

26 February 2008

**HSBC BANK CANADA
RESULTS[†] FOR THE FOURTH QUARTER AND
YEAR ENDED 31 DECEMBER 2007
- HIGHLIGHTS**

- Net income attributable to common shares was C\$530 million for the year ended 31 December 2007, an increase of 6.6 per cent over the year ended 31 December 2006.
- Net income attributable to common shares was C\$111 million for the quarter ended 31 December 2007, a decrease of 13.3 per cent compared to the same period in 2006.
- Return on average common equity was 19.8 per cent for the year ended 31 December 2007 and 15.6 per cent for the quarter ended 31 December 2007 compared with 21.1 per cent and 20.6 per cent, respectively, for the same periods in 2006.
- The cost efficiency ratio was 51.7 per cent for the year ended 31 December 2007 and 54.5 per cent for the quarter ended 31 December 2007 compared with 51.3 per cent and 51.4 per cent, respectively, for the same periods in 2006.
- Total assets were C\$62.9 billion at 31 December 2007, an increase of C\$6.1 billion, or 10.7 per cent, from C\$56.8 billion at 31 December 2006.
- Total funds under management were C\$26.2 billion at 31 December 2007, an increase of C\$2.9 billion, or 12.4 per cent, from C\$23.3 billion at 31 December 2006.

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

Overview

HSBC Bank Canada (“the bank”) recorded net income attributable to common shares for the year ended 31 December 2007 of C\$530 million compared with C\$497 million for 2006, an increase of C\$33 million, or 6.6 per cent. Net income attributable to common shares was C\$111 million for the fourth quarter ended 31 December 2007, a decrease of C\$17 million, or 13.3 per cent, from C\$128 million for the fourth quarter of 2006.

During the year, the bank took a charge in respect of its holdings of Canadian non-bank sponsored Asset Backed Commercial Paper (“non-bank ABCP”) of C\$47 million (C\$30 million net of related income taxes). In 2007 the bank also recorded a gain of C\$21 million after related income taxes on disposal of its shares in the Montreal Stock Exchange.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “The bank's underlying business remains strong and investments in key businesses and markets are delivering growth in revenues. The liquidity problems which emerged in the Canadian Asset Backed Commercial Paper market in August posed a challenge to our industry and HSBC joined with other domestic and international banks in engaging constructively to pursue an orderly market solution to the situation. HSBC Bank Canada subsequently took some exposure onto its own balance sheet and our charge represents impairments on such positions; these positions include a very small element of exposure to the US sub-prime mortgage market which is the bank's only exposure to that market.

“The outlook for 2008 is mixed. The Canadian economy remains resilient with strong growth in Western Canada. Both personal and commercial segments of the bank's business remain very competitive with ongoing pressure on margins, particularly in the personal segment. The bank will stay focused on building its business for sustained growth. We see opportunities for growth across all the bank's key business lines, and we will re-engineer key processes to further improve the quality and consistency of customer service to achieve this.”

Net interest income

Net interest income was C\$302 million for the quarter ended 31 December 2007 compared with C\$291 million for the same quarter in 2006, an increase of C\$11 million, or 3.8 per cent. The increase was partially driven by growth in assets in all businesses with average interest-earning assets increasing by C\$8.0 billion or 16.5 per cent compared with the same period in 2006. As a result of widening credit spreads both in Canada and internationally that began in the third quarter, the cost of funds, particularly wholesale deposits has increased by almost 20 basis points. This resulted in a reduction in net interest margin to 2.13 per cent for the quarter compared with 2.30 per cent for the same period in 2006.

Net interest income in the fourth quarter of 2007 was C\$17 million lower than the third quarter of 2007. While customer loans continued to grow during the quarter, increased interest income from this source was eroded by a reduction in net interest margin, from 2.33 per cent in the third quarter to 2.13 per cent, driven by the higher cost of wholesale deposits.

For the year ended 31 December 2007, net interest income was C\$1,222 million compared with C\$1,115 million for 2006, an increase of C\$107 million, or 9.6 per cent. Again, for the year as a whole, the increases derived from the growth in assets were partially offset by the decrease in net interest margin to 2.26 per cent compared with 2.33 per cent in 2006.

Canadian non-bank sponsored Asset Backed Commercial Paper

As at 31 December 2007, the bank held C\$230 million of non-bank ABCP, net of provisions, in available for sale (“AFS”) securities and C\$50 million, net of write-downs, in trading securities. During the year, the bank took a charge in respect of its holdings of Canadian non-bank sponsored Asset Backed Commercial Paper (“non-bank ABCP”) of C\$47 million.

