

**HSBC BANK CANADA  
THIRD QUARTER 2005 REPORT TO SHAREHOLDERS**

- Net income attributable to common shares was C\$325 million for the nine months ended 30 September 2005, an increase of 25.5 per cent over the same period in 2004.
- Net income attributable to common shares was C\$113 million for the quarter ended 30 September 2005, an increase of 37.8 per cent over the third quarter of 2004.
- Return on average common equity was 20.4 per cent for the nine months ended 30 September 2005 and 20.9 per cent for the quarter ended 30 September 2005 compared with 19.0 per cent and 16.4 per cent, respectively, for the same periods in 2004.
- The cost:income ratio was 52.9 per cent for the nine months ended 30 September 2005 and 51.2 per cent for the quarter ended 30 September 2005 compared with 56.1 per cent and 58.1 per cent, respectively, for the same periods in 2004.
- Total assets were C\$49.4 billion at 30 September 2005 compared with C\$42.3 billion at 30 September 2004.
- Total funds under management were C\$19.9 billion at 30 September 2005 compared with C\$16.2 billion at 30 September 2004.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September 2005</i>	<i>30 June 2005</i>	<i>30 September 2004</i>	<i>30 September 2005</i>	<i>30 September 2004</i>
<b>Earnings</b>					
Net income attributable to common shares	113	104	82	325	259
Basic earnings per share	0.23	0.21	0.17	0.67	0.54
<b>Performance ratios (%)</b>					
Return on average common equity	20.9	19.7	16.4	20.4	19.0
Return on average assets	0.92	0.90	0.80	0.93	0.87
Net interest margin	2.36	2.34	2.51	2.38	2.53
Cost:income ratio	51.2	54.6	58.1	52.9	56.1
Non-interest revenue:total revenue ratio	35.7	36.6	35.4	36.7	36.5
<b>Credit information</b>					
Impaired loans	132	125	190		
Allowance for credit losses					
– Balance at end of period	337	338	355		
– As a percentage of impaired loans	255 %	270 %	187 %		
– As a percentage of loans outstanding	1.04 %	1.09 %	1.25 %		
<b>Average balances</b>					
Assets	48,754	46,523	40,925	46,502	39,552
Loans	31,535	29,901	27,727	30,102	26,481
Deposits	38,572	37,028	31,825	36,779	30,544
Common equity	2,157	2,140	1,991	2,132	1,825
<b>Capital ratios (%)</b>					
Tier 1	8.7	9.0	8.7		
Total capital	10.9	11.2	11.2		
<b>Total assets under administration</b>					
Funds under management	19,872	18,820	16,220		
Custody accounts	6,585	5,875	5,190		
Total assets under administration	26,457	24,695	21,410		

## Financial Commentary

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### Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$325 million for the nine months ended 30 September 2005, an increase of C\$66 million, or 25.5 per cent, from C\$259 million for the same period in 2004. Net income attributable to common shares for the quarter ended 30 September 2005 was C\$113 million, an increase of C\$31 million, or 37.8 per cent, from C\$82 million for the quarter ended 30 September 2004.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "Results for the quarter continue to be robust. The stable interest rates in Canada and strong economy continue to provide stimulus for growth. Net income in 2005 benefited from strong performance across all customer groups, which helped increase both net interest income and non-interest revenue. A stable credit environment in Canada and a strong economy has helped keep provision for credit losses lower in 2005 compared with 2004. In Personal Financial Services, growth in residential mortgages, consumer loans, and funds under management all contributed to improved performance. In Commercial Banking, growth in lending volumes contributed to strong revenue growth. Revenue in Corporate, Investment Banking and Markets was impacted by the flatter yield curve in 2005.

"We are excited about the launch of two new initiatives in the quarter which will help us to deepen our existing client relationships and attract new customers. Our LifeMap™ investment solution of bundled underlying mutual funds will help simplify investing as well as align investors' changing needs throughout all stages of their life. Our MasterCard product was upgraded to include two new HSBC rewards programs: HSBC Travel and Merchandise Rewards, or HSBC Cash Back Rewards.

"With our positive results for this quarter and year-to-date, we have good momentum leading into the final quarter of 2005. We will ensure that our focus remains on executing core business strategies to achieve our growth objectives."

### Net interest income

Net interest income for the nine months ended 30 September 2005 was C\$741 million, up C\$74 million or 11.1 per cent, compared with C\$667 million for the same period in 2004. For the quarter ended 30 September 2005, net interest income was C\$261 million, C\$31 million or 13.5 per cent higher, compared with C\$230 million for the same quarter in 2004. Growth in net interest income during 2005 has been aided by growth in assets from each of our customer groups. Despite tightening of interest rates in the US over the course of 2005, and the one increase in Canada in September of this year, economic sentiment remains positive. Average assets were C\$46.5 billion for the nine months ended 30 September 2005 compared with C\$39.6 billion for the same period in 2004 and C\$48.8 billion for the quarter ended 30 September 2005 compared with C\$40.9 billion for the same quarter last year.

