

24 July 2006

HSBC BANK CANADA SECOND QUARTER 2006 RESULTS[†] - HIGHLIGHTS

- Net income attributable to common shares was C\$115 million for the quarter ended 30 June 2006, an increase of 10.6 per cent over the quarter ended 30 June 2005.
- Net income attributable to common shares was C\$231 million for the half-year ended 30 June 2006, an increase of 9.0 per cent over the same period in 2005.
- Return on average common equity was 19.9 per cent for the quarter ended 30 June 2006 and 20.3 per cent for the half-year ended 30 June 2006 compared with 19.7 per cent and 20.3 per cent respectively for the same periods in 2005.
- The cost efficiency ratio was 52.6 per cent for the quarter ended 30 June 2006 and 52.8 per cent for the half-year ended 30 June 2006 compared with 54.6 per cent and 53.8 per cent respectively for the same periods in 2005.
- Total assets were C\$53.1 billion at 30 June 2006 compared with C\$47.4 billion at 30 June 2005.
- Total funds under management were C\$21.7 billion at 30 June 2006 compared with C\$18.8 billion at 30 June 2005.

[†] *Results are prepared in accordance with Canadian generally accepted accounting principles.*

Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$115 million for the quarter ended 30 June 2006, an increase of C\$11 million, or 10.6 per cent, from C\$104 million for the same period in 2005. This increase was due to strong growth in net interest income and non-interest revenue. Net income in the quarter was impacted by a few significant items within non-interest expenses and income tax expense, which held back reported growth in net income, as highlighted in the following commentary. Partially offsetting these items was an increase in the fair value of our investments in private equity funds.

Net income attributable to common shares for the first half of 2006 was C\$231 million compared with C\$212 million for the same period in 2005, an increase of C\$19 million, or 9.0 per cent.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “Our results for the second quarter continue to show good momentum. Underlying revenue growth for the quarter and half-year continues to be strong.

“We are well positioned to invest in areas of growth while continuing to improve our operating efficiency. We will also leverage the success of new products, like the High Rate Savings Account, and enhanced services, such as those created by the Payments and Cash Management business, to help acquire new customers and deepen relationships with our existing customers

“As we celebrate the 25th anniversary of HSBC Bank Canada, I would like to take this opportunity to thank our customers and our colleagues at HSBC. They have helped us achieve this milestone. Canada is one of the greatest countries in the world, full of promise and opportunity, and one of the best examples of how people from diverse backgrounds and perspectives can build something special. It has been a great quarter century and we look forward to great things to come in the next 25 years and beyond!”

Net interest income

Net interest income for the second quarter of 2006 was C\$276 million compared with C\$243 million for the same period in 2005, an increase of C\$33 million, or 13.6 per cent. This increase was driven by loan and deposit growth across all of our customer groups. Average loans for the quarter were C\$33.3 billion compared with C\$29.9 billion for the same period in 2005. Residential mortgages continued to grow, fuelled by a healthy housing market across Canada. Corporate and commercial loans were higher due to increased activity by clients resulting from the stable economic conditions in Canada and the United States. Average deposits were C\$40.8 billion compared with C\$37.0 billion for the same period in 2005. Income from securities was higher due partially to rising interest rates and higher average balances from increased trading activities and liquidity.

Competitive pressures and the interest rate environment are still a risk factor. However, the net interest margin, as a percentage of average interest earning assets, was 2.35 per cent for the quarter compared with 2.34 per cent for the same period in 2005. The net interest margin benefited from higher deposit spreads in the rising interest rate environment.

Net interest income was C\$10 million higher compared with the previous quarter, due partly to one extra day in the quarter and from growth in loans and deposits. Average loans for the quarter were C\$33.3 billion compared with C\$32.3 billion last quarter, while average deposits grew C\$0.8 billion to C\$40.8 billion in the quarter. The net interest margin, as a percentage of average interest earning assets, was one basis point lower compared with the previous quarter.