Non-interest revenue

Non-interest revenue was C\$162 million for the fourth quarter of 2007 compared with C\$168 million in the same quarter of 2006, a decrease of C\$6 million, or 3.6 per cent. Excluding the impact of a C\$42 million reduction relating to non-bank ABCP, non-interest revenues were C\$204 million, or 21.4 per cent higher than the same period in 2006. Investment administration fees were higher as the bank’s funds under management in the wealth management business continued to deliver good growth. Deposit and payment service charges and credit fees increased as a result of increased customer activity. Capital markets fees were lower due to curtailed activity resulting from market uncertainty, particularly from new issue underwriting and advisory mandates. Trading income was higher due to a C\$11 million increase in foreign exchange trading arising from the volatility of Canadian and United States currency movements in the fourth quarter of 2007. There was also a positive impact of C\$7 million arising from changes in the carrying values of certain debt obligations recorded at fair value, offset by a C\$8 million mark-to-market adjustment on non-bank ABCP held in the trading portfolio. The losses on AFS securities in 2007, compared to realized investment gains in 2006, were due to the C\$34 million write-down of non-bank ABCP held in the AFS securities portfolio, together with a lower increase in the fair value of investments in private equity funds in the fourth quarter of 2007, compared to the fourth quarter of 2006.

In the fourth quarter of 2007, non-interest revenue was C\$22 million lower compared with the previous quarter, mainly as a result of the losses on non-bank ABCP within AFS securities of C\$34 million. Trading revenue in the quarter was also lower due to the C\$8 million mark-to-market adjustment on non-bank ABCP held in the trading portfolio and a C\$4 million lower positive effect from changes in the fair value of certain debt obligations. However, these were partially offset by increases in capital markets fees, deposit and payment service charges and investment administration fees, as well as increased revenues from foreign exchange. Foreign exchange trading revenues increased considerably in the fourth quarter due to greater exchange rate volatility.

For the year ended 31 December 2007, non-interest revenue was C\$708 million, C\$57 million, or 8.8 per cent, higher compared with C\$651 million for 2006. Excluding the impact of non-bank ABCP and gains on sale of Montreal Stock Exchange shares, the year-on-year increase is 12.0 per cent. Trading income was higher, arising from strong gains recorded from foreign exchange trading together with a positive impact of C\$23 million arising from changes in the fair value of certain debt obligations. However, this was partially offset by the C\$8 million mark-to-market adjustment of trading non-bank ABCP. Investment administration fees were strongly ahead together with increases in deposit and payment service charges and credit fees. Other income increased mainly due to higher activity in the bank’s investor immigration programme. Capital markets fees were lower arising from lower activity as a result of uncertainties in the markets. Losses on AFS securities in 2007 compared to gains on investment securities recorded in 2006 resulted from the write-down in non-bank ABCP and lower increases in the fair value of private equity funds, offset by the gains on the sale of Montreal Stock Exchange shares in 2007.

Non-interest expenses and operating efficiency

Non-interest expenses were C\$253 million for the fourth quarter of 2007 compared with C\$236 million in the same quarter of 2006, an increase of C\$17 million, or 7.2 per cent. Salaries and employee benefits expenses were higher in the fourth quarter of 2007 due to an increase in the employee base. This resulted from growth in new branches in Alberta and the Greater Toronto Area, together with investments in the Direct Bank, Private Banking and Wealth Management and the Payments and Cash Management businesses. Pension plan and post-retirement costs were also higher than in the comparative period, although this was partially offset by a reduction in stock-based compensation. Premises and equipment expenses were largely unchanged, although depreciation was lower compared to the fourth quarter of 2006 which was impacted by a change in estimate of the useful life of improvements to leasehold properties. Marketing expenses also increased as the bank continued to build the HSBC brand in Canada. Operating losses were higher compared to the fourth quarter of 2006, mainly due to increased debit card fraud. Technology costs also increased as the bank invested further in new systems to support strategic initiatives. Although the cost efficiency ratio for the fourth quarter of 2007 increased to 54.5 per cent compared to 51.4 per cent for 2006, excluding the impact of the write-down of non-bank ABCP, the ratio was 50.0 per cent.

Non-interest expenses for the fourth quarter of 2007 were slightly higher compared with the third quarter of 2007. Salaries and benefits were affected by increased variable compensation driven by higher capital markets revenues compared to the prior quarter, although partially offset by lower stock-based compensation. Other expenses increased due mainly to increased marketing expenses.