Net interest margins were negatively impacted by lower average interest rates in 2005 compared with 2004. The net interest margin, as a percentage of average interest earning assets, was 2.38 per cent for the nine months ended 30 September 2005 compared with 2.53 per cent for the same period in 2004. For the quarter ended 30 September 2005 the net interest margin was 2.36 per cent compared with 2.51 per cent for the same period in 2004. Net interest margins have been impacted in 2005 by continued competitive product pricing, particularly in personal financial services. Additionally, a flatter yield curve in 2005 has impacted net interest margins in our treasury and markets groups.

**Financial Commentary** *(continued)*

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**Non-interest revenue**

Non-interest revenue was C\$429 million for the nine months ended 30 September 2005, C\$46 million or 12.0 per cent higher, compared with C\$383 million for the same period in 2004. For the quarter ended 30 September 2005, non-interest revenue was C\$145 million, up C\$19 million or 15.1 per cent, compared with C\$126 million for the same quarter in 2004.

Credit fees were higher in 2005 due to increased activity in commercial banking, particularly in shorter term facilities such as bankers' acceptances, financial guarantees and letters of credit. Capital market fees improved slightly in the third quarter of 2005 as customers increased their retail trading activity on the back of improved equity markets in Canada, driven by higher natural resource prices. Investment administration fees increased in 2005 due to higher funds under management, driven partly by increases in our Private Client products. Foreign exchange revenues in 2005 have benefited from the significant volatility of the exchange rate between the Canadian and US dollars. Other non-interest revenue is higher in 2005 from stronger fee income from our Canadian Immigrant Investor Program ("CIIP") and due to upward fair value adjustments to our investment company assets, resulting from new accounting requirements in 2005.

**Non-interest expenses**

Non-interest expenses were C\$619 million for the nine months ended 30 September 2005, C\$30 million or 5.1 per cent higher, compared with C\$589 million for the same period in 2004. For the quarter ended 30 September 2005 non-interest expenses were C\$208 million compared with C\$207 million for the same quarter in 2004.

Salaries and benefits for the nine months ended 30 September 2005 were higher than the same period in 2004 due to an increased employee base resulting from the acquisition of Intesa Bank Canada in 2004, investments in our branch network, and higher variable-based compensation. In the third quarter of 2005, employee benefits were lower as a result of adjustments to our pension plan expenses. Other non-interest expenses were higher for the nine months to 30 September 2005 compared with 2004 due to higher transactions costs associated with increased volumes in our brokerage subsidiary and administration fees associated with the CIIP. In addition, increased activity in banking operations resulted in higher administrative and technical services fees. Non-interest expenses in 2005 included a net credit arising from successful resolution of certain commodity tax issues from previous years.

**Credit quality and provision for credit losses**

Provision for credit losses was C\$21 million for the nine months ended 30 September 2005 compared with C\$44 million in the same period of 2004. For the quarter ended 30 September 2005 the provision for credit losses was C\$7 million compared with C\$10 million in the same period last year. Credit quality remains stable, as has been the case for most of 2005, and reflects the strong economic conditions in Canada and the United States. This has resulted in lower default rates, primarily in loans to businesses, and related allowances for credit losses.

Gross impaired loans decreased C\$58 million to C\$132 million at 30 September 2005 compared with C\$190 million at 30 September 2004. Gross impaired loans to businesses were C\$104 million at 30 September 2005 compared with C\$153 million at 30 September 2004. Gross impaired consumer loans were C\$28 million at 30 September 2005 compared with C\$37 million at the same time last year. Total impaired loans, net of specific allowances, were C\$78 million at 30 September 2005 compared with C\$108 million at 30 September 2004. The general allowance for credit losses was C\$283 million compared with C\$273 million at 30 September 2004. The total allowance for credit losses, as a percentage of loans outstanding, was 1.04 per cent at 30 September 2005 compared with 1.25 per cent at 30 September 2004.

**Financial Commentary** *(continued)*

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**Balance sheet**

Total assets at 30 September 2005 were C\$49.4 billion, an increase of C\$6.1 billion, or 14.1 per cent, from C\$43.3 billion at 31 December 2004 and an increase of C\$7.1 billion, or 16.8 per cent, from C\$42.3 billion at 30 September 2004. Loan growth during 2005 was strong across all customer groups and was supported by strong economic conditions and stable interest rates in Canada. Commercial loans increased by \$1.7 billion in 2005 to C\$15.1 billion at 30 September 2005. Residential mortgages and consumer loans grew by C\$2.2 billion to C\$17.4 billion in total at 30 September 2005.

