personal loan maturing December 15, 2004 in the amount of \$2,354.
- (10) Mr. K.C. Matheson, Senior Vice-President, Western Region, has a personal loan secured by real estate maturing September 8, 2000 in the amount of \$233,604 at a fixed annual rate of 5.9%, a personal loan secured by real estate maturing February 5, 2001 in the amount of \$191,440 at a fixed annual rate of 6%, a personal loan secured by real estate maturing February 13, 2002 in the amount of \$21,375 at Prime less 2%, an unsecured personal loan maturing December 18, 2003 in the amount of \$7,647 at Prime less 2%, and an unsecured revolving line of credit in the amount of \$21,525 at Prime plus 1%. Portions of these loans are considered routine indebtedness.
- (11) Ms. S.A. Morgan-Silvester, Executive Vice-President, has a mortgage loan secured by real estate maturing December 20, 2000 in the amount of \$36,682 at a fixed rate of 6.35%, and an unsecured interest free personal loan maturing August 12, 2003 in the amount of \$2,503.
- (12) Mr. Y.A. Nasr, who resigned as President and Chief Executive Officer on December 20, 1999, has a mortgage loan secured by real estate maturing June 18, 2002 in the amount of \$629,084 at a fixed rate of 4%, and an unsecured personal loan maturing June 9, 2000 in the amount of \$180,000 at a fixed rate of interest of 4%.
- (13) Mr. S.P. O'Sullivan, Senior Vice-President, Distribution Systems, has a mortgage loan secured by real estate maturing June 1, 2001 in the amount of \$64,964 at a fixed annual rate of interest of 6%, and another mortgage loan secured by real estate maturing April 1, 2000 in the amount of \$170,429 at a fixed annual rate of interest of 5.75%. Mr. O'Sullivan also has an unsecured interest free personal loan maturing December 12, 2004 in the amount of \$2,096.
- (14) Mr. A.M. Papadatos, Senior Vice-President, Ontario Region, has an interest free personal loan secured by real estate maturing September 24, 2003 in the amount of \$23,460, a personal loan secured by real estate maturing September 24, 2003 in the amount of \$96,237 at an annual interest rate of 4%, and a personal loan secured by real estate maturing September 24, 2003 in the amount of \$72,915 at an annual interest rate of 6.0%.
- (15) Mr. D. Tunnicliffe, Senior Vice-President & Manager, Vancouver Main Branch, has a personal loan secured by real estate maturing November 15, 2001 in the amount of \$65,541 at an annual interest rate of 6.0%, and an unsecured interest free personal loan maturing August 23, 2000 in the amount of \$1,225.

PRINCIPAL HOLDER OF SECURITIES

The beneficial owner and owner of record of all of the issued and outstanding voting securities, comprising the Bank Common Shares and the Bank Class 2 Preferred Shares Series A in the capital of the Bank, is HSBC Holdings B.V., Karspeldreef 6k, 1101 CJ Amsterdam, The Netherlands.

HSBC Holdings B.V. is a wholly owned subsidiary of HSBC Finance (Netherlands), a United Kingdom holding company subsidiary of HSBC Holdings.

The directors and senior officers of HSBC Bank Canada, as a group, beneficially own, directly or indirectly, less than 0.05% of the ordinary shares of HSBC Holdings.

INTERESTS OF INSIDERS IN MATERIAL TRANSACTIONS

Other than as described below or otherwise disclosed in this Appendix A, there have been no material transactions involving HSBC Bank Canada in which any director or executive officer of HSBC Bank Canada or HSBC Holdings B.V. or any of their respective associates or affiliates has been interested directly or indirectly since the commencement of HSBC Bank Canada's last fiscal year, and there is no such proposed transaction which has materially affected or would materially affect HSBC Bank Canada or any of its subsidiaries.

HSBC Bank Canada pays a guarantee fee to an affiliate with respect to the guarantee of acceptances and deposit liabilities. The guarantee fee for the fiscal year ended December 31, 1999 was \$39,000,000.

As at December 31, 1999, HSBC Bank Canada had issued debentures to its parent and affiliates totalling \$122,000,000. Several debentures issued to HSBC Bank Canada's immediate parent were redeemed in December 1999. Interest expense for the year ended December 31, 1999, relating to debentures issued to HSBC, amounted to \$25,000,000.

HSBC Bank Canada pays a fee to its parent as its share of the costs of development of computer systems used by HSBC Bank Canada, its parent and affiliates. For the fiscal year ended December 31, 1999, this system development fee totalled \$6,973,000.

Pursuant to a services agreement, HSBC Bank Canada also pays a fee to its parent as its share of the services which its parent provides. For the fiscal year ended December 31, 1999, this services fee amounted to \$4,941,000.

HSBC Bank Canada has an agreement with an affiliate to provide a standby borrowing facility of up to US\$200 million to HSBC Bank Canada at market rates and conditions. Funds have not been drawn from this facility since entering into the agreement.

To facilitate the operation of its two branches in the United States, HSBC Bank Canada has established a line of credit with an associate in the amount of US\$225 million at market rates and conditions. Interest paid under this facility for the fiscal year ended December 31, 1999 was \$14,598,900.

In addition to the above related party transactions, HSBC Bank Canada has transactions of a routine nature with The Hongkong and Shanghai Banking Corporation Limited and other affiliated companies, none of which are material to HSBC Bank Canada.

DIVIDEND RECORD

The declaration and payment of dividends on the Bank Common Shares, the Bank Class 1 Preferred Shares and Bank Class 2 Preferred Shares in the capital of HSBC Bank Canada are subject to the discretion of the Board of Directors. In the last five completed fiscal years, HSBC Bank Canada has paid dividends on the Bank Common Shares of \$36 million, \$90 million and \$75 million in 1998, 1997 and 1996, respectively.

LEGAL PROCEEDINGS

HSBC Bank Canada and its subsidiaries are subject to a number of legal claims and contingencies arising in the normal course of their businesses.

Legal actions have been filed against HSBC Bank Canada and a number of parties in connection with certain class action and related suits. A partial settlement has been reached in the class action suits. HSBC Bank Canada believes that the remaining claims and actions are without merit and will vigorously defend these matters. HSBC Bank Canada believes that adequate provision for any potential liability has been made in the Consolidated Financial Statements of HSBC Bank Canada.

A subsidiary of HSBC Bank Canada is subject to threatened action relating to its responsibilities as a distributor, escrow agent and custodian. Another subsidiary of HSBC Bank Canada is subject to certain claims relating to acquisition matters and, together with a number of other parties, certain proposed class actions. These subsidiaries intend to defend themselves vigorously with respect to the foregoing matters. The ultimate outcome of these matters cannot yet be determined. Accordingly, no provisions have been recorded in the Consolidated Financial Statements of HSBC Bank Canada relating to these matters.

In connection with the acquisition by HSBC Securities of Gordon Capital in January 1999, an information interface system failed to reconcile certain accounts. HSBC Securities notified the Investment Dealers Association and remedied the problem. No client funds were put at risk. HSBC Securities and the Investment Dealers Association are in the process of finalizing a settlement under which HSBC Securities will pay a fine in an amount that will not be material to HSBC Securities.

AUDITORS

KPMG LLP, Chartered Accountants, Vancouver, British Columbia and Ernst & Young LLP, Chartered Accountants, Vancouver, British Columbia have been appointed as auditors of the Bank.

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Directors of HSBC Bank Canada

We have audited the consolidated balance sheets of HSBC Bank Canada as at December 31, 1999 and 1998 and October 31, 1997 and the consolidated statements of income, changes in shareholder's equity and cash flows for the year ended December 31, 1999, the fourteen months ended December 31, 1998 and the year ended October 31, 1997. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 1999 and 1998 and October 31, 1997 and the results of its operations and its cash flows for the year ended December 31, 1999, the fourteen months ended December 31, 1998 and the year ended October 31, 1997 in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

(signed) KPMG LLP
Chartered Accountants

(signed) ERNST & YOUNG LLP
Chartered Accountants

January 20, 2000, except for notes 24 and 25
which are as of June 21, 2000
Vancouver, Canada

CONSOLIDATED BALANCE SHEETS

	As at March 31,		As at December 31,		As at
	2000	1999	1999	1998	October 31,
	(Unaudited)				1997
	(in millions of dollars)				
ASSETS					
Cash resources:					
Cash and deposits with Bank of Canada	\$ 235	\$ 170	\$ 341	\$ 423	\$ 172
Deposits with regulated financial institutions	<u>2,512</u>	<u>1,449</u>	<u>1,954</u>	<u>1,214</u>	<u>1,932</u>
	<u>2,747</u>	<u>1,619</u>	<u>2,295</u>	<u>1,637</u>	<u>2,104</u>
Securities: (note 2)					
Issued or guaranteed by Canada and provinces	2,529	3,437	2,349	3,101	2,926
Other securities	<u>446</u>	<u>417</u>	<u>498</u>	<u>241</u>	<u>279</u>
	<u>2,975</u>	<u>3,854</u>	<u>2,847</u>	<u>3,342</u>	<u>3,205</u>
Securities purchased under reverse repurchase agreements	<u>454</u>	<u>266</u>	<u>378</u>	<u>—</u>	<u>—</u>
Loans: (note 3 & 4)					
Commercial loans	9,780	9,721	9,634	9,934	7,940
Residential mortgage loans	5,853	6,368	5,769	6,057	6,876
Consumer loans	2,147	1,933	2,014	1,751	1,869
Allowance for credit losses	<u>(289)</u>	<u>(298)</u>	<u>(287)</u>	<u>(283)</u>	<u>(231)</u>
	<u>17,491</u>	<u>17,724</u>	<u>17,130</u>	<u>17,459</u>	<u>16,454</u>
Other:					
Customer's liability under acceptances	1,832	1,768	1,705	1,267	1,258
Land, buildings and equipment (note 5)	122	114	124	110	88
Other assets (note 6)	<u>739</u>	<u>1,084</u>	<u>572</u>	<u>1,021</u>	<u>801</u>
	<u>2,693</u>	<u>2,966</u>	<u>2,401</u>	<u>2,398</u>	<u>2,147</u>
	<u>\$26,360</u>	<u>\$26,429</u>	<u>\$25,051</u>	<u>\$24,836</u>	<u>\$23,910</u>

Subsequent events (note 25)

See notes to consolidated financial statements

	<u>As at March 31,</u>		<u>As at December 31,</u>		<u>As at</u>
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>October 31,</u>
	(Unaudited)				<u>1997</u>
	(in millions of dollars)				
LIABILITIES AND SHAREHOLDER'S EQUITY					
Deposits: (note 7)					
Regulated financial institutions	\$ 1,150	\$ 1,945	\$ 1,303	\$ 1,893	\$ 1,114
Individuals	11,188	10,345	10,858	10,213	9,922
Businesses and governments	8,814	8,955	8,009	8,444	9,079
	<u>21,152</u>	<u>21,245</u>	<u>20,170</u>	<u>20,550</u>	<u>20,115</u>
Other:					
Acceptances	1,832	1,768	1,705	1,267	1,258
Securities sold under repurchase agreements	145	86	179	—	—
Other liabilities (note 8)	1,513	1,827	1,323	1,552	1,287
Non-controlling interest in subsidiary (note 9).....	30	30	30	30	30
	<u>3,520</u>	<u>3,711</u>	<u>3,237</u>	<u>2,849</u>	<u>2,575</u>
Subordinated debt:					
Debentures (note 10)	393	618	392	620	549
Shareholder's equity:					
Capital stock (note 11)					
Preferred	270	—	270	—	—
Common	75	75	75	75	75
Contributed surplus	165	165	165	165	165
Retained earnings	785	615	742	577	431
	<u>1,295</u>	<u>855</u>	<u>1,252</u>	<u>817</u>	<u>671</u>
	<u>\$26,360</u>	<u>\$26,429</u>	<u>\$25,051</u>	<u>\$24,836</u>	<u>\$23,910</u>

Approved by the Board:

(signed) MARTIN J.G. GLYNN
President and Chief Executive Officer

(signed) ROSS S. SMITH
Director

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31,	Year ended October 31,
	2000	1999	1999	1998	1997
	(Unaudited)				
	(In millions of dollars except per share amounts)				
Interest and dividend income:					
Loans	\$ 304	\$ 296	\$ 1,175	\$ 1,325	\$ 984
Lease financing	7	7	26	30	26
Securities	36	48	172	219	148
Deposits with regulated financial institutions	41	24	120	143	107
Total interest and dividend income	388	375	1,493	1,717	1,265
Interest expense:					
Deposits	229	232	912	1,063	729
Debentures (note 10)	7	10	41	48	43
Total interest expense	236	242	953	1,111	772
Net interest income	152	133	540	606	493
Provision for credit losses (note 4)	11	16	43	90	38
Net interest income after provision for credit losses	141	117	497	516	455
Other income (note 12)	125	93	384	332	240
Net interest and other income	266	210	881	848	695
Non-interest expenses:					
Salaries and employee benefits	101	81	339	310	230
Premises and equipment expenses, including amortization	28	26	101	100	72
Other	62	49	197	214	172
Total non-interest expenses	191	156	637	624	474
Income before provision for income taxes	75	54	244	224	221
Provision for income taxes (note 14)	28	16	79	42	83
Net income	\$ 47	\$ 38	\$ 165	\$ 182	\$ 138
Average number of common shares outstanding	280,168,000	280,168,000	280,168,000	280,168,000	280,168,000
Basic income per common share	\$ 0.17	\$ 0.14	\$ 0.59	\$ 0.65	\$ 0.49