For the year ended 31 December 2007, non-interest expenses were C\$997 million compared with C\$906 million for 2006, an increase of C\$91 million, or 10.0 per cent. Salaries and benefits expenses were higher due to an increased employee base, increased variable compensation, and higher pension and other post-retirement benefits costs. Other expenses were higher due to continued investment in the business, higher costs arising from increased customer transactions, and increased marketing costs supporting the development of the HSBC brand. The cost efficiency ratio was 51.7 per cent compared with 51.3 per cent for 2006. Excluding the impact of non-bank ABCP and the sale of Montreal Stock Exchange shares, the cost efficiency ratio for 2007 improved marginally to 51.1 per cent.

Credit quality and provision for credit losses

The provision for credit losses was C\$24 million for the fourth quarter of 2007, compared with C\$17 million in the fourth quarter of 2006, and C\$21 million for the third quarter of 2007. The provision for the year ended 31 December 2007 was C\$67 million compared to C\$34 million for 2006. Overall credit quality remains sound, reflecting prudent lending standards and strong economic conditions in Canada. The increased charge in the fourth quarter of 2007 and for the year ended 31 December 2007 compared to the same periods in 2006 was due to increases in provisions in certain resource sectors with weaker industry conditions given the strength of the Canadian dollar. However, 2006 was an exceptionally benign credit environment, resulting in a low level of provisions.

The same factors impacted movement in impaired credit exposures. Gross impaired credit exposures were C\$272 million, C\$66 million higher compared with C\$206 million at 30 September 2007, and C\$95 million higher compared with C\$177 million at 31 December 2006. Total impaired exposures, net of specific allowances for credit losses, were C\$188 million at 31 December 2007 compared with C\$139 million at 30 September 2007 and C\$119 million at 31 December 2006.

The general allowance for credit losses of C\$269 million remained unchanged from 30 September 2007 and 31 December 2006. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.79 per cent at 31 December 2007 compared with 0.75 per cent at 30 September 2007 and 0.80 per cent at 31 December 2006. The bank considers the total allowance for credit losses to be appropriate given the credit quality of its portfolios and the current credit environment. The bank's loan portfolio has no exposure to the US sub-prime market.

Income taxes

The effective tax rate in the fourth quarter of 2007 was 35.6 per cent, which compares to 33.2 per cent in the same quarter of 2006 and 35.2 per cent in the third quarter of 2007. The increase in tax rate in the fourth quarter of 2007 was primarily due to a write-down of future income tax assets of C\$11 million resulting from the lower corporate income tax rates enacted by the federal government in the quarter.

The effective tax rate for the full year in 2007 was 34.8 per cent compared with 35.6 per cent in 2006 primarily due to a higher level of gains subject to a lower tax rate in 2007 compared to the previous year.

Balance sheet

Total assets at 31 December 2007 were C\$62.9 billion, an increase of C\$6.1 billion from 31 December 2006. The loan portfolio continues to be a major driver of balance sheet growth. Commercial loans and bankers' acceptances grew C\$4.1 billion from 31 December 2006 on the continued strong economy, particularly in Western Canada. Residential mortgages increased C\$1.4 billion during 2007, but as a result of securitisation, there was a net decrease of C\$1.1 billion. Balance sheet management activity in the Treasury and Markets business has increased the securities portfolio by C\$2.2 billion, and there were increases in balances under reverse repurchase agreements of C\$1.4 billion, as a result of the tightening of liquidity in the markets.

Total deposits increased C\$4.7 billion to C\$48.9 billion at 31 December 2007 from C\$44.2 billion at 31 December 2006. Growth in personal deposits resulted largely from the new High Rate and Direct Savings accounts. Commercial deposits were higher due to growth in term products, driven by improved product offerings in the Payments and Cash Management business and growth in commercial banking relationships.

Total assets under administration

Funds under management were C\$26.2 billion at 31 December 2007 compared with C\$27.1 billion at 30 September 2007 and C\$23.3 billion at 31 December 2006. Including custody and administration balances, total assets under administration were C\$37.1 billion compared with C\$36.4 billion at 30 September 2007 and C\$31.9 billion at 31 December 2006.

Growth in funds under management in 2007 benefited from strong acquisitions of new clients, strong investment sales and the success of Private Client products assisted by growth in equity markets, although a slight reduction in those markets was experienced in the final quarter of 2007.

Capital management

The tier 1 capital ratio was 8.8 per cent and the total capital ratio was 11.3 per cent at 31 December 2007. These compare with 8.5 per cent and 10.9 per cent, respectively, at 30 September 2007 and 9.0 per cent and 11.1 per cent, respectively, at 31 December 2006.