On a year-to-date basis, net interest income was C\$542 million compared with C\$480 million for the same period last year, an increase of C\$62 million, or 12.9 per cent. Year-to-date net interest income in 2006 benefited from continued growth in assets and deposits. However, the growth was negatively effected by securitisations of residential mortgages and personal lines of credit totalling C\$1.2 billion in the latter part of the fourth quarter of 2005 and C\$0.7 billion early in the first quarter of 2006. Average loans in 2006 were C\$32.8 billion compared with C\$29.4 billion in the same period last year, while average deposits were C\$40.4 billion compared with C\$35.9 billion in the same period last year. The net interest margin, as a percentage of average interest earning assets, was 2.35 per cent compared with 2.38 per cent for the same period in 2005.

Non-interest revenue

Non-interest revenue for the second quarter of 2006 was C\$167 million compared with C\$140 million in the same quarter of 2005, an increase of C\$27 million, or 19.3 per cent. In the current quarter, we recorded a C\$10 million increase in the fair value of our investments in private equity funds, which increased investment securities gains. The continued volatility in the exchange rate between the Canadian and US dollars resulted in higher trading and foreign exchange revenue. The success of our Private Client products and services helped grow personal funds under management, which increased investment administration fees. Securitisation income was higher due to increased recurring income from previous securitisations and from gains on sales of C\$800 million in residential mortgages in the current quarter. An increase in capital market fees was driven primarily from higher underwriting and advisory activities in the quarter. Other non-interest revenue was lower due largely to immigrant investor program fees arising from timing of approvals by the government agencies.

Non-interest revenue was C\$11 million higher compared with the previous quarter. Securitisation income and fair value increases in our private equity fund investments were higher. This was partially offset by lower commissions from trading activities by our retail customers, due largely to the increased volatility of the equity markets in the latter part of the second quarter.

On a year-to-date basis, non-interest revenue was C\$323 million, C\$39 million, or 13.7 per cent higher compared with C\$284 million for the same period last year. The main drivers were growth in our wealth management businesses, which increased investment administration fees, and higher credit fees from increased business activity. Non-interest revenue also benefited from larger fair value increases in our private equity fund investments and higher securitisation income.

Non-interest expenses and operating efficiency

Non-interest expenses for the second quarter of 2006 were C\$233 million compared with C\$209 million in the same quarter of 2005, an increase of C\$24 million, or 11.5 per cent. We have maintained our focus on operating efficiency while continuing to invest in our businesses and reallocate resources to areas of growth. As a result, the cost efficiency ratio was 52.6 per cent compared with 54.6 per cent for the same period in 2005. Salaries and employee benefits expenses were higher in 2006 due to an increased employee base from continued investments in our businesses and increased defined benefit pension plan costs. Additionally, a charge of C\$9 million was recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan. Other non-interest expenses were slightly lower as increased investments in our business were offset by lower fees paid on the guarantee of our customers' deposits, due to the termination of the guarantee by HSBC Holdings plc for deposits taken after 30 June 2005.

Non-interest expenses were C\$9 million higher than the previous quarter due largely to the incremental expense on stock options.

On a year-to-date basis, non-interest expenses were C\$457 million compared with C\$411 million for the same period last year, an increase of C\$46 million, or 11.2 per cent. The cost efficiency ratio was 52.8 per cent compared with 53.8 per cent for the same period in 2005. Salaries and benefits expenses were higher due to an increased employee base, increased variable compensation, higher stock option expense, and increased pension costs. Other non-interest expenses were higher due to continued investments in our business, including higher brand awareness initiatives. These were partially offset by lower fees paid on the guarantee of our customers' deposits.

Credit quality and provision for credit losses

Credit quality was stable in the second quarter. The provision for credit losses of C\$6 million this quarter was in line with the previous quarter and the same period a year ago. On a year-to-date basis, the provision for credit losses was C\$12 million compared with C\$14 million for the same period last year. Corporate default rates continue to be at historically low levels and result from stable economic conditions in Canada and the United States. We continue to proactively manage our risks and level of exposure to companies in industry sectors that may be at risk due to adverse changes in economic conditions.