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31,	Year ended October 31,
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Unaudited)				
	(In millions of dollars)				
Preferred shares: (note 11)					
Balance at beginning of period	\$ 270	\$ —	\$ —	\$ —	\$ —
Issued	<u>—</u>	<u>—</u>	<u>270</u>	<u>—</u>	<u>—</u>
Balance at end of period	<u>270</u>	<u>—</u>	<u>270</u>	<u>—</u>	<u>—</u>
Common shares: (note 11)					
Balance at beginning and end of period	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>
Contributed surplus:					
Balance at beginning and end of period	<u>165</u>	<u>165</u>	<u>165</u>	<u>165</u>	<u>165</u>
Retained earnings:					
Balance at beginning of period	742	577	577	431	383
Effect of accounting changes (note 24)	<u>(4)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As restated	738	577	577	431	383
Net income	47	38	165	182	138
Dividends on common shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>(36)</u>	<u>(90)</u>
Balance at end of period	<u>785</u>	<u>615</u>	<u>742</u>	<u>577</u>	<u>431</u>
Total shareholder's equity	<u>\$1,295</u>	<u>\$ 855</u>	<u>\$1,252</u>	<u>\$ 817</u>	<u>\$ 671</u>

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31,	Year ended October 31,
	2000	1999	1999	1998	1997
	(Unaudited)				
	(In millions of dollars)				
Cash flows provided by (used in) operating activities:					
Net income	\$ 47	\$ 38	\$ 165	\$ 182	\$ 138
Adjustments to net income to determine net cash provided by (used in) operating activities:					
Amortization	8	8	31	27	29
Provision for credit losses (note 4)	11	16	43	90	38
Future income taxes (note 14)	2	(10)	(40)	5	26
Change in net accrued interest	(24)	(11)	5	27	15
Other assets, net of accrued interest receivable	(165)	73	533	(155)	(413)
Other liabilities, net of accrued interest payable	206	11	(424)	264	371
Trading securities	47	(195)	(85)	241	(342)
Other, net	<u>1</u>	<u>(3)</u>	<u>(7)</u>	<u>14</u>	<u>6</u>
	<u>133</u>	<u>(73)</u>	<u>221</u>	<u>695</u>	<u>(132)</u>
Cash flows (used in) provided by financing activities:					
Deposits	982	695	(380)	160	1,465
Securities sold under repurchase agreements	(34)	(227)	(134)	—	—
Proceeds from preferred shares issued	—	—	270	—	—
Proceeds from debentures issued	—	—	50	60	—
Redemption of debentures	—	—	(270)	—	(39)
Dividends paid	—	—	—	(126)	—
	<u>948</u>	<u>468</u>	<u>(464)</u>	<u>94</u>	<u>1,426</u>
Cash flows provided by (used in) investing activities:					
Loans, excluding securitizations	(388)	(323)	(1,278)	(3,376)	(2,000)
Proceeds from loans securitized	16	43	1,566	2,531	518
Investment securities	(175)	(211)	686	(318)	387
Securities (repaid) purchased under reverse repurchase agreements	(76)	153	41	—	—
Deposits with other banks, non-operating ..	118	(116)	(2)	151	147
Land, buildings and equipment	(6)	(9)	(42)	(48)	(29)
Businesses acquired: (note 22)	—	(66)	(88)	(125)	—
Less cash and cash equivalents at date of acquisition	<u>—</u>	<u>—</u>	<u>16</u>	<u>80</u>	<u>—</u>
	<u>(511)</u>	<u>(529)</u>	<u>899</u>	<u>(1,105)</u>	<u>(977)</u>
Increase (decrease) in cash and cash equivalents	570	(134)	656	(316)	317
Cash and cash equivalents, beginning of period	<u>2,092</u>	<u>1,436</u>	<u>1,436</u>	<u>1,752</u>	<u>1,435</u>
Cash and cash equivalents, end of period	<u>\$2,662</u>	<u>\$1,302</u>	<u>\$2,092</u>	<u>\$1,436</u>	<u>\$1,752</u>

	Three months ended March 31,		Year ended December 31,	Fourteen months ended December 31,	Year ended October 31,
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Unaudited)		(In millions of dollars)		
Represented by:					
Cash resources per consolidated balance sheets	\$2,747	\$1,619	\$2,295	\$1,637	\$2,104
Less deposits with other banks, non-operating(1)	<u>(85)</u>	<u>(317)</u>	<u>(203)</u>	<u>(201)</u>	<u>(352)</u>
Cash and cash equivalents, end of period ..	<u>\$2,662</u>	<u>\$1,302</u>	<u>\$2,092</u>	<u>\$1,436</u>	<u>\$1,752</u>
Cash disbursements made for:					
Interest	\$ 256	\$ 259	\$1,046	\$1,130	\$ 693
Income taxes	\$ 65	\$ 25	\$ 91	\$ 52	\$ 35

(1) Deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitization transactions.

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2000 and 1999 (Unaudited), December 31, 1999 and 1998 and
October 31, 1997 (all tabular amounts are in millions of dollars)

HSBC Bank Canada (the Bank) (formerly Hongkong Bank of Canada) is a wholly owned subsidiary of HSBC Holdings B.V. and, as a result, is an indirectly held, wholly owned subsidiary of HSBC Holdings plc (the Parent). In these consolidated financial statements, Group means the Parent and its subsidiary companies.

Effective for 1998, the Bank changed its fiscal year-end from October 31 to December 31 to be consistent with that of the Parent. For fiscal 1998, the consolidated statements of income, changes in shareholder's equity and cash flows present the results of operations and cash flows for the fourteen months ended December 31, 1998.

1. Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Certain prior period amounts have been reclassified to conform with current period presentation. The significant accounting policies used in the preparation of these financial statements are summarized below.

a) Basis of consolidation

The assets and liabilities and results of operations of the Bank and its subsidiaries are reported in the financial statements on a consolidated basis. All material intercompany transactions have been eliminated. The difference between the cost of investments in subsidiary companies and the fair values of net assets acquired is attributed to goodwill and recorded in other assets. Goodwill is amortized over the estimated period of benefit, not exceeding 15 years, except where there is a decline in the net recoverable amount considered to be other than temporary.

b) Use of estimates in preparation of consolidated financial statements

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

c) Deposits with regulated financial institutions

Deposits with regulated financial institutions are recorded at cost. Interest income on interest earning deposits is recorded on an accrual basis.

d) Securities

Investment account securities, where the Bank's intention is to hold the securities to maturity or until market conditions render alternative investments more attractive, are carried at cost or amortized cost. If the securities held for investment account experience a decline in value that is other than temporary, the carrying value is appropriately reduced. The amortization of premiums and discounts and adjustments to the carrying value of debt securities are included in interest income. Gains and losses on the disposal of securities are included in other income.

Trading account securities, which are purchased for resale over a short period of time, are carried at market value. Gains and losses on disposal or revaluation are included in other income.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

e) Loans

Loans are stated net of any unearned income, unamortized premiums or discounts and an appropriate allowance for credit losses.

Interest income is recorded on the accrual basis unless the loan is classified as an impaired loan. Loans are considered to be impaired whenever there is no longer reasonable assurance as to the ultimate collectibility of some portion of principal or interest. Loans where interest is due and has not been collected for a period of 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. Loans where interest is due and has not been collected for a period of 180 days are automatically classified as impaired.

Impaired loans are recorded at their estimated realizable amounts. This is determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, they are measured at the fair value of any security underlying the loans, net of expected costs of realization. When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Interest income is recognized only when all allowances for credit losses have been reversed.

Fees associated with lending activities are deferred and amortized over the term of the loans, and are included in income from loans in the consolidated statement of income.

f) Direct finance leases

Direct finance leases are included in commercial and other loans in the balance sheets. Initial direct costs of direct finance leases are expensed as incurred. The investment in the lease is defined as the minimum lease payments receivable, including the purchase option price, less unearned income.

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g) Allowance for credit losses

The Bank maintains an allowance for credit losses which is considered adequate to absorb all estimated credit related losses in its portfolio of both on and off-balance sheet items, including deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change.

Specific allowances are recorded for specific credit exposures to reduce the carrying value of an impaired asset to its estimated net realizable amount. Credit exposures are reviewed on a regular basis and provisions established on an item by item basis, as they are identified. The review process is performed by the Risk Management and Credit Services department, which is independent of the credit function.

A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security.

The criteria for general allowances include losses which management estimates to have occurred in the portfolio of loans relating to individual or groups of loans but not yet identified as requiring specific provisions. The Risk Management and Credit Services department monitors the quality of the Bank's portfolio with specific emphasis on the economic environment, industry concentration and other factors that may be appropriate. Levels of general allowances will change in accordance with the overall condition of the portfolio and are expected to increase with upturns in the economic cycle and decline as specific provisions are established during a downturn.

The provision for credit losses is charged to the Consolidated Statements of Income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

h) Securities purchased and sold under repurchase agreements

Securities purchased under reverse repurchase agreements consist of securities, such as government or other bonds, purchased by the Bank with a commitment to be repurchased by the original seller at a future specified date and price. Securities sold under repurchase agreements represent securities sold with a commitment for repurchase by the Bank at a future specified date and price. These securities are carried at cost or sale price. The difference between the cost and sale price represent either interest income or interest expense and is included on a net basis under interest income from loans in the consolidated statements of income.

i) Land, buildings and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings — 40 years, equipment — 3 to 5 years, and leasehold improvements — 10 to 15 years.

j) Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheets. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income.

k) Income taxes

Effective January 1, 2000 the Bank adopted CICA 3465 (see note 24). Up to December 31, 1999, the Bank followed the tax allocation basis of accounting for income taxes, whereby income taxes on specific transactions were recorded in the period in which the transactions were recognized for accounting purposes regardless of when the transactions were recognized for tax purposes. Deferred income taxes were provided to recognize the effect of timing differences for those items of income and expense that may affect income for tax purposes in a period different from that in which they affect income for accounting purposes.

l) Pension and other post-retirement employee benefits

With effect from January 1, 2000, CICA 3461 was adopted (see note 24). The Bank has two defined benefit pension plans and a number of defined benefit pension arrangements for employees based on years of service and average earnings prior to retirement and a non-contributory defined contribution plan. Pension costs and obligations are determined using management's best estimates of various assumptions, such as projected employee compensation levels and, up to December 31, 1999, long term rates of return on investments. The Bank also provides certain health care and life insurance benefits for employees after retirement. Up to December 31, 1999 the cost of these latter benefits were accounted for on a "pay as you go" basis.

m) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at period-end spot exchange rates. Revenues and expenses in foreign currencies are translated into Canadian dollars at the rates in effect at the transaction date. Premiums and discounts on foreign currency forward contracts that hedge foreign currency assets and liabilities are amortized over the period to maturity as interest expense in the Consolidated Statement of Income. Realized and unrealized gains and losses from foreign currency translation are included in other income in the Consolidated Statement of Income.

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n) Derivative instruments

The Bank enters into interest rate, foreign exchange and equity derivative contracts in the normal course of business.

Trading derivatives are undertaken for proprietary trading, market making and to assist customers in managing their exposures. Trading derivatives are marked to market on a daily basis and the resulting gains and losses are recorded in other income. The unrealized portion of the gains and losses on trading derivatives are recorded in other assets or other liabilities as appropriate.

Asset and liability management derivatives are used to manage financial risks in the banking book such as movements in interest rates and foreign currency exchange rates. These derivatives are used for hedging activities or to modify the interest rate characteristics of specific on-balance sheet assets and liabilities, or groups of similar on-balance sheet assets and liabilities. These contracts are accounted for on an accrual basis whereby the income or expense is recognized over the term of the agreement as an adjustment to interest revenue or expense. Accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities as appropriate. Realized gains or losses from the settlement or the early termination of contracts are deferred and amortized over the lesser of the remaining term of the contract or the remaining term of the underlying asset or liability being hedged.

o) Trust assets under administration

Trust assets under administration are maintained separately from the Bank's assets and are not included in the Consolidated Balance Sheets.

p) Securitizations

The Bank periodically sells groups of loans to unrelated third parties. Those transactions which transfer the risks and rewards of ownership and where there is reasonable assurance regarding the measurement of the consideration are treated as sales and the loans are removed from the balance sheet.

Gains on such transactions are deferred and included in other income when there is no recourse to the net proceeds. Losses are recognized in other income at the date of the sale. Revenue earned by the Bank in respect of servicing the assets sold is reflected in other income as services are provided.