In addition to net income, regulatory capital increased from an issue of C\$100 million of common shares during the fourth quarter of 2007 and an issue of C\$400 million in subordinated debentures in the second quarter of 2007. These issues were partially offset by dividends declared on preferred and common shares and the redemption of C\$100 million and C\$25 million in subordinated debentures in the second and third quarters of 2007 respectively.

Accounting policies adopted in 2007

Effective 1 January 2007, the bank adopted new Canadian Institute of Chartered Accountants (CICA) Handbook Standards relating to the recognition, measurement and disclosure of financial instruments including hedges and comprehensive income. Although these standards were adopted prospectively, without restatement of prior year comparatives, the impact on initial adoption as well as the effects of certain transitional adjustments have been recorded as adjustments to opening retained earnings and opening accumulated other comprehensive income.

Although there was no material impact on the results for the fourth quarter arising from the adoption of these new standards, more detailed information on the impact of adopting these standards was included in HSBC Bank Canada's first quarter 2007 report to shareholders and will be included in the bank's annual report and consolidated financial statements for 2007.

Dividends

During the fourth quarter of 2007, C\$65 million in dividends were declared and paid on the bank's 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 March 2008, to shareholders of record on 14 March 2008.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With around 10,000 offices in 83 countries and territories and assets of US\$2,150 billion at 30 June 2007, the HSBC Group is one of the world's largest banking and financial services organisations. Visit the bank's website at hsbc.ca for more information about HSBC Bank Canada and its products and services.

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Copies of HSBC Bank Canada's Annual Report for 2007 will be sent to shareholders in March 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>Year ended</i>	
	31 December 2007	30 September 2007	31 December 2006	31 December 2007	31 December 2006
Earnings					
Net income attributable to common shares	111	145	128	530	497
Basic earnings per share	0.22	0.30	0.26	1.08	1.02
Performance ratios (%)					
Return on average common equity	15.6	21.3	20.6	19.8	21.1
Return on average assets	0.66	0.91	0.87	0.84	0.91
Net interest margin [†]	2.13	2.33	2.30	2.26	2.33
Cost efficiency ratio ^{††}	54.5	48.9	51.4	51.7	51.3
Non-interest revenue:total revenue ratio	34.9	36.6	36.6	36.7	36.9
Credit information					
Gross impaired credit exposures	272	206	177		
Allowance for credit losses	353	336	327		
– As a percentage of gross impaired credit exposures	130 %	163 %	185 %		
– As a percentage of gross loans and acceptances	0.79 %	0.75 %	0.80 %		
Average balances					
Assets	66,158	62,934	58,883	63,273	54,118
Loans	39,032	38,405	34,943	37,635	33,659
Deposits	49,755	47,588	44,491	47,483	41,904
Common equity	2,827	2,693	2,464	2,674	2,360
Capital ratios (per cent)					
Tier 1	8.8	8.5	9.0		
Total capital	11.3	10.9	11.1		
Total assets under administration					
Funds under management	26,213	27,129	23,340		
Custodial accounts	10,914	9,279	8,574		
Total assets under administration	37,127	36,408	31,914		

[†] Net interest margin is net interest income divided by average interest earning assets for the period.