Gross impaired credit exposures were C\$159 million, C\$34 million, or 27.2 per cent, higher compared with C\$125 million at the same time last year, and were in line with the balance at the previous quarter end of C\$161 million. Total impaired credit exposures, net of specific allowances for credit losses, were C\$109 million compared with C\$70 million at the same time last year, and were slightly higher compared to the C\$104 million balance at the previous quarter end. The general allowance for credit losses remained at C\$269 million compared with the previous quarter and was down from C\$283 million at the same time last year. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.84 per cent compared with 0.87 per cent at the previous quarter end and 0.98 per cent at the same time last year.

Income taxes

The effective tax rate in the second quarter of 2006 was 39.4 per cent compared with 33.7 per cent in the same quarter of 2005 and 35.1 per cent in the previous quarter. On a year-to-date basis in 2006, the effective tax rate was 37.3 per cent compared with 33.9 per cent for the same period last year.

The income tax provision in the second quarter of 2006 included a C\$6 million charge to reflect the write-down of future income tax assets resulting from tax rate decreases announced in the federal budget. In addition, the expense related to stock options is not deductible for income tax purposes and, therefore, increased the effective tax rate. The effective tax rate in the comparative periods in 2005 benefited from a reduction in tax expense resulting from adjustments to the net realizable values of certain future income tax assets. Excluding these impacts, the effective tax rate in the second quarter of 2006 was in line with the same period last year.

Balance sheet

Total assets at 30 June 2006 were C\$53.1 billion, an increase of C\$5.7 billion over the same time last year. Our loan portfolio continues to be the key driver of balance sheet growth. Commercial loans and bankers' acceptances grew C\$2.9 billion on the continued strong economy, primarily in western Canada. Residential mortgages increased C\$2.9 billion, before securitisation of C\$2.2 billion in the period, on continued buoyancy in housing markets. Consumer loans increased C\$0.8 billion, which was before securitisation of C\$0.9 billion of personal lines of credit and consumer term loans in the period. Increased activity in our markets business has increased the securities portfolio by C\$1.8 billion and balances under reverse repurchase agreements by C\$1.0 billion.

Total deposits increased C\$3.6 billion to C\$41.0 billion at 30 June 2006 from C\$37.4 billion at the same time last year. Growth in deposits from individuals resulted from higher interest rates and initiatives such as our 25th Anniversary Sale campaign, which highlighted term savings products as well as our new High Rate Savings Account. Commercial deposits were higher due to growth in term products, driven by higher interest rates, and in an increase in payments and cash management balances. Other liabilities increased C\$0.7 billion largely from an increase in short positions in securities resulting from an increase in activities in our markets business.

Compared with the balance at 31 December 2005, total assets were C\$3.9 billion higher largely from growth in loans and markets activities. Deposit growth benefited from increased cash management balances from corporate customers as well as personal deposit growth from the High Rate Savings Account.

Total assets under administration

Funds under management were C\$21.7 billion at 30 June 2006 compared with C\$18.8 billion at the same time last year. Including custody and administration balances, total assets under administration were C\$30.2 billion compared with C\$24.7 billion at 30 June 2005.

Growth in funds under management benefited from strong acquisition of new clients and the success of our Private Client products. The buoyant equity markets had a positive impact on retail investor activity, particularly in Canada, which was driven by large increases in commodity prices. Custodial accounts grew C\$2.6 billion due to growth in institutional and corporate custody business and an increase in securitised assets under management.

Compared with the previous quarter, funds under management were lower by C\$0.1 billion. Despite the drop in the equity markets in the latter part of the second quarter of 2006, personal funds increased by C\$0.1 billion. Institutional funds accounted for the decrease due to maturity of various mandates.

Capital management

The tier 1 capital ratio was 9.0 per cent and the total capital ratio was 11.2 per cent at 30 June 2006. These compare with 9.0 per cent and 11.3 per cent, respectively, at 31 March 2006 and 9.0 per cent and 11.2 per cent, respectively, at 30 June 2005.

In addition to net income, regulatory capital increased from an issuance of C\$200 million in subordinated debentures in the first quarter of 2006. This was partially offset by dividends declared on our preferred shares and common shares and the redemption of C\$60 million in subordinated debentures in the first quarter of 2006.

