

6 May 2008

## **HSBC BANK CANADA FIRST QUARTER 2008 RESULTS<sup>†</sup> - HIGHLIGHTS**

- Net income attributable to common shares was C\$155 million for the quarter ended 31 March 2008, an increase of 11.5 per cent over the same period in 2007.
- Return on average common equity was 21.2 per cent for the quarter ended 31 March 2008 compared with 22.0 per cent for the same period in 2007.
- The cost efficiency ratio was 48.7 per cent for the quarter ended 31 March 2008 compared with 52.2 per cent for the same period in 2007.
- Total assets were C\$66.5 billion at 31 March 2008 compared with C\$60.9 billion at 31 March 2007.
- Total funds under management were C\$26.3 billion at 31 March 2008 compared with C\$25.1 billion at 31 March 2007.

<sup>†</sup> *Results are prepared in accordance with Canadian generally accepted accounting principles.*

## Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$155 million for the quarter ended 31 March 2008, an increase of C\$16 million, or 11.5 per cent, from C\$139 million for the first quarter of 2007. Compared to the fourth quarter of 2007, net income attributable to common shares was C\$44 million, or 39.6 per cent, higher in the first quarter of 2008. Results for the quarter ended 31 December 2007 were impacted by a charge of C\$27 million, after related income taxes, relating to the bank's holdings of Canadian non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP"). Excluding this charge, net income attributable to common shares in the quarter ended 31 March 2008 was 12.3 per cent higher than the fourth quarter of 2007.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada has made a satisfactory start to 2008 in light of a difficult market. Uncertain conditions continue to affect the banking industry resulting in a reduction in interest margins, although trading revenues have increased due to market volatility. Despite the economic uncertainty, our customer franchise remains very strong and drives the majority of our revenue streams. The impact of our brand building activities, including HSBC's recent advertising campaign at Toronto's Pearson International Airport, together with our customer focused service propositions, is demonstrated by the success of our Direct Savings Account and the continued growth in the number of HSBC Premier Customers.

For the remainder of 2008, we will focus on increasing our customer base by continuing to enhance our HSBC Premier and HSBC Direct customer service propositions while growing our commercial business in a focused manner consistent with economic uncertainty."

## Net interest income

Net interest income of C\$298 million for the quarter ended 31 March 2008 was little changed from C\$294 million in the same quarter of 2007. Average interest earning assets for the quarter were C\$5.6 billion, or 10.7 per cent, higher than the same period in 2007. However, continuing competitive pressures and a challenging interest rate environment impacted the net interest margin, which decreased to 2.08 per cent for the quarter ended 31 March 2008 from 2.29 per cent for the same period in 2007. Reductions in the prime rate in November 2007 as well as January and March 2008 resulted in an immediate reduction in interest income on our floating rate loans without a corresponding reduction in interest expense as deposits re-priced less quickly. In addition, widening credit spreads experienced across the banking industry adversely impacted the cost of wholesale deposits.

Net interest income in the first quarter of 2008 was also largely unchanged compared with the fourth quarter of 2007. Although average interest earning assets increased by C\$1.3 billion compared to the fourth quarter of 2007, this was offset by a lower net interest margin.

## Non-interest revenue

Non-interest revenue was C\$219 million for the first quarter of 2008 compared with C\$185 million in the same quarter of 2007, an increase of C\$34 million, or 18.4 per cent. Trading revenues increased C\$37 million as a result of volatile foreign exchange and credit markets experienced in the first quarter of 2008 and benefited from a positive impact of C\$19 million arising from changes in the fair value of certain debt obligations. Securitization income was C\$17 million higher due to increased activity as well as higher gains on securitizations of loans arising from a reduction in the cost of funds. Deposit and payment service charges and credit fees were also higher due to continued business growth. These increases were partially offset

by a reduction in capital market fees of C\$10 million due to lower capital market activity in the first quarter of 2008. In addition, gains on available for sale securities were C\$17 million lower than in the same period last year due to a gain recorded in the first quarter of 2007 from the sale of part of the bank's shares in the Montreal Exchange and gains on other securities were C\$7 million lower due to a sale of investments within Private Equity Funds in the first quarter of 2007.

The increase in non-interest revenue from the fourth quarter of 2007 was C\$57 million, or 35.2 per cent. Trading revenue was C\$19 million higher as the positive impact of changes in the value of certain debt obligations recorded at fair value increased by C\$13 million compared to the fourth quarter of 2007, due to a further widening of credit spreads. The fourth quarter of 2007 included charges for non-bank ABCP of C\$8 million in trading and C\$34 million write-down recorded as a loss on available for sale securities. Securitization income increased by C\$14 million compared to the fourth quarter of 2007, mainly due to increased activity as well as a reduction in the cost of funds. These increases were partially offset by a C\$5 million reduction in capital market fees.