2. Securities

	As at March 31, 2000				Total carrying value
	Term to maturity				
	Within 1 Year	1-5 Years	5-10 Years	No specific maturity	
	(unaudited)				
Investment securities					
Securities issued or guaranteed by:					
Canada	\$ 1,275	\$ 875	\$ 25	\$ —	\$2,175
Provinces	124	130	—	—	254
	1,399	1,005	25	—	2,429
Others	—	42	3	—	45
Mutual funds	—	—	—	15	15
Equity securities	11	22	7	8	48
Total investment securities	1,410	1,069	35	23	2,537
Loan substitute securities	—	75	—	—	75
Trading securities	86	43	7	227	363
Total securities	<u>\$ 1,496</u>	<u>\$ 1,187</u>	<u>\$ 42</u>	<u>\$ 250</u>	<u>\$ 2,975</u>

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	As at March 31, 1999				Total carrying value
	Term to maturity				
	Within 1 Year	1-5 Years	5-10 Years	No specific maturity	
					(unaudited)
Investment securities					
Securities issued or guaranteed by:					
Canada	\$ 1,968	\$ 956	\$ 25	\$ —	\$2,949
Provinces	192	58	—	—	250
	2,160	1,014	25	—	3,199
Others	—	6	3	—	9
Mutual funds	—	—	—	9	9
Equity securities	3	23	7	5	38
Total investment securities	2,163	1,043	35	14	3,255
Loan substitute securities	—	79	—	—	79
Trading securities	231	23	—	266	520
Total securities	<u>\$ 2,394</u>	<u>\$ 1,145</u>	<u>\$ 35</u>	<u>\$ 280</u>	<u>\$ 3,854</u>

	As at December 31, 1999				Total carrying value
	Term to maturity				
	Within 1 Year	1-5 Years	5-10 Years	No specific maturity	
Investment securities					
Securities issued or guaranteed by:					
Canada	\$ 1,090	\$ 926	\$ 25	\$ —	\$2,041
Provinces	86	93	—	—	179
	1,176	1,019	25	—	2,220
Others	—	83	3	—	86
Mutual funds	—	—	—	12	12
Equity securities	6	25	7	5	43
Total investment securities	1,182	1,127	35	17	2,361
Loan substitute securities	—	76	—	—	76
Trading securities	228	31	3	148	410
Total securities	<u>\$ 1,410</u>	<u>\$ 1,234</u>	<u>\$ 38</u>	<u>\$ 165</u>	<u>\$ 2,847</u>

	As at December 31, 1998				Total carrying value
	Term to maturity				
	Within 1 Year	1-5 Years	5-10 Years	No specific maturity	
Investment securities					
Securities issued or guaranteed by:					
Canada	\$ 1,615	\$ 970	\$ 25	\$ —	\$2,610
Provinces	365	46	13	—	424
	1,980	1,016	38	—	3,034
Others	—	6	3	—	9
Mutual funds	—	—	—	14	14
Equity securities	7	18	7	5	37
Total investment securities	1,987	1,040	48	19	3,094
Loan substitute securities	—	29	—	—	29
Trading securities	103	—	—	116	219
Total securities	<u>\$ 2,090</u>	<u>\$ 1,069</u>	<u>\$ 48</u>	<u>\$ 135</u>	<u>\$ 3,342</u>

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	As at October 31, 1997				Total carrying value
	Term to maturity				
	Within 1 Year	1-5 Years	5-10 Years	No specific maturity	
Investment securities					
Securities issued or guaranteed by:					
Canada	\$1,463	\$898	\$ 14	\$ —	\$2,375
Provinces	252	41	12	—	305
	<u>1,715</u>	<u>939</u>	<u>26</u>	<u>—</u>	<u>2,680</u>
Others	—	—	—	—	—
Mutual funds	—	—	—	6	6
Equity securities	—	42	—	18	60
Total investment securities	<u>1,715</u>	<u>981</u>	<u>26</u>	<u>24</u>	<u>2,746</u>
Loan substitute securities	—	3	—	—	3
Trading securities	<u>309</u>	<u>—</u>	<u>—</u>	<u>147</u>	<u>456</u>
Total securities	<u>\$2,024</u>	<u>\$984</u>	<u>\$ 26</u>	<u>\$171</u>	<u>\$3,205</u>

	As at March 31,		As at December 31,		As at October 31, 1997
	2000	1999	1999	1998	
	(Unaudited)				
Securities issued or guaranteed by Canada included in trading securities	\$100	\$238	\$129	\$ 67	\$246
Securities denominated in US\$ included in total securities (Canadian equivalent)	\$317	\$315	\$343	\$615	\$ —

b) Analysis of unrealized gains and losses on investment securities

	As at March 31, 2000			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
	(unaudited)			
Securities issued or guaranteed by:				
Canada	\$2,175	\$ 1	\$(20)	\$2,156
Provinces	254	2	—	256
	<u>2,429</u>	<u>3</u>	<u>(20)</u>	<u>2,412</u>
Others	45	—	—	45
Mutual funds	15	—	—	15
Equity securities	<u>48</u>	<u>2</u>	<u>—</u>	<u>50</u>
	<u>\$2,537</u>	<u>\$ 5</u>	<u>\$(20)</u>	<u>\$2,522</u>

	As at March 31, 1999			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
	(unaudited)			
Securities issued or guaranteed by:				
Canada	\$2,949	\$ 8	\$(3)	\$2,954
Provinces	250	4	—	254
	<u>3,199</u>	<u>12</u>	<u>(3)</u>	<u>3,208</u>
Others	9	—	—	9
Mutual funds	9	1	—	10
Equity securities	<u>38</u>	<u>2</u>	<u>—</u>	<u>40</u>
	<u>\$3,255</u>	<u>\$15</u>	<u>\$(3)</u>	<u>\$3,267</u>

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	As at December 31, 1999			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed by:				
Canada	\$2,041	\$ 2	\$(23)	\$2,020
Provinces	<u>179</u>	<u>2</u>	<u>—</u>	<u>181</u>
	2,220	4	(23)	2,201
Others	86	—	(1)	85
Mutual funds	12	—	—	12
Equity securities	<u>43</u>	<u>2</u>	<u>(1)</u>	<u>44</u>
	<u>\$2,361</u>	<u>\$ 6</u>	<u>\$(25)</u>	<u>\$2,342</u>
	As at December 31, 1998			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed by:				
Canada	\$2,610	\$ 10	\$ (3)	\$2,617
Provinces	<u>424</u>	<u>5</u>	<u>—</u>	<u>429</u>
	3,034	15	(3)	3,046
Others	9	—	—	9
Mutual funds	14	—	(1)	13
Equity securities	<u>37</u>	<u>4</u>	<u>—</u>	<u>41</u>
	<u>\$3,094</u>	<u>\$ 19</u>	<u>\$ (4)</u>	<u>\$3,109</u>
	As at October 31, 1997			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed by:				
Canada	\$2,375	\$ 21	\$ (1)	\$2,395
Provinces	<u>305</u>	<u>3</u>	<u>—</u>	<u>308</u>
	2,680	24	(1)	2,703
Others	—	—	—	—
Mutual funds	6	—	—	6
Equity securities	<u>60</u>	<u>12</u>	<u>—</u>	<u>72</u>
	<u>\$2,746</u>	<u>\$ 36</u>	<u>\$ (1)</u>	<u>\$2,781</u>

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3. Loans

a) The Bank's loans outstanding, net of the allowance for credit losses are as follows:

	<u>As at March 31,</u>		<u>As at</u>		<u>As at</u>
	<u>2000</u>	<u>1999</u>	<u>December 31,</u>	<u>1998</u>	<u>October 31,</u>
	(Unaudited)				<u>1997</u>
Commercial loans:					
Real estate	\$ 3,430	\$ 3,286	\$ 3,391	\$ 3,306	\$ 2,978
Hotels and hospitality	758	853	833	819	810
Manufacturing	1,350	1,186	1,142	1,126	961
Trade	2,276	2,220	2,117	2,249	1,794
Services	1,372	1,372	1,326	1,491	762
Direct finance leases	377	375	358	357	327
Other	217	429	467	586	308
Total commercial loans	9,780	9,721	9,634	9,934	7,940
Residential mortgages	5,853	6,368	5,769	6,057	6,876
Consumer loans	2,147	1,933	2,014	1,751	1,869
Allowance for credit losses	(289)	(298)	(287)	(283)	(231)
	<u>\$17,491</u>	<u>\$17,724</u>	<u>\$17,130</u>	<u>\$17,459</u>	<u>\$16,454</u>
Net loans denominated in U.S. dollars	\$ 1,129	\$ 1,279	\$ 1,146	\$ 1,565	\$ 1,007
Net loans denominated in other foreign currencies	\$ 104	\$ 103	\$ 109	\$ 110	\$ 94
NHA mortgages included in residential mortgages	\$ 565	\$ 605	\$ 573	\$ 615	\$ 641

b) The outstanding securitized loans sold to unrelated third parties and removed from the balance sheet are as follows:

	<u>As at March 31,</u>		<u>As at</u>		<u>As at</u>
	<u>2000</u>	<u>1999</u>	<u>December 31,</u>	<u>1998</u>	<u>October 31,</u>
	(Unaudited)				<u>1997</u>
Residential mortgages	\$ 2,334	\$ 1,824	\$ 2,478	\$ 2,100	\$ 649
Consumer loans	305	367	350	421	—
	<u>\$ 2,639</u>	<u>\$ 2,191</u>	<u>\$ 2,828</u>	<u>\$ 2,521</u>	<u>\$ 649</u>

4. Impaired loans and allowance for credit losses

a) The Bank's investment in impaired loans and the related specific allowances are as follows:

	<u>As at March 31, 2000</u>			<u>As at March 31, 1999</u>		
	<u>Gross amount</u>	<u>Specific allowances</u>	<u>Carrying amount</u>	<u>Gross amount</u>	<u>Specific allowances</u>	<u>Carrying amount</u>
	(unaudited)			(unaudited)		
Commercial loans:						
Real estate	\$40	\$ 12	\$ 28	\$ 37	\$ 12	\$ 25
Manufacturing	18	10	8	23	14	9
Trade	40	10	30	34	13	21
Services	37	16	21	17	8	9
Other	41	11	30	57	25	32
Consumer loans	15	12	3	17	13	4
Residential mortgages	23	—	23	24	1	23
	<u>\$214</u>	<u>\$ 71</u>	<u>\$143</u>	<u>\$209</u>	<u>\$ 86</u>	<u>\$123</u>

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	As at December 31, 1999			As at December 31, 1998		
	Gross amount	Specific allowances	Carrying amount	Gross amount	Specific allowances	Carrying amount
Commercial loans:						
Real estate	\$ 23	\$ 9	\$ 14	\$ 28	\$ 10	\$ 18
Manufacturing	22	11	11	21	12	9
Trade	33	17	16	25	11	14
Services	26	12	14	15	7	8
Other	44	10	34	35	24	11
Consumer loans	18	12	6	15	11	4
Residential mortgages	17	1	16	18	1	17
	<u>\$183</u>	<u>\$ 72</u>	<u>\$111</u>	<u>\$157</u>	<u>\$ 76</u>	<u>\$ 81</u>

	As at October 31, 1997		
	Gross amount	Specific allowances	Carrying amount
Commercial loans:			
Real estate	\$ 44	\$ 21	\$ 23
Manufacturing	18	8	10
Trade	22	11	11
Services	12	6	6
Other	28	20	8
Consumer loans	12	9	3
Residential mortgages	25	—	25
	<u>\$161</u>	<u>\$ 75</u>	<u>\$ 86</u>

b) The Bank's allowance for credit losses is as follows:

	Three months ended March 31, 2000				Balance at end of the period
	Balance at beginning of the period	Provision for credit losses	Write-offs (unaudited)	Recoveries and other	
Specific allowances:					
Commercial loans:					
Real estate	\$ 9	\$ 4	\$ (1)	\$ —	\$ 12
Manufacturing	11	1	(2)	—	10
Trade	17	(4)	(3)	—	10
Services	12	4	—	—	16
Other	10	3	(2)	—	11
Consumer loans	12	1	(1)	—	12
Residential mortgages	1	(1)	—	—	—
Total specific allowances	72	8	(9)	—	71
General allowance(1)	215	3	—	—	218
Total	<u>\$287</u>	<u>\$ 11</u>	<u>\$ (9)</u>	<u>\$ —</u>	<u>\$289</u>

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	Three months ended March 31, 1999				Balance at end of the period
	Balance at beginning of the period	Provision for credit losses	Write-offs (unaudited)	Recoveries and other	
Specific allowances:					
Commercial loans:					
Real estate	\$ 10	\$ 2	\$ —	\$ —	\$ 12
Manufacturing	12	2	—	—	14
Trade	11	2	—	—	13
Services	7	1	—	—	8
Other	24	2	—	(1)	25
Consumer loans	11	2	—	—	13
Residential mortgages	1	—	—	—	1
Total specific allowances	76	11	—	(1)	86
General allowance(1)	207	5	—	—	212
Total	<u>\$283</u>	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$298</u>

	Year ended December 31, 1999				Balance at end of the year
	Balance at beginning of the year	Provision for credit losses	Write-offs	Recoveries and other	
Specific allowances:					
Commercial loans:					
Real estate	\$ 10	\$ 1	\$ (2)	\$ —	\$ 9
Manufacturing	12	5	(6)	—	11
Trade	11	11	(5)	—	17
Services	7	14	(9)	—	12
Other	24	(5)	(10)	1	10
Consumer loans	11	9	(8)	—	12
Residential mortgages	1	—	—	—	1
Total specific allowances	76	35	(40)	1	72
General allowance(1)	207	8	—	—	215
Total	<u>\$283</u>	<u>\$ 43</u>	<u>\$ (40)</u>	<u>\$ 1</u>	<u>\$287</u>

	Fourteen months ended December 31, 1998				Balance at end of the period
	Balance at beginning of the period	Provision for credit losses	Write-offs	Recoveries and other	
Specific allowances:					
Commercial loans:					
Real estate	\$ 21	\$ 3	\$(14)	\$ —	\$ 10
Manufacturing	8	8	(4)	—	12
Trade	11	4	(4)	—	11
Services	6	12	(11)	—	7
Other	20	11	(8)	1	24
Consumer loans	9	8	(6)	—	11
Residential mortgages	—	2	(1)	—	1
Total specific allowances	75	48	(48)	1	76
General allowance(1)	156	42	—	9	207
Total	<u>\$231</u>	<u>\$90</u>	<u>\$(48)</u>	<u>\$ 10</u>	<u>\$283</u>

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	Year Ended October 31, 1997				Balance at end of the year
	Balance at beginning of the year	Provision for credit losses	Write-offs	Recoveries and other	
Specific allowances:					
Commercial loans:					
Real estate	\$ 23	\$ 7	\$ (9)	\$—	\$ 21
Manufacturing	12	—	(4)	—	8
Trade	17	(4)	(2)	—	11
Services	8	(1)	(1)	—	6
Other	15	10	(5)	—	20
Consumer loans	12	3	(6)	—	9
Residential mortgages	1	1	(2)	—	—
Total specific allowances	88	16	(29)	—	75
General allowance(1)	133	22	—	1	156
Total	<u>\$221</u>	<u>\$38</u>	<u>\$(29)</u>	<u>\$ 1</u>	<u>\$231</u>

(1) The Bank's general allowance has been established to absorb losses in the Bank's total loan portfolio for which specific provisions cannot yet be determined. Accordingly, the general allowance has not been applied to reduce the carrying value of specific impaired loans shown in the table in note 4(a) above.