Credit ratings

In the second quarter of 2006, the counterparty credit rating on our deposits was raised to AA-/Stable/A-1+ from A+/positive/A-1 by Standard & Poor's Ratings Services. This upgrade is a reflection of the quality and success of our business in Canada.

Dividends

During the second quarter of 2006, we declared and paid C\$60 million in dividends on our common shares.

Regular quarterly dividends of 31.875 cents per share have been declared on our Class 1 Preferred Shares – Series C and 31.25 cents per share on our Class 1 Preferred Shares – Series D. The dividends will be payable on 30 September 2006, for shareholders of record on 15 September 2006.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With around 9,500 offices in 76 countries and territories and assets of US\$1,502 billion at 31 December 2005, the HSBC Group is one of the world's largest banking and financial services organisations. Visit our website at hsbc.ca for more information about HSBC Bank Canada and our products and services.

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Copies of HSBC Bank Canada's interim 2006 report will be sent to shareholders in August 2006.

Caution regarding forward-looking financial statements

This document may contain 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 level 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 interest 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.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June</i>	<i>31 March</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Earnings					
Net income attributable to common shares	115	116	104	231	212
Basic earnings per share	0.24	0.24	0.21	0.47	0.43
Performance ratios (%)					
Return on average common equity	19.9	20.7	19.7	20.3	20.3
Return on average assets	0.88	0.92	0.90	0.90	0.94
Net interest margin ¹	2.35	2.36	2.34	2.35	2.38
Cost efficiency ratio ²	52.6	53.1	54.6	52.8	53.8
Non-interest revenue:total revenue ratio	37.7	37.0	36.6	37.3	37.2
Credit information					
Gross impaired credit exposures	159	161	125		
Allowance for credit losses	319	325	338		
– As a percentage of gross impaired credit exposures	201 %	202 %	270 %		
– As a percentage of gross loans and acceptances	0.84 %	0.87 %	0.98 %		
Average balances					
Assets	52,573	50,986	46,523	51,784	45,358
Loans	33,262	32,252	29,901	32,760	29,374
Deposits	40,847	40,022	37,028	40,437	35,867
Common equity	2,316	2,276	2,141	2,296	2,119
Capital ratios (%)					
Tier 1	9.0	9.0	9.0		
Total capital	11.2	11.3	11.2		
Total assets under administration					
Funds under management	21,659	21,796	18,820		
Custody accounts	8,494	8,564	5,875		
Total assets under administration	30,153	30,360	24,695		

1 Net interest margin is net interest income divided by average interest earning assets for the period.

2 The cost efficiency ratio is defined as non-interest expenses divided by total revenue.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June</i>	<i>31 March</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		†	†		†
Interest and dividend income					
Loans	523	462	396	985	770
Securities	46	43	25	89	49
Deposits with regulated financial institutions	55	58	39	113	69
	<u>624</u>	<u>563</u>	<u>460</u>	<u>1,187</u>	<u>888</u>
Interest expense					
Deposits	341	291	211	632	395
Debentures	7	6	6	13	13
	<u>348</u>	<u>297</u>	<u>217</u>	<u>645</u>	<u>408</u>
Net interest income	<u>276</u>	<u>266</u>	<u>243</u>	<u>542</u>	<u>480</u>
Non-interest revenue					
Deposit and payment service charges	23	21	22	44	42
Credit fees	27	25	24	52	46
Capital market fees	26	32	24	58	56
Investment administration fees	25	24	17	49	34
Foreign exchange	8	7	6	15	13
Trade finance	6	6	7	12	14
Trading revenue	17	17	15	34	30
Investment securities gains	13	5	4	18	11
Securitisation income	11	8	5	19	13
Other	11	11	16	22	25
	<u>167</u>	<u>156</u>	<u>140</u>	<u>323</u>	<u>284</u>
Total revenue	<u>443</u>	<u>422</u>	<u>383</u>	<u>865</u>	<u>764</u>
Non-interest expenses					
Salaries and employee benefits	136	123	110	259	219
Premises and equipment	27	29	27	56	54
Other	70	72	72	142	138
	<u>233</u>	<u>224</u>	<u>209</u>	<u>457</u>	<u>411</u>
Net operating income before provision for credit losses	<u>210</u>	<u>198</u>	<u>174</u>	<u>408</u>	<u>353</u>
Provision for credit losses	<u>6</u>	<u>6</u>	<u>6</u>	<u>12</u>	<u>14</u>
Income before provision and non-controlling interest in income of trust	<u>204</u>	<u>192</u>	<u>168</u>	<u>396</u>	<u>339</u>
Provision for income taxes	78	65	55	143	112
Non-controlling interest in income of trust	6	7	5	13	9
Net income	<u>120</u>	<u>120</u>	<u>108</u>	<u>240</u>	<u>218</u>
Preferred share dividends	5	4	4	9	6
Net income attributable to common shares	<u>115</u>	<u>116</u>	<u>104</u>	<u>231</u>	<u>212</u>
Average common shares outstanding (000)	488,668	488,668	488,668	488,668	488,668
Basic earnings per share (C\$)	0.24	0.24	0.21	0.47	0.43

