2007

Annual Report and Accounts
HSBC Bank Canada

The world's local bank

Corporate Profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices and is the leading international bank in Canada. 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 organizations.

Shareholder Information

PRINCIPAL ADDRESSES:

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HSBC BANK CANADA SECURITIES ARE LISTED ON THE TORONTO STOCK EXCHANGE:

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)

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
9th Floor, 100 University Avenue
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Canada M5J 2Y1
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SHAREHOLDER CONTACT:

For change of address, shareholders are requested to write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address.

Other shareholder inquiries may be directed to our Shareholder Relations Department by writing to:

HSBC Bank Canada
Shareholder Relations
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
shareholder_relations@hsbc.ca

Shareholder Relations:
Chris Young (604) 641-1976
Santokh Birk (604) 641-1918

Dividend record and payable dates in 2008 for our preferred shares, subject to approval by our Board of Directors, are:

Record Date	*Payable Date*
March 14	March 31
June 13	June 30
September 15	September 30
December 15	December 31

Distribution dates on our HSBC HaTS™ are June 30 and December 31.

Designation of Eligible Dividends
For the purposes of the Income Tax Act, Canada, and any similar provincial legislation, HSBC Bank Canada advises that all of its dividends paid in 2008 are eligible dividends and all dividends paid hereafter will be eligible dividends unless indicated otherwise.

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Message from the President and Chief Executive Officer

For HSBC Bank Canada, 2007 can best be described as a year of progress. It was a year in which we continued to execute our strategy of enhancing sales through careful branch and product expansion in key target markets while at the same time improving operational efficiencies and maintaining close control over credit quality.

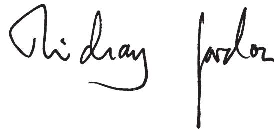
It was also a year in which the Bank worked hard to increase its sustainable revenue growth by expanding core businesses and deepening relationships with its personal, commercial, and global banking and markets customers.

Our commercial banking client and revenue growth in 2007 was very positive and continues to demonstrate our expanding presence in the Canadian market. We were particularly pleased to have been selected as the top bank by small and medium-sized business clients in a survey released in November by the Canadian Federation of Independent Business. This recognition is a strong validation of the strides we have made over the past few years to tailor our products and services to meet the diverse needs of Canada's small and medium-sized businesses.

Our personal financial services business also continued to deliver increased value and enhanced services to more and more customers. For example, in 2007, HSBC Bank Canada drew on its membership in the HSBC Group, which has one of the largest international banking networks in the world, by introducing our customers to the new HSBC Premier, the most comprehensive global banking and wealth management service in the market. HSBC Premier leverages HSBC's presence in 83 markets to provide Canadian customers with seamless international service.

HSBC Bank Canada was again selected as one of MediaCorp's "Canada's Top 100 Employers" for 2007 as featured in *Maclean's* Magazine. HSBC is committed to employee engagement and we make considerable effort to ensure that this company is an employer of choice in Canada and that we continue to attract and retain the best and the brightest employees in the country. I would like to thank all our more than 7,000 employees across the country who work diligently to deliver the highest level of customer service each and every day.

While there is no doubt that the relatively strong Canadian economy and our strategic investments in key businesses and markets helped to drive our growth in 2007, the recent volatility in international credit and liquidity markets has also underscored the need for us to focus on managing our businesses prudently in the year ahead. It is a challenge we look forward to as we continue to search for even more effective ways to serve our many customers across the country.



Lindsay Gordon
President and Chief Executive Officer
HSBC Bank Canada

February 8, 2008
Vancouver, Canada

Management's Discussion and Analysis

Five Year Financial Summary

(in $ millions, except where stated)	Years Ended December 31				
	2007	2006	2005	2004[1]	2003[1]
Condensed statements of income					
Net interest income	**$ 1,222**	$ 1,115	$ 1,010	$ 896	$ 865
Non-interest revenue	**708**	651	570	526	443
Total revenue	**1,930**	1,766	1,580	1,422	1,308
Non-interest expenses					
Salaries and employee benefits	**548**	503	442	423	379
Premises and equipment[2]	**122**	116	107	101	107
Other	**327**	287	275	272	259
Total non-interest expenses	**997**	906	824	796	745
Net operating income before provision for credit losses	**933**	860	756	626	563
Provision for credit losses	**67**	34	27	66	61
Income before the undernoted	**866**	826	729	560	502
Effect of accounting change	**–**	–	–	14	–
Income before taxes	**866**	826	729	574	502
Provision for income taxes	**292**	285	237	210	188
Non-controlling interest in income of trust	**26**	26	22	16	16
Income from continuing operations	**548**	515	470	348	298
Income from discontinued operations	**–**	–	–	5	2
Net income	**$ 548**	$ 515	$ 470	$ 353	$ 300
Preferred share dividends	**18**	18	13	8	8
Net income attributable to common shares	**$ 530**	$ 497	$ 457	$ 345	$ 292
Basic earnings per common share ($)[3]	**1.08**	1.02	0.94	0.72	0.62
Financial ratios (%)[5]					
Return on average common equity	**19.8**	21.1	21.3	18.3	18.7
Return on average total assets	**0.84**	0.91	0.97	0.85	0.80
Net interest margin	**2.26**	2.33	2.37	2.49	2.66
Non-interest revenue:total revenue ratio	**36.7**	36.9	36.1	37.0	33.9
Cost efficiency ratio	**51.7**	51.3	52.2	56.0	57.0
Credit information					
Gross impaired credit exposures	**272**	177	151	182	203
Allowance for credit losses					
Balance at end of period	**353**	327	326	349	313
As a percentage of gross impaired credit exposures (%)	**130**	185	216	192	154
As a percentage of gross loans and acceptances outstanding (%)	**0.79**	0.80	0.90	1.08	1.10
Average Balances[4]					
Assets	**$ 63,273**	$ 54,118	$ 47,282	$ 40,421	$ 36,635
Loans	**37,635**	33,659	30,678	26,922	24,543
Deposits	**47,483**	41,904	37,340	30,823	29,041
Common equity	**2,674**	2,360	2,150	1,886	1,563
Balance sheet highlights					
Total assets	**62,931**	56,770	49,210	43,263	37,509
Total loans and acceptances, net of allowance for credit losses	**44,442**	40,366	35,846	32,073	28,180
Business and government loans	**21,322**	17,819	15,571	13,450	11,664
Residential mortgage loans	**12,920**	14,016	12,865	11,966	10,880
Total deposits	**48,877**	44,173	38,608	33,848	29,339
Deposits from individuals	**18,291**	17,039	15,300	14,818	13,924
Shareholders' equity	**3,248**	2,868	2,596	2,197	1,819
Risk-based capital ratios (%)[5]					
Tier 1 capital	**8.8**	9.0	9.0	8.6	8.4
Total capital	**11.3**	11.1	11.2	11.0	11.1
Funds under management	**$ 26,213**	$ 23,340	$ 20,453	$ 17,687	$ 14,323
Custodial accounts	**10,914**	8,574	7,594	5,077	4,409
Total assets under administration	**$ 37,127**	$ 31,914	$ 28,047	$ 22,764	$ 18,732

(1) *Restated for the impact of discontinued operations.*
(2) *Premises and equipment expenses includes amortization.*
(3) *Basic earnings per common share is not materially different from basic earnings per common share from continuing operations.*
(4) *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document on page 4.*
(5) *Calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada.*

Management's Discussion and Analysis (continued)

Management's discussion and analysis ("MD&A") is dated February 22, 2008, the date that our consolidated financial statements and MD&A for the year ended December 31, 2007 were approved by our Board of Directors.

Basis of preparation of financial information. We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial information included in the MD&A is either at December 31, or for the years then ended. The information is derived either directly from our consolidated financial statements or from the information we have used to prepare them. Unless otherwise stated, all references to "$" means Canadian dollars. All tabular amounts are in millions of dollars except where stated. Certain financial information we are required to disclose as part of MD&A is included in the table on page 3, which also includes a number of GAAP and non-GAAP measures. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP may not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. The following outlines various GAAP or non-GAAP measures which management regularly monitors, to more clearly indicate the derivation of the measure:

— *Return on average common equity* – Calculated as net income attributable to common shares divided by average common equity.

— *Return on average assets* – Calculated as net income attributable to common shares divided by average assets.

— *Net interest margin* – Calculated as net interest income divided by average interest-earning assets.

— *Cost efficiency ratio* – Calculated as non-interest expenses divided by total revenue.

— *Non-interest revenue:total revenue ratio* – Calculated as non-interest revenue divided by total revenue.

— *Average balances* – Average assets, average interest-earning assets, loans, and deposits are calculated using daily average balances for the year. Average common equity is calculated using month end balances of common equity for the year.

We make a number of references throughout this MD&A to "notes" which means notes to the 2007 audited consolidated financial statements, which are included with the MD&A in our Annual Report and Accounts.

Other available information. We file all of our news releases regarding material matters, interim and annual consolidated financial statements, interim and annual MD&A, Annual Reports, Annual Information Form, as well as certifications by our Chief Executive Officer and Chief Financial Officer, with SEDAR. Copies of these documents can be obtained from SEDAR's website: sedar.com.

Outstanding securities data. Note 11 on page 58 contains details of the number of preferred and common shares issued and outstanding at December 31, 2007. Note 9 on page 56 contains details of the number of HSBC Canada Asset Trust Securities ("HSBC HaTS™") outstanding at December 31, 2007. Subsequent to that date and up to the date of this MD&A, there have been no issues of any form of securities.

Caution regarding forward-looking 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 levels and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on our net interest margin may arise from actions taken by individual banks or other financial institutions 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.

Overview

In Canada, we are the largest full-service, internationally owned bank and seventh largest bank overall with operations across the country and total assets of more than $62 billion at December 31, 2007.

Originally established in 1981, with our head office located in Vancouver, British Columbia, we have grown organically and through strategic acquisitions, to become an integrated financial services organization. With more than 170 offices across Canada, including more than 130 branches, we provide personal and commercial banking services, global banking and market services, retail brokerage, wealth management and personal trust services.

Customers are able to conduct their business conveniently through our branch network, automated banking machines, direct debit and credit cards, internet banking, and telephone call centres.

The HSBC Group

We are a member of the HSBC Group, whose parent company HSBC Holdings plc ("HSBC Holdings") is headquartered in London, UK. Our customers have access to the world-wide resources of the HSBC Group. Known as "The world's local bank", the HSBC Group is one of the largest banking and financial services organizations in the world, with an international network of approximately 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings are held by more than 200,000 shareholders in some 100 countries and territories. The shares are traded in New York in the form of American Depositary Receipts. At December 31, 2007 HSBC Holdings' market capitalization was US$198 billion.

Through an international network linked by advanced technology, the HSBC Group provides a comprehensive range of financial services: personal financial services, including consumer finance; insurance; commercial banking; global banking and markets; and private banking.

Complete financial and operational information in respect of HSBC Holdings and the HSBC Group can be obtained from its website: hsbc.com, including copies of HSBC Holdings plc 2007 Annual Review and its 2007 Annual Report and Accounts.

Our Business Focus

Strategy

We aspire to be the leading international financial services company in Canada. We want to be the best place to bank for our customers and the best place to work for our employees. To achieve this ambition, we will execute along the following HSBC "global pillars":

Our Customers – Service Excellence
Customers are our foundation and our future. We will improve the customer experience by living our brand values, so that customers feel HSBC is the best place to bank.

Our Brand – The World's Local Bank
We want to be the world's best financial services brand. We have operations in 83 countries and territories, and we want a customer's perception of HSBC – wherever they are in the world – to be uniformly excellent.

Our Culture – The Best Place to Work
We want to be recognized as the world's most respected and customer-driven financial services employer because we know that the motivation, or engagement, of our employees is a critical factor in business performance.

Our Global Distribution – Our Global Advantage
HSBC's global reach is its key competitive advantage. In today's globalizing world, we can offer our customers an unparalleled international service and we are working to create a truly joined-up network, with seamless referrals between countries, to support customers around the world.

Management's Discussion and Analysis (continued)

Our Businesses – Building for Sustained Growth
We will prioritize the allocation of our capital so that it generates the best return for shareholders in the long term. We want our businesses, especially in mature markets, to be self-funding. We will focus capital investment in areas with strong growth potential.

Our Technology and Process – Joining Up the Company
We will use technology to make it easier for customers to do business with us, when and where they want it. At the same time, we will improve our efficiency by simplifying our product range and automating our processing. Where possible, we will leverage technology and processes developed by HSBC Group.

Our Organization – Guidance with Wisdom and Delegation with Confidence
We will give responsibility for delivery of our objectives to branch managers and heads of customer groups and global businesses, with Group, regional and country head offices providing guidance and, where appropriate, delegating authority.

Customer Groups

We manage and report our operations around customer groups as defined by the HSBC Group: Personal Financial Services; Commercial Banking; and Global Banking and Markets. We have built a culture that delivers integrated service ensuring customer needs are met across products, subsidiaries, and internationally through the HSBC Group's worldwide network.

Personal Financial Services provides individual and self-employed customers with a wide range of banking and related financial services. Products provided include current and savings accounts, mortgages and personal loans, credit cards, and local and international payment services. We also make available a wide range of wealth management products and services through our branches and our wealth management businesses, HSBC Securities (Canada) Inc., HSBC Investments (Canada) Limited, and HSBC Trust Company (Canada).

Commercial Banking provides financial services and products to small, medium-sized and middle market businesses, including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. In addition to direct lending, our range of products and services includes payments and cash management, treasury and capital markets, investment and merchant banking, wealth management services, trade services and leasing. Of particular relevance to Canadian businesses is HSBC's extensive network in the NAFTA countries, South America, Europe and Asia. We provide this service through commercial branches and subsidiary offices, including those of HSBC Securities (Canada) Inc., HSBC Investments (Canada) Limited and HSBC Capital (Canada) Inc., as well as through HSBC Group's worldwide network.

Global Banking and Markets (formerly Corporate, Investment Banking and Markets) serves Canadian and international corporates, institutions and governments that require both domestic and international financial services. Global Banking and Markets provides a comprehensive range of financial services including treasury and capital markets services, raising public and private capital, corporate finance and advisory services, direct lending, leasing finance and deposit-taking. We also offer payments and cash management and trade services. We provide Global Banking and Markets services through our principal branches and subsidiary offices, coordinated with HSBC Group worldwide operations through one relationship manager. Our ability to leverage the HSBC Group's worldwide network in providing comprehensive global banking and market services to sophisticated multinational clients is a significant competitive advantage.

Our affiliate, HSBC Financial Corporation Canada, ("HSBC Finance"), delivers consumer finance products and solutions to Canadians through a network of over 100 retail branches and other distribution channels. We work collectively with HSBC Finance to deliver products and services to our mutual customers.

Highlights For 2007

2007 was another year of progress for us as we continued to execute our strategy to build our business in Canada. Particularly noteworthy accomplishments included:

Our Customers – Service Excellence – We delivered on our new 'Consider it Done' sales and service quality initiatives and received recognition from a number of external bodies. We won the best Cash Management Bank in North America for the second year in a row in Euromoney's Awards for Excellence 2007. In the 2007 Canadian Federation of Independent Business survey of over 9,000 small to medium sized independent business owners, we received top marks. A Synovate Customer Service Index mail survey for financial service excellence scored us higher for Excellence in Overall Quality Of Customer Service than any of the large five Canadian banks.

Our Brand – The World's Local Bank – We continue to invest in our brand through advertising and sponsorships. We have a long-standing tradition of community participation through sponsorships and charitable donations. We began a new sponsorship of the Toronto Blue Jays, Canada's only Major League Baseball team and became broadcast sponsors for the NHL Montreal Canadiens franchise in the key Quebec market.

Our Culture – The Best Place to Work – We have once again been selected as one of MediaCorp's "Canada's Top 100 Employers" as featured in *Maclean's* Magazine and one of *The Financial Post's* "100 Best Companies to Work For". We also received recognition as one of "BC's Top 40 Employers" as featured in *The Vancouver Sun*, *The Province* and the *Times Colonist* newspapers. We were one of only nine employers across Canada to receive a Best Employer award for Canadians of age 50 or higher at the Workplace Institute's third annual Summit on the Mature Workforce. We were commended for innovative practices around benefits, retirement planning and phased retirement to retain skilled knowledgable workers.

Our Global Distribution – Our Global Advantage – As part of the HSBC Group, we actively participated in product launches to better serve our customers. These included a successful re-launch of Premier as part of HSBC's global rollout across 35 countries and territories, the first truly global personal banking service for the world's 200 million mass affluent and internationally mobile consumers and the establishment of a Private Bank in Canada. We expanded and improved on our International Banking Centre's capability as the primary point of contact and Centre of Excellence for Personal Financial Services and Commercial Banking between Group entities and branches, providing a seamless process for international customers' global banking needs. Passport was launched, an exciting banking proposition for new immigrants and foreign workers to Canada, a successful 'lift and shift' product execution modeled on HSBC United Kingdom product. Within NAFTA countries HSBC was noted as Canada's largest issuer of bonds to the US/Mexico by the Export Development Corporation.

Our Businesses – Building for Sustained Growth – Investment in the Payments and Cash Management business is showing payback. Research results presented at the annual Treasury Management Association's Conference noted HSBC as a foreign bank making significant inroads into the liquidity market and large corporate sector and emerging as a stronger competitor in the cash management space, breaking into the top five in all segments. Nationally, rollout of new branches continued with five new branches opened in Alberta, Ontario and BC. We also invested in the Direct Bank with a successful launch of Direct Savings account product.

Our Technology and Process – Joining Up the Company – We re-launched the public website and Personal Internet Banking site to the new 2nd Generation platform enabling personalization of content and driving more effective, customized online campaigns and sales initiatives, while giving the business control over website design. We also launched the first STP online life insurance offer lifting and shifting the US Online Life Insurance model and platform. Payments and Cash Management implemented Pooling & Cash Concentration and the Global Billing System enhancing its product suite.

Our Organization – Guidance with Wisdom and Delegation with Confidence – A major milestone included five consecutive quarters of parallel reporting under Basel II completed and submitted to the Office of the Superintendent of Financial Institutions.

Outlook For 2008

The overall slowing of economic activity is taking place against a backdrop of the US sub-prime housing crisis, decreased risk appetite and tighter credit markets. Resource producing nations like Canada should be largely insulated from the worst of the fall out and Canada is well positioned heading into 2008 with a strong fiscal situation at the national and provincial level, a solid housing market and low unemployment. The West will be aided by continuing strong demand for commodities, with the exception of lumber, while Central Canada's manufacturing sector will continue to be adversely impacted by the slow down in the US and the strong Canadian dollar.

The Canadian dollar has given up some of its gains against the US dollar which were driven by strong commodity prices, healthy Federal revenues and a tight labour market. It is expected to settle in to a narrower trading range around par. Globally, the monetary policy tightening cycle has peaked, particularly against the backdrop of unsettled financial markets and the resultant credit crunch with both the US Federal Reserve and Bank of Canada cutting rates. Despite this change in rate cycles, food prices and some commodity prices continue to move higher. Should this trend remain in place through mid-year, some of the expected easing may not take place in the face of inflationary pressures.

Management's Discussion and Analysis (continued)

The Canadian business environment in both the personal and commercial segments will again remain very competitive with ongoing pressure on margins, specifically within the personal space. While the real estate market in Canada remains robust against the US, the overall credit loss experience for Canadian banks is expected by most analysts to deteriorate in 2008. Lending growth is anticipated to moderate but we are well-positioned to build on anticipated ongoing growth from Western Canada following a number of investments in 2007.