### **Non-interest expenses**

Non-interest expenses of C\$252 million for the first quarter of 2008 were largely unchanged compared to the same quarter of 2007. The cost efficiency ratio of 48.7 per cent for the first quarter of 2008 improved from 52.2 per cent for the same period in 2007, reflecting both strong control of expenses, which were flat, together with increases in non-interest revenues. Salary expenses grew reflecting increased staff following investments in expanding the branch network, the direct bank and the payments and cash management businesses. This was partially offset by lower variable compensation as a result of reductions in capital market revenue.

Non-interest expenses were also largely unchanged compared to the fourth quarter of 2007. Salaries and benefits were C\$8 million higher primarily due to increased benefit costs. Premises and equipment expenses increased by C\$7 million arising from increased IT costs and higher occupancy expenses as the bank continued to open new branches. These increases were offset by a reduction in other expenses of C\$16 million, mainly due to lower marketing expenses impacted by the timing of certain marketing campaigns together with small decreases in a number of other expense categories.

### **Credit quality and provision for credit losses**

The provision for credit losses was C\$25 million for the first quarter of 2008, compared with C\$10 million in the first quarter of 2007, and C\$24 million for the fourth quarter of 2007.

The previous benign credit environment combined with reversal of certain provisions resulted in a very low level of provisions for the first quarter of 2007. However, in the second half of 2007, the credit environment deteriorated and provisions for the first quarter of 2008 were at a similar level to that experienced in the third and fourth quarters of 2007. An increase in retail provisions and two specific manufacturing sector provisions in the first quarter of 2008 resulted in an increase from the same quarter of 2007. Overall credit quality remains strong, reflecting prudent lending standards.

The same factors impacted movements in impaired credit exposures. Gross impaired credit facilities were C\$314 million, \$42 million higher than 31 December 2007, and C\$161 million, or 105 per cent, higher compared with C\$153 million at 31 March 2007. Total impaired credit facilities, net of specific allowances for credit losses, were C\$213 million at 31 March 2008 compared with C\$188 million at 31 December 2007 and C\$95 million at 31 March 2007. The general allowance for credit losses remained unchanged at C\$269 million compared with 31 December 2007 and at 31 March 2007. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.81 per cent at 31 March 2008 compared with 0.79 per cent at 31 December 2007 and 0.77 per cent at 31 March 2007.

### **Income taxes**

The effective tax rate in the first quarter of 2008 was 32.1 per cent compared with 32.9 per cent in the first quarter of 2007 and 35.6 per cent in the fourth quarter of 2007. The lower tax rate in the quarter ended 31 March 2008 compared to the fourth quarter of 2007 was largely due to a write-down of future income tax assets recorded in the fourth quarter of 2007 resulting from lower corporate tax rates enacted by the Federal Government.

### **Balance sheet**

Total assets at 31 March 2008 were C\$66.5 billion, an increase of C\$3.6 billion from 31 December 2007, and C\$5.6 billion from 31 March 2007. Commercial loans and bankers' acceptances increased by C\$1.2 billion since the end of 2007, as commercial activity continued to be strong. Although residential mortgage originations increased, this was offset by securitizations of C\$0.9 billion resulting in a net decrease of C\$0.6 billion and consumer lending grew by C\$0.5 billion. The securities portfolio and securities purchased under reverse repurchase arrangements increased by C\$1.7 billion in the quarter, improving the bank's liquidity position.

Total deposits increased by C\$1.1 billion to C\$50.0 billion at 31 March 2008 from C\$48.9 billion at 31 December 2007 and were C\$4.0 billion higher compared with C\$46.0 billion at 31 March 2007. Personal deposits grew by C\$1.2 billion over 31 December 2007 driven by growth in High Rate and Direct Savings Accounts while in the same period commercial deposits decreased marginally.

### **Total assets under administration**

Funds under management were C\$26.3 billion at 31 March 2008 compared with C\$26.2 billion at 31 December 2007 and C\$25.1 billion at 31 March 2007. Although funds under management in the first quarter of 2008 benefited from good investment sales, reductions in equity markets adversely impacted fund values. Including custody and administration balances, total assets under administration were C\$37.3 billion compared with C\$37.1 billion at 31 December 2007 and C\$34.0 billion at 31 March 2007.

### **Capital management and regulatory capital ratios**

On 1 January 2008 the bank adopted a revised Basel Capital Framework commonly known as "Basel II" to comply with new regulations issued by the Office of the Superintendent of Financial Institutions Canada. The bank's tier 1 and overall capital ratios calculated in accordance with the new framework were 9.1 per cent and 11.3 percent respectively.