5. Land, buildings and equipment

	As at March 31,		As at December 31,		As at October 31,
	2000	1999	1999	1998	1997
	(Unaudited)				
Land and buildings	\$ 22	\$ 12	\$ 21	\$ 11	\$ 8
Furniture and equipment	101	92	97	91	63
Computer equipment	43	42	44	55	52
Leasehold improvements	82	75	82	74	71
Total cost	248	221	244	231	194
Less: accumulated amortisation	126	107	120	121	106
Net book value	<u>\$122</u>	<u>\$ 114</u>	<u>\$124</u>	<u>\$ 110</u>	<u>\$ 88</u>
Amortization charged to income	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 32</u>	<u>\$ 28</u>	<u>\$ 18</u>

6. Other assets

	As at March 31,		As at December 31,		As at October 31,
	2000	1999	1999	1998	1997
	(Unaudited)				
Accrued interest receivable	\$108	\$ 196	\$104	\$ 202	\$248
Due from clients, dealers and clearing corporations	317	659	221	575	293
Market revaluation of trading derivatives (note 19)	61	75	89	99	86
Future income taxes, net (notes 14 and 24)	139	56	100	46	33
Accounts receivable and other	114	98	58	99	141
	<u>\$739</u>	<u>\$1,084</u>	<u>\$572</u>	<u>\$1,021</u>	<u>\$801</u>

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7. Deposits

	As at March 31, 2000				As at March 31, 1999			
	Regulated financial institutions	Individuals	Businesses and governments	Total	Regulated financial institutions	Individuals	Businesses and governments	Total
	(Unaudited)				(Unaudited)			
Demand	\$ 134	\$ —	\$ 746	\$ 880	\$ 76	\$ —	\$ 713	\$ 789
Notice	—	2,175	2,224	4,399	—	2,107	1,551	3,658
Fixed date	1,016	9,013	5,844	15,873	1,869	8,238	6,691	16,798
	<u>\$1,150</u>	<u>\$11,188</u>	<u>\$8,814</u>	<u>\$21,152</u>	<u>\$1,945</u>	<u>\$10,345</u>	<u>\$8,955</u>	<u>\$21,245</u>

	As at December 31, 1999				As at December 31, 1998			
	Regulated financial institutions	Individuals	Businesses and governments	Total	Regulated financial institutions	Individuals	Businesses and governments	Total
	(Unaudited)				(Unaudited)			
Demand	\$ 90	\$ —	\$ 759	\$ 849	\$ 94	\$ —	\$ 868	\$ 962
Notice	—	2,144	2,131	4,275	—	2,147	1,596	3,743
Fixed date	1,213	8,714	5,119	15,046	1,799	8,066	5,980	15,845
	<u>\$1,303</u>	<u>\$10,858</u>	<u>\$8,009</u>	<u>\$20,170</u>	<u>\$1,893</u>	<u>\$10,213</u>	<u>\$8,444</u>	<u>\$20,550</u>

	As at October 31, 1997			
	Regulated financial institutions	Individuals	Businesses and governments	Total
	(Unaudited)			
Demand	\$ 33	\$ —	\$ 692	\$ 725
Notice	—	2,500	1,283	3,783
Fixed date	1,081	7,422	7,104	15,607
	<u>\$1,114</u>	<u>\$9,922</u>	<u>\$9,079</u>	<u>\$20,115</u>

	As at March 31,		As at December 31,		As at
	2000	1999	1999	1998	October 31,
	(Unaudited)				
Deposits denominated in U.S. dollars	\$6,547	\$7,690	\$6,409	\$7,596	\$6,344
Deposits denominated in other foreign currencies	\$ 701	\$ 490	\$ 635	\$ 340	\$ 251

8. Other liabilities

	As at March 31,		As at December 31,		As at
	2000	1999	1999	1998	October 31,
	(Unaudited)				
Accrued interest payable	\$ 203	\$ 299	\$ 223	\$ 316	\$ 335
Mortgages sold with recourse	132	172	156	181	246
Payable to clients, dealers and clearing corporations	513	744	380	492	311
Market revaluation of trading derivatives (note 19)	53	83	77	99	92
Accounts payable and other	612	529	487	464	303
	<u>\$1,513</u>	<u>\$1,827</u>	<u>\$1,323</u>	<u>\$1,552</u>	<u>\$1,287</u>

9. Non-controlling interest in subsidiary

HSBC Mortgage Corporation (Canada) (formerly HongkongBank Mortgage Corporation), a wholly owned subsidiary of the Bank, has issued \$30 million of class B perpetual preferred shares to HSBC Holdings B.V. No dividends were paid or payable on these perpetual preferred shares for any period of these financial statements. Dividends may be declared at the discretion of the directors of HSBC Mortgage Corporation (Canada).

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10. Debentures

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

<u>Interest rate %</u>	<u>Year of maturity</u>	<u>Foreign currency amount</u>	<u>As at March 31,</u>		<u>As at December 31,</u>		<u>As at</u>	
			<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>October 31, 1997</u>	
			(Unaudited)					
Issued to Group companies								
5.81%(1)(9)	2008		\$ —	\$ 60	\$ —	\$ 60	\$ 60	
5.84%(2)(9)	2091		—	185	—	185	185	
6.84%(3)	2094	US\$85	123	128	122	130	119	
8.29%(4)(9)	2094		—	25	—	25	25	
			123	398	122	400	389	
Issued to others								
11.00%(5)	2005		60	60	60	60	60	
5.73%(6)	2009		60	60	60	60	—	
6.79%(7)	2009		50	—	50	—	—	
7.70%(8)	2011		60	60	60	60	60	
30 day bankers' acceptance rate plus 0.50%	2083		40	40	40	40	40	
			270	220	270	220	160	
Total			\$393	\$618	\$392	\$620	\$549	

	<u>Three months ended March 31,</u>		<u>Year ended December 31, 1999</u>	<u>Fourteen months ended December 31, 1998</u>	<u>Year ended October 31, 1997</u>
	<u>2000</u>	<u>1999</u>			
	(Unaudited)				
Interest expense on debentures issued to group companies	\$ 2	\$ 6	\$ 25	\$ 29	\$ 30

- (1) The interest rate is fixed at 5.81% until December 28, 2003.
- (2) The interest rate is fixed at 5.84% until October 2002.
- (3) The interest rate is fixed at 6.84% until July 2000 and thereafter the rate reprices every 5 years at the then 5 year U.S. Treasury rate plus 0.80%.
- (4) The interest rate is fixed at 8.29% until October 2000.
- (5) The interest rate is fixed at 11.00% until maturity.
- (6) The interest rate is fixed at 5.73% until November 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.
- (7) The interest rate is fixed at 6.79% until December 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.
- (8) The interest rate is fixed at 7.70% until February 2006 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.
- (9) These debentures were redeemed in December 1999.

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11. Capital stock

Authorized:

Preferred — Unlimited number of perpetual non-cumulative preferred shares without par value. The dividend rate is fixed at 8.5% until October 2002. Thereafter the dividend rate reprices at the then Government of Canada five-year bond rate plus 2.5%. The preferred shares issued are not redeemable prior to December 31, 2009 (note 25).

Common — 993,677,000 common shares without par value.

Issued and fully paid:

	As at March 31,				As at December 31,				As at October 31,	
	2000		1999		1999		1998		1997	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
	000's		000's			000's		000's		000's
	(Unaudited)									
Preferred	10,800	\$270	—	\$ —	10,800	\$270	—	\$ —	—	\$ —
Common	280,168	75	280,168	75	280,168	75	280,168	75	280,168	75
		<u>\$345</u>		<u>\$ 75</u>		<u>\$345</u>		<u>\$ 75</u>		<u>\$ 75</u>

The preferred shares were issued on December 22, 1999 to a Group company. No dividends were paid or payable on these shares for any period of these financial statements.

12. Other income

	Three months ended March 31,		Year ended December 31, 1999	Fourteen months ended December 31, 1998	Year ended October 31, 1997
	2000	1999			
		(Unaudited)			
Investment and securities services	\$ 68	\$ 34	\$143	\$116	\$ 89
Deposit and payment services	13	12	52	56	46
Lending fees	4	5	18	25	23
Bankers' acceptance, letter of credit and guarantee fees	12	11	46	41	31
Trading revenue	17	20	80	60	34
Other	11	11	45	34	17
	<u>\$125</u>	<u>\$ 93</u>	<u>\$384</u>	<u>\$332</u>	<u>\$240</u>

13. Pension plans

Effective January 1, 2000, the Bank adopted the new accounting standard accounting for employee future benefits (see note 24) on a prospective basis. The estimated financial positions of the Bank's defined benefit obligations for employees is as follows:

	As at March 31,		As at December 31,		
	2000	1999	1999	1998	1997
		(Unaudited)			
Fair value of plan asset	\$177	\$153	\$175	\$149	\$144
Projected pension benefit and other post-retirement obligations	159	110	114	100	96
Funded status	<u>\$ 18</u>	<u>\$ 43</u>	<u>\$ 61</u>	<u>\$ 49</u>	<u>\$ 48</u>

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Information about the defined benefit plans is as follows:

	<u>Pension benefit plans</u>	<u>Other post retirement plans</u>
Change in projected benefit obligations:		
Benefit obligation at December 31, 1999	114	—
Adoption of new standard	4	38
Current service cost	2	—
Interest cost	2	1
Benefits paid	<u>(2)</u>	<u>—</u>
Benefit obligations at March 31, 2000	<u>120</u>	<u>39</u>
Change in assets:		
Fair value of assets at December 31, 1999	175	—
Expected return of assets	3	—
Employer contributions	1	—
Benefits paid	<u>(2)</u>	<u>—</u>
Fair value of assets at March 31, 2000	<u>177</u>	<u>—</u>
Funded status — surplus (deficit)	57	(39)
Unamortized transitional (asset) obligation	<u>(11)</u>	<u>38</u>
Accrued benefit (liability)	46	(1)
Valuation allowance	<u>(47)</u>	<u>—</u>
Accrued benefit (liability), net of valuation allowance	<u>(1)</u>	<u>(1)</u>

The pension plans are funded. The expected return on plan assets of the pension plans are based on the expected long-term rate of return on plan assets and the fair value of plan assets. The other post-retirement plans are unfunded.

The following is a summary of the weighted average significant actuarial assumptions used in measuring the Bank's accrued benefit obligations:

	<u>Pension benefit plans</u>	<u>Other post-retirement plans</u>
Discount rate	7.5%	7.5%
Expected long-term rate of return on plan assets	8.0%	—
Rate of compensation increase	4.0%	4.0%

The Bank's net benefit plan expense is as follows:

	<u>Pension benefit plans</u>	<u>Other post-retirement plans</u>
Current service cost	\$ 2	\$ —
Interest cost	2	1
Expected return on plan assets	<u>(3)</u>	<u>—</u>
Net benefit plan expense	<u>\$ 1</u>	<u>\$ 1</u>

14. Income taxes

Effective January 1, 2000 the Bank adopted CICA 3465 accounting for income taxes on a retroactive basis without restatement of any prior period (note 24). Accordingly, for periods up to December 31, 1999, future income tax assets, future income tax liabilities, net future income tax assets and provisions for future income taxes were formerly deferred income tax assets, deferred income tax liabilities, net deferred income tax assets and provisions for deferred income taxes.

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a) Provisions for income taxes included in the consolidated statements of income are:

	Three months ended March 31,		Year ended December 31, 1999	Fourteen months ended December 31, 1998	Year ended October 31, 1997
	2000	1999			
	(Unaudited)				
Current income taxes:					
Federal	\$ 18	\$ 18	\$ 80	\$ 25	\$ 38
Provincial	<u>8</u>	<u>8</u>	<u>39</u>	<u>12</u>	<u>19</u>
	26	26	119	37	57
Future income taxes:					
Federal	1	(7)	(27)	4	17
Provincial	<u>1</u>	<u>(3)</u>	<u>(13)</u>	<u>1</u>	<u>9</u>
	2	(10)	(40)	5	26
Total income taxes	<u>\$ 28</u>	<u>\$ 16</u>	<u>\$ 79</u>	<u>\$ 42</u>	<u>\$ 83</u>

b) The provisions for income taxes shown in the consolidated statements of income are less than that obtained by applying statutory tax rates to the net income before provision for income taxes for the following reasons:

	Three months ended March 31,		Year ended December 31, 1999	Fourteen months ended December 31, 1998	Year ended October 31, 1997
	2000	1999			
	(Unaudited)				
Combined federal and provincial income tax rate	44.7%	44.7%	44.7%	44.7%	44.8%
Adjustments resulting from:					
Tax exempt income related to preferred shares, common shares, and income debentures	(5.0)	(8.8)	(6.1)	(9.4)	(6.3)
Utilization of tax losses carried forward and other deductions	—	(0.6)	(3.2)	(11.6)	(3.5)
Substantively enacted tax rate change	3.9	—	—	—	—
Other, net	<u>(6.3)</u>	<u>(5.7)</u>	<u>(3.0)</u>	<u>(4.9)</u>	<u>2.6</u>
	<u>37.3%</u>	<u>29.6%</u>	<u>32.4%</u>	<u>18.8%</u>	<u>37.6%</u>

c) The net future income tax asset reported in other assets is comprised as follows:

	As at March 31, 2000	As at March 31, 1999	As at December 31, 1999	As at December 31, 1998	As at October 31, 1997
		(Unaudited)			
Future income tax assets:					
Allowance for credit losses	\$ 94	\$ 91	\$ 95	\$ 90	\$ 70
Other available deductions	21	16	19	14	8
Non-capital losses	58	—	13	—	13
Other	<u>6</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>6</u>
	179	108	128	105	97
Valuation allowance	<u>(9)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Future income tax assets	170	108	128	105	97
Future income tax liabilities					
Leases	(18)	(43)	(16)	(51)	(58)
Buildings and equipment	(3)	(3)	(4)	(4)	(4)
Other	<u>(10)</u>	<u>(6)</u>	<u>(8)</u>	<u>(4)</u>	<u>(2)</u>
Future income tax liabilities	(31)	(52)	(28)	(59)	(64)
Net future income tax asset	<u>\$139</u>	<u>\$ 56</u>	<u>\$100</u>	<u>\$ 46</u>	<u>\$ 33</u>

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15. Long-term lease commitments

Future minimum commitments under long-term leases of premises are as follows:

	<u>As at March 31, 2000</u>		<u>As at December 31, 1999</u>		
	(unaudited)				
2000	\$ 22		\$ 31		
2001	31		29		
2002	27		26		
2003	25		24		
2004	22		21		
2005	17		16		
2006 and thereafter	<u>63</u>		<u>\$ 63</u>		
	<u>\$207</u>		<u>\$210</u>		

	<u>Three months ended March 31,</u>		<u>Year ended December 31,</u>	<u>Fourteen months ended December 31,</u>	<u>Year ended October 31,</u>
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Unaudited)				
Rent expense in respect of premises	\$10	\$ 9	\$37	\$37	\$29

16. Guarantees and letters of credit

The Bank issues guarantees and letters of credit to meet credit requirements of its customers. The amounts are not included in the Consolidated Balance Sheets and are as follows:

	<u>As at March 31,</u>		<u>As at December 31,</u>		<u>As at October 31,</u>
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Unaudited)				
Guarantees	\$ 849	\$ 838	\$ 803	\$ 723	\$482
Letters of credit	<u>345</u>	<u>330</u>	<u>389</u>	<u>416</u>	<u>263</u>
	<u>\$1,194</u>	<u>\$1,168</u>	<u>\$1,192</u>	<u>\$1,139</u>	<u>\$745</u>

In the event of a call on the above commitments, the Bank has recourse against the customer.

17. Contingencies

A Bank subsidiary is subject to threatened action relating to its responsibilities as a distributor, escrow agent and custodian. Another Bank subsidiary is subject to certain claims relating to acquisition matters and certain proposed class actions. Management intends to defend itself vigorously, but is of the opinion that the ultimate outcome cannot be determined at this time. Accordingly, no provisions have been recorded in the consolidated financial statements relating to these matters.

Legal actions have been filed against the Bank in connection with certain class action and related suits. A partial settlement has been reached in the class action suits. Management believes that the remaining claims and actions are without merit and will vigorously defend these matters. The Bank and its subsidiaries are also subject to a number of other legal claims and contingencies arising in the normal course of their businesses. Management is of the opinion that adequate provision for any potential liability has been made.

The Bank is subject to limited recourse for potential credit losses on all assets securitized and potential shortfall of yield on certain of the assets securitized.

	<u>As at March 31,</u>		<u>As at December 31,</u>		<u>As at October 31,</u>
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(Unaudited)				
Total recourse under securitization transactions	\$36	\$14	\$38	\$17	\$ —

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18. Fair value of financial instruments

The amounts below represent the fair values of the Bank's on balance sheet financial instruments. Fair value is the estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted daily to reflect the fair value.

	As at March 31,					
	2000			1999		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
	(Unaudited)			(Unaudited)		
Assets						
Cash resources	\$ 2,747	\$ 2,747	\$ —	\$ 1,619	\$ 1,619	\$ —
Securities	2,975	2,960	(15)	3,854	3,866	12
Securities purchased under reverse repurchase agreements	454	454	—	266	266	—
Loans	17,491	17,441	(50)	17,724	17,719	(5)
Acceptances	1,832	1,832	—	1,768	1,768	—
Other assets	739	739	—	1,084	1,084	—
Liabilities						
Deposits	\$21,152	\$21,102	\$(50)	\$21,245	\$21,183	\$(62)
Acceptances	1,832	1,832	—	1,768	1,768	—
Securities sold under repurchase agreements	145	145	—	86	86	—
Other liabilities	1,543	1,543	—	1,857	1,857	—
Subordinated debt	393	374	(9)	618	611	(7)

	As at December 31,					
	1999			1998		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
Assets						
Cash resources	\$ 2,295	\$ 2,295	\$ —	\$ 1,637	\$ 1,637	\$ —
Securities	2,847	2,828	(19)	3,342	3,357	15
Securities purchased under reverse repurchase agreements	378	378	—	—	—	—
Loans	17,130	17,100	(30)	17,459	17,483	24
Acceptances	1,705	1,705	—	1,267	1,267	—
Other assets	572	572	—	1,021	1,021	—
Liabilities						
Deposits	\$20,170	\$20,120	\$(50)	\$20,550	\$20,563	\$ 13
Acceptances	1,705	1,705	—	1,267	1,267	—
Securities sold under repurchase agreements	179	179	—	—	—	—
Other liabilities	1,353	1,353	—	1,582	1,582	—
Subordinated debt	392	373	(19)	620	646	26

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	As at October 31, 1997		
	Book value	Fair value	Fair value over (under) book value
Assets			
Cash resources	\$ 2,104	\$ 2,104	\$ —
Securities	3,205	3,240	35
Loans	16,454	16,561	107
Acceptances	1,258	1,258	—
Other assets	801	801	—
Liabilities			
Deposits	\$20,115	\$20,180	\$ 65
Acceptances	1,258	1,258	—
Other liabilities	2,575	2,575	—
Subordinated debt	549	579	30

The book value of financial assets and financial liabilities held for purposes other than trading may exceed its fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them to maturity.

The determination of fair values of financial instruments for which there are no quoted market values requires that a number of assumptions are made for which there exists a significant degree of subjectivity. The following methods and assumptions were used to estimate the fair value of these financial instruments:

- Cash resources, acceptances, assets purchased under reverse repurchase agreements, assets sold under repurchase agreements, other assets and other liabilities, due to their short term nature, are assumed to approximate their carrying values.
- Securities are assumed to be equal to the estimated market value of securities provided in Note 3. These values are based on quoted market prices where available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other valuation techniques.
- Floating rate and consumer loans are assumed to be equal to their book value. The fair value of commercial and residential mortgage loans with fixed terms are estimated using a discounted cash flow calculation at current rates for loans with similar terms and credit risks.
- Demand and floating rate deposits are assumed to be equal to their carrying value. The fair value of fixed rate deposits are estimated using a discounted cash flow calculation at market rates.
- Subordinated debt is determined by reference to current market prices for debt with similar terms and risks.

19. Derivative instruments

In the ordinary course of business, the Bank enters into various derivative contracts such as foreign exchange contracts, interest rate swaps, forward rate agreements and financial futures contracts whose notional principal is not included in the Consolidated Balance Sheets.

Derivatives are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. The Bank uses derivatives for both trading and asset/liability management purposes.

Trading related activity includes transactions undertaken on behalf of the Bank and its customers ("Trading"). Asset/liability management derivatives are used by the Bank to manage its exposures to interest rate and foreign currency fluctuations and, where appropriate, the Bank may use customer related trading transactions as part of its asset/liability management ("ALM") program.

The Bank strictly adheres to its formalized risk management policies and procedures. Risk limits are determined for each portfolio of derivative instruments based on product, currency, interest rate repricing and market volatility. All limits are monitored on a daily basis.

Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that the fair value of derivatives will fluctuate due to changes in interest, foreign exchange rates, and equity markets. Market risk is managed on a consolidated Bank basis.

Credit risk for derivative instruments is not equal to the notional amount of the principal as it is with assets recorded on the Consolidated Balance Sheets. The credit risk for derivatives is principally the replacement cost of any contract with a positive market value plus an estimate for future fluctuation risk. Credit risk for derivatives is managed using the Bank's risk management policies.

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a) An analysis of the Bank's derivative portfolio and related credit exposure is as follows:

	As at March 31,							
	2000				1999			
	Notional amount	Current replacement cost	Credit equivalent amount	Risk weighted balance	Notional amount	Current replacement cost	Credit equivalent amount	Risk weighted balance
	(Unaudited)				(Unaudited)			
Interest rate contracts								
Forward rate agreements	\$ 1,175	\$ —	\$ —	\$ —	\$ 1,562	\$ —	\$ —	\$ —
Futures — exchange traded	2,058	1	1	—	2,281	1	1	—
Swaps	10,080	41	67	11	10,951	45	73	26
Caps	54	1	1	—	54	1	1	—
	<u>13,367</u>	<u>43</u>	<u>69</u>	<u>11</u>	<u>14,848</u>	<u>47</u>	<u>75</u>	<u>26</u>
Foreign exchange contracts								
Spot contracts	525	—	—	—	1,324	1	1	—
Forward contracts	10,079	38	180	62	12,594	99	257	81
Currency swaps and options	495	8	20	7	152	2	6	1
	<u>11,099</u>	<u>46</u>	<u>200</u>	<u>69</u>	<u>14,070</u>	<u>102</u>	<u>264</u>	<u>82</u>
Equity contracts	98	—	6	3	258	—	16	8
Total	<u>\$24,564</u>	<u>\$ 89</u>	<u>\$275</u>	<u>\$ 83</u>	<u>\$29,176</u>	<u>\$149</u>	<u>\$355</u>	<u>\$116</u>
	As at December 31,							
	1999				1998			
	Notional amount	Current replacement cost	Credit equivalent amount	Risk weighted balance	Notional amount	Current replacement cost	Credit equivalent amount	Risk weighted balance
Interest rate contracts								
Forward rate agreements	\$ 1,150	\$ —	\$ —	\$ —	\$ 845	\$ —	\$ —	\$ —
Futures — exchange traded	2,152	1	1	—	1,888	1	1	—
Swaps	10,557	45	73	11	11,644	68	97	31
Caps	54	1	1	—	54	1	1	—
	<u>13,913</u>	<u>47</u>	<u>75</u>	<u>11</u>	<u>14,431</u>	<u>70</u>	<u>99</u>	<u>31</u>
Foreign exchange contracts								
Spot contracts	586	1	1	—	238	1	—	—
Forward contracts	9,949	58	192	64	12,568	146	302	94
Currency swaps and options	266	7	17	6	115	1	3	—
	<u>10,801</u>	<u>66</u>	<u>210</u>	<u>70</u>	<u>12,921</u>	<u>148</u>	<u>305</u>	<u>94</u>
Equity contracts	95	1	6	3	109	1	8	4
Total	<u>\$24,809</u>	<u>\$114</u>	<u>\$291</u>	<u>\$ 84</u>	<u>\$27,461</u>	<u>\$219</u>	<u>\$412</u>	<u>\$129</u>

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	October 31, 1997			
	Notional amount	Current replacement cost	Credit equivalent amount	Risk weighted balance
Interest rate contracts				
Forward rate agreements	\$ 2,942	\$ —	\$ —	\$ —
Futures — exchange traded	3,863	—	—	—
Swaps	11,100	59	87	36
Caps	—	—	—	—
	<u>17,905</u>	<u>59</u>	<u>87</u>	<u>36</u>
Foreign exchange contracts				
Spot contracts	1,012	1	—	—
Forward contracts	10,617	143	267	71
Currency swaps and options	—	—	—	—
	<u>11,629</u>	<u>144</u>	<u>267</u>	<u>71</u>
Equity contracts	151	4	13	7
Total	<u>\$29,685</u>	<u>\$207</u>	<u>\$367</u>	<u>\$114</u>

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current replacement cost represents the estimated cost of replacing, at current market rates, all contracts with a positive value.

Credit equivalent amount is the current replacement cost plus an amount for future credit exposure associated with the potential for future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by the Superintendent in its capital adequacy guidelines.

Risk-weighted balance represents the amount based upon which the regulatory capital required to support the Bank's derivative activities is calculated. It is derived from risk weighting the credit equivalent amounts according to the credit worthiness of the counterparties using factors prescribed by the Superintendent in its capital adequacy guidelines.