Our Focus For 2008

Amidst uncertain financial markets and continued competition, we will focus on:

Our Customers – Service Excellence – We aim to offer an improved and customer-focused service proposition utilizing both Commercial Banking and Personal Financial Services surveys and increasing time spent on sales thereby driving revenues across the network and other channels. We will continue to grow our Premier and Direct customer base with both aimed at growing our core deposits and enhancing wealth management revenue-earning opportunities.

Our Brand – The World's Local Bank – We will invest more in the brand over time and across our markets and continue to develop our differentiated Challenger brand in Canada ensuring consistency of delivery. We plan to leverage our new branches, refresh existing locations, introduce the "HSBC" brand at Toronto Pearson International Airport and pursue other Canadian opportunities as part of a global airport branding initiative.

Our Culture – The Best Place to Work – Leveraging off consecutive years of external recognition as an 'Employer of Choice' we will enhance recruitment initiatives and engage employees while tying management performance more closely to our annual employee engagement surveys. To achieve this we will be joined up with the HSBC Global People Strategy with primary focus on Performance Management, Reward and Employee Engagement.

Our Global Distribution – Our Global Advantage – We will increase focus on opportunities and product support (IT, Marketing and Product) throughout the Group to leverage and drive growth across all business lines. Specifically, we aim to enhance our Premier offering with me-to-me global payments capability and adopt Group financial planning tools for Premier Relationship Managers. We plan to drive new leads via Global Links, our international customer referral system, and align key performance metrics to drive referral business internally with specific emphasis on leveraging off our strong Commercial Banking account base. Finally, we will aim to maintain our top two status in the trading of Maple Bonds.

Our Business – Building for Sustained Growth – We plan to continue selective investment in and redesign of the branch network at the same time driving traffic to our enhanced direct bank offering. We aim to continue build out of our Payments and Cash Management capabilities, integrate and better cross-sell between HSBC wealth management entities and increase focus on the Small and Medium Enterprise customer segment.

Our Technology and Process – Joining Up the Company – We will continue to re-engineer our branch processes including Domestic and Global Service Centres at the same time improving the International Banking Centre proposition. We will enhance our Direct Bank, Call Centre and Customer Relationship Management Systems and expand Commercial and Payments and Cash Management functionalities.

Our Organization – Guidance with Wisdom and Delegation with Confidence – We plan to continue to work with Group on our Basel II project as we enter the parallel run phase in 2008 using the Advanced approach for Credit Risk and the Standardized approach for Operational Risk. We will be using balanced scorecards for the Bank to measure performance in line with Group and to ensure that we fully capitalize on the best practices within the HSBC Group around the world. We will continue to operate within Group limits and guidelines, deepen management experience through cross-postings, invest to meet, as a minimum, Group hurdle rates and leverage Group first as we 'Join Up'.

Analysis of Financial Results For 2007

- Net income attributable to common shares was $530 million for the year ended December 31, 2007, an increase of 6.6% over the year ended December 31, 2006.
- Return on average common equity was 19.8% for the year ended December 31, 2007 compared with 21.1% for 2006.
- The cost efficiency ratio was 51.7% for the year ended December 31, 2007 compared with 51.3% for 2006.
- Total assets were $62.9 billion at December 31, 2007, an increase of $6.1 billion, or 10.7%, from $56.8 billion at December 31, 2006.
- Total funds under management were $26.2 billion at December 31, 2007, an increase of $2.9 billion, or 12.4%, from $23.3 billion at December 31, 2006.

Overview

Net income attributable to common shares for the year ended December 31, 2007 was $530 million compared with $497 million for 2006, an increase of $33 million, or 6.6%. We recorded a charge of $47 million ($30 million, net of related income taxes) in respect of our holdings of Canadian non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP"). In 2007 we also recorded a gain of $21 million after related income taxes on disposal of shares in the Montreal Stock Exchange. Excluding the impact of these items, net income for the year ended December 31, 2007, would have increased by 8.5% over 2006.

Net interest income

For the year ended December 31, 2007, net interest income was $1,222 million compared with $1,115 million for 2006, an increase of $107 million, or 9.6%. Net interest income in 2007 benefited from continued growth in assets across all businesses, with average interest earning assets growing by 13.1% in 2007. However, mainly resulting from a widening of credit spreads experienced both in Canada and internationally that began in the third quarter, the cost of funds, particularly wholesale deposits, increased considerably resulting in a decrease in net interest margin to 2.26% for 2007 compared with 2.33% for 2006.

Canadian non-bank sponsored Asset Backed Commercial Paper

As at December 31, 2007, we held $230 million of non-bank ABCP, net of provisions, in available for sale ("AFS") securities and $50 million, net of write-downs, in held for trading ("HFT") securities at December 31, 2007. In view of the ongoing uncertainty of the value of the non-bank ABCP subject to restructuring as part of the Montreal Accord, we recorded a charge of $47 million in 2007. This charge comprised $8 million mark to market adjustment of non-bank ABCP held in the trading portfolio and $39 million included as losses on AFS securities as a reduction of the carrying value for other than temporary impairment. Further information on the valuation of our holdings of non-bank ABCP is set out on the section covering the impact of estimates, which begins on page 14 of the MD&A.

Management's Discussion and Analysis (continued)

Non-interest revenue

For the year ended December 31, 2007, non-interest revenue was $708 million, $57 million, or 8.8%, higher compared with $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 would have been 12.0%. Trading income was $33 million or 47.8% higher, arising from strong gains recorded from foreign exchange trading arising from the volatility of Canadian and United States currency movements, together with a positive impact of $23 million arising from changes in the carrying value of certain debt obligations recorded at fair value. However, this was partially offset by the $8 million mark to market adjustment of HFT non-bank ABCP. Investment administration fees were $28 million or 27.2% higher as funds under management in the wealth management business continued to record strong growth. Deposit and payment service charges and credit fees increased as a result of increased customer activity as did foreign exchange income. Other income increased mainly due to higher activity in the investor immigration programme. Capital market fees were $6 million lower due to curtailed activity resulting from market uncertainty, particularly from new issue underwriting and advisory mandates. Losses on AFS securities were $13 million compared to gains on investment securities of $3 million recorded in 2006. This resulted from the $39 million write-down of non-bank ABCP partially offset by gains recorded in 2007 on the sale of Montreal Stock Exchange shares. Gains on other securities were $16 million lower than 2006 due to gains in fair value of private equity funds.

Non-interest expenses and operating efficiency

For the year ended December 31, 2007, non-interest expenses were $997 million compared with $906 million for 2006, an increase of $91 million, or 10.0%. Salaries and benefits expenses increased by $45 million or 8.9% over 2006 as a result of an increased employee base, increased variable compensation, and higher pension and other post-retirement benefits costs. Strategic growth initiatives resulted in increases in staffing levels in new branches in Alberta and the Greater Toronto Area, together with increases in the Direct Bank, Private Banking and Wealth Management and the Payments and Cash Management businesses.

Other expenses increased by $40 million or 13.9% to $327 million. The increases were due to continued investment in the business. Technology costs increased as we invested further in new systems to support strategic initiatives. We incurred higher costs arising from increased customer transactions, increased brokerage fees arising from increased activity in the investor immigration programme as well as increased marketing expenses arising from further investments in the HSBC brand. Operating losses were higher, mainly due to increased debit card fraud. The cost efficiency ratio was 51.7% compared with 51.3% 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%.

Credit quality and provision for credit losses

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

Gross impaired credit exposures at December 31, 2007 were $272 million, $95 million higher compared with $177 million at December 31, 2006. Total impaired exposures, net of specific allowances for credit losses, were $188 million at December 31, 2007 compared with $119 million at December 31, 2006. The increase in impaired credit exposures is due to experience in some commercial sectors, including certain resource sectors, adversely impacted by the higher value of the Canadian dollar relative to the US dollar and the fact that corporate defaults in 2006 were at historically low levels.

The general allowance for credit losses of $269 million remained unchanged from December 31, 2006. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.79% at December 31, 2007 compared with 0.80% at December 31, 2006. We consider the total allowance for credit losses to be appropriate given the credit quality of its portfolios and the current credit environment. Our loan portfolio has no exposure to the US sub-prime market.

Income taxes

The effective tax rate for 2007 was 34.8% compared with 35.6% for 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 December 31, 2007 were $62.9 billion, an increase of $6.1 billion from December 31, 2006. The loan portfolio continues to be a major driver of balance sheet growth. Commercial loans and bankers' acceptances grew by a total of $4.1 billion or 17.9% from December 31, 2006 on the continued strong economy, particularly in Western Canada. Consumer loans grew by $1.1 billion or 29.7%. Although underlying residential mortgages grew by $1.4 billion or 8.4%, as a result of securitization activity, there was a net reduction of $1.1 billion.

Balance sheet management activity in the Treasury and Markets business has increased the securities portfolio by $2.2 billion, although this includes approximately $280 million of non-bank ABCP. Balances under reverse repurchase agreements increased by $1.4 billion, although these increases in liquidity were offset by a reduction in deposits with regulated financial institutions of $1.3 billion.

Total deposits increased by $4.7 billion. This included growth in personal deposits from our High and Direct Savings account products and increased deposits from our Commercial Banking and Payments and Cash Management customers. The market for personal deposits remains very competitive. However, an increased focus on commercial deposits resulted in a reduced reliance on the wholesale market.

Total assets under administration

Funds under management were $26.2 billion at December 31, 2007 compared with $23.3 billion at December 31, 2006. Including custody and administration balances, total assets under administration were $37.1 billion compared with $31.9 billion at December 31, 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 correction in those markets was experienced in the final quarter of 2007.

Management's Discussion and Analysis (continued)

Quarterly Summary of Condensed Statements of Income

	2007				2006			
	Quarter ended				Quarter ended			
	Dec. 31	*Sept. 30*	*June 30*	*March 31*	*Dec. 31*	*Sept. 30*	*June 30*	*March 31*
				(Unaudited)				
Net interest income	**$ 302**	**$ 319**	**$ 307**	**$ 294**	$ 291	$ 282	$ 276	$ 266
Non-interest revenue	**162**	**184**	**177**	**185**	168	160	167	156
Total revenue	**464**	**503**	**484**	**479**	459	442	443	422
Non-interest expenses	**253**	**246**	**248**	**250**	236	213	233	224
Net operating income before provision for credit losses	**211**	**257**	**236**	**229**	223	229	210	198
Provision for credit losses	**24**	**21**	**12**	**10**	17	5	6	6
Income before taxes	**187**	**236**	**224**	**219**	206	224	204	192
Provision for income taxes	**64**	**81**	**77**	**70**	66	76	78	65
Non-controlling interest in income of trust	**7**	**6**	**7**	**6**	7	6	6	7
Net income	**$ 116**	**$ 149**	**$ 140**	**$ 143**	$ 133	$ 142	$ 120	$ 120
Preferred share dividends	**5**	**4**	**5**	**4**	5	4	5	4
Net income attributable to common shares	**$ 111**	**$ 145**	**$ 135**	**$ 139**	$ 128	$ 138	$ 115	$ 116
Basic earnings per share ($)	**0.22**	**0.30**	**0.28**	**0.28**	0.26	0.28	0.24	0.24

The unaudited quarterly information contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Most of our revenues are non-seasonal in nature, although there can be an increase in non-interest revenues in the first quarter of the year associated with personal investments arising from retirement planning activity in Canada. Other seasonal factors have a minor impact on our results in most quarters. The first quarter has the fewest number of days, and therefore net interest income is lower compared with the other three quarters. The second and third quarters generally have lower capital market revenues, as market activity is slower than in the first and fourth quarters.

Strong economic conditions over the past eight quarters have impacted our businesses favourably. The low, but rising, interest rate environment, and higher consumer and business spending has resulted in growth in our loans and deposits. Additionally, this has benefited our wealth management businesses. The favourable economic conditions, along with our risk management efforts, have positively impacted our loan portfolio, which has resulted in relatively low loan losses in the first three quarters of 2006. However, this extremely low level of losses is unsustainable, and the level of provisions recorded in the last quarter of 2006 and 2007 are more representative of a more normal credit environment.

Competitive factors have increased over the eight quarters, resulting in spread compression in loan and deposit products, particularly in Personal Financial Services. In addition, the world wide credit and liquidity crunch beginning in the third quarter of 2007 led to a deterioration of spreads due to higher funding costs and a consequent reduction of net interest income which has continued into the early part of 2008.

Over the last eight quarters, our business has been affected by a number of favourable and unfavourable items. In the second quarter of 2006, we recorded an incremental expense relating to an increase in the fair value of stock options issued in 2003, and a write-down of our future income tax assets. In that same quarter, we recorded a significant gain on our investment in private equity funds. In the first and second quarters of 2007 exceptional gains were included in non-interest revenue due to the sale of Montreal Stock Exchange shares. In the fourth quarter of 2007, we recorded a $42 million charge related to non-bank ABCP and a tax increase of $11 million resulting from a write-off of future income tax assets.

Analysis of financial results for the fourth quarter, 2007

We recorded net income attributable to common shares of $111 million for the fourth quarter ended December 31, 2007, a decrease of $17 million, or 13.3%, from $128 million for the fourth quarter of 2006. Excluding the impact of an additional charge of $42 million ($27 million net of related income taxes) related to non-bank ABCP, net income for the fourth quarter of 2007 would have increased by 7.8% over the fourth quarter of 2006.

Net interest income

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

Net interest income in the fourth quarter of 2007 was $17 million lower compared to the third quarter of 2007. While customer loans continued to grow during the quarter, this was more than offset by a reduction in net interest margin, which reduced from 2.33% in the third quarter to 2.13%. This was mainly due to higher interest rates on wholesale deposits, due to widening credit spreads.

Non-interest revenue

Non-interest revenue was $162 million for the fourth quarter of 2007 compared with $168 million in the same quarter of 2006, a decrease of $6 million, or 3.6%. Excluding the impact of the $42 million charge in respect of non-bank ABCP in the fourth quarter, non-interest revenues would have been $204 million or 21.4% higher than the same period in 2006. Investment administration fees were higher as 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 an $11 million increase in foreign exchange trading arising from increased customer activity and trading activities created by the volatility in exchange rates between the Canadian and United States dollar. Trading income was also impacted by a $7 million gain from changes in the carrying values of certain debt obligations recorded at fair value, offset by a $8 million mark to market adjustment on non-bank ABCP held in the trading portfolio. Losses on AFS securities in 2007 compared to realized investment gains in 2006 were due to the $34 million write-down of non-bank ABCP held in the AFS securities portfolio, together with the effect of a lower increase in the fair value of our investments in private equity funds recorded in the fourth quarter of 2007, compared to the fourth quarter of 2006.

Non-interest revenue was $22 million lower in the fourth quarter of 2007 compared with the previous quarter, mainly as a result of losses on AFS securities of $34 million relating to non-bank ABCP. Trading revenue in the fourth quarter was also lower due to the $8 million mark to market adjustment on non-bank ABCP held in the trading portfolio and a $4 million reduction in the positive impact of changes in the fair value of certain debt obligations, compared to the third quarter of 2007. 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.

Non-interest expenses and operating efficiency

Non-interest expenses were $253 million for the fourth quarter of 2007 compared with $236 million in the same quarter of 2006, an increase of $17 million, or 7.2%. Salaries and employee benefits expenses were higher in the fourth quarter of 2007 due to an increase in the employee base. This resulted from strategic growth initiatives 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 we 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 we invested further in new systems to support strategic initiatives. Although the cost efficiency ratio for the fourth quarter of 2007 increased to 54.5% compared to 51.4% for 2006, excluding the impact of the non-bank ABCP, the ratio would have improved to 50.0%.

Management's Discussion and Analysis (continued)

Non-interest expenses for the fourth quarter of 2007 were slightly higher compared with the third quarter of 2007. Salaries and benefits were marginally higher mainly as a result of increased variable compensation resulting from higher capital markets revenues compared to the prior quarter, although this was partially offset by lower stock-based compensation. Other expenses increased due mainly to increased marketing expense.

Income taxes

The effective tax rate in the fourth quarter of 2007 was 35.6%, which compares to 33.2% in the same quarter of 2006 and 35.2% 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 $11 million resulting from the lower corporate income tax rates enacted by the federal government in the quarter.

Impact of Estimates, Judgement Issues and Selection of Accounting Policies on Financial Statements

Inherent in the preparation of financial statements is the use of estimates. We make estimates, particularly concerning the valuation of assets, allowances for impaired loans and credit losses and the estimation of liabilities and provisions, which could affect amounts reported in our consolidated financial statements.

We set out details of how we apply certain accounting policies, including changes, in note 1 on pages 42 to 49. The following discussion sets out areas where we believe the selection and application of our accounting policies and the use of estimates and the application of judgment, could have a material impact on our reported results. We believe that our estimates are appropriate in the circumstances where applied.

Credit losses and estimation of allowances for credit losses

We report loans as the amount advanced less an allowance for credit losses. Assessing the adequacy of the allowance for credit losses is inherently subjective, as it requires making estimates including the amount and timing of expected future cash flows that may be susceptible to significant change, particularly in periods where the underlying economic conditions are changing.

We maintain specific allowances for loans that have been identified as currently impaired. We also record a general allowance for those loans that are impaired but have not yet been individually identified as such. The impaired loans and allowances section in the MD&A on page 29 and note 1(g) on page 44 provide further details regarding the estimation of our general allowance.

Employee future benefits

As part of employee compensation, we provide employees with pension and other post-retirement benefits, such as extended health care, to be paid after employees retire. In certain cases, the amount of the final benefit may not be determined until some years into the future, particularly for defined benefit pensions, where the payment is based on a proportion of final salary and upon years of service. Although we contribute to several pension plans to provide for employee entitlements, the actual amount of assets required depends upon a variety of factors such as the investment return on plan assets, the rate of employee pay raises, and the number of years over which the ultimate pension is to be paid.

Due to the long-term nature of the contribution and payment periods, changes in long-term rates could have a material impact on our reported financial results. After consultation with our actuaries, we make certain assumptions regarding the long-term rate of investment return on pension plan assets, the discount rate applied to accrued benefit obligations, the rates of future compensation increases and the trends in health care costs. The assumptions we use and an analysis of the sensitivity of those assumptions on our benefits expense are set out in note 13 on pages 60 to 62. The most significant impact is a change in the discount rate applied to accrued benefit obligations. Under current accounting standards, the discount rate to be applied is a long-term bond rate rather than the estimated future performance of plan assets.

In the current year, we recognized an increase in the valuation allowance of approximately $13 million related to our Plan C pension assets, resulting in an increased pension expense. This allowance is calculated annually by our actuaries and included in the actuarial report. The increase in valuation allowance was a result of higher performing assets in Plan C, which performed much stronger in the current year than in the past, combined with the impact of a lower accrued benefit obligation caused by the use of a higher long-term bond rate.

Income taxes

In establishing the income tax provision and the amount of the net future income tax asset recorded in our consolidated financial statements, we estimate the rates at which our income will be taxed in a variety of jurisdictions in Canada as well as expectations regarding dates of reversal of temporary differences. If the actual amounts, timing, or rates differ from the estimates or our interpretations of the tax legislation differ from those of the federal and provincial tax authorities, adjustments may be necessary. Details of our income tax provisions and net future income tax asset are set out in note 14 on page 63.