Capital Adequacy ratios calculated in accordance with the previous “Basel I” framework were 8.8 per cent for tier 1 and 11.3 per cent overall, at 31 December 2007 and 8.9 per cent and 11.0 per cent, respectively at 31 March 2007. Further details of the bank’s capital management process, including details of the calculation of capital adequacy under the new “Basel II” framework will be included in the bank’s first quarter 2008 report to shareholders.

### **Dividends**

During the first quarter of 2008, the bank declared and paid C\$65 million in dividends on HSBC Bank Canada common shares.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. The dividends will be payable on 30 June 2008, for shareholders of record on 13 June 2008.

### **Accounting policies adopted in 2008**

Effective 1 January 2008, the bank adopted new Canadian Institute of Chartered Accountants (CICA) Handbook Standards requiring additional disclosures particularly relating to the management of risk associated with Capital and Financial Instruments. There was no impact on the results for the first quarter of 2008 arising from the adoption of these new presentation and disclosure standards, which will be reflected in HSBC Bank Canada’s first quarter 2008 report to shareholders. Certain prior period amounts have been reclassified to conform to the current year’s presentation.

### **About HSBC Bank Canada**

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 180 offices. With around 10,000 offices in 83 countries and territories and assets of US\$2,354 billion at 31 December 2007, the HSBC Group is one of the world’s largest banking and financial services organisations. Visit the bank’s website at [hsbc.ca](http://hsbc.ca) for more information about HSBC Bank Canada and its products and services.

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Copies of HSBC Bank Canada’s first quarter 2008 report will be sent to shareholders in May 2008.

**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 the bank's 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 the bank's revenues. In addition, there may be a number of factors relating to the valuation of non-bank ABCP. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2008</i>	<i>31 December 2007</i>	<i>31 March 2007</i>
<b>Earnings</b>			
Net income attributable to common shares	155	111	139
Basic earnings per share	0.31	0.22	0.28
<b>Performance ratios (%)</b>			
Return on average common equity	21.2	15.6	22.0
Return on average assets	0.92	0.66	0.93
Net interest margin <sup>†</sup>	2.08	2.13	2.29
Cost efficiency ratio <sup>††</sup>	48.7	54.5	52.2
Non-interest revenue:total revenue ratio	42.4	34.9	38.6
<b>Credit information</b>			
Gross impaired credit exposures	314	272	153
Allowance for credit losses			
– Balance at end of period	370	353	327
– As a percentage of gross impaired credit exposures	118 %	130 %	214 %
– As a percentage of gross loans and acceptances	0.81 %	0.79 %	0.77 %
<b>Average balances</b>			
Assets	67,897	66,158	60,656
Loans	38,850	39,032	35,994
Deposits	50,972	49,755	45,855
Common equity	2,964	2,827	2,558
<b>Capital ratios<sup>†††</sup> (%)</b>			
Tier 1	9.1	8.8	8.9
Total capital	11.3	11.3	11.0
<b>Total assets under administration</b>			
Funds under management	26,283	26,213	25,083
Custodial accounts	11,006	10,914	8,868
Total assets under administration	37,289	37,127	33,951

<sup>†</sup> Net interest margin is net interest income divided by average interest earning assets for the period.

<sup>††</sup> The cost efficiency ratio is defined as non-interest expenses divided by total revenue.

<sup>†††</sup> The capital ratios for the quarter ended 31 March 2008 have been calculated in accordance with the new Basel II capital adequacy framework, while those for previous periods were calculated in accordance with the previous Basel I framework.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2008</i>	<i>31 December 2007</i>	<i>31 March 2007</i>
<b>Interest and dividend income</b>			
Loans	642	678	597
Securities	73	74	58
Deposits with regulated financial institutions	36	55	59
	<u>751</u>	<u>807</u>	<u>714</u>
<b>Interest expense</b>			
Deposits	443	495	413
Debentures	10	10	7
	<u>453</u>	<u>505</u>	<u>420</u>
<b>Net interest income</b>	<u>298</u>	<u>302</u>	<u>294</u>
<b>Non-interest revenue</b>			
Deposit and payment service charges	27	27	23
Credit fees	31	29	27
Capital market fees	22	27	32
Investment administration fees	33	35	30
Foreign exchange	10	12	9
Trade finance	5	5	6
Trading revenue	51	32	14
(Losses) gains on available for sale securities	–	(34)	17
Gains on other securities	1	2	8
Securitization income	27	13	10
Other	12	14	9
	<u>219</u>	<u>162</u>	<u>185</u>
<b>Total revenue</b>	<u>517</u>	<u>464</u>	<u>479</u>
<b>Non-interest expenses</b>			
Salaries and employee benefits	142	134	143
Premises and equipment	35	28	31
Other	75	91	76
	<u>252</u>	<u>253</u>	<u>250</u>
<b>Net operating income before provision for credit losses</b>	<u>265</u>	<u>211</u>	<u>229</u>
<b>Provision for credit losses</b>	<u>25</u>	<u>24</u>	<u>10</u>
<b>Income before taxes and non-controlling interest in income of trust</b>	<u>240</u>	<u>187</u>	<u>219</u>
Provision for income taxes	75	64	70
Non-controlling interest in income of trust	6	7	6
<b>Net income</b>	<u>159</u>	<u>116</u>	<u>143</u>
Preferred share dividends	4	5	4
<b>Net income attributable to common shares</b>	<u>155</u>	<u>111</u>	<u>139</u>
Average common shares outstanding (000)	498,668	493,668	488,668
Basic earnings per share (C\$)	0.31	0.22	0.28