Total deposits at 30 September 2005 were C\$38.6 billion, an increase of C\$4.8 billion from C\$33.8 billion at 31 December 2004 and an increase of C\$5.6 billion from C\$33.0 billion at 30 September 2004. Commercial deposits and deposits from banks increased during 2005 by C\$4.3 billion to C\$23.3 billion in total as at 30 September 2005. This increase was used to fund the increase in loans over the period. During 2005, personal deposits increased C\$0.4 billion to C\$15.3 billion as at 30 September 2005. At constant exchange rates, this increase would have been C\$0.6 billion.

**Total assets under administration**

Funds under management were C\$19.9 billion at 30 September 2005 compared with C\$16.2 billion at the same time last year and C\$18.8 billion at 30 June 2005. Including custody and administration balances, total assets under administration were C\$26.5 billion compared with C\$24.7 billion at 30 June 2005 and C\$21.4 billion at 30 September 2004.

Funds under management grew in the third quarter of 2005 due to increased activity in our securities brokerage firm, as Canadian equity markets improved supported by higher natural resource prices, and increases in funds in our Private Client products. Custodial assets under administration grew C\$0.7 billion in the third quarter due largely to higher institutional business volumes in our trust company.

**Capital ratios**

The tier 1 capital ratio was 8.7 per cent and the total capital ratio was 10.9 per cent at 30 September 2005. This compares with 8.7 per cent and 11.2 per cent, respectively, at 30 September 2004.

On 30 September 2005, all of the issued and outstanding Class 1 Preferred Shares – Series A, totaling C\$125 million, were redeemed for C\$25.00 per share.

**Dividends**

During the third quarter of 2005, we declared and paid a C\$75 million dividend on our common shares. For the fourth quarter of 2005, a C\$75 million dividend on our common shares was declared.

A regular dividend of 31.875 cents per share has been declared on the Class 1 Preferred Shares – Series C. The preferred share dividends will be payable in cash on 31 December 2005, for shareholders of record on 15 December 2005.

**Financial Commentary** *(continued)*

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**Management's responsibility for financial information**

Each year, HSBC Bank Canada's Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Except as highlighted in this management's discussion and analysis ("MD&A") or the attached unaudited consolidated financial statements, there are no material updates required from the MD&A as set out on pages 2 to 30, or the consolidated financial statements on pages 33 to 67 of our 2004 Annual Report and Accounts.

Our interim financial statements and MD&A are filed with all the Canadian Securities Commissions. Included with these filings our CEO and CFO certify the appropriateness of the financial disclosures in our interim filings. These certifications confirm that our interim filings do not contain, or omit, any statements of material fact which could make our interim filings misleading, and that the financial information included in the interim filings fairly presents, in all material respects, our financial statements for the periods covered by the interim filings. As in prior quarters, our audit committee reviewed our quarterly report to shareholders, which included the attached unaudited interim consolidated financial statements and MD&A.

**Forward-looking financial information**

This document contains forward-looking statements, including statements regarding the business and anticipated financial performance of HSBC Bank Canada. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on interest rates and our net margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on our revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact our results and financial condition.

## Review of Customer Group Results

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### Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the nine months ended 30 September 2005 was C\$126 million, compared with C\$102 million for the same period in 2004. Income, before taxes and non-controlling interest in income of trust, for the quarter ended 30 September 2005 was C\$45 million, compared with C\$28 million for the same period in 2004. Income in 2004 benefited from a C\$7 million, before income taxes, one-time change in accounting for mortgage loan prepayment fees.

Low interest rates, a strong economy, and a robust residential housing market continue to drive asset growth in 2005. Residential mortgages grew by 12.0 per cent since the start of the year, and 7.9 per cent in the third quarter of 2005. Similarly, consumer loans have grown by 23.0 per cent and 7.8 per cent, respectively. Net interest margins continue to be negatively impacted by extremely competitive pricing for residential mortgages and deposits. This has been mitigated by customers' preferences to shift to floating rate products. Non-interest revenue in 2005 has benefited from increased retail trading of securities by our customers, growth in funds under management, and increased foreign exchange revenue on the volatility between the Canadian and US dollars. Non-interest expenses were higher due to higher transaction and activity related costs and continued investment in new initiatives.

### Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the nine months ended 30 September 2005 was C\$320 million, compared with C\$235 million for the same period in 2004. Income, before taxes and non-controlling interest in income of trust, for the quarter ended 30 September 2005 was C\$112 million, compared with C\$84 million for the same period in 2004.