Goodwill and intangible assets

Annually, we review goodwill and intangible assets for impairment to ensure that the fair values are in excess of book values. In determining fair value of goodwill and intangible assets, we use a variety of factors such as market comparisons, discount rates, price/earnings ratios and income estimates. The determination of values requires management judgment in the assumptions used as well as an appropriate method for determination of fair value. Any impairment in goodwill or intangible assets is charged to the consolidated income statement.

Securitizations and variable interest entities

As part of our liquidity, funding and capital management processes, we pool various types of consumer loans and transfer security interests in these loans to various securitization conduits. These securitizations, which are governed by purchase and sale contracts, are generally conducted through securitization conduits which are Special Purpose Variable Interest Entities ("VIEs") and financed by investors either through commercial paper or a longer-term investment.

Accounting policies for securitizations are set out in note 1(q) on page 47. If the accounting requirements for sales treatment are met, we recognize in income, at the time of the transaction, the present value of the excess spread we expect to earn over the life of the transaction, net of any estimated credit losses and transaction costs. This requires us to make assumptions regarding the expected cash flows of the loans securitized, including the amount of credit losses, discount rates and future servicing liabilities. To the extent that cash flows including the impact of credit losses vary from our estimates, adjustments to the carrying value of retained interests may be necessary. On a quarterly basis, we review the carrying value of the retained interests recorded within the consolidated financial statements for impairment. Any impairment is recorded in our consolidated income statement as a reduction of other income.

Our obligations to cover first losses in excess of these estimated credit losses are not provided for in the balance sheet. Information on our securitizations, including our assumptions and an analysis of the sensitivity of those assumptions on income, regarding loan repayment rates, estimated credit losses and maximum obligations under first loss protection provisions, is set out in note 3 on pages 51 to 53.

Asset backed commercial paper

As at December 31, 2007, the Bank held Canadian non-bank sponsored asset backed commercial paper investments ("non-bank ABCP") in 14 different special purpose conduits. Based on published information, the conduit assets include leveraged and unleveraged collateralized debt obligations, Canadian and US prime and sub-prime residential mortgages, commercial mortgage backed securities and certain other assets including Canadian automobile loans and personal lines of credit.

Due to the lack of liquidity and the consequent lack of market prices of non-bank ABCP, the Bank has estimated the fair value of these investments using a probability weighted discounted cash flow model, based on non-observable market inputs. The Bank has adjusted the carrying value of its non-bank ABCP investments, net of provisions, as at December 31, 2007 to $280 million, of which $50 million is classified as HFT and $230 million is classified as AFS. Of the total impairment charge of $47 million, $8 million is recorded as a reduction of trading income and $39 million is recorded as losses on AFS securities. The recorded carrying value of the non-bank ABCP represents management's best estimate of the fair value of the non-bank ABCP as at December 31, 2007.

The Bank determined the fair value of the non-bank ABCP using a discounted cash flow model that values the underlying assets based on a probability-weighting of the potential outcomes of the Montreal Accord, estimates of the values of the underlying assets and applicable interest rates. We applied, for each main class of assets backing the securities, the best, average and worst case scenarios to determine values, which were then weighted, based on management's estimates of the probabilities for each scenario and used to arrive at management's best estimate of fair value.

Management's Discussion and Analysis (continued)

Management's significant assumptions and estimates of the valuation of non-bank ABCP included the probability of success or failure of restructuring based on the outcome of the Montreal Accord. Management also used published credit ratings of the underlying categories of assets and made assumptions about specific composition of assets in each category, market spreads, estimated coupon factors and discount rates, and maturity for each major class of restructured assets. The effect of a 10% adverse change in our key assumptions would result in a further provision of $12 million.

Our valuation was based on our assessment, at December 31, 2007, of estimates and circumstances that may change in subsequent periods. Items that may have a material impact on the fair value of the non-bank ABCP include further developments or delays in the restructuring process under the Montreal Accord, the final outcome of the Montreal Accord, further changes in the value of the underlying assets, developments related to the liquidity of the non-bank ABCP market and further changes in economic conditions including interest rates.

Fair values of financial instruments

During the normal course of our business, we make extensive use of financial instruments, including funding loans, purchasing investments, accepting deposits and entering into various derivative contracts.

Effective January 1, 2007 we adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments, hedges and comprehensive income. These standards provide guidance on the recognition, measurement and classification of financial assets, financial liabilities and non-financial derivatives. All financial assets, including derivatives, are measured at fair value on the consolidated balance sheet with the exception of loans and receivables, deposits with regulated financial institutions and investments classified as held to maturity, which are measured at amortized cost using the effective interest rate method. Unrealized gains and losses, including the impact of changes in foreign exchange rates, arising on financial assets classified as AFS are recorded in OCI, except for other than temporary impairment losses which are recognized in income. Financial liabilities that are HFT, including those where we have elected to record them at fair value, or are derivatives, are recorded on the consolidated balance sheet at fair value. Other financial liabilities are recorded at amortized cost.

Investments held in investment companies are recorded at fair values. As most of these investments are private equity investments, no readily available market value exists and judgment is required in estimating the timing and amount of future cash flows and discount rates applicable in determining their fair values. Wherever possible, we make use of appropriate industry valuation guidelines such as those published by venture capital associations. Changes in the fair value of these investments are recorded in our consolidated income statement as non-interest revenue.

These new standards also establish the accounting requirements for hedges. Any hedge ineffectiveness is recognized immediately in income, while any changes in the fair value of effective cash flow hedges are recorded in OCI.

Accumulated other comprehensive income ("AOCI") is a new statement included in the consolidated balance sheet as a separate component of shareholders' equity.

The changes in carrying value of financial instruments and related deferred balances as a result of initial adoption of these new standards have been recorded as adjustments to opening retained earnings and opening AOCI in the current year. A summary of the adjustments is included in note 1(u) on pages 48 and 49. Information on the fair value of financial instruments is set out in note 1(c) on page 42 and note 16 on pages 65 and 66.

Future accounting and reporting changes

CICA Handbook Section 1535, *Capital Disclosures*, issued in December 2006, establishes disclosure requirements relating to entities' objectives, policies and processes for managing capital, quantitative disclosures about what the entity regards as capital, whether the entity has complied with any capital requirements, and the consequences of non-compliance with such capital requirements.

CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*, both issued in December 2006, establish comprehensive disclosure and presentation requirements related to financial instruments. The standards revise the current disclosure requirements of CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and place an increased emphasis on disclosures regarding the risks associated with financial instruments and how these risks are managed.

These standards will impact the Bank's note disclosures and allow users to further evaluate the Bank's policies and processes for managing capital and the risks related to the Bank's financial instruments.

The Bank will implement these standards in the first quarter of 2008.

Off-Balance Sheet Arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact but are not recorded on our consolidated balance sheet. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded on our consolidated balance sheet. In addition to securitizations and VIEs noted above, these arrangements also include financial and performance guarantees, documentary and commercial letters of credit, and derivative financial instruments.

Guarantees and letters of credit

We routinely issue financial and performance guarantees and documentary and commercial letters of credit on behalf of our customers to meet their banking needs. Guarantees are often provided on behalf of customers' contractual obligations, particularly providing credit facilities for customers' overseas trading transactions and in construction financings. Letters of credit are often used as part of the payment and documentation process in international trade arrangements. Although guarantees and letters of credit are financial instruments, they are considered contingent obligations and the notional amounts are not included in our consolidated financial statements as there are no actual advances of funds. Any payments actually made under these obligations would be recorded as a loan to our customers. However, as a result of adopting the new financial instruments standards, we are now required to record the fair value of guarantees made on behalf of customers. As a result of this, we recorded an adjustment to opening retained earnings as set out in note 1(u) on page 49.

For credit risk management purposes, we consider guarantees and letters of credit as part of our clients' credit facilities, which are subject to appropriate risk management procedures. Guarantees and letters of credit are considered part of our overall credit exposure, as set out in the analysis of our loan portfolio on pages 27 and 28 of the MD&A, and as set out in note 15(a) on page 64.

Derivative financial instruments

As part of our overall risk management strategy, we enter into a variety of derivatives to manage or reduce our risks in certain areas.

Forward foreign exchange transactions are transactions where we agree to exchange foreign currencies with our counter-parties at a fixed rate on a future date. Interest rate swaps are agreements to exchange cash flows of differing interest rate characteristics. Other derivatives comprise equity or credit based transactions.

We use derivatives to limit our exposure to interest rate risk on loans and deposits with differing maturity dates, or foreign currency assets and liabilities of differing amounts. Mismatches in currency or maturity dates could expose us to significant financial risks if there are adverse changes in interest rates or foreign exchange rates. The use of derivatives is subject to strict monitoring and internal control procedures as set out in our risk management discussion in the MD&A on pages 22 to 30.

Our accounting policies on recording the impact of derivatives are set out in note 1(o) on pages 46 and 47. Information on our derivative instruments is set out in note 17 on pages 67 to 71. As noted above, effective January 1, 2007, we have adopted new CICA standards relating to accounting for financial instruments including derivatives and all derivatives are recorded at fair value irrespective of being used for hedging or for trading.

Management's Discussion and Analysis (continued)

Controls and Procedures

Management's responsibility for financial information contained in our Annual Report is set out on page 36. In addition, the Audit Committee of our Board of Directors and our Board have reviewed and approved the Consolidated Financial Statements and Management's Discussion and Analysis prior to release of the Annual Report.

Disclosure controls and procedures are designed to provide reasonable, but not absolute assurance, that all necessary information is reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding any necessary disclosure to our various stakeholders.

As at December 31, 2007, we evaluated the effectiveness of our disclosure controls and procedures, as required by the Canadian securities regulatory authorities under Multilateral Instrument 52-109. This evaluation was performed under the supervision of our Senior Management with the participation of the CEO and the CFO. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of these disclosure controls and procedures were effective.

Internal control over financial reporting is a process for providing reasonable assurance regarding the reliability of financial reporting and preparation of our consolidated financial statements in accordance with Canadian GAAP. However, because of inherent limitations in all control systems, absolute assurance cannot be provided that all misstatements have been detected. As at December 31, 2007, an evaluation was carried out of the design of internal controls over financial reporting. Based on that evaluation, the CEO and CFO have concluded that the design of internal controls over financial reporting was effective.

There were no changes in internal controls over financial reporting that occurred during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Related Party Transactions

As a member of one of the world's largest financial services organizations, we benefit from the expertise and economies of scale provided by the HSBC Group. We outsource a number of functions to other HSBC Group companies, share costs of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas.

All such transactions are related party transactions and are subject to formal procedures we have adopted to ensure compliance with the Canadian Bank Act. All transactions must be approved either by our Legal and Compliance department or, if above certain thresholds, by our Executive Committee. This additional scrutiny ensures that we meet our obligation to ensure transactions are priced and accounted for as if they were provided in an open market on an arms-length basis or, where no market exists, ensure we receive fair value. In addition, taxation authorities in Canada and other jurisdictions may disallow the deductibility of transactions that are not priced on an arms-length or fair value basis.

For 2007, the total amount we paid to other HSBC Group companies in respect of these transactions was $82 million (2006 – $68 million). There are also a number of routine transactions occurring during the course of the year, none of which are individually material to our results. Reference should also be made to notes 20 and 21 on pages 75 to 77.

Capital Management

We have capital management policies, which have been approved by our Board of Directors and HSBC Holdings, and which have been reviewed by the applicable regulatory authorities in Canada. Our policies lay out a strict regime of capital monitoring, targets, limits and maintenance actions. We manage our financial capital resources to ensure their efficient use in the generation of shareholder value while supporting business activities, including the asset base and risk positions, as well as providing prudent depositor security and complying with all applicable regulatory requirements. Our Finance and Treasury departments manage compliance with our policies daily, with bi-monthly monitoring by our Asset and Liability Committee ("ALCO"). ALCO is chaired by our CFO and includes the CEO, Chief Operating Officer, and our senior executives responsible for credit, risk management, marketing and sales, and treasury. Positions and limits are monitored by its sub committee, Tactical ALCO ("TALCO") committee, in intervening weeks. TALCO is also chaired by our CFO and includes members responsible for finance, treasury and marketing.

We use personal and commercial relationship management performance measurement tools to ensure that our shareholders' capital is efficiently deployed in our major business segments. Capital necessary to support customer loans and other asset classes is determined according to the various specific risk weighting factors provided by the Office of the Superintendent of Financial Institutions Canada ("OSFI") capital adequacy guidelines. We use a variety of capital management techniques in order to maximize shareholder value against the fundamental need to be prudently capitalized.

OSFI regulates capital adequacy for Canadian federally incorporated financial institutions. Capital adequacy guidelines issued by OSFI in effect during 2007 were based upon the 'Basel I' recommendations for capital adequacy standards introduced in 1988 by the Bank for International Settlements ("BIS"). Although BIS continues to recommend financial institutions maintain 4% and 8% Tier 1 and total capital ratios (as a percentage of risk-weighted assets), respectively, OSFI recommends Canadian banks maintain minimum Tier 1 and total capital ratios of 7% and 10%, respectively.

Total capital comprises both Tier 1 and Tier 2 capital. Tier 1 capital is the permanent capital of a bank, comprising common shareholder's equity, qualifying non-cumulative preferred shares, qualifying innovative capital instruments, contributed surplus and retained earnings. Tier 2 capital includes subordinated debentures, general allowances for credit losses and cumulative preferred shares. Our Tier 1 capital ratio was 8.8% and the total capital ratio was 11.3% at December 31, 2007. This compares with 9.0% and 11.1%, respectively, at December 31, 2006.

The Canada Deposit Insurance Corporation ("CDIC") has a tiered, differential insurance premium ratings system, which includes targets for capital adequacy. One of the measures CDIC uses in determining whether a financial institution is well capitalized is an asset to regulatory capital multiple as defined by CDIC. This definition regards a financial institution as being well capitalized if it maintains an assets to regulatory capital multiple of less than OSFI's maximum permitted assets to capital multiple of 20 times. We target to be prudently below this threshold of 17 times and at December 31, 2007, our multiple was 14.1 times.

BIS has finalized new standards for capital adequacy in the Basel II capital adequacy framework that are effective January 1, 2008. OSFI has endorsed these guidelines for Canadian federally-regulated financial institutions. This new framework will have a significant impact on banks, as it requires a more comprehensive risk management framework and requires capital to be held to cover operational, market and credit risks. In addition, the calculation of risk-weighted assets will be considerably more complex than the current framework.

We are implementing Basel II in accordance with OSFI's guidance and timelines. We will adopt an Advanced Internal Ratings Based Approach for credit risk regulatory capital calculations and the Standardized Approach for operational risk capital calculations. We have an integrated enterprise-wide program for managing the implementation of Basel II. The HSBC Group has developed a number of systems and tools in preparation for the introduction of Basel II, some of which are described in the commentary on credit risk commencing on page 26 of the MD&A. Leadership and oversight are provided by an executive steering committee, as well as by the HSBC Group.

Effective January 1, 2008, we will be required to manage our capital levels based on the new regulatory capital rules. For 2008 and 2009, a minimum capital floor will be in place, based on a certain percent of the current capital adequacy requirements. We do not expect the introduction of Basel II to require the Bank to make any material adjustments to its capital held.

Management's Discussion and Analysis (continued)

Regulatory capital ratios

The components of our regulatory capital and the regulatory capital ratios are as follows:

	2007	2006
Tier 1 capital		
Common shares	**$ 1,225**	$ 1,125
Contributed surplus	**206**	202
Retained earnings	**1,462**	1,191
Non-cumulative preferred shares[1]	**350**	350
Non-controlling interests in trust and subsidiary[2]	**430**	430
Goodwill	**(15)**	(15)
Total Tier 1 capital	**3,658**	3,283
Tier 2 capital		
Subordinated debentures	**801**	563
General allowance for losses	**269**	269
Total Tier 2 capital	**1,070**	832
Total Tier 1 and Tier 2 capital	**4,728**	4,115
Securitization-related deductions	**(50)**	(52)
Total capital available for regulatory purposes	**$ 4,678**	$ 4,063
Total risk-weighted assets	**$ 41,372**	$ 36,606
Regulatory capital ratios		
Tier 1 capital	**8.8%**	9.0%
Total capital	**11.3%**	11.1%
Assets to capital multiple	**14.1x**	14.6x

(1) *Represents $175 million in each of Series C and Series D preferred shares.*
(2) *Includes $400 million of HSBC HaTS™.*

Risk-weighted assets

Risk-weighted assets arise primarily from the provision of credit and other risk facilities to our customers. We determine risk-weighted assets by applying the specific risk-weighting factors provided by OSFI's capital adequacy guidelines. Our risk-weighted assets are as follows:

	2007	2006
On-balance sheet assets		
Cash resources	**$ 669**	$ 921
Securities	**908**	513
Residential mortgages	**5,768**	6,312
Other loans	**23,527**	19,105
Acceptances	**5,727**	5,130
Other assets	**700**	934
Total on-balance sheet assets	**37,299**	32,915
Off-balance sheet instruments		
Guarantees and letters of credit	**1,935**	1,716
Other	**1,714**	1,642
Subtotal	**3,649**	3,358
Derivatives (at risk-weighted equivalents)	**424**	333
Total off-balance sheet instruments	**4,073**	3,691
Total risk-weighted assets	**$ 41,372**	$ 36,606

Regulatory capital generation

We generated regulatory capital in 2007 through the following sources:

	2007	2006
Internally generated capital		
Net income	**$ 548**	$ 515
Dividends	**(278)**	(258)
Impact of fair value option on certain debentures	**(23)**	–
Foreign exchange and other	**(7)**	(4)
	240	253
External financing		
Net issue of subordinated debentures	**275**	140
Issue of common shares	**100**	–
Total increase in regulatory capital	**$ 615**	$ 393

In addition to internally generated capital, we issue subordinated debentures, preferred shares, and asset trust securities. These sources of external capital may either be through private placements or through public capital markets. We have also issued common shares and subordinated debentures to the HSBC Group.

In 2007, we issued $400 million in 4.80% series D subordinated debentures maturing in 2022 and redeemed $100M in 5.60% series A and $25 million in 6.65% subordinated debentures due in 2012. During 2006, we issued $200 million in 4.94% series C subordinated debentures maturing in 2021 and redeemed $60 million in 7.70% debentures due in 2011.

In 2008, we expect to generate sufficient capital either through further capital issues or through operations to support our business and capital requirements.

Dividends per share on our preferred shares and distributions per unit on our HSBC HaTS™ were as follows:

	2007	2006	2005
	$	$	$
Preferred Shares Class 1			
– Series A	**–**	–	1.17
– Series C	**1.275**	1.275	0.89
– Series D	**1.250**	1.250	0.18
HSBC HaTS™			
– Series 2010	**77.80**	77.80	77.80
– Series 2015	**51.50**	51.50	33.93
Total dividends declared on common shares (in $ millions)	**260**	240	330

Management's Discussion and Analysis (continued)

Credit Ratings

S&P and DBRS maintain credit ratings of our debt and securities. The ratings are made within the rating agencies' normal classification system for each type of debt or security.

Our credit ratings influence our ability to secure cost-efficient wholesale funding. Our strong investment grade ratings were unchanged from 2006, when our ratings on deposits, debt instruments, and preferred shares were upgraded by both S&P and DBRS. Our ratings are among the highest assigned to the Canadian banks.