<i>Figures in C\$ millions</i>	<u>At 31 March 2008</u>	<u>At 31 December 2007</u>	<u>At 31 March 2007</u>
<b>Assets</b>			
Cash and deposits with Bank of Canada	520	510	457
Deposits with regulated financial institutions	2,944	3,063	4,380
	<u>3,464</u>	<u>3,573</u>	<u>4,837</u>
Available for sale securities	6,349	5,639	5,572
Trading securities	1,630	1,227	2,211
Other securities	42	60	25
	<u>8,021</u>	<u>6,926</u>	<u>7,808</u>
Securities purchased under reverse repurchase agreements	<u>6,700</u>	<u>6,122</u>	<u>3,592</u>
Loans			
– Businesses and government	21,940	21,322	19,059
– Residential mortgage	12,292	12,920	14,170
– Consumer	5,361	4,826	3,870
– Allowance for credit losses	(370)	(353)	(327)
	<u>39,223</u>	<u>38,715</u>	<u>36,772</u>
Customers' liability under acceptances	6,265	5,727	5,314
Derivatives	905	623	313
Land, buildings and equipment	149	149	122
Other assets	1,784	1,096	2,153
	<u>9,103</u>	<u>7,595</u>	<u>7,902</u>
Total assets	<u>66,511</u>	<u>62,931</u>	<u>60,911</u>
<b>Liabilities and shareholders' equity</b>			
Deposits			
– Regulated financial institutions	1,646	1,535	2,162
– Individuals	19,454	18,291	17,248
– Businesses and governments	28,891	29,051	26,551
	<u>49,991</u>	<u>48,877</u>	<u>45,961</u>
Acceptances	6,265	5,727	5,314
Securities sold under repurchase agreements	712	320	467
Derivatives	692	649	290
Securities sold short	906	623	1,919
Other liabilities	3,342	2,256	3,011
Non-controlling interest in trust and subsidiary	430	430	430
	<u>12,347</u>	<u>10,005</u>	<u>11,431</u>
Subordinated debentures	<u>805</u>	<u>801</u>	<u>560</u>
Shareholders' equity			
– Preferred shares	350	350	350
– Common shares	1,225	1,225	1,125
– Contributed surplus	207	206	203
– Retained earnings	1,552	1,462	1,266
– Accumulated other comprehensive income	34	5	15
	<u>3,368</u>	<u>3,248</u>	<u>2,959</u>
Total liabilities and shareholders' equity	<u>66,511</u>	<u>62,931</u>	<u>60,911</u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>		
	<u><i>31 March</i></u> <u><i>2008</i></u>	<u><i>31 December</i></u> <u><i>2007</i></u>	<u><i>31 March</i></u> <u><i>2007</i></u>
Cash flows provided by/(used in):			
– operating activities	<b>264</b>	(30 )	466
– financing activities	<b>1,437</b>	1,006	2,024
– investing activities	<b>(1,691)</b>	(847 )	(2,407 )
Increase in cash and cash equivalents	<b>10</b>	129	83
Cash and cash equivalents, beginning of period	<b>484</b>	355	347
Cash and cash equivalents, end of period	<b>494</b>	484	430
Represented by:			
– Cash resources per balance sheet	<b>520</b>	510	457
– less non-operating deposits <sup>†</sup>	<b>(26)</b>	(26 )	(27 )
– Cash and cash equivalents, end of period	<b>494</b>	484	430

<sup>†</sup> *Non-operating deposits are comprised primarily of cash restricted for recourse on securitization transactions.*