Strong economic conditions have also positively impacted Commercial Banking. Net interest income is higher in 2005 as commercial loans grew by 12.4 per cent since the start of the year and by 2.4 per cent in the third quarter of 2005. Provision for credit losses were lower in 2005 as asset quality conditions and credit quality remain stable, and reflects the strong economic conditions in Canada and the United States. Non-interest revenue was higher in 2005 due to increased activity in shorter-term facilities, stronger fee income from our Canadian Immigrant Investor Program, increased foreign exchange revenue on the volatility between the Canadian and US dollars, and upward fair value adjustments to our investment company assets. Non-interest expenses were higher due to higher transaction and activity related costs and continued investment in new initiatives.

### Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the nine months ended 30 September 2005 was C\$127 million, compared with C\$138 million for the same period in 2004. Income, before taxes and non-controlling interest in income of trust, for the quarter ended 30 September 2005 was C\$47 million, compared with C\$42 million for the same period in 2004. Income in 2004 benefited from a C\$7 million, before income taxes, one-time change in accounting for mortgage loan prepayment fees.

Net interest income in 2005 was impacted by lower securities yields and a flattening of the yield curve. Other income in 2005 was higher due to increased trading activity in fixed income securities.

**Consolidated Statement of Income (Unaudited)**

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 June</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<b>Interest and dividend income</b>					
Loans	417	396	352	1,187	1,030
Securities	31	25	20	80	60
Deposits with regulated financial institutions	45	39	17	114	43
	<u>493</u>	<u>460</u>	<u>389</u>	<u>1,381</u>	<u>1,133</u>
<b>Interest expense</b>					
Deposits	226	211	150	621	440
Debentures	6	6	9	19	26
	<u>232</u>	<u>217</u>	<u>159</u>	<u>640</u>	<u>466</u>
<b>Net interest income</b>	261	243	230	741	667
Provision for credit losses	7	6	10	21	44
<b>Net interest income after provision for credit losses</b>	<u>254</u>	<u>237</u>	<u>220</u>	<u>720</u>	<u>623</u>
<b>Non-interest revenue</b>					
Deposit and payment service charges	20	22	20	62	61
Credit fees	23	24	21	69	60
Capital market fees	25	24	21	81	78
Investment administration fees	24	17	16	58	45
Foreign exchange	19	19	16	55	50
Trade finance	7	7	8	21	22
Trading revenue	5	2	4	12	10
Securitization income	5	5	6	18	21
Other	17	20	14	53	36
	<u>145</u>	<u>140</u>	<u>126</u>	<u>429</u>	<u>383</u>
<b>Net interest and non-interest revenue</b>	399	377	346	1,149	1,006
<b>Non-interest expenses</b>					
Salaries and employee benefits	112	110	113	331	316
Premises and equipment	26	27	26	80	79
Other	70	72	68	208	194
	<u>208</u>	<u>209</u>	<u>207</u>	<u>619</u>	<u>589</u>
<b>Income before the undernoted</b>	191	168	139	530	417
Effect of accounting change	—	—	—	—	14
<b>Income before provision for income taxes and non-controlling interest in income of trust</b>	191	168	139	530	431
Provision for income taxes	67	55	51	179	159
Non-controlling interest in income of trust	7	5	4	16	12
<b>Income from continuing operations</b>	<u>117</u>	<u>108</u>	<u>84</u>	<u>335</u>	<u>260</u>
Income from discontinued operations <sup>†</sup>	—	—	—	—	5
<b>Net income</b>	<u>117</u>	<u>108</u>	<u>84</u>	<u>335</u>	<u>265</u>
Preferred share dividends	4	4	2	10	6
<b>Net income attributable to common shares</b>	<u>113</u>	<u>104</u>	<u>82</u>	<u>325</u>	<u>259</u>
Average common shares outstanding (000)	488,668	488,668	488,668	488,668	478,513
Basic earnings per share (C\$)	0.23	0.21	0.17	0.67	0.54

<sup>†</sup> Reflects the sale of HSBC Canadian Direct Insurance Incorporated effective 30 April 2004.  
See notes to consolidated financial statements.