- b) **The following tables summarize the notional amounts by remaining term to maturity of the Bank's derivative portfolio segregating derivative instruments between those entered into by the Bank for its customer and proprietary trading activities and those used to manage the risk associated with changes in interest and foreign exchange rates as part of the Bank's ALM program.**

	As at March 31, 2000								
	Trading				ALM				
	Under 1 year	1-5 years	Over 5 years	Total trading	Under 1 year	1-5 years	Over 5 years	Total ALM	Total
	(Unaudited)								
Interest rate contracts									
Forward rate agreements	\$ 1,175	\$ —	\$—	\$ 1,175	\$ —	\$ —	\$—	\$ —	\$ 1,175
Futures — exchange traded	2,058	—	—	2,058	—	—	—	—	2,058
Swaps	2,116	2,293	57	4,466	3,015	2,524	75	5,614	10,080
Caps	—	54	—	54	—	—	—	—	54
	<u>5,349</u>	<u>2,347</u>	<u>57</u>	<u>7,753</u>	<u>3,015</u>	<u>2,524</u>	<u>75</u>	<u>5,614</u>	<u>13,367</u>
Foreign exchange contracts									
Spot contracts	377	—	—	377	148	—	—	148	525
Forward contracts	5,132	393	—	5,525	4,339	215	—	4,554	10,079
Currency swaps and options	288	188	—	476	—	19	—	19	495
	<u>5,797</u>	<u>581</u>	<u>—</u>	<u>6,378</u>	<u>4,487</u>	<u>234</u>	<u>—</u>	<u>4,721</u>	<u>11,099</u>
Equity contracts	98	—	—	98	—	—	—	—	98
Total	<u>\$11,244</u>	<u>\$2,928</u>	<u>\$57</u>	<u>\$14,229</u>	<u>\$7,502</u>	<u>\$2,758</u>	<u>\$75</u>	<u>\$10,335</u>	<u>\$24,564</u>

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	As at March 31, 1999								Total
	Trading				ALM				
	Under 1 year	1-5 years	Over 5 years	Total trading	Under 1 year	1-5 years	Over 5 years	Total ALM	
	(Unaudited)								
Interest rate contracts									
Forward rate agreements	\$ 1,562	\$ —	\$ —	\$ 1,562	\$ —	\$ —	\$ —	\$ —	\$ 1,562
Futures — exchange traded	2,231	—	—	2,231	50	—	—	50	2,281
Swaps	3,767	1,935	45	5,747	1,998	3,086	120	5,204	10,951
Caps	—	54	—	54	—	—	—	—	54
	7,560	1,989	45	9,594	2,048	3,086	120	5,254	14,848
Foreign exchange contracts									
Spot contracts	1,224	—	—	1,224	100	—	—	100	1,324
Forward contracts	6,097	350	—	6,447	6,049	98	—	6,147	12,594
Currency swaps and options	68	61	—	129	—	23	—	23	152
	7,389	411	—	7,800	6,149	121	—	6,270	14,070
Equity contracts	258	—	—	258	—	—	—	—	258
Total	\$15,207	\$2,400	\$ 45	\$17,652	\$8,197	\$3,207	\$120	\$11,524	\$29,176

	As at December 31, 1999								Total
	Trading				ALM				
	Under 1 year	1-5 years	Over 5 years	Total trading	Under 1 year	1-5 years	Over 5 years	Total ALM	
Interest rate contracts									
Forward rate agreements	\$ 1,150	\$ —	\$ —	\$ 1,150	\$ —	\$ —	\$ —	\$ —	\$ 1,150
Futures — exchange traded	2,152	—	—	2,152	—	—	—	—	2,152
Swaps	3,113	2,230	57	5,400	2,284	2,738	135	5,157	10,557
Caps	—	54	—	54	—	—	—	—	54
	6,415	2,284	57	8,756	2,284	2,738	135	5,157	13,913
Foreign exchange contracts									
Spot contracts	585	—	—	585	1	—	—	1	586
Forward contracts	5,110	273	—	5,383	4,350	216	—	4,566	9,949
Currency swaps and options	57	189	—	246	—	20	—	20	266
	5,752	462	—	6,214	4,351	236	—	4,587	10,801
Equity contracts	95	—	—	95	—	—	—	—	95
Total	\$12,262	\$2,746	\$ 57	\$15,065	\$6,635	\$2,974	\$135	\$9,744	\$24,809

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As at December 31, 1998

	Trading				ALM				Total
	Under 1 year	1-5 years	Over 5 years	Total trading	Under 1 year	1-5 years	Over 5 years	Total ALM	
Interest rate contracts									
Forward rate agreements	\$ 845	\$ —	\$ —	\$ 845	\$ —	\$ —	\$ —	\$ —	\$ 845
Futures — exchange traded	1,076	246	—	1,322	566	—	—	566	1,888
Swaps	3,787	1,777	45	5,609	2,336	3,579	120	6,035	11,644
Caps	—	—	54	54	—	—	—	—	54
	<u>5,708</u>	<u>2,023</u>	<u>99</u>	<u>7,830</u>	<u>2,902</u>	<u>3,579</u>	<u>120</u>	<u>6,601</u>	<u>14,431</u>
Foreign exchange contracts									
Spot contracts	222	—	—	222	16	—	—	16	238
Forward contracts	6,306	420	—	6,726	5,823	19	—	5,842	12,568
Currency swaps and options	74	17	—	91	—	24	—	24	115
	<u>6,602</u>	<u>437</u>	<u>—</u>	<u>7,039</u>	<u>5,839</u>	<u>43</u>	<u>—</u>	<u>5,882</u>	<u>12,921</u>
Equity contracts	<u>63</u>	<u>46</u>	<u>—</u>	<u>109</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>109</u>
Total	<u>\$12,373</u>	<u>\$ 2,506</u>	<u>\$ 99</u>	<u>\$14,978</u>	<u>\$ 8,741</u>	<u>\$ 3,622</u>	<u>\$ 120</u>	<u>\$12,483</u>	<u>\$27,461</u>

As at October 31, 1997

	Trading				ALM				Total
	Under 1 year	1-5 years	Over 5 years	Total trading	Under 1 year	1-5 years	Over 5 years	Total ALM	
Interest rate contracts									
Forward rate agreements	\$ 2,942	\$ —	\$ —	\$ 2,942	\$ —	\$ —	\$ —	\$ —	\$ 2,942
Futures — exchange traded	2,959	200	—	3,159	704	—	—	704	3,863
Swaps	3,922	1,671	—	5,593	3,088	2,347	72	5,507	11,100
Caps	—	—	—	—	—	—	—	—	—
	<u>9,823</u>	<u>1,871</u>	<u>—</u>	<u>11,694</u>	<u>3,792</u>	<u>2,347</u>	<u>72</u>	<u>6,211</u>	<u>17,905</u>
Foreign exchange contracts									
Spot contracts	822	—	—	822	190	—	—	190	1,012
Forward contracts	5,463	270	—	5,733	4,884	—	—	4,884	10,617
Currency swaps and options	—	—	—	—	—	—	—	—	—
	<u>6,285</u>	<u>270</u>	<u>—</u>	<u>6,555</u>	<u>5,074</u>	<u>—</u>	<u>—</u>	<u>5,074</u>	<u>11,629</u>
Equity contracts	<u>151</u>	<u>—</u>	<u>—</u>	<u>151</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>151</u>
Total	<u>\$16,259</u>	<u>\$ 2,141</u>	<u>\$ —</u>	<u>\$18,400</u>	<u>\$ 8,866</u>	<u>\$ 2,347</u>	<u>\$ 72</u>	<u>\$11,285</u>	<u>\$29,685</u>

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- c) The following tables summarize the fair values, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Bank's derivative portfolio segregating derivative instruments between trading and ALM and between those that are in a favourable or receivable position from those in an unfavourable or payable position.

Trading derivatives are marked to market on a daily basis and the net position for the trading portfolio shown in the table below has already been recognized in the financial statement. ALM interest rate derivatives are accounted for on the accrual basis and the net income or expense is recognized over the life of the derivative contract. Foreign exchange derivatives used for ALM purposes are accounted for on an accrual basis as are the underlying assets and liabilities hedged. The ALM portfolio is used to manage the Bank's exposure to changes in interest and foreign currency rates. Consequently, the net favourable or unfavourable position in the ALM portfolio shown in the table below is approximately offset by changes in the values in the underlying hedged assets and liabilities.

Fair values of derivative instruments are determined using quoted market prices.

	As at March 31, 2000						Total Net
	Trading			ALM			
	Favourable position	(Unfavourable) position	Net position	Favourable Position	(Unfavourable) position	Net position	
	(Unaudited)						
Interest rate contracts							
Forward rate agreements	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Futures — exchange traded	1	(1)	—	—	—	—	—
Swaps	18	(16)	2	24	(19)	5	7
Caps	1	—	1	—	—	—	1
	<u>20</u>	<u>(17)</u>	<u>3</u>	<u>24</u>	<u>(19)</u>	<u>5</u>	<u>8</u>
Foreign exchange contracts							
Spot contracts	—	—	—	—	—	—	—
Forward contracts	33	(31)	2	4	(63)	(59)	(57)
Currency swaps and options	8	—	8	—	—	—	8
	<u>41</u>	<u>(31)</u>	<u>10</u>	<u>4</u>	<u>(63)</u>	<u>(59)</u>	<u>(49)</u>
Equity contracts	—	(5)	(5)	—	—	—	(5)
Total	<u>\$ 61</u>	<u>\$(53)</u>	<u>\$ 8</u>	<u>\$ 28</u>	<u>\$(82)</u>	<u>\$(54)</u>	<u>\$(46)</u>

	As at March 31, 1999						Total net
	Trading			ALM			
	Favourable position	(Unfavourable) position	Net position	Favourable Position	(Unfavourable) position	Net position	
	(Unaudited)						
Interest rate contracts							
Forward rate agreements	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Futures — exchange traded	1	(1)	—	—	—	—	—
Swaps	19	(19)	—	26	(29)	(3)	(3)
Caps	1	—	1	—	—	—	1
	<u>21</u>	<u>(20)</u>	<u>1</u>	<u>26</u>	<u>(29)</u>	<u>(3)</u>	<u>(2)</u>
Foreign exchange contracts							
Spot contracts	1	(1)	—	—	—	—	—
Forward contracts	51	(59)	(8)	48	(28)	20	12
Currency swaps and options	2	—	2	—	(1)	(1)	1
	<u>54</u>	<u>(60)</u>	<u>(6)</u>	<u>48</u>	<u>(29)</u>	<u>19</u>	<u>13</u>
Equity contracts	—	(3)	(3)	—	—	—	(3)
Total	<u>\$ 75</u>	<u>\$(83)</u>	<u>\$ (8)</u>	<u>\$ 74</u>	<u>\$(58)</u>	<u>\$ 16</u>	<u>\$ 8</u>

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	As at December 31, 1999						Total net
	Trading			ALM			
	Favourable position	(Unfavourable position)	Net position	Favourable position	(Unfavourable position)	Net position	
Interest rate contracts							
Forward rate agreements	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Futures	1	(1)	—	—	—	—	—
Swaps	21	(19)	2	24	(47)	(23)	(21)
Caps	1	—	1	—	—	—	1
	<u>23</u>	<u>(20)</u>	<u>3</u>	<u>24</u>	<u>(47)</u>	<u>(23)</u>	<u>(20)</u>
Foreign exchange contracts							
Spot contracts	1	(1)	—	—	—	—	—
Forward contracts	57	(55)	2	1	(99)	(98)	(96)
Currency swaps and options	7	—	7	—	—	—	7
	<u>65</u>	<u>(56)</u>	<u>9</u>	<u>1</u>	<u>(99)</u>	<u>(98)</u>	<u>(89)</u>
Equity contracts	<u>1</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 89</u>	<u>\$(77)</u>	<u>\$ 12</u>	<u>\$ 25</u>	<u>\$(146)</u>	<u>\$(121)</u>	<u>\$(109)</u>

	As at December 31, 1998						Total net
	Trading			ALM			
	Favourable position	(Unfavourable position)	Net position	Favourable position	(Unfavourable position)	Net position	
Interest rate contracts:							
Forward rate agreements	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Futures	1	(1)	—	—	(1)	(1)	(1)
Swaps	22	(23)	(1)	46	(38)	8	7
Caps	1	—	1	—	—	—	1
	<u>24</u>	<u>(24)</u>	<u>—</u>	<u>46</u>	<u>(39)</u>	<u>7</u>	<u>7</u>
Foreign exchange contracts:							
Spot contracts	1	—	1	—	—	—	1
Forward contracts	72	(75)	(3)	74	(33)	41	38
Currency swaps and options	1	—	1	—	(1)	(1)	—
	<u>74</u>	<u>(75)</u>	<u>(1)</u>	<u>74</u>	<u>(34)</u>	<u>40</u>	<u>39</u>
Equity Contracts	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total	<u>\$ 99</u>	<u>\$(99)</u>	<u>\$ —</u>	<u>\$120</u>	<u>\$(73)</u>	<u>\$ 47</u>	<u>\$ 47</u>

	As at October, 1997						Total net
	Trading			ALM			
	Favourable position	(Unfavourable position)	Net position	Favourable position	(Unfavourable position)	Net position	
Interest rate contracts:							
Forward rate agreements	\$ —	\$ (1)	\$ (1)	\$ —	\$ —	\$ —	\$ (1)
Futures	—	—	—	—	—	—	—
Swaps	24	(31)	(7)	35	(79)	(44)	(51)
Caps	—	—	—	—	—	—	—
	<u>24</u>	<u>(32)</u>	<u>(8)</u>	<u>35</u>	<u>(79)</u>	<u>(44)</u>	<u>(52)</u>
Foreign exchange contracts:							
Spot contracts	1	—	1	—	—	—	1
Forward contracts	57	(60)	(3)	86	(3)	83	80
Currency swaps and options	—	—	—	—	—	—	—
	<u>58</u>	<u>(60)</u>	<u>(2)</u>	<u>86</u>	<u>(3)</u>	<u>83</u>	<u>81</u>
Equity futures Contracts	<u>4</u>	<u>—</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>
Total	<u>\$ 86</u>	<u>\$(92)</u>	<u>\$ (6)</u>	<u>\$121</u>	<u>\$(82)</u>	<u>\$ 39</u>	<u>\$ 33</u>

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20. Interest rate sensitivity position

The following table provides an analysis of the Bank's interest rate sensitivity position based on contractual repricing dates of assets and liabilities:

As at March 31, 2000										
	Within 3 months	3 to 6 months	6 to 12 months	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Greater than 5 years	Effective interest rate (%)	Non- interest sensitive	Total
	(unaudited)									
Cash resources	\$ 2,487	\$ 28	\$ 36	5.9	\$ —	—	\$ —	—	\$ 196	\$ 2,747
Securities	1,023	249	355	5.8	1,070	6.8	28	7.0	250	2,975
Loans	10,216	1,114	1,562	7.1	4,445	6.9	230	7.5	(76)	17,491
Securities purchased under reverse repurchase agreements	454	—	—	—	—	—	—	—	—	454
Other assets	—	—	—	—	—	—	—	—	2,693	2,693
Total assets	14,180	1,391	1,953	—	5,515	—	258	—	3,063	26,360
Deposits	14,335	1,979	3,087	4.7	858	5.8	13	7.4	880	21,152
Securities sold under repurchase agreements	145	—	—	—	—	—	—	—	—	145
Other liabilities	—	—	—	—	—	—	—	—	3,375	3,375
Subordinated debt	40	123	—	—	170	7.9	60	7.7	—	393
Shareholder's equity	—	—	—	—	270	8.5	—	—	1,025	1,295
Total liabilities & shareholder's equity	14,520	2,102	3,087	—	1,298	—	73	—	5,280	26,360
On balance sheet gap	(340)	(711)	(1,134)	—	4,217	—	185	—	(2,217)	—
Off balance sheet positions	(15)	(319)	(407)	—	730	—	11	—	—	—
Total interest rate gap	\$ (486)	\$(1,030)	\$(1,541)	—	\$5,064	—	\$210	—	\$(2,217)	\$ —