^{††} 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>Year ended</i>	
	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Interest and dividend income					
Loans	678	663	593	2,554	2,144
Securities	74	70	49	273	186
Deposits with regulated financial institutions	55	61	62	237	234
	<u>807</u>	<u>794</u>	<u>704</u>	<u>3,064</u>	<u>2,564</u>
Interest expense					
Deposits	495	464	406	1,803	1,422
Debentures	10	11	7	39	27
	<u>505</u>	<u>475</u>	<u>413</u>	<u>1,842</u>	<u>1,449</u>
Net interest income	<u>302</u>	<u>319</u>	<u>291</u>	<u>1,222</u>	<u>1,115</u>
Non-interest revenue					
Deposit and payment service charges	27	25	23	100	90
Credit fees	29	30	26	114	106
Capital market fees	27	21	30	109	115
Investment administration fees	35	33	28	131	103
Foreign exchange	12	10	9	40	32
Trade finance	5	6	6	23	24
Trading revenue	32	40	17	102	69
(Losses) gains on available for sale (2006 - investment) securities	(34)	(5)	2	(13)	3
Gains on other securities	2	-	5	11	27
Securitisation income	13	10	13	42	42
Other	14	14	9	49	40
	<u>162</u>	<u>184</u>	<u>168</u>	<u>708</u>	<u>651</u>
Total revenue	<u>464</u>	<u>503</u>	<u>459</u>	<u>1,930</u>	<u>1,766</u>
Non-interest expenses					
Salaries and employee benefits	134	132	124	548	503
Premises and equipment	28	31	34	122	116
Other	91	83	78	327	287
	<u>253</u>	<u>246</u>	<u>236</u>	<u>997</u>	<u>906</u>
Net operating income before provision for credit losses	<u>211</u>	<u>257</u>	<u>223</u>	<u>933</u>	<u>860</u>
Provision for credit losses	<u>24</u>	<u>21</u>	<u>17</u>	<u>67</u>	<u>34</u>
Income before taxes and non- controlling interest in income of trust	<u>187</u>	<u>236</u>	<u>206</u>	<u>866</u>	<u>826</u>
Provision for income taxes	64	81	66	292	285
Non-controlling interest in income of trust	7	6	7	26	26
Net income	<u>116</u>	<u>149</u>	<u>133</u>	<u>548</u>	<u>515</u>
Preferred share dividends	5	4	5	18	18
Net income attributable to common shares	<u>111</u>	<u>145</u>	<u>128</u>	<u>530</u>	<u>497</u>
Average common shares outstanding (000)	493,668	488,668	488,668	489,918	488,668
Basic earnings per share (C\$)	0.22	0.30	0.26	1.08	1.02

<i>Figures in C\$ millions</i>	<i>At 31 December 2007</i>	<i>At 31 December 2006</i>
Assets		
Cash and non-interest bearing deposits with the Bank of Canada and other banks	510	368
Deposits with regulated financial institutions	<u>3,063</u>	<u>4,346</u>
	<u>3,573</u>	<u>4,714</u>
Available for sale securities	5,639	–
Investment securities	–	3,554
Trading securities	1,227	1,162
Other securities	<u>60</u>	<u>50</u>
	<u>6,926</u>	<u>4,766</u>
Securities purchased under reverse repurchase agreements	<u>6,122</u>	<u>4,760</u>
Loans		
– Businesses and government	21,322	17,819
– Residential mortgage	12,920	14,016
– Consumer	4,826	3,728
– Allowance for credit losses	<u>(353)</u>	<u>(327)</u>
	<u>38,715</u>	<u>35,236</u>
Customers' liability under acceptances	5,727	5,130
Derivatives	623	308
Land, buildings and equipment	149	121
Other assets	<u>1,096</u>	<u>1,735</u>
	<u>7,595</u>	<u>7,294</u>
Total assets	<u>62,931</u>	<u>56,770</u>
Liabilities and shareholders' equity		
Deposits		
– Regulated financial institutions	1,535	1,469
– Individuals	18,291	17,039
– Businesses and governments	<u>29,051</u>	<u>25,665</u>
	<u>48,877</u>	<u>44,173</u>
Acceptances	5,727	5,130
Securities sold under repurchase agreements	320	162
Derivatives	649	316
Securities sold short	623	715
Other liabilities	2,256	2,413
Non-controlling interest in trust and subsidiary	<u>430</u>	<u>430</u>
	<u>10,005</u>	<u>9,166</u>
Subordinated debentures	<u>801</u>	<u>563</u>
Shareholders' equity		
– Preferred shares	350	350
– Common shares	1,225	1,125
– Contributed surplus	206	202
– Retained earnings	1,462	1,191
– Accumulated other comprehensive income	<u>5</u>	<u>–</u>
	<u>3,248</u>	<u>2,868</u>
Total liabilities and shareholders' equity	<u>62,931</u>	<u>56,770</u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Year ended</i>	
	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Cash flows provided by (used in):					
– operating activities	(30)	205	361	1,013	673
– financing activities	1,006	1,867	1,165	4,959	5,247
– investing activities	(847)	(2,136)	(1,541)	(5,835)	(5,964)
(Decrease) increase in cash and cash equivalents	129	(64)	(15)	137	(44)
Cash and cash equivalents, beginning of period	355	419	362	347	391
Cash and cash equivalents, end of period	484	355	347	484	347
Represented by:					
– Cash and non-interest bearing deposits with the Bank of Canada and other banks	510	384	368		
– less non-operating deposits with regulated financial institutions [†]	(26)	(29)	(21)		
– Cash and cash equivalents, end of period	484	355	347		

[†] *Non-operating deposits comprise cash restricted for recourse on securitisation transactions.*