**Condensed Consolidated Balance Sheet (Unaudited)**

<i>Figures in C\$ millions</i>	<i>At 30 September 2005</i>	<i>At 31 December 2004</i>	<i>At 30 September 2004</i>
<b>Assets</b>			
Cash and deposits with Bank of Canada	340	328	297
Deposits with regulated financial institutions	5,191	4,094	4,123
	<u>5,531</u>	<u>4,422</u>	<u>4,420</u>
Investment securities	2,912	1,967	2,023
Trading securities	1,459	1,055	966
	<u>4,371</u>	<u>3,022</u>	<u>2,989</u>
Assets purchased under reverse repurchase agreements	1,821	2,264	2,002
Loans			
– Businesses and government	15,122	13,450	13,230
– Residential mortgage	13,407	11,966	11,835
– Consumer	3,999	3,252	3,320
– Allowance for credit losses	(337)	(349)	(355)
	<u>32,191</u>	<u>28,319</u>	<u>28,030</u>
Customers' liability under acceptances	3,903	3,754	3,560
Land, buildings and equipment	95	101	95
Other assets	1,490	1,381	1,209
	<u>5,488</u>	<u>5,236</u>	<u>4,864</u>
Total assets	<u>49,402</u>	<u>43,263</u>	<u>42,305</u>
<b>Liabilities and shareholders' equity</b>			
Deposits			
– Regulated financial institutions	1,960	635	594
– Individuals	15,267	14,818	14,822
– Businesses and governments	21,353	18,395	17,595
	<u>38,580</u>	<u>33,848</u>	<u>33,011</u>
Acceptances	3,903	3,754	3,560
Assets sold under repurchase agreements	286	23	119
Other liabilities	3,400	2,785	2,725
Non-controlling interest in trust and subsidiary	430	230	230
	<u>8,019</u>	<u>6,792</u>	<u>6,634</u>
Subordinated debentures	423	426	501
Shareholders' equity			
– Preferred shares	175	125	125
– Common shares	1,125	1,125	1,125
– Contributed surplus	184	177	175
– Retained earnings	896	770	734
	<u>2,380</u>	<u>2,197</u>	<u>2,159</u>
Total liabilities and shareholders' equity	<u>49,402</u>	<u>43,263</u>	<u>42,305</u>

*See notes to consolidated financial statements.*

**Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)**

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<b>30 September 2005</b>	<i>30 June 2005</i>	<i>30 September 2004</i>	<b>30 September 2005</b>	<i>30 September 2004</i>
<b>Preferred shares</b>					
Balance at beginning of period	<b>300</b>	125	125	<b>125</b>	125
Issued (note 6)	–	175	–	<b>175</b>	–
Redeemed (note 6)	<b>(125)</b>	–	–	<b>(125)</b>	–
Balance at end of period	<b>175</b>	<u>300</u>	<u>125</u>	<b>175</b>	<u>125</u>
<b>Common shares</b>					
Balance at beginning of period	<b>1,125</b>	1,125	1,125	<b>1,125</b>	950
Issued	–	–	–	–	175
Balance at end of period	<b>1,125</b>	<u>1,125</u>	<u>1,125</u>	<b>1,125</b>	<u>1,125</u>
<b>Contributed surplus</b>					
Balance at beginning of period	<b>182</b>	179	173	<b>177</b>	169
Stock-based compensation (note 7)	<b>2</b>	3	2	<b>7</b>	6
Balance at end of period	<b>184</b>	<u>182</u>	<u>175</u>	<b>184</b>	<u>175</u>
<b>Retained earnings</b>					
Balance at beginning of period	<b>858</b>	818	652	<b>770</b>	575
Net income for the period	<b>117</b>	108	84	<b>335</b>	265
Preferred share dividends	<b>(4)</b>	(4)	(2)	<b>(10)</b>	(6)
Common share dividends	<b>(75)</b>	(60)	–	<b>(195)</b>	(100)
Capital issue expense	–	(4)	–	<b>(4)</b>	–
Balance at end of period	<b>896</b>	<u>858</u>	<u>734</u>	<b>896</b>	<u>734</u>
<b>Total shareholders' equity</b>	<b>2,380</b>	<u>2,465</u>	<u>2,159</u>	<b>2,380</b>	<u>2,159</u>