Our ratings as at December 31, 2007 were as follows:

	S&P[1]	*DBRS*[2]
Short-term instruments	A-1+	R-1 (high)
Deposits and senior debt	AA	AA
Subordinated debt	AA-	AA (low)
Preferred shares	P-1[3]	Pfd-1
HSBC HaTS™	P-1[3]	A (high)

(1) *S&P assigned a stable outlook to our counterparty credit rating.*
(2) *DBRS has maintained a stable trend to our ratings.*
(3) *Based on S&P's Canadian national preferred share scale. Ratings are A+ on S&P global preferred share scale.*

Risk Management

All of our business activities require the management of particular risks or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The risk factors most likely to affect us are market, structural, liquidity, fiduciary, operational and credit risks. We believe our exposure to these risks is managed conservatively. We have established a corporate governance framework, which establishes risk management policies that identify and analyze these risks and, where required, we set appropriate risk limits. We continually monitor these risks and limits by means of internal control measures, which we consider to be up to date and reliable.

We regularly review and modify our risk management policies and systems to reflect any operational changes either internally or in the markets in which we operate. Our Board of Directors approves our risk management policies and overall risk management limits are set, taking into account HSBC Holdings' overall risk limits. Our Risk Management Committee is responsible for the strategic management of all risks to which we are exposed. The Risk Management Committee:

- Identifies significant risks we are exposed to and measures for these risks;
- Develops and recommends for approval appropriate risk management policies and procedures regarding those activities and units which incur significant risk, including business continuity planning;
- Provides direction regarding our overall risk philosophy and appetite including the acceptability of new or unusual risk;
- Monitors our adherence to risk management policies and procedures;
- Reports any policy or major practice change, unusual situations, significant exceptions, new strategy or products to our Executive Committee, Audit Committee and Board of Directors for review, ratification or approval; and
- Review and approve risk inventory and risk rating systems as part of the Basel II implementation.

The Risk Management Committee delegates day to day management of risks to a variety of sub-committees including ALCO, TALCO, Credit, Operational Risk Management and Fiduciary Risk Management committees. We also have committees specifically responsible for the risk assessment and implementation of new products.

In addition to the risks that arise on a daily basis identified above, we are also exposed to strategic risk that arises if we fail to identify opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years. These strategic opportunities or threats arise from a range of factors which might include, for example, changing economic and political circumstances, changing customer requirements, demographic trends, regulatory developments or competitor action. This risk is mitigated by consideration of the potential opportunities and challenges through the strategic planning process, which we undertake in conjunction with the HSBC Group.

Market risk

Market risk is the risk to our financial position resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices on our portfolio of trading instruments. Trading book assets are valued at market prices and as prices rise and fall, our earnings will be directly impacted.

We make markets in interest and exchange rate instruments, as well as in debt, equity and other securities. Trading risks arise either from customer-related business or principal investing activities, where we trade instruments for our own account.

Market risk is managed through risk limits set out by ALCO and approved by our Board of Directors. We set risk limits for each of our trading operations dependent upon the size, financial and capital resources of the operations, market liquidity of the instruments traded, business plan, experience and track record of management and dealers, internal audit ratings, support function resources and support systems. Risk limits are reviewed and set by ALCO on an annual basis at a minimum.

We conduct reviews using a combination of risk measurement techniques, including present value of a basis point ("PVBP"), value at risk ("VaR"), foreign exchange exposure limits, maximum loss limits, options premium paid limits and product and issuance limits.

PVBP is a sensitivity measure that calculates the impact on the present value of a transaction (or a portfolio of transactions) of a one basis point movement in rates. VaR is a statistical technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The methodology for calculating VaR uses historical simulation to incorporate non-linear risks and a 1-day holding period at a 99% confidence level. This means that the maximum loss on our trading portfolio could potentially exceed the VaR once in every one hundred days. Minimum, maximum and average amounts of VaR for our trading portfolio for 2007 and 2006 are as follows:

	2007	2006
	$'000	$'000
Minimum	**128**	93
Maximum	**403**	863
Average	**229**	337

Structural risk

Structural risk is the impact of interest rate and foreign exchange rate risks on assets and liabilities included in the banking book, including those in our consolidated balance sheet. We value instruments included in the banking book using the effective interest rate method. To the extent that assets and liabilities are not directly matched either by interest or exchange rates, any changes in the mix of assets or liabilities will affect earnings.

Interest rate risk

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

We believe in a conservative approach in setting limits on these mismatched positions. Limits are established based on the impact on the present value of all net cash flows of an immediate and parallel upward shift in all relevant yield curves of 0.01%. We also have established limits on these mismatched positions in terms of Dollars at Risk and VaR. Net Interest Income is forecasted using various interest rate and balance sheet growth scenarios to provide a comprehensive analysis of spread earnings at risk.

Management's Discussion and Analysis (continued)

We use a variety of cash and derivative instruments, principally interest rate swaps, to manage our interest rate risk. We use derivatives to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions are considered beneficial.

In managing interest rate risk, we rely primarily upon our contractual interest rate sensitivity position adjusted for assumptions regarding customer behavior. Adjustments made include assumptions relating to early repayment of consumer loans and residential mortgages and customer preferences for demand, notice and redeemable deposits. Based upon these adjustments made to our contractual positions, it is estimated that an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would increase net interest income by $57 million (2006 – increase of $41 million) over the next twelve months assuming no additional hedging is undertaken.

Foreign exchange risk

We are exposed to foreign exchange risk on our foreign currency denominated asset and liability positions. We buy and sell currencies in the spot, forward, futures and options markets, on behalf of our customers and for our own account, to manage our own currency exposures arising from assets and liabilities denominated in currencies other than the Canadian dollar. Limits have been established as to the magnitude of the exposure on a currency-by-currency basis as well as maximum loss limits on any position held.

Liquidity risk

Liquidity risk is the risk that we will be unable to fund our obligations as they come due because of our inability to liquidate assets or obtain adequate funding (funding liquidity risk), or cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

We manage the liquidity structure of our assets, liabilities and commitments so cash flows are appropriately balanced and all funding obligations are met when due. We ensure compliance with Canadian regulatory, HSBC Group and ALCO requirements. Our Treasury department manages liquidity on a day-to-day basis.

As part of management of both our liquidity and interest rate risks, we have an overall flexible funding strategy to cover both short and long term liquidity needs, as well as a contingency plan to cover unexpected or unusual situations that could lead to market disruptions.

Customer deposits form a significant portion of our overall funding. Considerable importance is placed on the growth of our core deposit base, which provides a diversified and stable pool of funds. We access capital markets for the purposes of providing additional wholesale funding, maintaining a presence in the marketplace, and aligning asset and liability maturities. As part of our wholesale funding arrangements, we have a number of programs for fundraising activities, including asset securitizations and facilities with major Canadian institutional lenders and borrowers, so that undue reliance is not placed on any one source of funding.

We have established limits for balance sheet ratios and minimum periods of forecast positive cumulative cash flow as well as contingencies to meet cash flow needs. As part of this contingency, we can access the considerable resources of the HSBC Group and currently have a US$500 million standby borrowing facility from our US affiliate, although no amounts have been drawn from this facility since its inception in 1997.

ALCO and TALCO oversee compliance with liquidity requirements by monitoring:

- Projected cash flows and the levels of related liquid assets;
- Specified balance sheet liquidity ratios against prescribed limits;
- Operational cash flow scenarios used to evaluate differing market or crisis situations where cash inflows may be restricted and cash outflows may be accelerated;
- Depositor concentration in terms of overall funding mix and to avoid undue reliance on large individual and non-core depositors; and
- Liquidity contingency plans.

As part of our normal business operations we have contractual obligations for payment of liabilities. Amounts included in unsecured long-term funding in the table below are wholesale term deposits with an original term to maturity more than one year, based on contractual repayment dates. Also included are obligations related to commitments not recorded in the balance sheet, such as those relating to operating leases.

A summary of our future contractual obligations at December 31, 2007 is as follows:

	Payments due by period				
	Less than 1 year	*1 to 2 years*	*3 to 4 years*	*After 5 years*	*Total*
Subordinated debentures	$ –	$ –	$ –	$ 801	$ 801
Operating leases	39	66	45	18	168
Committed purchase obligations	67	74	44	41	226
Unsecured long term funding	1,660	2,026	91	161	3,938
Total contractual obligations	$ 1,766	$ 2,166	$ 180	$ 1,021	$ 5,133

Committed purchase obligations include long-term arrangements for the provision of technology and data processing services by HSBC Group companies.

Not included in the table are any commitments relating to customers utilizing undrawn portions of their loan facilities. Total undrawn facilities at December 31, 2007 were $31.5 billion for facilities expiring before December 31, 2008 and $4.7 billion for facilities expiring after that date.

We expect to be able to meet all of our funding and other commitments in the normal course of our operations.

Fiduciary risk

Fiduciary risk is the risk of failing to fulfill the duty to act for the benefit of another in a fiduciary relationship such as traditional fiduciary activities (trustee, executor, administrator of estates, committee), or where we provide discretionary investment services, or where any other fiduciary relationship has been established. Fiduciary risk differs from the risks we face as intermediaries, as it arises from our dealing with or advising on the assets owned by our customers. A fiduciary relationship requires us to place our customers' objectives ahead of our own interests with a duty of loyalty, care and disclosure.

Fiduciary risk is controlled and managed by ensuring our clients establish appropriate investment goals and mandates through the "know your client" process and ensuring our staff follow correct procedures when exposed to fiduciary relationships. This control structure is complemented by regular self-assessment reporting of business lines to the Fiduciary Risk Management Committee and by independent and periodic reviews by our Internal Audit and Compliance functions.

Operational risk

Operational risk is the risk of loss to us resulting from inadequate or failed internal processes and systems, human error or external events. This type of risk includes fraud, unauthorized activities, errors, and settlement risk arising from the large number of daily banking transactions occurring in the normal course of business. Also, there are a wide variety of business and event risks inherent in all business activities such as legal, taxation, regulatory, human resources and reputation.

We have policies for managing operational risk and aim to minimize loss through a framework requiring all business units to identify, assess, monitor and control operational risk. The operating risks identified by the units are presented to the Operational Risk Management Committee which has the responsibility of challenging the risk identification and control strategies proposed, as well as the actions being taken to mitigate the risk. This operational risk management process is subject to a review by our Risk Management Committee and approval by our Board of Directors.

We manage operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions, and regular, systematic reconciliation and monitoring of transactions. We have a dedicated function that proactively manages our compliance process, and we maintain high ethical standards. These processes together with our control structure help ensure that our exposure to reputational risk is managed. This control structure is complemented by independent and periodic reviews by our Internal Audit department.

Management's Discussion and Analysis (continued)

We also work with our HSBC Group colleagues in ensuring that our business maintains the Corporate Responsibility commitment to behave responsibly and ethically in all aspects of its business as well as recognizing that sound business management must take into account the effects of its businesses on the environment. Information on community, corporate and environmental responsibility activities is included in our annual publication, *HSBC Bank Canada in the Community*, available from our website: hsbc.ca.

In addition to an enterprise-wide risk management process, we have established business continuity and event management practices so we can continue to service our customers' needs in the event of major business disruption. Back-up facilities in various cities across North America increase our recovery capabilities for key businesses.

In common with other HSBC Group companies, as well as other Canadian banks and large organizations, we are continuing to expand our business continuity planning efforts to prepare for the possibility of an earthquake or an avian influenza pandemic.

Credit risk

Credit risk arises when we place reliance on our borrowers and other counterparties to honour their contractual obligations to us arising out of credit granting, credit substitutes (such as letters of credit and guarantees) and contingent risk relating to derivative contracts such as forward foreign exchange contracts and interest rate swaps. Concentration of credit risk may arise when the ability of a number of borrowers or other counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry or environmental factors. Therefore, diversification of credit risk is a key concept by which we are guided.

Credit risk is managed in accordance with our credit policy, established after consultation with HSBC Group, that has been approved by our Board of Directors. Risk limits and credit authorities are delegated to senior credit management staff, who in turn delegate appropriate limits to line management depending upon circumstances. Credit exposures in excess of certain levels may require the concurrence of HSBC Group to ensure they remain within their global risk limits.

Our Risk Management Committee, Credit Committee, Audit Committee and Board of Directors meet quarterly to review: portfolio credit quality; geographic, product and industry distributions; large customer concentrations; and adequacy of loan provisions. Policies relating to large customer limits and industry, product and geographic concentration are approved by our Board of Directors in line with HSBC Group policy. All new and renewed major authorized facilities, derivative exposures and Special Credit problem and impaired facilities are also reported quarterly to the Audit Committee. The appetite for credit risk is expressed through Commercial and Personal Lending Guidelines that conform with HSBC Group guidelines and are approved quarterly by the Audit Committee and disseminated throughout our business along with various credit manuals.

We have a disciplined approach to managing credit risk through ongoing monitoring of all credit exposures at branches, with weaker quality credits being reviewed at more frequent intervals. Problem and impaired loans are identified at an early stage and are actively managed by a separate dedicated Special Credit management unit. Our Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and they review branch credit decisions to ensure these decisions reflect our portfolio management objectives. Our Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Integrity of underlying credit metrics is also ensured by the review of applications by our Credit Department and ongoing monitoring and review by Risk Management. This includes review of rating system application especially where manual override of system generated values takes place.

Exposure to banks and financial institutions involves consultation with a dedicated unit within the HSBC Group that controls and manages these exposures on a global basis. Similarly cross-border risk is also controlled globally by this unit through the imposition of country limits. A review of all credit matters undertaken by our branch and head office credit managers is completed regularly by our internal auditors to ensure all our policies, guidelines, practices, conditions and terms are followed.

We manage real estate lending within well-defined parameters with an emphasis on relationship and project sponsorship for all new transactions. We are actively managing the growth of this portfolio given the strong demand for credit from this sector and its cyclical nature. Where we are dependent upon third parties for establishing asset values, consistent and transparent valuations are ensured through maintaining a list of approved professionals that meet our standards.

We believe we have a strong control environment to ensure credit risks are appropriately managed through our conservative lending practices, accurate data collection recording, and strict approval and monitoring processes. Historically, our credit loss experience as a percentage of assets has been amongst the lowest of our peer group of major Canadian chartered banks.

During 2007, significant progress continues to be made in the Basel II initiative in particular with the implementation and validation of a formal and strictly managed dual risk grading system that is assigned to all borrowing clients and facility structures and is closely monitored and reviewed to ensure changes in risk profiles are appropriately reflected in the credit metrics. We use various credit scoring tools and related bureau-based management techniques, along with judgment, to assign risk metrics to individual obligors or pools of homogeneous credit exposures.

We continued to develop the credit risk management infrastructure and data management tools to capture and populate a number of databases with these key credit metrics and other obligor data. We will continue to enhance and validate this credit data during 2008. These data elements are key inputs for calculating regulatory capital under Basel II and producing granular credit management reporting including portfolio credit quality distributions for example Probability of Default and Loss Given Default and rating transition matrices.

Loan portfolio

In assessing the risks of our credit portfolio, we aggregate all exposure types that result in credit risk.

The following is an analysis of the constituents of our portfolio:

	2007	2006
Loans included in financial statements, net of allowances	**$ 38,715**	$ 35,236
Allowance for credit losses	**353**	327
Customers' liabilities under acceptances[1]	**5,727**	5,130
Financial and performance standby letters of credit[1]	**2,420**	2,046
Documentary and commercial letters of credit	**322**	492
Total loans	**47,537**	43,231
Impaired loans and acceptances[1]	**(272)**	(177)
Total performing loans	**$ 47,265**	$ 43,054

(1) *Includes $3 million (2006 – $13 million) of impaired acceptances and letters of credit.*

The following tables, in which business and government loans includes customers' liabilities under acceptances, letters of credit and guarantees, provide details of our overall performing loan portfolio including geographic and industry distribution:

Performing loan portfolio

	2007		2006	
Consumer loans	**$ 4,802**	**10.2%**	$ 3,718	8.7%
Residential mortgages	**12,311**	**26.0%**	14,005	32.5%
Total consumer	**17,113**	**36.2%**	17,723	41.2%
Business and government loans	**30,152**	**63.8%**	25,331	58.8%
Total performing loans	**$ 47,265**	**100.0%**	$ 43,054	100.0%

Geographic distribution

	2007		2006	
British Columbia	**$ 20,322**	**43.0%**	$ 19,256	44.7%
Western Canada, excluding British Columbia	**9,898**	**20.9%**	7,912	18.4%
Ontario	**11,365**	**24.1%**	11,056	25.7%
Quebec and Atlantic	**5,680**	**12.0%**	4,830	11.2%
Total performing loans	**$ 47,265**	**100.0%**	$ 43,054	100.0%

Management's Discussion and Analysis (continued)

Business and government loan portfolio by industry

	2007		2006	
Real estate	**$ 10,417**	**34.6%**	$ 8,648	34.2%
Hotels and hospitality	**1,003**	**3.3%**	1,013	4.0%
Trade	**5,103**	**16.9%**	3,381	13.3%
Services	**5,520**	**18.3%**	4,687	18.5%
Manufacturing	**3,681**	**12.2%**	2,781	11.0%
Other	**4,428**	**14.7%**	4,821	19.0%
Total business and government loans	**$ 30,152**	**100.0%**	$ 25,331	100.0%

Overall credit quality remains sound, reflecting prudent lending standards and strong economic conditions in Canada. An increase in the provision, for the year ended December 31, 2007 compared to the prior year, was due to an increase in the Bank's loan portfolio in certain resource sectors arising from weaker industry conditions impacted by the strength of the Canadian dollar, although 2006 reflected an exceptionally benign credit environment, resulting in low level of provisions.

Credit exposures increased during 2007 in all business lines against a background of stable macroeconomic conditions, low interest rate environment and strong demand from existing customers and marketing initiatives. The increase in impaired credit exposures is due to experience in some commercial sectors, including certain resource sectors, which have been adversely impacted by the higher value of the Canadian dollar relative to the US dollar and the fact that corporate defaults in 2006 were at historically low levels.

Large customer concentrations are borrowing groups where approved facilities exceed 10% of our regulatory capital base. At December 31, 2007, this amount was approximately $468 million (2006 – $406 million).

The following table provides details of our large customer concentrations:

	2007	2006
Large customer concentration	**$ 2,819**	$ 2,838
As a percentage of business and government loans	**9.3%**	11.2%
As a percentage of total performing loans	**6.0%**	6.6%

Credit quality

We categorize the credit quality of our loan portfolio as follows:

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

The following table sets forth an analysis of our total loan portfolio on the basis of the above credit quality categories:

	2007		2006	
Satisfactory	**$ 46,481**	**97.7%**	$ 42,308	97.8%
Watch	**556**	**1.2%**	506	1.2%
Sub-standard	**228**	**0.5%**	240	0.6%
Impaired	**272**	**0.6%**	177	0.4%
Total loans	**$ 47,537**	**100.0%**	$ 43,231	100.0%

The vast majority of our total loan portfolio is categorized as satisfactory. Credit quality of the portfolio has remained stable over the past five years. As at December 31, 2007, $272 million (0.5%) of the loan portfolio was impaired, with specific and general allowances providing 130% (December 31, 2006 – 185%) coverage of these loans.

Impaired loans and allowances for credit losses

We maintain allowances for credit losses, which are considered adequate to absorb all estimated credit-related losses in the portfolio of both on and off-balance sheet items including deposits with other regulated financial institutions, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees. Details on how we estimate our allowance for credit losses are set out in note 1(g) on page 44.