† Certain prior period amounts have been reclassified to conform with the current period presentation.

<i>Figures in C\$ millions</i>	<i>At 30 June 2006</i>	<i>At 31 December 2005</i>	<i>At 30 June 2005</i>
Assets			
Cash and deposits with Bank of Canada	378	409	347
Deposits with regulated financial institutions	4,193	5,549	4,997
	<u>4,571</u>	<u>5,958</u>	<u>5,344</u>
Investment securities	3,576	2,923	2,489
Trading securities	2,120	1,418	1,421
	<u>5,696</u>	<u>4,341</u>	<u>3,910</u>
Assets purchased under reverse repurchase agreements	<u>3,473</u>	<u>1,752</u>	<u>2,475</u>
Loans			
– Businesses and government	16,979	15,571	14,768
– Residential mortgage	13,130	12,865	12,427
– Consumer	3,638	3,734	3,714
– Allowance for credit losses	(319)	(326)	(338)
	<u>33,428</u>	<u>31,844</u>	<u>30,571</u>
Customers' liability under acceptances	4,454	4,002	3,722
Land, buildings and equipment	99	103	97
Other assets	1,411	1,210	1,312
	<u>5,964</u>	<u>5,315</u>	<u>5,131</u>
Total assets	<u>53,132</u>	<u>49,210</u>	<u>47,431</u>
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	1,709	1,975	1,199
– Individuals	16,108	15,300	15,343
– Businesses and governments	23,172	21,333	20,845
	<u>40,989</u>	<u>38,608</u>	<u>37,387</u>
Acceptances	4,454	4,002	3,722
Assets sold under repurchase agreements	375	302	101
Other liabilities	3,606	2,849	2,898
Non-controlling interest in trust and subsidiary	430	430	430
	<u>8,865</u>	<u>7,583</u>	<u>7,151</u>
Subordinated debentures	<u>559</u>	<u>423</u>	<u>428</u>
Shareholders' equity			
– Preferred shares	350	350	300
– Common shares	1,125	1,125	1,125
– Contributed surplus	199	187	182
– Retained earnings	1,045	934	858
	<u>2,719</u>	<u>2,596</u>	<u>2,465</u>
Total liabilities and shareholders' equity	<u>53,132</u>	<u>49,210</u>	<u>47,431</u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June</i>	<i>31 March</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Cash flows provided by/(used in):					
– operating activities	(69)	253	(293)	184	112
– financing activities	706	1,699	2,154	2,405	3,816
– investing activities	(1,128)	(2,503)	(1,623)	(3,631)	(3,214)
Increase (decrease) in cash and cash equivalents	(491)	(551)	238	(1,042)	714
Cash and cash equivalents, beginning of period	4,649	5,200	4,483	5,200	4,007
Cash and cash equivalents, end of period	4,158	4,649	4,721	4,158	4,721
Represented by:					
– Cash resources per balance sheet	4,571	5,182	5,344		
– less non-operating deposits [†]	(413)	(533)	(623)		
– Cash and cash equivalents, end of period	4,158	4,649	4,721		

[†] *Non-operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitisation transactions.*