*See notes to consolidated financial statements.*

**Condensed Consolidated Statement of Cash Flows (Unaudited)**

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 June</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
<b>Cash flows (used in)/provided by operating activities</b>					
Net income	117	108	84	335	265
Trading securities	(38)	(392)	(251)	(404)	(324)
Other, net	333	(9)	139	593	415
	<u>412</u>	<u>(293)</u>	<u>(28)</u>	<u>524</u>	<u>356</u>
<b>Cash flows provided by/(used in) financing activities</b>					
Deposits received	1,193	1,803	900	4,732	2,665
Securities sold under repurchase agreements	185	40	(57)	263	89
Redemption of preferred shares	(125)	–	–	(125)	–
Proceeds from common shares issued	–	–	–	–	175
Proceeds from preferred shares issued	–	175	–	175	–
Proceeds from asset trust securities issued	–	200	–	200	–
Dividends paid	(79)	(64)	(2)	(255)	(106)
	<u>1,174</u>	<u>2,154</u>	<u>841</u>	<u>4,990</u>	<u>2,823</u>
<b>Cash flows (used in)/ provided by investing activities</b>					
Loans funded, excluding securitisations	(1,705)	(1,326)	(1,113)	(4,741)	(3,274)
Proceeds from loans securitised	78	119	329	846	768
Investment securities sold (purchased)	(423)	596	(37)	(945)	617
Securities (purchased) sold under reverse repurchase agreements	654	(1,038)	48	443	(430)
Net change in non-operating deposits with regulated financial institutions	(84)	29	136	(292)	(384)
Paid for business acquired	–	–	–	–	(122)
Cash and cash equivalents at date of acquisition	–	–	–	–	40
Proceeds on sale of subsidiary	–	–	–	–	25
Cash and cash equivalents at date of sale	–	–	–	–	(10)
(Acquisition) disposal of land, buildings and equipment	(3)	(3)	(4)	(8)	(2)
	<u>(1,483)</u>	<u>(1,623)</u>	<u>(641)</u>	<u>(4,697)</u>	<u>(2,772)</u>
<b>Increase in cash and cash equivalents</b>	<b>103</b>	<b>238</b>	<b>172</b>	<b>817</b>	<b>407</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,721</b>	<b>4,483</b>	<b>3,684</b>	<b>4,007</b>	<b>3,449</b>
<b>Cash and cash equivalents, end of period</b>	<b>4,824</b>	<b>4,721</b>	<b>3,856</b>	<b>4,824</b>	<b>3,856</b>
Represented by:					
Cash resources per balance sheet	5,531	5,344	4,420		
less non-operating deposits <sup>†</sup>	(707)	(623)	(564)		
Cash and cash equivalents, end of period	<u>4,824</u>	<u>4,721</u>	<u>3,856</u>		

<sup>†</sup> Non operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitisation transactions.

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C\$ millions)

### 1. Basis of presentation

These consolidated financial statements should be read in conjunction with our consolidated financial statements for the year ended 31 December 2004 as set out on pages 33 to 67 of our 2004 Annual Report and Accounts. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used for our consolidated financial statements for the year ended 31 December 2004, except as described below.

### 2. Changes in accounting policy

#### a) Investment companies

Effective 1 January 2005, we adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 18, which sets out new accounting requirements on the carrying value of investments held in investment companies. These investments are required to be carried at fair value when we otherwise would have had to consolidate them or account for them using the equity method.

The impact of this change was an increase in non-interest revenue, and a corresponding increase in investment securities, of C\$7 million for the nine months ended 30 September 2005.

#### b) Variable Interest Entities

Effective 1 January 2005, we adopted the CICA's Accounting Guideline 15 (AcG-15), which sets out new accounting requirements for the consolidation of variable interest entities (VIEs). VIEs include entities where the equity invested is considered insufficient to finance an entity's activities. The new rules require that we consolidate VIEs if the investments we hold in these entities and/or the relationships we have with them result in us being exposed to a majority of their expected losses, being able to benefit from a majority of their expected residual returns, or both.

There was no material impact to the consolidated balance sheet or consolidated statement of income upon adoption. Prior to adopting AcG-15, we fully consolidated the VIE where we are considered to be the primary beneficiary under AcG-15.

The following table provides information about unconsolidated VIEs in which we have a significant variable interest and a VIE that we consolidated under AcG-15.

	<i>At 30 September 2005</i>	
	<i>Total assets</i>	<i>Maximum exposure to loss</i>
Unconsolidated VIEs:		
Securitisation vehicles <sup>(1)</sup>	10,639	36
Investment funds <sup>(2)</sup>	2,679	4
Consolidated VIE:		
Specialised Financing Entity <sup>(3)</sup>	700	

(1) The maximum exposure to loss consists mainly of segregated deposits provided as first loss protection and retained interests in securitisations where we have sold loans. We have recognized C\$36 million of this exposure on our consolidated balance sheet.

(2) The maximum exposure to loss consists mainly of seed capital in mutual and investment funds.

(3) We have issued innovative Tier 1 capital under a capital trust. This trust is a VIE, but we are considered its primary beneficiary and, therefore, continue to consolidate this structure in our consolidated balance sheet.

**Notes to Consolidated Financial Statements (Unaudited)** *(continued)***3. Allowance for credit losses**

A continuity of our allowance for credit losses is as follows:

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September</i> <i>2005</i>	<i>30 June</i> <i>2005</i>	<i>30 September</i> <i>2004</i>	<i>30 September</i> <i>2005</i>	<i>30 September</i> <i>2004</i>
Balance at beginning of period	338	343	359	349	313
Balance on acquisition of business	–	–	–	–	26
Provision for credit losses	7	6	10	21	44
Recoveries	1	–	1	2	6
Write-offs	(8)	(12)	(15)	(35)	(34)
Foreign exchange and other	(1)	1	–	–	–
Balance at end of period	<u>337</u>	<u>338</u>	<u>355</u>	<u>337</u>	<u>355</u>

**4. Securitisation**

Securitisation activity during the third quarter of 2005 was as follows:

	<i>Residential</i> <i>mortgages</i>
Securitized and sold	78
Net cash proceeds received	77
Retained rights to future excess interest	2
Retained servicing liability	1
Pre-tax gain on sale	1

The key assumptions made at time of sale were (%):

	<i>Residential</i> <i>mortgages</i>
Prepayment rate	18
Excess spread	1.06
Expected credit losses	–
Discount rate	4.66

**5. Non-controlling interest in trust**

On 3 May 2005, HSBC Canada Asset Trust issued 200,000 HSBC Canada Asset Trust Securities Series 2015 (“HSBC HaTS – Series 2015<sup>TM</sup>”) to raise gross proceeds of C\$200 million. Each of the HSBC HaTS – Series 2015<sup>TM</sup> entitles holders to non-cumulative cash distributions of C\$25.75 per unit, to yield 5.149 per cent annually, until 30 June 2015, and the Bankers’ Acceptance rate (reset semi-annually) plus 1.5 per cent thereafter. Each of the HSBC HaTS – Series 2015<sup>TM</sup> represents an undivided beneficial ownership interest in the assets held by HSBC Canada Asset Trust from time to time. The HSBC HaTS – Series 2015<sup>TM</sup> qualify as Tier 1 capital. The HSBC HaTS – Series 2015<sup>TM</sup> have no maturity date but are redeemable at the option of HSBC Canada Asset Trust commencing 30 June 2010, subject to regulatory approval. The net proceeds from the issue were used to purchase additional trust assets.

**Notes to Consolidated Financial Statements (Unaudited)** *(continued)***6. Issued and outstanding shares**

	<i>At 30 September 2005</i>		<i>At 31 December 2004</i>		<i>At 30 September 2004</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Class 1 Preferred Shares						
- Series A	–	–	5,000,000	125	5,000,000	125
- Series C	<b>7,000,000</b>	<b>175</b>	–	–	–	–
		<u>175</u>		<u>125</u>		<u>125</u>
Common shares	<b>488,668,000</b>	<b>1,125</b>	488,668,000	1,125	488,668,000	1,125

On 19 April 2005, we issued 7 million Non-Cumulative Redeemable Class 1 Preferred Shares – Series C at a price of C\$25.00 per share to raise gross proceeds of C\$175 million. Each share entitles holders to non-cumulative preferential quarterly dividends of C\$0.31875 per share, to yield 5.10 per cent annually. The shares qualify as Tier 1 capital. Subject to regulatory approval, on or after 30 June 2010, we may redeem the Preferred Shares – Series C in whole or in part at a declining premium. The net proceeds from the issue were used for general corporate purposes.

On 30 September 2005, all of issued and outstanding Non-Cumulative Redeemable Class 1 Preferred Shares – Series A, totalling C\$125 million were redeemed for C\$25.00 per share.

**7. Stock-based compensation**

During the nine months ended 30 September 2005 compensation expense totalling C\$7 million (2004 – C\$6 million) was recorded in respect of HSBC Share Option Plan awards granted in 2003 and 2004. No awards were granted in 2005 (2004 – 2 million options). A corresponding increase was booked to contributed surplus.

During the nine months ended 30 September 2005, compensation expense totalling C\$7 million (2004 – C\$2 million) was recorded in respect of HSBC Restricted Share Plan awards.

**8. Employee future benefits**

The expense for employee future benefits was as follows:

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September 2005</i>	<i>30 June 2005</i>	<i>30 September 2004</i>	<i>30 September 2005</i>	<i>30 September 2004</i>
Pension plans – defined benefit	–	1	7	<b>3</b>	12
Pension plans – defined contribution	<b>3</b>	3	3	<b>8</b>	7
Other benefits	<u>2</u>	<u>2</u>	<u>3</u>	<u>6</u>	<u>10</u>
	<u><b>5</b></u>	<u>6</u>	<u>13</u>	<u><b>17</b></u>	<u>29</u>

**Notes to Consolidated Financial Statements (Unaudited)** *(continued)***9. Customer group segmentation**

We report and manage our operations according to the customer group definitions of the HSBC Group.