The following table provides details of the impaired loan portfolio:

	2007	2006
Business and government		
Real estate	**$ 112**	$ 13
Manufacturing[1]	**68**	121
Trade	**15**	7
Services	**28**	12
Other	**3**	3
Total business and government loans	**226**	156
Personal		
Residential mortgages	**22**	10
Consumer loans	**24**	11
Total personal loans	**46**	21
Total impaired loans, acceptances and letters of credit[1]	**$ 272**	$ 177
Specific allowances	**$ 84**	$ 58
General allowances	**269**	269
Total allowance for credit losses	**$ 353**	$ 327
Net impaired loans and acceptances	**$ (81)**	$ (150)

(1) *Includes $3 million (2006 – $13 million) of impaired acceptances and letters of credit.*

The following table shows the coverage of specific allowances as a percentage of our related impaired loans and-acceptances:

	2007	2006
Real estate	**13%**	23%
Manufacturing	**44%**	25%
Other	**52%**	55%
Total	**30%**	29%

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

	2007	2006
Coverage by general allowance		
As a percentage of total performing loans	**0.57%**	0.62%
As a percentage of risk-weighted assets	**0.65%**	0.74%

Management's Discussion and Analysis (continued)

Provisions for credit losses

The following table sets out the provisions for credit losses charged to income.

	2007	2006
Specific provisions	$ 67	$ 34
General provisions	–	–
Total provision for credit losses	**$ 67**	$ 34
Specific provisions as a percentage of total loan portfolio	**0.14%**	0.10%

General allowances remained constant in absolute terms and as a percentage of risk-weighted assets declined in line with asset growth. The general provision remains within the range of values suggested by our current methodology. The general provision will continue at a level consistent with the underlying risk profile of the loan book and management's view of economic and other conditions that impact incurred losses in the loan portfolio. We began development of a more risk sensitive approach to provisioning that utilizes obligor credit metrics developed under Basel II. We continue to run the results in parallel during this transition period that is expected to continue into 2008.

Derivative portfolio

The credit equivalent amount of derivative exposure comprises the current replacement cost of positions plus an allowance for potential future fluctuation of interest rate or foreign exchange rate derivative contracts. We enter into derivatives primarily to support our customers' requirements and to assist us in the management of assets and liabilities particularly relating to interest and foreign exchange rate risks as noted above.

The credit equivalent amount of our derivative portfolio by product type is as follows:

Products	2007	2006
Interest rate contracts	$ 157	$ 146
Foreign exchange contracts	1,173	903
Other contracts	37	73
Net credit equivalent amount	**$ 1,367**	$ 1,122

This increase in 2007 was due to an increase in foreign exchange contracts arising from continued volatility of the Canadian dollar relative to the US dollar.

A more detailed analysis of our derivative portfolios is presented in note 17 on pages 67 to 71.

Analysis of Financial Results and Operations by Customer Group

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

A summary of the breakdown of selected consolidated financial information and other data by major customer groups is included in note 19 (a) on pages 73 and 74.

Personal Financial Services

Business developments and achievements for 2007 include:

- *Strong annuity revenue growth* – Total revenue grew by 6.8% over 2006, with fee-based revenues up 10.6% year-over-year as a result of investments in the wealth management businesses and customer acquisition.
- *Core lending and deposit products* – We grew our core lending and deposits with personal loans up $1.0 billion or 18.3% to $6.2 billion (before securitization), residential mortgages up $1.4 billion or 8.6% to $18.1 billion (before securitization), and personal deposits up $1.3 billion or 7.3% to $18.3 billion. We successfully hard launched our new Direct Savings Account ("DSA") product achieving $878 million in deposits by year-end and over 45,000 customers.
- *Funds under management* – Our funds under management grew to $23.6 billion, up $2.2 billion or 10.3% over prior year, with growth spread across our wealth management businesses. Retail brokerage funds under management grew by $0.5 billion or 4.0% to $12.8 billion. Growth was driven by fee-based assets, up 12.7%, particularly the separately managed "Diamond account", which has grown 32.6% to $0.9 billion. HSBC InvestDirect, the direct brokerage component, launched a new client site and grew funds under management by $0.9 billion or 20.3% to $5.4 billion. Private client funds grew by $0.6 billion on the success of existing products.
- *Direct Bank* – We re-launched HBCA's public website and Personal Internet Banking site to the new 2nd Generation (2G) platform enabling personalization of content and driving more effective, customized online campaigns and sales initiatives, including targeted one-to-one marketing. Our DSA balances have grown nearly $800 million year-over-year following a limited-time promotion as used by our affiliate HBUS offering an industry-leading 5.0% on balances for new customers. Direct Channel YTD sales excluding DSA of $680 million are up 140% year-over-year with 51,963 units sold for the same period, up 61%.
- *Product innovations* – We successfully re-launched Premier as part of HSBC's global rollout offering seamless cross-border banking in over 6,000 branches with Premier service points. Our milestones included the first wave of Premier credit/debit card re-issues and launch of Global View (provides single online view of global accounts through Personal Internet Banking). We launched Passport, an exciting banking proposition for new immigrants and foreign workers to Canada, leveraging off an HSBC Bank UK product.

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

	2007	2006
Net interest income	**$ 402**	$ 375
Non-interest revenue	**269**	253
Total revenue	**671**	628
Non-interest expenses	**536**	477
Provision for credit losses	**24**	20
Income before taxes	**111**	131
Provision for income taxes	**36**	45
Non-controlling interest in income of trust	**7**	7
Net income	**$ 68**	$ 79
Percentage of total net income	**12.4%**	15.3%
Average risk-weighted assets	**$ 9,866**	$ 9,267
Percentage of total average risk-weighted assets	**24.9%**	26.4%

Income, before taxes and non controlling interest in income of trust, was $111 million, a decrease of $20 million, or 15.3%, compared with $131 million for 2006. Excluding a charge for non-bank ABCP and a gain on the sale of Montreal Exchange shares, income was $117 million.

Management's Discussion and Analysis (continued)

Net interest income was $402 million, an increase of $27 million, or 7.2%, compared with $375 million for 2006. Residential mortgage and consumer loan portfolios continued to grow and were driven by continued low borrowing costs and a buoyant housing market. This was largely offset by our securitization activities during the year. The growth in our deposit base benefited from the launch of our new Direct Savings Account. This was partially affected by a decline in US dollar deposits as they were negatively impacted by the strengthened Canadian dollar. The net interest margin was impacted by higher funding costs and continued competitive pressures on product spreads.

Non-interest revenue increased $16 million, or 6.3% in 2007, to $269 million. Excluding the non-bank ABCP charge and the gain on sale of Montreal Stock Exchange shares, non-interest revenue was $275 million. Higher investment administration fees and our ongoing investment in improving our products and delivery of wealth management services to our customers led to this growth. An increase in income from securitization activities and our Immigrant Investor Program also contributed to the growth in revenue.

Non-interest expenses of $536 million increased $59 million, or 12.4%, compared with $477 million for 2006. The increase reflected increased business volumes and higher staff costs as we continue to expand our distribution network and our wealth management businesses. Marketing expenses increased to support the re-launch of Premier and the Direct Savings Account and brand awareness campaigns.

The provision for credit losses was higher compared to 2006 largely due to growth in the portfolio.

Commercial Banking

Business developments and achievements for 2007 include:

— *Revenue growth* – Total revenue grew by 8.7% over 2006 as a result of increased client acquisition, deepened existing relationships, new products and enhanced channel functionalities.

— *Significant momentum* – We increased our core business substantially with loans and acceptances up $4.1 billion over 2006. 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.

— *Return on investments* – Strong payback from the high growth Alberta region following launch of new initiatives including Loan Syndication, Energy Exploration and Production Lending, Private equity via HSBC Capital (Calgary), an Investment Banking desk, and a new complement to the Leasing group in Edmonton to capitalize on the strong flow of machinery and equipment destined for the oil sands.

— *Payments and Cash Management* – HSBC won the best Cash Management Bank in North America for the second year in a row in Euromoney's Awards for Excellence 2007. In addition, research results presented at the annual Treasury Management Association's Conference noted HSBC as a foreign bank making significant inroads into the liquidity market and large corporate sector and emerging as a stronger competitor in the cash management space, breaking into the top five in all segments.

— *Expanded product offerings* – We increased revenues within both Payments and Cash Management and Commercial Banking products following revised pricing, specifically from non-interest sources. We successfully implemented a number of key initiatives including improved balance reporting, automated Pooling and Cash Concentration, new online foreign exchange functionality on HSBCnet along with enhancements to Electronic Funds Transfer, closing important functional gaps and positioning the channel as a strong competitor in the Canadian marketplace.

— *Small and Medium Enterprise leader* – HSBC received the highest marks in a Canadian Federation of Independent Business survey of over 9,000 small to medium sized independent business owners to rank their financial institution on various performance indicators, including being able to easily access account managers, understanding clients business and willingness to offer information on alternative financial sources.

— *Group connections* – Together with selected HSBC Group sites, we launched the Customer Directory, a web-based global directory that allows users to access other HSBC Group customer databases, enhancing our cross-border business development and marketing opportunities.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for Commercial Banking:

	2007	2006
Net interest income	**$ 704**	$ 615
Non-interest revenue	**179**	197
Total revenue	**883**	812
Non-interest expenses	**329**	305
Provision for credit losses	**43**	14
Income before taxes	**511**	493
Provision for income taxes	**173**	169
Non-controlling interest in income of trust	**15**	15
Net income	**$ 323**	$ 309
Percentage of total net income	**59.0%**	60.0%
Average risk-weighted assets	**$ 23,554**	$ 19,951
Percentage of total average risk-weighted assets	**59.3%**	56.9%

Income, before taxes and non-controlling interest in income of trust, was $511 million, an increase of $18 million, or 3.7%, compared with $493 million for 2006. Excluding a charge for our non-bank ABCP, income was $527 million.

Net interest income grew by $89 million, or 14.5%, to $704 million in 2007. Strong asset growth reflected low interest rates and buoyant economic conditions in Canada. Additionally, we also benefited from deposit growth driven by the success of our Payments and Cash Management business and expansion of our product offerings.

Non-interest revenue decreased $18 million, or 9.1%, to $179 million in 2007. Excluding a charge for our non-bank ABCP, non-interest revenue was $195 million. Growth in business volumes resulted in higher credit fees, service charges and foreign exchange revenues. This was offset by lower gains recognized from our Private Equity investments.

Non-interest expenses were higher by 7.9% due largely to investments in our distribution network and Payments and Cash Management business, which increased salaries and benefits, and other expenses. Volume related expenses were also higher consistent with an increase in business activity and growth in the number of accounts and customers.

The provision for credit losses increased to $43 million due to increases in provisions in certain resource sectors as a result of weaker industry conditions impacted by the strength of the Canadian dollar. As well, prior year provisions were at historically low levels.

Global Banking and Markets

Business developments and achievements for 2007 include:

- *Revenue Growth* – Total revenue grew 15.3%, largely on increased capital markets activity.
- *Global Corporate Banking* – We leveraged our Global Banking and Markets platform in building relationships with target clients in energy, infrastructure and financial sectors. Our Joined Up approach led to a substantial increase in lead roles on cross-border debt financing for target clients.
- *Debt Capital Markets* – We led 27 transactions raising a total of $7.1 billion for domestic and foreign issuers and participated in 114 transactions raising a total of C$84.3 billion for domestic and foreign issuers.
- *Equity Capital Markets* – We participated in deals raising almost $18 billion.
- *Global Investment Banking* – We engaged on 8 mergers and acquisitions advisory mandates in mining, energy and transportation sectors.
- *Asset Management* – We launched the U.S. High Yield Bond Pooled Fund and HSBC BRIC Equity Fund and recorded new institutional investment mandates for Halbis Partners and Sinopia, HSBC's specialist managers.

Management's Discussion and Analysis (continued)

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for Global Banking and Markets:

	2007	2006
Net interest income	**$ 116**	$ 125
Non-interest revenue	**260**	201
Total revenue	**376**	326
Non-interest expenses	**132**	124
Income before taxes	**244**	202
Provision for income taxes	**83**	71
Non-controlling interest in income of trust	**4**	4
Net income	**$ 157**	$ 127
Percentage of total net income	**28.6%**	24.7%
Average risk-weighted assets	**$ 6,285**	$ 5,846
Percentage of total average risk-weighted assets	**15.8%**	16.7%

Income, before taxes and non controlling interest in income of trust, was $244 million compared with $202 million in 2006.

Net interest income decreased by $9 million, or 7.2%, in 2007 to $116 million and was reflective of increased liquidity costs, and lower interest margins due to credit market conditions triggered by sub-prime issues in the United States and the knock on impact to the Canadian market over the latter part of 2007.

Non-interest revenue increased in 2007 by $59 million, or 29.4%, to $260 million. The volatility of the Canada-US dollar exchange rate and the positive impact arising from changes in the carrying value of certain debt obligations recorded at fair value drove foreign exchange and trading income higher compared to 2006. Investment administration fees increased consistent with growth in our assets under administration.

Non-interest expenses were $132 million compared to $124 million for 2006. The increase was driven primarily by an increase in dealer trailer and investment advisory fees, consistent with higher assets under administration.

Consolidated Financial Statements

Statement of Management's Responsibility for Financial Information

The presentation and preparation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report is the responsibility of the management of HSBC Bank Canada ("the Bank"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

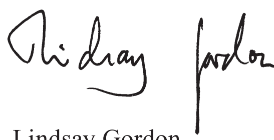
In meeting its responsibility for the reliability of financial information, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include: an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank, and careful selection and training of personnel; regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; and a continuing program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing the consolidated financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorized use or disposition and that the Bank is in compliance with all regulatory requirements.

At least once a year, the Office of the Superintendent of Financial Institutions Canada ("OSFI"), makes such examination and enquiry into the affairs of the Bank as deemed necessary to ensure that the provisions of the Bank Act, having reference to the rights and interests of the depositors and the creditors of the Bank, are being complied with and that the Bank is in a sound financial position.

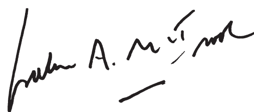
The Bank's Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee, which is composed of directors who are not officers or employees of the Bank. The Audit Committee reviews the Bank's interim and annual consolidated financial statements and MD&A and recommends them for approval by the Board of Directors. Other key responsibilities of the Audit Committee include monitoring the Bank's system of internal control, monitoring its compliance with legal and regulatory requirements, considering the appointment of the Shareholders' auditors and reviewing the qualifications, independence and performance of Shareholders' auditors and internal auditors.

We, the Bank's Chief Executive Officer and Chief Financial Officer, will certify the Bank's annual disclosure document as required by Multilateral Instrument 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) of the Canadian Securities Administrators.

The Shareholders' auditors, the Bank's Chief Auditor and OSFI have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.



Lindsay Gordon
President and Chief Executive Officer



Graham A. McIsaac, FCA
Chief Financial Officer

February 8, 2008
Vancouver, Canada

Auditors' Report

To the Shareholders of HSBC Bank Canada

We have audited the consolidated balance sheets of HSBC Bank Canada as at December 31, 2007 and 2006 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the management of HSBC Bank Canada. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of HSBC Bank Canada as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Vancouver, Canada
February 8, 2008

Consolidated Balance Sheets

As at December 31 *(in millions of dollars)*

	2007	2006
Assets		
Cash resources:		
Cash and non-interest bearing deposits with the Bank of Canada and other banks	**$ 510**	$ 368
Deposits with regulated financial institutions	**3,063**	4,346
	3,573	4,714
Securities: (note 2)		
Available for sale	**5,639**	–
Investment	**–**	3,554
Trading	**1,227**	1,162
Other	**60**	50
	6,926	4,766
Securities purchased under reverse repurchase agreements	**6,122**	4,760
Loans: (notes 3a & 4)		
Business and government	**21,322**	17,819
Residential mortgages	**12,920**	14,016
Consumer	**4,826**	3,728
Allowance for credit losses	**(353)**	(327)
	38,715	35,236
Other:		
Customers' liability under acceptances	**5,727**	5,130
Derivatives (note 17)	**623**	308
Land, buildings and equipment (note 5)	**149**	121
Other assets (note 6)	**1,096**	1,735
	7,595	7,294
	$ 62,931	$ 56,770
Liabilities and Shareholders' Equity		
Deposits: (note 7)		
Regulated financial institutions	**$ 1,535**	$ 1,469
Individuals	**18,291**	17,039
Businesses and governments	**29,051**	25,665
	48,877	44,173
Other:		
Acceptances	**5,727**	5,130
Securities sold under repurchase agreements	**320**	162
Derivatives (note 17)	**649**	316
Securities sold short	**623**	715
Other liabilities (note 8)	**2,256**	2,413
Non-controlling interest in trust and subsidiary (note 9)	**430**	430
	10,005	9,166
Subordinated debentures (note 10)	**801**	563
Shareholders' equity:		
Capital stock (note 11)		
Preferred shares	**350**	350
Common shares	**1,225**	1,125
Contributed surplus	**206**	202
Retained earnings	**1,462**	1,191
Accumulated other comprehensive income	**5**	–
	3,248	2,868
	$ 62,931	$ 56,770

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors:

Robert W. Martin
Director

Lindsay Gordon
President and Chief Executive Officer

Consolidated Statements of Income

For the years ended December 31 *(in millions of dollars except per share amounts)*

	2007	2006
Interest income:		
Loans	$ **2,554**	$ 2,144
Securities	**273**	186
Deposits with regulated financial institutions	**237**	234
	3,064	2,564
Interest expense:		
Deposits	**1,803**	1,422
Subordinated debentures	**39**	27
	1,842	1,449
Net interest income	**1,222**	1,115
Non-interest revenue:		
Deposit and payment service fees	**100**	90
Credit fees	**114**	106
Capital market fees	**109**	115
Investment administration fees	**131**	103
Foreign exchange	**40**	32
Trade finance	**23**	24
Trading revenue	**102**	69
(Losses) gains on available for sale (2006-investment) securities	**(13)**	3
Gains on other securities	**11**	27
Securitization income	**42**	42
Other	**49**	40
	708	651
Total revenue	**1,930**	1,766
Non-interest expenses:		
Salaries and employee benefits	**548**	503
Premises and equipment, including amortization	**122**	116
Other	**327**	287
	997	906
Net operating income before provision for credit losses	**933**	860
Provision for credit losses (note 4)	**67**	34
Income before provision for income taxes and non-controlling interest in income of trust	**866**	826
Provision for income taxes (note 14)	**292**	285
Non-controlling interest in income of trust	**26**	26
Net income	$ **548**	$ 515
Preferred share dividends (note 11)	**18**	18
Net income attributable to common shares	$ **530**	$ 497
Average number of common shares outstanding (000's)	**489,918**	488,668
Basic earnings per common share	$ **1.08**	$ 1.02

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31 *(in millions of dollars)*

	2007	2006
Preferred shares: (note 11)		
Balance at beginning and end of year	**$ 350**	$ 350
Common shares: (note 11)		
Balance at beginning of year	**1,125**	1,125
Issued	**100**	–
Balance at end of year	**1,225**	1,125
Contributed surplus:		
Balance at beginning of year	**202**	187
Stock-based compensation (note 12)	**4**	15
Balance at end of year	**206**	202
Retained earnings:		
Balance at beginning of year	**1,191**	934
Transitional adjustments – financial instruments (note 1(u))	**1**	–
Net income	**548**	515
Preferred share dividends (note 11)	**(18)**	(18)
Common share dividends (note 11)	**(260)**	(240)
Balance at end of year	**1,462**	1,191
Accumulated other comprehensive income		
Balance at beginning of year	**–**	–
Transitional adjustments – financial instruments, net of income taxes of $4 million (note 1(u))	**7**	–
Net change in unrealized gains and losses on available for sale securities	**(5)**	–
Net changes for cash flow hedges	**3**	–
Balance at end of year	**5**	–
Total shareholders' equity	**$ 3,248**	$ 2,868