As at March 31, 1999										
	Within 3 months	3 to 6 months	6 to 12 months	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Greater than 5 years	Effective interest rate (%)	Non- interest sensitive	Total
	(unaudited)									
Cash resources	\$ 1,059	\$ 220	\$ 83	4.8	\$ —	7.1	\$ —	—	\$ 257	\$ 1,619
Securities	1,752	525	226	5.3	1,039	6.9	34	6.6	278	3,854
Loans	9,561	1,074	1,608	6.6	5,328	6.7	242	7.1	(89)	17,724
Securities purchased under reverse repurchase agreements	266	—	—	—	—	—	—	—	—	266
Other assets	—	—	—	—	—	—	—	—	2,966	2,966
Total assets	12,638	1,819	1,917	—	6,367	—	276	—	3,412	26,429
Deposits	14,839	2,648	2,459	4.2	506	6.5	4	7.2	789	21,245
Securities sold under repurchase agreements	86	—	—	—	—	—	—	—	—	86
Other liabilities	—	—	—	—	—	—	—	—	3,625	3,625
Subordinated debt	40	—	—	—	398	6.3	180	8.1	—	618
Shareholder's equity	—	—	—	—	—	—	—	—	855	855
Total liabilities & shareholder's equity	14,965	2,648	2,459	—	904	—	184	—	5,269	26,429
On balance sheet gap	(2,327)	(829)	(542)	—	5,463	—	92	—	(1,857)	—
Off balance sheet positions	1,247	(441)	(422)	—	(504)	—	120	—	—	—
Total interest rate gap	\$(1,080)	\$(1,270)	\$(964)	—	\$4,959	—	\$212	—	\$(1,857)	\$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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As at December 31, 1999

	Within 3 months	3 to 6 months	6 to 12 months	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Greater than 5 years	Effective interest rate (%)	Non- interest sensitive	Total
Cash resources	\$ 1,849	\$ 180	\$ —	5.5	\$ —	—	\$ —	—	\$ 266	\$ 2,295
Securities	1,126	164	236	5.4	1,128	6.7	28	7.0	165	2,847
Loans	9,827	1,212	1,520	6.7	4,443	6.8	232	7.4	(104)	17,130
Securities purchased under reverse repurchase agreements	378	—	—	—	—	—	—	—	—	378
Other assets	—	—	—	—	—	—	—	—	2,401	2,401
Total assets	13,180	1,556	1,756	—	5,571	—	260	—	2,728	25,051
Deposits	13,540	1,755	3,396	4.4	617	6.0	13	7.4	849	20,170
Securities sold under repurchase agreements	179	—	—	—	—	—	—	—	—	179
Other liabilities	—	—	—	—	—	—	—	—	3,058	3,058
Subordinated debt	40	—	122	6.8	110	6.2	120	9.4	—	392
Shareholders equity	—	—	—	—	270	8.5	—	—	982	1,252
Total liabilities & shareholder's equity	13,759	1,755	3,518	—	997	—	133	—	4,889	25,051
On balance sheet gap	(579)	(199)	(1,762)	—	4,574	—	127	—	(2,161)	—
Off balance sheet positions	(150)	(344)	2	—	421	—	71	—	—	—
Total interest rate gap	\$ (729)	\$ (543)	\$ (1,760)	—	\$4,995	—	\$198	—	\$ (2,161)	\$ —

As at December 31, 1998

	Within 3 months	3 to 6 months	6 to 12 months	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Greater than 5 years	Effective interest rate (%)	Non- interest sensitive	Total
Cash resources	\$ 804	\$ 116	\$ 69	5.4	\$ —	—	\$ —	—	\$ 648	\$ 1,637
Securities	1,515	67	501	5.5	1,083	6.8	41	7.1	135	3,342
Loans	9,648	1,070	1,482	6.6	5,146	7.4	238	7.7	(125)	17,459
Other assets	—	—	—	—	—	—	—	—	2,398	2,398
Total assets	11,967	1,253	2,052	—	6,229	—	279	—	3,056	24,836
Deposits	14,461	1,640	2,861	4.0	623	7.2	3	7.2	962	20,550
Other liabilities	—	—	—	—	—	—	—	—	2,849	2,849
Subordinated debt	40	—	—	5.7	400	6.3	180	8.1	—	620
Shareholder's equity	—	—	—	—	—	—	—	—	817	817
Total liabilities & shareholder's equity	14,501	1,640	2,861	—	1,023	—	183	—	4,628	24,836
On balance sheet gap	(2,534)	(387)	(809)	—	5,206	—	96	—	(1,572)	—
Off balance sheet positions	1,459	(929)	(347)	—	(181)	—	107	—	(109)	—
Total interest rate gap	\$ (1,075)	\$ (1,316)	\$ (1,156)	—	\$5,025	—	\$203	—	\$ (1,681)	\$ —

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	As at October 31, 1997									
	Within 3 months	3 to 6 months	6 to 12 months	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Greater than 5 years	Effective interest rate (%)	Non- interest sensitive	Total
Cash resources	\$ 1,445	\$ 94	\$ 258	3.9	\$ —	—	\$ —	—	\$ 307	\$ 2,104
Securities	1,172	607	234	4.0	1,009	7.0	14	7.0	169	3,205
Loans	8,573	1,292	1,600	5.4	4,907	7.0	150	7.0	(68)	16,454
Other assets	—	—	—	—	—	—	—	—	2,147	2,147
Total assets	11,190	1,993	2,092	—	5,916	—	164	—	2,555	23,910
Deposits	14,300	1,632	2,744	3.4	747	6.2	—	—	692	20,115
Other liabilities	—	—	—	—	—	—	—	—	2,575	2,575
Subordinated debt	100	—	—	4.4	—	—	449	7.2	—	549
Shareholder's equity	—	—	—	—	—	—	—	—	671	671
Total liabilities & shareholder's equity	14,400	1,632	2,744	—	747	—	449	—	3,938	23,910
On balance sheet gap	(3,210)	361	(652)	—	5,169	—	(285)	—	(1,383)	—
Off balance sheet positions	3,132	(412)	(1,304)	—	(1,472)	—	56	—	—	—
Total interest rate gap	\$ (78)	\$ (51)	\$ (1,956)	—	\$ 3,697	—	\$ (229)	—	\$ (1,383)	\$ —

The Bank reviews interest rate sensitivity. A basic amount with an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities is calculated using contractual repricing information. However, in managing interest rate risk, the Bank relies primarily upon contractual interest rate sensitivity positions adjusted for certain assumptions regarding customer behavioural preferences which are based upon historical trends. Adjustments made include assumptions relating to early repayment of consumer loans and residential mortgages and customer preferences for demand, notice and redeemable deposits.

Estimated effects on the income statement that an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would decrease net interest income over the next twelve months assuming no additional hedging, are as follows:

	As at March 31,		As at December 31,		As at October 31,
	2000	1999	1999	1998	1997
	(Unaudited)				
Basic	\$15	\$20	\$15	\$22	\$ 5
Behaviouralized	\$ 7	\$10	\$10	\$12	\$ 3

21. Segmented information

a) Business Segments:

The Bank's reportable segments are strategic business lines that offer different products and services. The Bank primarily measures the performance of each business line based on the net income of the business line. A description of each segment is as follows:

Personal financial services provides a range of personal financial services to individuals through the Bank's branches and subsidiary offices, ABMs and other electronic delivery channels such as Internet, PC and telephone. Services included in this segment include: retail and private banking; PC and telephone banking; card services; full and discount brokerage, including Internet trading; asset management, including retirement products; direct sale home and automotive insurance; and trust and advisory services.

Commercial financial services provides credit, trade finance, foreign exchange and commercial and investment banking activities to the Bank's mid-market commercial clients. Commercial financial services also include institutional fund management services.

Corporate and institutional banking ("CIB") provides full service corporate and investment banking products and services to the Group's largest multinational corporate clients. Prior to January 1, 1999, systems used to separate information related to CIB, from commercial financial services, had not been implemented. For the fourteen months ended December 31, 1998 and year ended October 31, 1997 the segmented results for commercial financial services include CIB.

Treasury and markets encompasses results of activities from the Bank's treasury department and trading activities from the Bank's full service brokerage subsidiary. Treasury and markets also includes trading in foreign exchange, fixed income securities, equity and derivative products.

Other includes the effect of consolidation adjustments and unallocated revenues and expenses.

The results of these business segments are based upon the internal reporting systems of the Bank. Because of the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment financial information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
March 31, 2000 and 1999 (Unaudited), December 31, 1999 and 1998 and
October 31, 1997 (all tabular amounts are in millions of dollars)

The accounting policies of the segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Three months ended March 31, 2000						
	Personal financial services	Commercial financial services	Corporate and institutional banking	Treasury and markets	Other	Total
	(unaudited)					
Net interest income	\$ 71	\$ 67	\$ 7	\$ 7	\$ —	\$ 152
Provision for credit losses	(3)	(7)	(1)	—	—	(11)
Other income	58	43	3	21	—	125
Non-interest expenses	(94)	(68)	(2)	(17)	(10)	(191)
Income before provision for income taxes	32	35	7	11	(10)	75
Provision for income taxes	(12)	(13)	(3)	(4)	4	(28)
Net income	<u>\$ 20</u>	<u>\$ 22</u>	<u>\$ 4</u>	<u>\$ 7</u>	<u>\$ (6)</u>	<u>\$ 47</u>
Average assets	<u>\$8,714</u>	<u>\$9,635</u>	<u>\$2,032</u>	<u>\$5,814</u>	<u>\$ —</u>	<u>\$26,195</u>

Three months ended March 31, 1999						
	Personal financial services	Commercial financial services	Corporate and institutional banking	Treasury and markets	Other	Total
	(unaudited)					
Net interest income	\$ 56	\$ 63	\$ 6	\$ 8	\$ —	\$ 133
Provision for credit losses	(3)	(12)	(1)	—	—	(16)
Other income	40	31	3	19	—	93
Non-interest expenses	(76)	(57)	(2)	(11)	(10)	(156)
Income before provision for income taxes	17	25	6	16	(10)	54
Provision for income taxes	(5)	(7)	(2)	(5)	3	(16)
Net income	<u>\$ 12</u>	<u>\$ 18</u>	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ (7)</u>	<u>\$ 38</u>
Average assets	<u>\$8,969</u>	<u>\$9,401</u>	<u>\$2,026</u>	<u>\$5,498</u>	<u>\$ —</u>	<u>\$25,894</u>

Year ended December 31, 1999						
	Personal financial services	Commercial financial services	Corporate and institutional banking	Treasury and markets	Other	Total
Net interest income	\$ 249	\$ 236	\$ 25	\$ 30	\$ —	\$ 540
Provision for credit losses	(9)	(32)	(2)	—	—	(43)
Other income	165	127	12	80	—	384
Non-interest expenses	(306)	(232)	(9)	(51)	(39)	(637)
Income before provision for income taxes	99	99	26	59	(39)	244
Provision for income taxes	(32)	(32)	(8)	(19)	12	(79)
Net income	<u>\$ 67</u>	<u>\$ 67</u>	<u>\$ 18</u>	<u>\$ 40</u>	<u>\$ (27)</u>	<u>\$ 165</u>
Average assets	<u>\$8,913</u>	<u>\$9,319</u>	<u>\$1,980</u>	<u>\$5,794</u>	<u>\$ —</u>	<u>\$26,006</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Fourteen months ended December 31, 1998					
	Personal Financial Services	Commercial Financial Services	Treasury and markets	Other	Total
Net interest income	\$ 292	\$ 271	\$ 43	\$ —	\$ 606
Provision for credit losses	(27)	(61)	(2)	—	(90)
Other income	161	128	43	—	332
Non-interest expenses	(311)	(243)	(28)	(42)	(624)
Income before provision for income taxes	115	95	56	(42)	224
Provision for income taxes	(21)	(19)	(10)	8	(42)
Net income	<u>\$ 94</u>	<u>\$ 76</u>	<u>\$ 46</u>	<u>\$(34)</u>	<u>\$ 182</u>
Average assets	<u>\$8,661</u>	<u>\$10,118</u>	<u>\$6,048</u>	<u>\$ —</u>	<u>\$24,827</u>

Year ended October 31, 1997					
	Personal Financial Services	Commercial Financial Services	Treasury and markets	Other	Total
Net interest income	\$ 245	\$ 202	\$ 46	\$ —	\$ 493
Provision for credit losses	(8)	(30)	—	—	(38)
Other income	108	112	20	—	240
Non-interest expenses	(230)	(195)	(15)	(34)	(474)
Income before provision for income taxes	115	89	51	(34)	221
Provision for income taxes	(43)	(34)	(19)	13	(83)
Net income	<u>\$ 72</u>	<u>\$ 55</u>	<u>\$ 32</u>	<u>\$(21)</u>	<u>\$ 138</u>
Average assets	<u>\$8,741</u>	<u>\$ 8,710</u>	<u>\$5,031</u>	<u>\$ —</u>	<u>\$22,482</u>

b) Geographic:

	As at March 31, 2000			
	Assets		Liabilities	
	Amount	Percent	Amount	Percent
	(Unaudited)			
Canada	\$24,456	92.8	\$20,039	81.1
United States	1,592	6.0	1,056	4.3
Hong Kong SAR	60	0.2	2,257	9.1
Other	252	1.0	1,290	5.5
	<u>\$26,360</u>	<u>100.0</u>	<u>\$24,642</u>	<u>100.0</u>

	As at March 31, 1999			
	Assets		Liabilities	
	Amount	Percent	Amount	Percent
	(Unaudited)			
Canada	\$25,170	95.3	\$19,835	79.6
United States	851	3.2	1,769	7.1
Hong Kong SAR	58	0.2	2,243	9.0
Other	350	1.3	1,079	4.3
	<u>\$26,429</u>	<u>100.0</u>	<u>\$24,926</u>	<u>100.0</u>

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	As at December 31, 1999			
	Assets		Liabilities	
	Amount	Percent	Amount	Percent
Canada	\$23,392	93.4	\$18,973	81.2
United States	1,157	4.6	1,058	4.5
Hong Kong SAR	54	0.2	2,078	8.9
Other	448	1.8	1,268	5.4
	<u>\$25,051</u>	<u>100.0</u>	<u>\$23,377</u>	<u>100.0</u>
	As at December 31, 1998			
	Assets		Liabilities	
	Amount	Percent	Amount	Percent
	Canada	\$23,688	95.4	\$18,123
United States	920	3.7	1,969	8.4
Hong Kong SAR	47	0.2	2,448	10.5
Other	181	0.7	829	3.5
	<u>\$24,836</u>	<u>100.0</u>	<u>\$23,369</u>	<u>100.0</u>
	As at October 31, 1997			
	Assets		Liabilities	
	Amount	Percent	Amount	Percent
	Canada	\$22,850	95.6	\$17,732
United States	899	3.8	1,880	8.3
Hong Kong SAR	40	0.1	2,375	10.5
Other	121	0.5	673	3.0
	<u>\$23,910</u>	<u>100.0</u>	<u>\$22,660</u>	<u>100.0</u>

Assets are allocated on the basis of the location of ultimate risk. Liabilities are allocated on the basis of the residence status of the bearer of the deposit, acceptances or other liability.