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<u>30 September</u> <u>2005</u>	<u>30 June</u> <u>2005</u>	<u>30 September</u> <u>2004</u>	<u>30 September</u> <u>2005</u>	<u>30 September</u> <u>2004</u>
<b>Personal Financial Services</b>					
Net interest income	92	89	77	264	228
Provision for credit losses	(3)	(4)	(1)	(11)	(9)
Non-interest revenue	66	65	58	202	187
Non-interest expenses	(110)	(108)	(106)	(329)	(311)
Income before the undernoted	45	42	28	126	95
Effect of accounting change	—	—	—	—	7
Income before taxes and non-controlling					
interest in income of trust	45	42	28	126	102
Provision for income taxes	(16)	(14)	(10)	(42)	(37)
Non-controlling interest in					
income of trust	(2)	(2)	(1)	(5)	(4)
Income from continuing operations	27	26	17	79	61
Income from discontinued operations	—	—	—	—	5
Net income	<u>27</u>	<u>26</u>	<u>17</u>	<u>79</u>	<u>66</u>
Average assets	<u>17,331</u>	<u>16,339</u>	<u>15,571</u>	<u>16,546</u>	<u>14,966</u>
<b>Commercial Banking</b>					
Net interest income	140	129	123	396	348
Provision for credit losses	(4)	(2)	(9)	(10)	(33)
Non-interest revenue	48	48	43	143	117
Non-interest expenses	(72)	(71)	(73)	(209)	(197)
Income before taxes and non-controlling					
interest in income of trust	112	104	84	320	235
Provision for income taxes	(40)	(34)	(31)	(109)	(87)
Non-controlling interest in					
income of trust	(4)	(3)	(2)	(9)	(6)
Net income	<u>68</u>	<u>67</u>	<u>51</u>	<u>202</u>	<u>142</u>
Average assets	<u>17,236</u>	<u>17,124</u>	<u>14,724</u>	<u>16,793</u>	<u>14,003</u>

**Notes to Consolidated Financial Statements (Unaudited)** *(continued)***9. Customer group segmentation** *(continued)*

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<u>30 September</u> <u>2005</u>	<u>30 June</u> <u>2005</u>	<u>30 September</u> <u>2004</u>	<u>30 September</u> <u>2005</u>	<u>30 September</u> <u>2004</u>
<b>Corporate, Investment Banking and Markets</b>					
Net interest income	29	25	30	81	91
Provision for credit losses	–	–	–	–	(2)
Non-interest revenue	31	27	25	84	79
Non-interest expenses	(13)	(14)	(13)	(38)	(37)
Income before the undernoted	47	38	42	127	131
Effect of accounting change	–	–	–	–	7
Income before taxes and non-controlling interest in income of trust	47	38	42	127	138
Provision for income taxes	(17)	(12)	(16)	(43)	(52)
Non-controlling interest in income of trust	(1)	–	(1)	(2)	(2)
Net income	<u>29</u>	<u>26</u>	<u>25</u>	<u>82</u>	<u>84</u>
Average assets	<u>14,187</u>	<u>13,074</u>	<u>10,630</u>	<u>13,163</u>	<u>10,583</u>
<b>Other</b>					
Non-interest expenses	(13)	(16)	(15)	(43)	(44)
Loss before income taxes	(13)	(16)	(15)	(43)	(44)
Benefit of income taxes	6	5	6	15	17
Net loss	<u>(7)</u>	<u>(11)</u>	<u>(9)</u>	<u>(28)</u>	<u>(27)</u>

**10. Guarantees, commitments and contingent liabilities**

Amounts relating to financial and performance standby letters of credit, and documentary and commercial letters of credit were as follows:

	<u>At 30 September</u> <u>2005</u>	<u>At 31 December</u> <u>2004</u>	<u>At 30 September</u> <u>2004</u>
Financial and performance standby letters of credit	2,182	1,756	1,733
Documentary and commercial letters of credit	488	459	515
Commitments to extend credit			
Original term of one year or less	23,216	20,974	19,836
Original term of more than one year	3,565	3,510	3,193
	<u>29,451</u>	<u>26,699</u>	<u>25,277</u>

At 30 September 2005, the total recourse against the Bank under securitisation transactions was C\$17 million (31 December 2004 – C\$14 million; 30 September 2004 – C\$13 million).

**Notes to Consolidated Financial Statements (Unaudited)** *(continued)*

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**11. Subsequent events**

On 9 November 2005, we issued 7 million Non-Cumulative Class 1 Preferred Shares – Series D at a price of C\$25.00 per share to raise gross proceeds of C\$175 million. Each share entitles holders to non-cumulative preferential quarterly dividends of C\$0.3125 per share, to yield 5.0 per cent annually. The shares qualify as Tier 1 capital. Subject to regulatory approval, we may redeem the Preferred Shares – Series D in whole or in part at a declining premium, on or after 31 December 2010. The net proceeds from the issue were used for general corporate purposes.

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**Certain HSBC Bank Canada securities are listed on the Toronto Stock Exchange as follows:**

HSBC Bank Canada

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

HSBC Canada Asset Trust

Asset Trust Securities – Series 2010 (HSBC HaTS™) (HBH.M)

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With over 9,700 offices in 77 countries and territories and assets of US\$1,467 billion at 30 June 2005, the HSBC Group is one of the world's largest banking and financial services organisations.

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