Consolidated Statements of Comprehensive Income

For the years ended December 31 *(in millions of dollars)*

	2007	2006
Net Income	**$ 548**	$ 515
Other comprehensive income on available for sale securities		
Net unrealized gains from changes in fair value (net of income taxes of $1)	**2**	–
Reclassification of realized gains to earnings (net of taxes of $(2))	**(7)**	–
	(5)	–
Other comprehensive income on cash flow hedges		
Unrealized gains from changes in fair value (net of taxes of $1)	**3**	–
Comprehensive income for the year	**$ 546**	$ 515

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 *(in millions of dollars)*

		2007		2006
Cash flows provided by (used in) operating activities:				
Net income	$	**548**	$	515
Adjustments to net income to determine net cash provided by operating activities:				
Amortization expense		**33**		39
Provision for credit losses (note 4)		**67**		34
Provision impairment of available for sale securities		**39**		–
Future income taxes (note 14)		**26**		12
Net accrued interest receivable and payable		**51**		38
Trading securities		**(65)**		256
Other, net		**314**		(221)
		1,013		673
Cash flows provided by (used in) financing activities:				
Deposits received		**4,704**		5,565
Securities sold (purchased) under repurchase agreements		**158**		(140)
Proceeds from issue of subordinated debentures		**400**		200
Redemption of subordinated debentures		**(125)**		(60)
Proceeds from issue of common shares (note 11)		**100**		–
Dividends paid (note 11)		**(278)**		(318)
		4,959		5,247
Cash flows provided by (used in) investing activities:				
Loans funded, excluding securitizations		**(5,957)**		(5,409)
Proceeds from loans securitized		**2,394**		1,981
Non-trading securities purchased		**(2,132)**		(681)
Securities purchased under reverse repurchase agreements		**(1,362)**		(3,008)
Net change in non-operating deposits with regulated financial institutions		**1,278**		1,200
Acquisition of land, buildings and equipment		**(56)**		(47)
		(5,835)		(5,964)
Increase (decrease) in cash and cash equivalents		**137**		(44)
Cash and cash equivalents, beginning of year		**347**		391
Cash and cash equivalents, end of year	$	**484**	$	347
Represented by:				
Cash and non-interest bearing deposits with the Bank of Canada and other banks	$	**510**	$	368
Less non-operating deposits with other banks[1]		**(26)**		(21)
Cash and cash equivalents, end of year	$	**484**	$	347
Supplementary cash flow information:				
Interest paid during the year	$	**1,845**	$	1,333
Income taxes paid during the year	$	**358**	$	266

(1) *Non-operating deposits comprise primarily cash which reprices after 90 days and cash restricted for recourse on securitization transactions.*

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006 *(all tabular amounts are in millions of dollars unless stated otherwise)*

HSBC Bank Canada is a subsidiary of HSBC Holdings plc ("the Parent"). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies.

1 Accounting policies

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain prior period amounts have been reclassified to conform with the current year presentation. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

a *Basis of consolidation*

We conduct business through a variety of corporate structures, including subsidiaries. All of the assets, liabilities, revenue and expenses of our subsidiaries are reported in the consolidated financial statements. All material intercompany transactions and balances have been eliminated.

b *Use of estimates and assumptions*

In preparing our consolidated financial statements we make estimates and assumptions which affect reported amounts of assets, liabilities, net income and related disclosures. The most significant assets and liabilities where we make estimates include measurement of the allowance for credit losses, financial instruments measured at fair value, "other than temporary" impairment of available for sale securities, securitizations, pension and other employee future benefits, income taxes, goodwill and intangible assets. Accordingly, actual results could differ from these and other estimates thereby impacting our consolidated financial statements.

c *Financial Instruments*

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, effective January 1, 2007, all financial instruments, with certain exceptions, are classified as one of the following: held to maturity ("HTM"), loans and receivables, held for trading ("HFT"), available for sale ("AFS") or other financial liabilities. All financial instruments must be recognized at fair value on initial recognition. Fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For derivative or other financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Financial instruments designated as HFT are purchased for resale generally for the short term. Subsequent to initial recognition, financial assets and liabilities designated as HFT are recorded at fair value. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported as trading revenue. Dividends and interest earned and interest incurred are included in interest income and expense, respectively. Transaction costs are expensed as incurred for financial instruments designated as HFT.

The standard also permits designation of a financial instrument, irrespective of its nature, as HFT on initial recognition, ("the fair value option"). The use of the fair value option requires that fair values of such instruments can be measured reliably. Financial instruments accounted for under the fair value option are accounted for in the same manner as HFT financial assets and financial liabilities. OSFI has imposed restrictions on the use of the fair value option whereby its use must significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring the financial instrument or recognizing gains and losses on them on a different basis, or it belongs to a group of financial instruments that are managed on a fair value basis in accordance with the Bank's risk management or investment strategy, or it is an embedded derivative that is not closely related to the host contract. In addition, OSFI places restrictions on designating retail exposures using the fair value option.

Financial instruments designated as AFS are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income ("AOCI") until sale when the cumulative gain or loss is recycled to the Consolidated Statement of Income. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in non-interest revenues. Interest income and dividends from financial instruments designated as AFS are included in interest income using the effective interest rate method.

1 Accounting policies *(continued)*

c *Financial Instruments (continued)*

Financial Instruments designated as HTM, loans and receivables and other financial liabilities other than those designated or classified as HFT are measured at amortized cost using the effective interest rate method. Provisions for other than temporary impairment on assets designated as AFS or HTM are charged to income.

The effective interest rate method is used for allocating the related interest income or interest expense of financial instruments, including amortization of transaction costs and fees as well as accretion of premiums or discounts over the expected life of the instrument, whereby the amount recognized in income varies over the life of the instrument based on principal outstanding.

d *Cash resources*

Deposits with regulated financial institutions are recorded at amortized cost, except for certain instruments which are recorded as AFS or HFT as appropriate. Interest income on interest earning deposits is recorded on an accrual basis using the effective interest rate method. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise non-interest bearing deposits with the Bank of Canada and other banks.

e *Securities*

Effective January 1, 2007, with certain exceptions, securities are designated as HFT or AFS. Securities are accounted for on a trade date basis.

On transition, instruments previously designated as Investment Securities are now designated as AFS, with the exception of merchant banking investments carried at fair value and an investment designated as HTM. Equities that do not have quoted market values in an active market are carried at cost, as values are not reliably measurable. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other than temporary impairments in value are included in non-interest revenues. Interest income and dividends from these securities are included in interest income using the effective interest rate method.

There has been no change in our accounting policies related to merchant banking investments held in investment companies, which are recorded at fair value, nor investments in entities where the Bank exerts influence but does not have control which are accounted for under the equity method.

The purchase of securities under reverse repurchase agreements and sale of securities under repurchase agreements are accounted for as guaranteed loans and borrowings. These securities are recorded at amortized cost using the effective interest rate method.

Prior to January 1, 2007, securities not classified as HFT and AFS were classified as Investment Securities. Investment Securities were carried at cost or amortized cost. Premiums, discounts and transaction costs were amortized to interest income over the life of the security. The carrying value of Investment Securities was adjusted to their net realizable value for other than temporary declines in their value.

f *Loans*

Loans, including direct finance leases, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method net of any unearned income, and an allowance for credit losses.

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

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

f *Loans (continued)*

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

g *Allowance for credit losses*

An allowance is maintained for credit losses which is considered adequate to absorb all estimated credit-related losses in our portfolio of both on and off-balance sheet items, including deposits with other regulated financial institutions, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change. The allowance for credit losses consists of specific and general allowances, each of which is reviewed on a regular basis.

Specific allowances are recorded on a loan-by-loan basis, for those loans where we believe the ultimate collectibility of all or some portion of principal or interest is in doubt, to reduce the carrying value of an impaired asset to its estimated realizable amount. A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security. Specific allowances are determined utilizing a formula approach for personal loans with similar characteristics.

General allowances are our best estimate of probable losses in the existing portfolio, for which losses are not yet specifically identified on an item-by-item basis. In determining an appropriate level of general allowances, we have adopted a methodology that incorporates our loan loss history as the basis for determining probability of default and loss given default rates for various credit portfolios that exhibit similar loan loss characteristics. These historic rates are further refined to allow for the stage of the credit cycle and the inherent difficulties in determining whether data collection captures a complete economic cycle. These loss ratios are applied to outstanding credit exposures to determine an appropriate level of allowance. Some credit portfolios do not readily lend themselves to this approach and therefore we have estimated an allowance level for these portfolios based on externally published default data or other underlying assumptions made as to the loan loss characteristics of these portfolios.

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

h *Securities purchased and sold under repurchase agreements*

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under reverse repurchase agreements are not recognized on the balance sheet and an asset is recorded representing the consideration paid. Interest income (reverse repurchase agreements) and interest expense (repurchase agreements) are recorded using the effective interest rate method.

i *Land, buildings and equipment*

Land is carried at cost. Buildings, leasehold improvements and equipment are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings – 20 to 40 years, equipment – 3 to 5 years, internally developed software – 5 years and leasehold improvements – various lease terms. Gains and losses on disposal are recorded in other non-interest revenue in the year of disposal.

1 Accounting policies *(continued)*

j *Goodwill and other intangible assets*

Goodwill, which represents the excess of the price paid for subsidiaries over the fair value of the net assets acquired is not amortized and is recorded in other assets.

Identifiable, reliably measured other intangible assets resulting from acquisition of subsidiaries are also recorded in other assets. Intangible assets with definite lives are amortized over their estimated useful lives, not exceeding 15 years, except where a write-down is required to reflect impairment.

Goodwill and other intangible assets are reviewed at least annually for indications of impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

k *Customers' liability under acceptances*

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We expect most acceptances to be settled simultaneously with the reimbursement from the customers. Our exposure under acceptances is reported as a liability. Our recourse against customers is recorded as an equivalent offsetting asset. Fees earned are reported in credit fees in non-interest revenue.

l *Income taxes*

Income taxes are accounted for under the asset and liability method. Under this method, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Income tax expense or recovery is the sum of the provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities, adjusted for any amounts included in other comprehensive income ("OCI").

m *Employee future benefits*

We sponsor a number of pension plans and arrangements covering all qualified employees. The pension plans include both defined benefit and defined contribution plans. The arrangements include supplemental pension arrangements, that provide pension benefits in excess of the benefits provided by the pension plans, and post-retirement, non-pension arrangements that provide certain benefits in retirement. The pension plans are funded by contributions from us or our employees, while the supplemental pension arrangements are not funded.

The costs of employee future benefits for defined benefit plans are determined using the projected unit credit method pro-rata on services and using management's best estimate of expected investment performance, salary escalation and expected health care costs.

For purposes of determining the expected return on pension plan assets, those assets are valued at their fair value.

The excess of cumulative unrecognized net actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service lifetime ("EARSL") of active employees covered under the plan in question.

Past service costs arising from retroactive benefit changes are amortized on a straight-line basis over the EARSL of active members expected to receive benefits under the plan in question.

When an event giving rise to a settlement and a curtailment occurs, the curtailment is accounted for prior to the settlement.

The transitional asset arising from a change in accounting policy in earlier years is amortized over the expected future service lifetime of the active employees.

For the purposes of determining the financial position and the costs of employee future benefits, a measurement date of September 30 has been adopted.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

n *Translation of foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing year-end exchange rates. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the rates in effect at the transaction date. Premiums and discounts on foreign currency forward contracts that hedge foreign currency assets and liabilities are amortized over the period to maturity as interest expense. Realized and unrealized gains and losses from foreign currency translation are included in non-interest revenue, with the exception of unrealized foreign exchange gains and losses on AFS securities, which are included in AOCI until such time that they are realized and included in non-interest revenue.

o *Derivative instruments and hedges*

Derivative instruments are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. In the ordinary course of business, we enter into various derivative contracts, including interest rate, foreign exchange and equity forwards, futures, swaps and options. Derivative contracts are either exchange-traded contracts (including futures and options) or negotiated over-the-counter contracts (including forwards, swaps and options). We enter into such contracts for trading purposes, as well as to hedge our exposures to currency and interest rate fluctuations as part of our risk management program. Trading activities are undertaken to meet the needs of our customers, as well as on our own account to earn trading income, and on any contracts that do not qualify for hedge accounting.

Non-hedging derivative instruments are marked to market and the resulting net gains or losses are recognized in non-interest revenue in the current period, with a corresponding asset or liability recorded on the balance sheet.

CICA Handbook Section 3865, *Hedges* specifies the circumstances under which hedge accounting is permissible and how hedge accounting should be applied in the financial statements.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to identified assets and liabilities or to identified firm commitments or forecasted transactions. We also formally assess, at the hedge's inception, retrospectively and prospectively on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows attributed to the hedged risks.

Accrued interest receivable and deferred gains are recorded in other assets and accrued interest payable and deferred losses are recorded in other liabilities. Interest income or expense and amortized gains or losses are recorded in interest income or interest expense, as applicable.

Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge foreign currency debt are accrued under other assets or other liabilities, and recognized in non-interest revenue, net of expenses, offsetting the respective translation losses and gains recognized on the underlying foreign currency debt. The forward premium or discount on forward foreign exchange contracts used to hedge foreign currency debt is amortized as an adjustment of interest expense over the term of the forward contract.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other assets or liabilities and recognized in income in the period in which the underlying hedged transaction is recognized in the income statement. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Hedges are designated as either fair value hedges or cash flow hedges. Fair value hedges are used to manage the impact on income from changes in the fair value of fixed rate assets and liabilities caused by changes in interest rates. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk which amounts are recorded in trading income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging instrument, normally a derivative, on which fair value changes are also recorded in trading income.

1 Accounting policies *(continued)*

o *Derivative instruments and hedges (continued)*

Cash flow hedges are used to manage the impact on income from the effects of changes in the interest rates on variable rate assets and liabilities. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in OCI while the ineffective portion is recognized in trading income. The amounts recognized in OCI will be reclassified to net income in periods in which net income is affected by the variability in the cash flows of the hedged item.

p *Trust assets under administration*

Trust assets under administration are maintained separately from our assets and are not included in the consolidated balance sheet.

q *Loan securitizations*

Groups of loans are periodically sold to various securitization conduits. Transfers of loans are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If treated as sales, the loans are removed from the balance sheet and a gain or loss is recorded in non-interest revenue based on the carrying value of the loans transferred, allocated between the assets sold and their retained interests in proportion to their fair values at the date of transfer.

The fair values of loans sold, retained interests and recourse liabilities are determined using market values where appropriate or pricing models taking into account our best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved, or sales of similar assets. Retained interests, which are accounted for as AFS, are included in other assets and recorded at fair value. Retained interests are tested regularly for other than temporary impairment, and carrying values reduced to fair values to reflect any such impairment in non-interest income. Where we continue to service the loans sold, a servicing liability or asset is recognized and amortized over the servicing period. Revenue earned in respect of servicing the assets sold is reflected in non-interest revenue as services are provided.

r *Stock-based compensation*

We provide compensation to certain key employees in the form of share options and/or share-based awards of shares of our Parent. As well, eligible employees are invited to participate in a savings-related share option program. Fair values of share options, measured at the date of grant of the option, or subsequent re-measurement date, are estimated using a binomial option pricing model which produces similar results to the Black-Scholes option pricing model. The fair values estimated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The fair value of stock options on grant date is recorded as compensation expense over the vesting period, with a corresponding increase to contributed surplus.

Our other arrangements include award-type compensation for certain key employees. The expense for these arrangements is recognized over the vesting period or as performance conditions are met, and is based on the fair value of the award at the date of grant.

s *Investment companies*

We carry our investments held in investment companies at fair value when we otherwise would have had to consolidate them or account for them using the equity method.

t *Variable interest entities*

Variable interest entities ("VIEs") are consolidated where the Bank is the primary beneficiary. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

u *Changes in accounting policies*

Effective January 1, 2007, the Bank adopted new Canadian Institute of Chartered Accountants (CICA) Standards relating to (i) the recognition, measurement and disclosure of financial instruments, (ii) hedges and, (iii) comprehensive income. The impact of the adoption of the new standards is as follows:

i) Financial Instruments

Adjustments to the carrying values of certain financial liabilities at January 1, 2007 have been recorded as adjustments to opening retained earnings where, in accordance with the transitional provisions of the new standards, such liabilities have been designated as HFT under the fair value option. An adjustment to opening retained earnings was recognized as a result of recording adjustments to the carrying values of instruments from application of the effective interest rate method.

An adjustment to opening retained earnings was also recognized as a result of recording fair values of guarantees associated with banker's acceptances and other guarantees.

ii) Hedges

On initial adoption of this new standard, all derivatives were recorded at fair value on the balance sheet. Existing hedging relationships that continue to qualify for hedge accounting are accounted for on initial recognition under the new standard as follows:

a) fair value hedging relationships – any gains or losses on the hedging instrument have been recognized as an adjustment to opening retained earnings. The carrying amount of the related hedged item has been adjusted by the cumulative change in fair value attributable to the designated hedged risk, which is included as an adjustment to opening retained earnings; and

b) cash flow hedging relationships – the effective portion of any gain or loss on the hedging instruments was recognized as an adjustment to opening OCI and the cumulative ineffective portion was included as an adjustment to opening retained earnings.

Gains and losses on derivatives that no longer qualify as hedge accounting instruments have been recognized as an adjustment to opening retained earnings.

iii) Comprehensive Income

CICA Handbook Section 1530, *Comprehensive Income* requires the accounting for and disclosure of a new category of equity called comprehensive income, which is comprised of net income, changes in unrealized gains and losses on available for sale assets and changes in unrealized gains and losses related to the effective portion of cash flow hedges. In addition, as a result of this new standard, existing Section 3250, *Surplus* has been replaced with new Section 3251, *Equity*. This latter section requires presentation of a separate component of equity for each category that is of a different nature.

The components of comprehensive income are recorded in the consolidated statement of OCI until recognized in the consolidated statement of income. AOCI is included in the consolidated balance sheet as a separate component of shareholders' equity. All amounts are recorded in OCI on a net of tax basis.

1 Accounting policies *(continued)*

u *Changes in accounting policies (continued)*

A summary of the impact from adopting the new standards on opening retained earnings and opening AOCI is as follows:

	Gross	*Tax Impact*	*Net*
Credit (Debit) to opening retained earnings:			
Application of the effective interest rate method	$ 15	$ (5)	$ 10
Application of the fair value of guarantees	(13)	5	(8)
Initial designation of certain securities and related derivatives under the fair value option	(1)	–	(1)
Total net impact	$ 1	$ –	$ 1

The initial impact of adopting the new standards on all other financial instruments, including derivatives, was not material.