22. Business acquisitions and long-term investments

a) Acquisitions during the year ended December 31, 1999

Effective January 1, 1999, HSBC James Capel Canada Inc. (subsequently renamed HSBC Securities (Canada) Inc. ("HSBC Securities")) and Gordon Capital Corporation, an institutional brokerage company were amalgamated and continued operations as HSBC Securities. As part of the same transaction, HSBC Securities acquired all of the issued and outstanding shares of Gordon Private Client Corporation and GPCC Holdings Inc.

Effective December 6, 1999 the Bank acquired all of the common shares of Prenor Trust Company of Canada (subsequently renamed HSBC Loan Corporation), a mortgage lending business in liquidation.

These acquisitions were accounted for using the purchase method. The fair value of net assets acquired were as follows:

Assets	\$689
Liabilities	<u>601</u>
Net assets acquired and cash consideration	<u>\$ 88</u>

b) Acquisitions during the fourteen months ended December 31, 1998

Pursuant to letters patent issued by the Minister of Finance, the Bank and Hongkong Bank Loan Corporation, the corporate successor to National Westminster Bank of Canada, were amalgamated and continued under the name of the Bank effective May 1, 1998.

On July 6, 1998, HSBC James Capel Canada Inc. and Moss, Lawson Holdings Ltd., a retail brokerage company, were amalgamated and continued as HSBC James Capel Canada Inc.

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These acquisitions were accounted for by the purchase method. The fair value of net assets acquired consisted of:

Assets	\$504
Liabilities	<u>388</u>
Net assets acquired	116
Goodwill	<u>9</u>
Cash consideration	<u>\$125</u>

On December 4, 1998 the Bank acquired a 19% interest in Northstar Trade Finance Inc., a Canadian export finance company, for \$2 million.

23. Related party transactions

The Bank pays guarantee fees to Group companies with respect to guarantees of deposit liabilities and acceptances. These were as follows:

	Three months ended		Year ended December 31, 1999	Fourteen months ended		Year ended October 31, 1997
	March 31,			December 31,		
	2000	1999	1999	1998	1997	
	(Unaudited)					
Guarantee fee	\$10	\$10	\$39	\$43	\$34	

Group companies hold certain debentures and preferred shares of the Bank (notes 9,10 and 11).

The Bank has an agreement with a Group company to provide a standby borrowing facility of up to US\$200 million to the Bank. Funds have not been drawn from the facility since entering into the agreement. The Bank also has an agreement with a Group company to provide a line of credit in the amount US\$225 million to facilitate the operation of its two branches in the United States. These facilities are at market rates and conditions.

In addition to the above related party transactions, the Bank has transactions of a routine nature with Group companies, none of which is material to these financial statements. The Bank pays fees to its Parent for its share of the costs of development of computer systems and services provided by its Parent.

The Bank's wholly owned principal operating subsidiaries as at March 31, 2000 are as follows (unaudited):

<u>Principal subsidiaries</u>	<u>Principal office address</u>	<u>Book value of voting shares</u>
HSBC Mortgage Corporation (Canada)(1)	Vancouver, British Columbia	\$156
HSBC Trust Company (Canada)(2)	Edmonton, Alberta	—
HSBC Canadian Direct Insurance Incorporated(3)	New Westminster, British Columbia	35
HSBC Securities (Canada) Inc.(4)	Toronto, Ontario	230
HSBC Capital (Canada) Inc.	Vancouver, British Columbia	3
HSBC InvestDirect (Canada) Inc.	Toronto, Ontario	1
HSBC Investment Funds (Canada) Inc.(5)	Vancouver, British Columbia	1
HSBC Asset Management (Canada) Limited	Vancouver, British Columbia	1
HSBC Loan Corporation(6)	Vancouver, British Columbia	1

Notes:

- (1) Formerly HongkongBank Mortgage Corporation
- (2) Formerly Hongkong Bank Trust Company
- (3) Formerly Canadian Direct Insurance Incorporated
- (4) Formerly HSBC James Capel Canada Inc.
- (5) Formerly Hongkong Bank Securities Inc.
- (6) Formerly Prenor Trust Company of Canada

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24. Accounting changes

Effective January 1, 2000, the Canadian Institute of Chartered Accountants (“CICA”) changed the accounting standards relating to the accounting for income taxes and the accounting for future employee benefits, including pension and non-pension post-retirement benefits.

a) Income taxes

CICA 3465 requires a change from the deferral method to the asset and liability method of accounting for income taxes. Under this new standard, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted or substantively enacted, tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

The accounting recommendations in CICA 3465 were adopted on a retroactive basis, without restatement of any prior periods. The cumulative effect of this accounting policy change has been recorded at January 1, 2000 as a decrease in retained earnings of \$4 million, an increase in net future income tax assets of \$49 million (primarily related to the benefit of income tax losses carried forward recognized as it is more likely than not the assets will be realized) and an increase in deferred credits of \$53 million.

b) Pension and other post-retirement benefits

To comply with CICA 3461, the accrued pension benefit obligation is calculated using current settlement discount rates. The effect of the use of current settlement discount rates rather than long term rates of return on the pension obligation is \$4 million.

CICA 3461 requires the costs of post-retirement benefit plans, other than pensions, to be accrued over the periods in which the employees render services. To comply with CICA 3461, the calculation of the accrued benefit obligation relating to post-retirement benefits other than pension is made using current settlement discount rates. The effect of the new standard on post-retirement benefits other than pensions required recognition of a transitional obligation as at January 1, 2000 amounting to \$38 million. As the Bank has chosen to adopt the new standard on a prospective basis, this transitional obligation is amortized as a part of periodic post-retirement benefit costs other than pension costs over the estimated average remaining service period of active employees expected to receive benefits under the plans, which has been estimated to 20 years.

The expense for employee pension and other post-retirement benefits for the three months ended March 31, 2000 is not materially different than it would have been under the previous standard.

In estimating the financial position of the defined benefit pension plans as at January 1, 2000, a valuation allowance in accordance with CICA 3461 has been applied against the surplus of certain pension plans. The valuation allowance amounting to \$47 million was applied to pension surplus amounts aggregating approximately \$57 million.

25. Subsequent events

a) Acquisition subsequent to March 31, 2000

Effective April 1, 2000, the Bank acquired all of the voting shares of Republic National Bank of New York (Canada) (“Republic Canada”). Republic Canada was acquired from HSBC Bank USA, a related company to the Bank, on an arm’s length basis using an independent third party as arbitrator of the purchase price. Immediately subsequent to the acquisition, Republic Canada was amalgamated with the Bank.

The acquisition was accounted for using the purchase method. Consideration for the purchase was paid in cash. Pending final determination of the purchase price allocation, the fair value of net assets acquired is estimated as follows:

Tangible assets	\$1,256
Identifiable intangible assets	50
Liabilities	<u>(1,184)</u>
Net assets acquired	122
Goodwill	<u>2</u>
Cash consideration	<u>\$ 124</u>

b) Reorganization of Share Capital

Subsequent to June 21, 2000 the Bank will reorganize its share capital whereby Class 1 Preferred Shares Series A, Class 1 Preferred Shares Series B and Class 1 Preferred Shares Series Z will be created and existing Preferred Shares Series 1 will be redesignated as Class 2 Preferred Shares Series A. After the reorganization, the authorized share capital will consist of 933,677,000 common shares without par value, an unlimited number of Class 1 Preferred Shares without par value and an unlimited number of Class 2 Preferred Shares without par value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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c) Prospectus for Issue and Sale of Preferred Shares and creation of HSBC Canada Asset Trust

On June 21, 2000 the Bank filed, with each Canadian provincial and territorial securities commission, a prospectus regarding the sale and issue of non-cumulative redeemable class 1 preferred shares series A for estimated net proceeds of approximately \$120.25 million.

HSBC Canada Asset Trust (the Trust) was formed on May 26, 2000 as a closed-end trust, established under the laws of British Columbia, by HSBC Trust Company (Canada) (as Trustee), a subsidiary of the Bank. Subsequent to June 21, 2000 the Bank will subscribe for voting Special Trust Securities aggregating \$117 million. The Trust filed, on June 21, 2000, a prospectus with each Canadian provincial and territorial securities commission regarding the sale and issue of HSBC Canada Asset Trust Securities — Series 2010 (HSBC HaTS™) for expected net proceeds of approximately \$192 million.

The Trust will use the aggregate estimated net proceeds received on closing in connection with both the HSBC HaTS offering and the subscription by the Bank for the Special Trust Securities to purchase CMHC insured mortgages on a fully serviced basis from the Bank. The Bank will use the aggregated estimated net proceeds received on these transactions to redeem \$270 million of outstanding Class 2 Preferred Shares Series A.

CERTIFICATE OF THE TRUST

Dated: June 21, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of *The Securities Act, 1990* (Newfoundland), by the *Securities Act* (Northwest Territories), by the *Securities Act* (Yukon) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation that is likely to affect the value of the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

HSBC CANADA ASSET TRUST
by its Administrative Agent
HSBC BANK CANADA

By: (signed) J.T. MOULD
Chief Financial Officer

By: (signed) R.W. BAKOS
Vice President,
Strategic Development &
Financial Management

CERTIFICATE OF THE BANK

Dated: June 21, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of *The Securities Act, 1990* (Newfoundland), by the *Securities Act* (Northwest Territories), by the *Securities Act* (Yukon) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus does not contain any misrepresentation that is likely to affect the value of the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

(signed) M.J.G. GLYNN
Chairman and Chief Executive Officer

(signed) J.T. MOULD
Chief Financial Officer

On behalf of the Board of Directors:

(signed) CAROLE S. TAYLOR
Director

(signed) ROSS S. SMITH
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 21, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of *The Securities Act, 1990* (Newfoundland), by the *Securities Act* (Northwest Territories), by the *Securities Act* (Yukon) and by the *Securities Act* (Nunavut) and the respective regulations thereunder. To the best of our knowledge, information and belief, this prospectus does not contain any misrepresentation that is likely to affect the value of the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

HSBC SECURITIES (CANADA) INC.

TD SECURITIES INC.

By: (signed) PATRICK M. NOLAN

By: (signed) J. DAVID BEATTIE

RBC DOMINION SECURITIES INC.

SCOTIA CAPITAL INC.

By: (signed) JOHN M. GARROW

By: (signed) MATTHEW FRANK

BMO NESBITT BURNS INC.

CIBC WORLD MARKETS INC.

MERRILL LYNCH CANADA INC.

By: (signed) WILLIAM E. BUTT

By: (signed) PETER IRWIN

By: (signed) PATRICK S. LEUNG

NATIONAL BANK FINANCIAL INC.

TRILON SECURITIES CORPORATION

By: (signed) IAN MCPHERSON

By: (signed) TREVOR D. KERR

The following includes the name of every person having an interest, directly or indirectly, to the extent of not less than five percent in the capital of:

HSBC SECURITIES (CANADA) INC.: a wholly owned subsidiary of a Canadian chartered bank;

TD SECURITIES INC.: a wholly owned subsidiary of a Canadian chartered bank;

RBC DOMINION SECURITIES INC.: an indirect wholly owned subsidiary of a Canadian chartered bank;

SCOTIA CAPITAL INC.: an indirect wholly owned subsidiary of a Canadian chartered bank;

BMO NESBITT BURNS INC.: a wholly owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority owned subsidiary of a Canadian chartered bank;

CIBC WORLD MARKETS INC.: a wholly owned subsidiary of a Canadian chartered bank;

MERRILL LYNCH CANADA INC.: a wholly owned indirect subsidiary of Merrill Lynch & Co., Inc.;

NATIONAL BANK FINANCIAL INC.: an indirect wholly owned subsidiary of a Canadian chartered bank; and

TRILON SECURITIES CORPORATION: a wholly owned subsidiary of Trilon Financial Corporation.