Credit (Debit) to opening accumulated other comprehensive income:			
Unrealized gains on financial instruments designated as available for sale	$ 9	$ (3)	$ 6
Net transitional impact relating to qualifying cash flow hedges	2	(1)	1
Total net impact	$ 11	$ (4)	$ 7

The net transitional impact relating to qualifying cash flow hedges comprises a credit of $6 million relating to hedges discontinued prior to maturity, offset by a debit of $4 million on qualifying cash flow hedges now accounted for as fair value hedges.

v *Future accounting and reporting changes*

i) Capital Disclosures

CICA Handbook Section 1535, *Capital Disclosures*, issued in December 2006, establishes disclosure requirements relating to entities' objectives, policies and processes for managing capital, quantitative disclosures about what the entity regards as capital, whether the entity has complied with any capital requirements, and the consequences of non-compliance with such capital requirements.

ii) Financial Instruments – Presentation and Disclosure

CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*, both issued in December 2006, establish comprehensive disclosure and presentation requirements related to financial instruments. The standards revise the current disclosure requirements of CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and place an increased emphasis on disclosures regarding the risks associated with financial instruments and how these risks are managed.

CICA Handbook Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards will impact the Bank's note disclosures and allow users to further evaluate the Bank's policies and processes for managing capital and the risks related to the Bank's financial instruments.

The Bank will implement these standards in the first quarter of 2008.

Notes to Consolidated Financial Statements (continued)

2 Securities

a *Analysis of securities*

	2007				
	Term to maturity				
	Within 1 year	*1–5 years*	*5–10 years*	*No specific maturity*	*Total fair value*
Available for sale securities (at fair value):					
Securities issued or guaranteed by:					
Canada	**$ 3,426**	**$ 1,509**	**$ –**	**$ –**	**$ 4,935**
Provinces	**298**	**25**	**–**	**–**	**323**
	3,724	**1,534**	**–**	**–**	**5,258**
Others	**5**	**–**	**–**	**230**	**235**
Investment funds	**–**	**–**	**–**	**2**	**2**
Equity securities	**18**	**105**	**18**	**3**	**144**
Total available for sale securities	**$ 3,747**	**$ 1,639**	**$ 18**	**$ 235**	**$ 5,639**
Trading securities (at fair value):					
Securities issued or guaranteed by:					
Canada	**$ 364**	**$ 137**	**$ 43**	**$ –**	**$ 544**
Provinces	**7**	**16**	**55**	**–**	**78**
	371	**153**	**98**	**–**	**622**
Others	**485**	**35**	**19**	**50**	**589**
Investment funds	**–**	**–**	**–**	**–**	**–**
Equity securities	**–**	**–**	**–**	**16**	**16**
Total trading securities	**$ 856**	**$ 188**	**$ 117**	**$ 66**	**$ 1,227**

	2006				
	Term to maturity				
	Within 1 year	*1–5 years*	*5–10 years*	*No specific maturity*	*Total carrying value*
Investment securities (at amortized cost):					
Securities issued or guaranteed by:					
Canada	$ 2,858	$ 166	$ –	$ –	$ 3,024
Provinces	345	25	–	–	370
	3,203	191	–	–	3,394
Others	–	1	–	–	1
Investment funds	–	–	–	1	1
Equity securities	29	110	19	–	158
Total investment securities	$ 3,232	$ 302	$ 19	$ 1	$ 3,554
Trading securities (at fair value):	$ 613	$ 103	$ 404	$ 42	$ 1,162

At December 31, 2006, with the exception of $3 million in unrealized gains related to equity securities, the market value of investment securities approximated cost.

Other securities not designated as AFS or HFT include a foreign currency denominated provincial government bond designated as HTM at $8 million (2006 – $9 million), merchant banking investments recognized at fair value at $49 million (2006 – $39 million) and investments in equities with significant influence recognized using the equity method $3 million (2006 – $2 million).

The total carrying value of securities includes amounts denominated in currency other than Canadian dollars of $90 million (Canadian equivalent) (2006 – $103 million).

Included in AFS securities issued or guaranteed by Canada are mortgage-backed securities retained by us in connection with mortgage securitizations of $1,391 million (2006 – $33 million) (refer to note 3 (b)).

2 Securities *(continued)*

b *Canadian non-bank sponsored asset backed commercial paper*

As at December 31, 2007, the Bank held Canadian non-bank sponsored asset backed commercial paper investments ("non-bank ABCP") in 14 different special purpose conduits. Based on published information, the conduit assets include leveraged and unleveraged collateralized debt obligations, Canadian and US prime and sub-prime residential mortgages, commercial mortgage backed securities and certain other assets including Canadian automobile loans and personal lines of credit.

Due to the lack of liquidity and the consequent lack of market prices of non-bank ABCP, the Bank has estimated the fair value of these investments using a probability weighted discounted cash flow model, based on non-observable market inputs. The Bank has adjusted the carrying value of its non-bank ABCP investments, net of provisions, as at December 31, 2007 to $280 million, of which $50 million is classified as HFT and $230 million is classified as AFS. Of the total impairment charge of $47 million, $8 million is recorded as a reduction of trading income and $39 million is recorded as losses on AFS securities. The recorded carrying value of the non-bank ABCP represents management's best estimate of the fair value of the non-bank ABCP as at December 31, 2007.

The Bank determined the fair value of the non-bank ABCP using a discounted cash flow model that values the underlying assets based on a probability-weighting of the potential outcomes of the Montreal Accord, estimates of the values of the underlying assets and applicable interest rates. We applied, for each main class of assets backing the securities, the best, average and worst case scenarios to determine values, which were then weighted, based on management's estimates of the probabilities for each scenario and used to arrive at management's best estimate of fair value.

Management's significant assumptions and estimates of the valuation of non-bank ABCP included the probability of success or failure of restructuring based on the outcome of the Montreal Accord. Management also used published credit ratings of the underlying categories of assets and made assumptions about specific composition of assets in each category, market spreads, estimated coupon factors and discount rates, and maturity for each major class of restructured assets. The effect of a 10% adverse change in our key assumptions would result in a further provision of $12 million.

Our valuation was based on our assessment, at December 31, 2007, of estimates and circumstances that may change in subsequent periods. Items that may have a material impact on the fair value of the non-bank ABCP include further developments or delays in the restructuring process under the Montreal Accord, the final outcome of the Montreal Accord, further changes in the value of the underlying assets, developments related to the liquidity of the non-bank ABCP market and further changes in economic conditions including interest rates.

c *(Losses) gains on available for sale (2006 – investment) securities*

	2007	2006
Realized gains	**$ 26**	$ 3
Realized losses net of impairment write-downs	**(39)**	–
Net (losses) gains	**$ (13)**	$ 3

3 Loans

a *Loans outstanding, net of the allowance for credit losses, are as follows:*

	2007	2006
Businesses and governments:		
Real estate	**$ 8,022**	$ 7,048
Hotels and hospitality	**666**	571
Manufacturing	**2,369**	1,958
Trade	**4,451**	3,616
Services	**3,357**	2,737
Direct finance leases	**1,788**	1,436
Other	**669**	453
Total businesses and governments	**21,322**	17,819
Residential mortgages	**12,920**	14,016
Consumer	**4,826**	3,728
Allowance for credit losses	**(353)**	(327)
Total	**$ 38,715**	$ 35,236

Notes to Consolidated Financial Statements (continued)

3 Loans *(continued)*

a *Loans outstanding, net of the allowance for credit losses, are as follows: (continued)*

Total net loans includes amounts denominated in U.S. dollars of $1,160 million (Canadian equivalent) (2006 – $1,303 million) and other foreign currencies of $68 million (Canadian equivalent) (2006 – $30 million). Included in residential mortgages are $897 million of NHA insured mortgages (2006 – $1,053 million), and $747 million of mortgages insured by a third party private insurer with a "AA" rating (2006 – $794 million).

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

	2007	2006
Residential mortgages		
Conventional	**$ 2,005**	$ 1,844
Mortgage-backed securities[1]	**1,794**	768
	3,799	2,612
Consumer loans		
Personal lines of credit	**1,200**	1,200
Term loans	**226**	349
	1,426	1,549
	$ 5,225	$ 4,161

(1) *Excludes insured mortgages which were securitized and retained by us of $1,391 million (2006 – $33 million). These assets are classified as AFS securities (2006 – investment securities) (refer to note 2(a)).*

Securitization activity during the year is as follows:

	2007				2006			
	Residential mortgages	*Personal lines of credit*	*Consumer term loans*	*Total*	*Residential mortgages*	*Personal lines of credit*	*Consumer term loans*	*Total*
New securitization activity								
Securitized and sold	**$ 2,304**	**$ –**	**$ 107**	**$ 2,411**	$ 1,203	$ 500	$ 303	$ 2,006
Net cash proceeds received	**2,289**	**–**	**105**	**2,394**	1,197	487	297	1,981
Retained rights to future excess interest	**48**	**–**	**5**	**53**	12	4	12	28
Retained servicing liability	**13**	**–**	**–**	**13**	5	1	1	7
Pre-tax gain on sale	**20**	**–**	**1**	**21**	5	3	2	10
Key assumptions at time of sale (%)								
Prepayment rate	**25.02**	**–**	**26.82**		32.94	100.00	26.82	
Excess spread	**1.11**	**–**	**4.06**		0.65	1.89	3.22	
Expected credit losses	**0.01**	**–**	**0.63**		0.02	0.20	0.63	
Discount rate	**5.41**	**–**	**8.36**		5.25	5.71	8.24	

Servicing and other income from securitized assets was $13 million during the year (2006 – $12 million). Credit losses of $2 million were realized on securitized consumer loans (2006 – $1 million).

3 Loans *(continued)*

c *Sensitivity of assumptions*

The following table outlines key economic assumptions used in measuring fair value of retained interests at December 31, 2007. These assumptions are the weighted average for all assets at year end. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another. The impact of a 10% and 20% increase to these assumptions is not significant.

	2007		
	Residential mortgages	*Personal lines of credit*	*Consumer term loans*
Fair value of retained interests	48	8	8
Discount rate	5.24%	6.30%	8.29%
Prepayment rate	22.47%	100.00%	29.00%
Expected credit losses	0.01%	0.19%	0.63%

4 Impaired loans and allowance for credit losses

a *Total gross impaired loans and the related specific allowances are as follows:*

	2007			2006		
	Gross amount	*Specific allowances*	*Carrying amount*	*Gross amount*	*Specific allowances*	*Carrying amount*
Businesses and governments						
Real estate	**$ 109**	**$ 14**	**$ 95**	$ 13	$ 3	$ 10
Manufacturing	**68**	**30**	**38**	109	31	78
Trade	**15**	**10**	**5**	7	7	–
Services	**28**	**12**	**16**	11	6	5
Other	**3**	**2**	**1**	3	–	3
Residential mortgages	**22**	**1**	**21**	11	1	10
Consumer	**24**	**15**	**9**	10	10	–
Total	**$ 269**	**$ 84**	**$ 185**	$ 164	$ 58	$ 106

Notes to Consolidated Financial Statements (continued)

4 Impaired loans and allowance for credit losses *(continued)*

b *The allowance for credit losses is as follows:*

	2007				
	Balance at beginning of the year	*Provision for credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Businesses and governments:					
Real estate	**$ 3**	**$ 11**	**$ –**	**$ –**	**$ 14**
Manufacturing	**31**	**13**	**(15)**	**1**	**30**
Trade	**7**	**8**	**(5)**	**–**	**10**
Services	**6**	**6**	**(2)**	**2**	**12**
Other	**–**	**4**	**(2)**	**–**	**2**
Residential mortgages	**1**	**–**	**–**	**–**	**1**
Consumer	**10**	**25**	**(22)**	**2**	**15**
Total specific allowances	**58**	**67**	**(46)**	**5**	**84**
General allowance	**269**	**–**	**–**	**–**	**269**
Total	**$ 327**	**$ 67**	**$ (46)**	**$ 5**	**$ 353**

	2006				
	Balance at beginning of the year	*Provision for (reversal of) credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Businesses and governments:					
Real estate	$ 4	$ 2	$ (3)	$ –	$ 3
Manufacturing	23	11	(5)	2	31
Trade	10	(2)	(2)	1	7
Services	6	2	(2)	–	6
Residential mortgages	1	1	(1)	–	1
Consumer	13	20	(22)	(1)	10
Total specific allowances	57	34	(35)	2	58
General allowance	269	–	–	–	269
Total	$ 326	$ 34	$ (35)	$ 2	$ 327

5 Land, buildings and equipment

	Cost	*Accumulated amortization*	*Net Book value* **2007**	*Net Book value* 2006
Land	$ 2	$ –	**$ 2**	$ 2
Buildings	21	6	**15**	15
Furniture and equipment	63	28	**35**	30
Computer equipment and software	54	13	**41**	18
Leasehold improvements	108	52	**56**	56
Total	$ 248	$ 99	**$ 149**	$ 121

Amortization charged to income for the year ended December 31, 2007 amounted to $28 million (2006 – $28 million).

6 Other assets

	2007	2006
Accrued interest receivable	**$ 156**	$ 210
Interest earning other assets	**224**	254
Due from clients, dealers and clearing corporations	**236**	544
Future income taxes, net (note 14)	**66**	94
Goodwill and other intangible assets, net	**18**	30
Pension asset (note 13)	**39**	54
Accounts receivable and other	**357**	549
Total	**$ 1,096**	$ 1,735

Amortization of intangible assets charged to income for the year ended December 31, 2007 amounted to $5 million (2006 – $11 million). No impairment loss was recorded for 2007 or 2006.

7 Deposits

	2007			
	Regulated financial institutions	*Individuals*	*Businesses and governments*	*Total*
Demand	**$ 368**	**$ –**	**$ 2,552**	**$ 2,920**
Notice	**–**	**5,055**	**9,081**	**14,136**
Fixed date	**1,167**	**13,236**	**17,418**	**31,821**
Total	**$ 1,535**	**$ 18,291**	**$ 29,051**	**$ 48,877**

	2006			
	Regulated financial institutions	*Individuals*	*Businesses and governments*	*Total*
Demand	$ 327	$ –	$ 2,493	$ 2,820
Notice	–	4,169	7,869	12,038
Fixed date	1,142	12,870	15,303	29,315
Total	$ 1,469	$ 17,039	$ 25,665	$ 44,173

Deposits denominated in U.S. dollars amount to $8,461 million (Canadian equivalent) (2006 – $8,216 million) and in other foreign currencies amount to $2,079 million (Canadian equivalent) (2006 – $1,873 million).

Included in deposits as at December 31, 2007 were $982 million of deposit liabilities that were designated as trading under the fair value option and $456 million of trading liabilities.

Notes to Consolidated Financial Statements (continued)

8 Other liabilities

	2007	2006
Accrued interest payable	**$ 374**	$ 377
Mortgages sold with recourse (note 15)	**436**	403
Interest bearing other liabilities	**527**	498
Payable to clients, dealers and clearing corporations	**301**	423
Pension liability (note 13)	**19**	17
Other employee future benefits liability (note 13)	**67**	60
Accounts payable and other	**532**	635
Total	**$ 2,256**	$ 2,413

9 Non-controlling interest in trust and subsidiary

	2007	2006
HSBC Canada Asset Trust	**$ 400**	$ 400
HSBC Mortgage Corporation (Canada)	**30**	30
	$ 430	$ 430

a *HSBC Canada Asset Trust*

HSBC Canada Asset Trust (the "Trust") is a closed-end trust. The Trust was established by HSBC Trust Company (Canada), our wholly owned subsidiary, as trustee. The Trust's objective is to hold qualifying assets which will generate net income for distribution to holders of securities issued by the Trust ("HSBC HaTS™"). The Trust assets are primarily undivided co-ownership interests in pools of Canada Mortgage and Housing Corporation insured first mortgages originated by us, and Trust deposits with us.

Unless we fail to declare dividends on our preferred shares, the Trust will make non-cumulative semi-annual cash distributions to the holders of the HSBC HaTS™. We have covenanted that if the Trust fails to pay the indicated yield in full on the HSBC HaTS™, we will not declare dividends on any of our shares unless the Trust first pays the indicated yield (note 11).

	2007		2006	
	Units	*Amount*	*Units*	*Amount*
HSBC Canada Asset Trust				
HSBC HaTS™ – Series 2010[(1)]	**200,000**	**$ 200**	200,000	$ 200
– Series 2015[(2)]	**200,000**	**200**	200,000	200
		$ 400		$ 400

(1) *Each Series 2010 unit was issued at $1,000 per unit to provide an effective annual yield of 7.78% to December 31, 2010 and the six month bankers' acceptance rate plus 2.37% thereafter. The units are not redeemable by the holders. The Trust may redeem the units on any distribution date, subject to regulatory approval.*

(2) *Each Series 2015 unit was issued at $1,000 per unit to provide an effective annual yield of 5.149% to June 30, 2015 and the six month bankers' acceptance rate plus 1.50% thereafter. The units are not redeemable by the holders. The Trust may redeem the units on June 30, 2010 and on any distribution date thereafter, subject to regulatory approval.*

b *HSBC Mortgage Corporation (Canada)*

The HSBC Group holds $30 million, a 100% interest, of class B perpetual preferred shares issued by HSBC Mortgage Corporation (Canada) ("HMC"), a wholly owned subsidiary. No dividends were paid or payable on these perpetual preferred shares for the years ended December 31, 2007 and 2006. Dividends may be declared at the discretion of the directors of HMC.

10 Subordinated debentures

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

Interest rate (%)	*Year of maturity*	*Foreign currency amount*	**2007**	2006
Issued to HSBC Group companies				
4.822[1]	2094	US$85	**$ 87**	$ 98
Issued to third parties				
6.65[2]	2012		–	25
5.60[3]	2012		–	100
4.39[4]	2015		**100**	100
4.94[5]	2021		**200**	200
4.80[6]	2022		**374**	–
30 day bankers' acceptance rate plus 0.50%	2083		**40**	40
			714	465
Total			**$ 801**	$ 563

(1) *The interest rate is fixed at 4.822% until July 2010. Prior to July 2005, the interest rate was fixed at 7.09%. Interest expense for the year amounted to $4 million (2006 – $5 million).*

(2) *The interest rate was fixed was 6.65% until September 2007, when the debentures were redeemed at par.*

(3) *The interest rate was fixed was 5.60% until June 2007 when the debentures were redeemed at par.*

(4) *The interest rate is fixed at 4.39% until January 2010 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(5) *The interest rate is fixed at 4.94% until March 2016 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(6) *Issued on April 9, 2007 for $400 million. Interest rate is fixed at 4.80 per cent until April 10, 2017 and thereafter, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1.00 per cent. These debentures were designated as trading under the fair value option.*

Notes to Consolidated Financial Statements (continued)

11 Capital stock

Authorized:

Preferred – Unlimited number of Class 1 preferred shares in one or more series and unlimited number of Class 2 preferred shares in one or more series. We may, from time to time, divide any unissued Class 1 preferred shares into separate series and fix the number of shares in each series along with the associated rights, privileges, restrictions and conditions.

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

Issued and fully paid:

	2007		2006	
	Number of shares	*Amount*	*Number of shares*	*Amount*
Preferred – Class 1, Series C[1]	**7,000,000**	**$ 175**	7,000,000	$ 175
– Class 1, Series D[2]	**7,000,000**	**175**	7,000,000	175
Common[3]	**498,668,000**	**1,225**	488,668,000	1,125
		$ 1,575		$ 1,475

(1) *The shares are non-voting, non-cumulative and redeemable. Each share yields 5.10%, payable quarterly, as and when declared. During 2007, $9 million (2006 – $9 million) in dividends were declared and paid.*

The shares will not be redeemable by us prior to June 30, 2010. Subject to regulatory approval, we may redeem the shares, in whole or in part, for cash commencing June 30, 2010 at a declining premium up to June 30, 2014, and at par thereafter. In each case, declared and unpaid dividends will also be paid thereon to the date fixed for redemption.

We may also, at any time, but only with the prior consent of the regulator, give shareholders notice that they have the right, at their option, to convert their shares into a new series of Class 1 Preferred Shares on a share-for-share basis.

(2) *The shares are non-voting, non-cumulative and redeemable. Each share yields 5.00%, payable quarterly, as and when declared. During 2007, $9 million (2006 – $9 million) in dividends were declared and paid.*

The shares will not be redeemable by us prior to December 31, 2010. Subject to regulatory approval, we may redeem the shares, in whole or in part, for cash commencing December 31, 2010 at a declining premium up to December 31, 2014, and at par thereafter. In each case, declared and unpaid dividends will also be paid thereon to the date fixed for redemption.

We may also, at any time but only with the prior consent of the regulator, give shareholders notice that they have the right, at their option, to convert their shares into a new series of Class 1 Preferred Shares on a share-for-share basis.

(3) *During the year, 10 million common shares were issued for cash of $10 per share and $260 million (2006 – $240 million) in dividends were declared and paid.*

Dividend restrictions:

We have covenanted that if the Trust fails to pay the indicated yield in full on the HaTS™, we will not declare dividends on any of our shares unless the Trust first pays the indicated yield (note 9).

12 Stock-based compensation

We award compensation to certain key employees in the form of options or shares. In addition, all eligible employees may participate in savings-related share option programs. Options have been granted to certain of our employees under the HSBC Holdings Group Share Option Plan (the "Group Share Option Plan") until it was terminated in 2005 and the HSBC Savings-Related Share Option Scheme (the "Savings-Related Share Option Scheme"). In lieu of options under the Group Share Option Plan, eligible employees now receive grants of ordinary shares of the Parent subject to certain vesting conditions ("Discretionary Awards"). Since the shares and contribution commitment have been granted directly by the Parent, the corresponding offset to compensation expense is an increase to contributed surplus, representing a contribution of capital from the Parent. As the shares and awards are in ordinary shares of the Parent traded on the London Stock Exchange, individual share information disclosed below in Canadian dollars has been converted from Pounds Sterling at the date of issue of options or at the date of funding of share purchases.

The following table presents information for each plan. Descriptions of each plan follow the table.

		2007	2006
a	*Group Share Option Plan:*		
	Total compensation expense recognized (in millions)	**$ –**	$ 11
b	*Savings-Related Share Option Scheme (1, 3 or 5 year vesting period):*		
	Total options granted	**1,128,417**	730,028
	Fair value per option granted	**$4.65–$4.76**	$3.78–$4.08
	Total compensation expense recognized (in millions)	**$ 3**	$ 4
	Significant assumptions used to calculate fair value:		
	Risk free interest rate	**5.5%**	4.5%
	Expected life (years)	**1–5**	1–5
	Expected volatility	**17%**	17%
c	*Discretionary Awards:*		
	Total compensation expense recognized (in millions)	**$ 20**	$ 15

Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes invite eligible employees to enter into savings contracts to save up to the equivalent of £250 per month, with the option to use the savings to acquire shares. The options are exercisable within six months following either the first, third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant. The exercise price is at a 20% discount to the market value at the date of grant.

Discretionary Awards

We provide awards to certain of our employees in the form of performance and non-performance restricted shares of the Parent. Performance related restricted shares generally vest after three years from date of grant, based on certain performance targets. Non-performance related restricted shares are released to the recipients based on continued service, typically at the end of a three-year vesting period from date of grant. The restricted shares are purchased in the open market and are held in trust on behalf of the employee until vesting. The cost of these shares purchased is recorded as compensation expense over the vesting period.

The 2007 award includes an amount of $1 million credited to contributed surplus in respect of the fair value of employee awards that did not meet certain performance based vesting conditions.

Notes to Consolidated Financial Statements (continued)

13 Employee future benefits

We sponsor a number of pension plans and arrangements, and post-retirement non-pension arrangements covering our employees.

The most recent actuarial valuations of the defined benefit pension plans for funding purposes were conducted as at December 31, 2006 with the exception of one plan that was valued as at December 31, 2005. The next actuarial valuations for funding purposes of these plans are required as at December 31, 2009 (December 31, 2008 for one plan).

Information about the defined benefit plans, in aggregate, as at December 31 (using a measurement date of September 30 – see note 1(m)) is as follows:

	Pension benefits		*Non-pension benefits*	
	2007	2006	**2007**	2006
Accrued benefit obligations				
Balance, beginning of year	**$ 303**	$ 285	**$ 91**	$ 75
Transfer to defined contribution plan	**(3)**	–	**–**	–
Current service cost	**13**	12	**4**	3
Interest cost	**16**	15	**5**	4
Benefits paid	**(13)**	(13)	**(2)**	(1)
Amendments	**–**	3	**–**	–
Actuarial loss (gain)	**(10)**	–	**(4)**	10
Employee contributions	**1**	1	**–**	–
Balance, end of year	**$ 307**	$ 303	**$ 94**	$ 91
Plan assets				
Fair value, beginning of year	**$ 259**	$ 246	**$ –**	$ –
Transfer to defined contribution plan	**(3)**	–	**–**	–
Actual return on plan assets	**29**	19	**–**	–
Bank contributions	**8**	6	**2**	1
Employee contributions	**1**	1	**–**	–
Benefits paid	**(13)**	(13)	**(2)**	(1)
Fair value, end of year	**$ 281**	$ 259	**$ –**	$ –
Funded status				
Funded status – surplus (deficit)	**$ (26)**	$ (44)	**$ (94)**	$ (91)
Bank contributions after measurement date	**1**	1	**–**	–
Unamortized net actuarial loss	**83**	110	**46**	53
Unamortized past service costs	**6**	7	**(19)**	(22)
Unamortized transitional (asset) obligations	**(29)**	(33)	**–**	–
Accrued benefit asset (liability)	**35**	41	**(67)**	(60)
Valuation allowance	**(15)**	(4)	**–**	–
Accrued benefit asset (liability), net of valuation allowance	**$ 20**	$ 37	**$ (67)**	$ (60)

13 Employee future benefits *(continued)*

The accrued benefit asset (liability), net of valuation allowance, is included in the consolidated balance sheet as follows:

	Pension benefits		*Non-pension benefits*	
	2007	2006	**2007**	2006
Other assets (note 6)	**$ 39**	$ 54	**$ –**	$ –
Other liabilities (note 8)	**(19)**	(17)	**(67)**	(60)
Total	**$ 20**	$ 37	**$ (67)**	$ (60)

Effective December 1, 2004 we amended our post-retirement, non-pension arrangements. Employees retiring between January 1, 2005 and December 31, 2007 will have the option of participating in the current plan or in a new flexible benefits plan. Commencing January 1, 2008, retiring employees will participate only in the new flexible benefits plan.

Included in the accrued benefit obligations and fair value of pension plan assets at year-end are the following amounts in respect of pension plans that are not fully funded:

	2007	2006
Accrued benefit obligations	**$ 186**	$ 192
Fair value of plan assets	**130**	129
Funded status – deficit, measurement date	**56**	63
Bank contributions after measurement date	**1**	1
Funded status – deficit, at year end	**$ 55**	$ 62

The distribution of the pension plan assets at December 31 is shown below:

	Percentage of pension plan assets	
	2007	2006
Equity securities	**70%**	70%
Debt securities	**29%**	29%
Other	**1%**	1%
Total	**100%**	100%

The expense for employee future benefits for the years ended December 31 is as follows:

	Pension benefits		*Non-pension benefits*	
	2007	2006	**2007**	2006
Service cost	**$ 13**	$ 12	**$ 3**	$ 3
Interest cost	**16**	15	**5**	4
Actual return on plan assets	**(29)**	(19)	**–**	–
Actuarial loss on accrued benefit obligation	**(10)**	–	**(4)**	11
Amendments	**–**	3	**–**	–
Costs arising in the year	**(10)**	11	**4**	18
Differences between costs arising in the year and costs recognized in the year in respect of:				
– Actual and expected return on plan assets	**12**	2	**–**	–
– Actuarial gain	**16**	6	**7**	(9)
– Amendments	**(1)**	(2)	**(2)**	(2)
– Amortization of transitional obligation (asset)	**(4)**	(4)	**–**	–
Net benefit plan expense recognized before change in valuation allowance	**13**	13	**9**	7
Increase (decrease) in valuation allowance	**11**	(4)	**–**	–
Net benefit plan expense	**24**	9	**9**	7
Defined contribution plan expense	**15**	13	**–**	–
Total expense	**$ 39**	$ 22	**$ 9**	$ 7

Notes to Consolidated Financial Statements (continued)

13 Employee future benefits *(continued)*

The total cash payments for employee future benefits for 2007, consisting of cash contributed by us to our funded pension plans, cash paid directly to beneficiaries for our unfunded pension arrangements and payments to third party service providers in respect of our post-retirement, non-pension arrangements were $24 million (2006 – $21 million).

The significant actuarial assumptions adopted in measuring the accrued benefit obligations and determining the net benefit plan expense were as follows:

	Pension benefits		*Non-pension benefits*	
	2007	2006	**2007**	2006
Accrued benefit obligations as at December 31				
Discount rate (%)	**5.50**	5.25	**5.50**	5.25
Rate of compensation increase (%)	**3.80**	3.30	**3.80**	3.30
Net benefit plan expense for years ended December 31				
Discount rate (%)	**5.25**	5.25	**5.25**	5.25
Expected long-term rate of return on plan assets (%)	**7.00**	7.00	**–**	–
Rate of compensation increase (%)	**3.30**	3.30	**3.30**	3.30

For measurement purposes for 2007, a 9.00% health care cost trend rate was assumed grading down to 4.90% by 2012 and assumed to remain level thereafter (2006 – 9.90% grading down to 4.90% by 2012 and assumed to remain level thereafter).

The weighted-average expected average remaining service lives of the active employees under the pension plans is 15 years and 19 years under the post-retirement, non-pension arrangements.

Sensitivity of Assumptions

The following table shows the sensitivity of the accrued benefit obligations at the end of 2007, as well as the net benefits expense for 2007, to changes in the significant actuarial assumptions. The sensitivities in each key variable have been calculated independently of changes in other key variables.

	Pension benefits		*Non-pension benefits*	
	Accrued benefit obligation	*Benefits expense*	*Accrued benefit obligation*	*Benefits expense*
Expected rate of return on plan assets (%)	–	7.00%	–	–
Impact of 1% increase	$ –	$ (3)	$ –	$ –
Impact of 1% decrease	$ –	$ 3	$ –	$ –
Discount rate (%)	5.50%	5.25%	5.50%	5.25%
Impact of 1% increase	$ (50)	$ (2)	$ (14)	$ (1)
Impact of 1% decrease	$ 66	$ 3	$ 8	$ 1
Rate of compensation increase (%)	3.80%	3.30%	3.80%	3.30%
Impact of 0.25% increase	$ 6	$ 1	–	–
Impact of 0.25% decrease	$ (6)	$ (1)	–	–
Assumed overall health care cost trend (%)	–	–	9.00%	9.90%(1)
Impact of 1% increase	$ –	$ –	$ 6	$ 1
Impact of 1% decrease	$ –	$ –	$ (5)	$ (1)

(1) *Grading down to 4.90% per year in 2012 and thereafter.*

14 Income taxes

a *Components of the provision for income taxes reported in the consolidated statements of income are:*

	2007	2006
Current income taxes:		
Federal	**$ 170**	$ 173
Provincial	**96**	100
	266	273
Future income taxes:		
Federal	**17**	8
Provincial	**9**	4
	26	12
Total provision for income taxes	**$ 292**	$ 285

b *The provision for income taxes shown in the consolidated statements of income is at a rate that is different than the combined federal and provincial statutory income tax rate for the following reasons:*

	2007	2006
Combined federal and provincial income tax rate	**34.6%**	34.8%
Adjustments resulting from:		
Adjustment for tax exempt income	**(1.4)**	(0.2)
Substantively enacted tax rate changes	**1.6**	0.8
Additional financial institution taxes	**–**	(0.1)
Other, net	**–**	0.3
Effective tax rate	**34.8%**	35.6%

c *The components of the net future income tax asset reported in other assets (note 6) are as follows:*

	2007	2006
Future income tax assets:		
Allowance for credit losses	**$ 81**	$ 88
Other available deductions	**76**	60
Buildings and equipment	**–**	8
Other	**8**	–
	165	156
Future income tax liabilities:		
Leases	**34**	20
Intangible assets	**–**	4
Deferred charges	**42**	13
Securitization related	**15**	13
Other	**8**	12
	99	62
Net future income tax asset	**$ 66**	$ 94

Notes to Consolidated Financial Statements (continued)

15 Guarantees, commitments and contingent liabilities

a *Credit-related*

In the normal course of business, we enter into various off-balance sheet commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. The policy for requiring collateral security with respect to these contracts and the types of collateral security held is generally the same as those for loans advanced.

Financial and performance standby letters of credit represent irrevocable assurances that payments will be made in the event that a customer cannot meet its obligations to third parties and they carry the same credit risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on us up to a certain amount subject to specific terms and conditions. We are at risk for any drafts drawn that are not ultimately settled by the customer, and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans and customers' liability under acceptances.

The credit instruments reported below represent the maximum amount of additional credit that we could be obligated to extend should contracts be fully utilized.

	2007	2006
Financial and performance standby letters of credit	**$ 2,420**	$ 2,046
Documentary and commercial letters of credit	**322**	492
Commitments to extend credit:		
Original term of one year or less	**31,519**	29,451
Original term of more than one year	**4,658**	4,401
Credit and yield enhancement	**50**	51
	$ 38,969	$ 36,441

b *Pledged assets and collateral*

In the ordinary course of business, we pledge assets recorded on our balance sheet. Details of pledged assets against liabilities are as follows:

	2007	2006
Assets pledged to:		
Bank of Canada	**$ 3,026**	$ 2,421
Clearing systems, payment systems and depositories	**89**	89
Assets pledged in relation to:		
Borrowing, securities lending and securities sold under repurchase agreements	**463**	372
Derivative transactions and other	**1**	8
Total	**$ 3,579**	$ 2,890

As at December 31, 2007, the approximate market value of collateral accepted for our securities lent and securities purchased under reverse repurchase agreements was $6,174 million (2006 – $4,971 million).

c *Long-term lease commitments*

Future minimum lease payments for all lease commitments under long-term leases of premises are as follows:

2008	$ 39
2009	35
2010	31
2011	26
2012	19
2013 and thereafter	18
	$ 168

The total rental expense charged in respect of premises for the year was $48 million (2006 – $47 million).

15 Guarantees, commitments and contingent liabilities *(continued)*

d *Mortgages sold with recourse*

We have agreed to repurchase any mortgage purchased from us by the HSBC Mortgage Mutual Fund if any principal and interest payments due are more than 90 days in arrears. Total mortgages sold with recourse as at December 31, 2007 were $436 million (2006 – $403 million) and are included in other liabilities (note 8).

e *Litigation*

We are subject to a number of legal proceedings arising in the normal course of our business. We do not expect the outcome of any of these proceedings, in aggregate, to have a material effect on our consolidated financial position or our results of operations.

Due to developments in the non-bank ABCP market in 2007, we may become subject to legal proceedings as a non-bank ABCP market participant. Management is unable to determine the likelihood or outcome of such potential litigation at this time, but believes we have strong defences to possible claims. Concurrent with these developments in the non-bank ABCP market, we became subject to a legal proceeding which we consider without merit and immaterial.

f *Contingent liabilities*

During 2004, the Canada Revenue Agency ("CRA") issued Notices of Reassessments pertaining to specific issues with respect to past taxation years. We are addressing these issues by filing Notices of Objections. The ultimate resolution of these issues is indeterminate at this stage. However, we believe that provisions to cover these matters are adequately reflected in the consolidated balance sheets as at December 31, 2007 and 2006.

g *Backstop liquidity facilities*

Backstop liquidity facilities are provided to asset-backed commercial paper conduit programs ("programs") administered by the Bank and third parties, as an alternative source of financing in the event that such programs are unable to access commercial paper markets, or in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. Generally, these facilities have a term of up to one year. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities provided to programs administered by the Bank have been drawn upon. No amounts were drawn on backstop liquidity facilities provided to programs administered by third parties at December 31, 2007 or 2006. Undrawn commitments in respect of backstop liquidity facilities are included in the amounts in note 15 (a) above.

h *Credit enhancements*

The Bank provides partial program wide credit enhancement to the multi-seller conduit program administered by it to protect commercial paper investors in the event that the collections on the underlying assets and any draws on the transaction specific credit enhancement and liquidity backstop facilities are insufficient to repay the maturing asset backed commercial paper issued by such multi-seller conduit program. Each of the asset pools funded by this multi-seller conduit program is structured to achieve a high investment grade credit profile through the provision of transaction specific credit enhancement provided by the seller of each asset pool to this multi-seller conduit program. The term of this program wide credit enhancement is 16 months.

16 Fair value of financial instruments

The amounts below represent the fair values of the on-balance sheet financial instruments as at December 31. Fair value is the estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the financial instruments. Financial instruments carried at amortized cost are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments designated as AFS or HFT, the carrying value is adjusted to reflect the fair value.

Notes to Consolidated Financial Statements (continued)

16 Fair value of financial instruments *(continued)*

The following table sets out the fair values of on-balance sheet financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment, goodwill and other intangible assets, and future income taxes.

	2007			2006		
	Book value	*Fair value*	*Fair value over (under) book value*	*Book value*	*Fair value*	*Fair value over (under) book value*
Assets						
Cash resources	**$ 3,573**	**$ 3,573**	**$ –**	$ 4,714	$ 4,714	$ –
Securities	**6,926**	**6,926**	**–**	4,766	4,769	3
Securities purchased under reverse repurchase agreements	**6,122**	**6,122**	**–**	4,760	4,760	–
Loans	**38,715**	**38,516**	**(199)**	35,236	35,147	(89)
Acceptances	**5,727**	**5,727**	**–**	5,130	5,130	–
Other assets	**1,635**	**1,635**	**–**	1,919	1,919	–
Liabilities						
Deposits	**$ 48,877**	**$ 48,890**	**$ 13**	$ 44,173	$ 44,153	$ (20)
Acceptances	**5,727**	**5,727**	**–**	5,130	5,130	–
Securities sold under repurchase agreements	**320**	**320**	**–**	162	162	–
Other liabilities	**3,958**	**3,958**	**–**	3,874	3,874	–
Debentures	**801**	**801**	**–**	563	565	2

The determination of fair values of financial instruments for which there are no quoted market values requires that a number of assumptions are made for which there exists a significant degree of subjectivity. The following methods and assumptions were used to estimate the fair value of these financial instruments:

- Cash resources, acceptances, securities purchased under reverse repurchase agreements, other assets, securities sold under repurchase agreements and other liabilities are assumed to approximate their carrying values, due to their short term nature.
- Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, fair values are determined using quoted market prices of similar securities or the use of valuation models.
- Floating rate loans are assumed to be equal to their book value. The fair values of loans with fixed terms are estimated using a discounted cash flow calculation at current rates for loans with similar terms and risks.
- Demand and floating rate deposits are assumed to be equal to their carrying value. The fair values of fixed rate deposits are estimated using a discounted cash flow calculation at current rates for deposits with similar terms and risks. Certain deposits are considered either trading liabilities or are designated as HFT using the fair value option.
- The fair value of debentures is determined by reference to current market prices for debt with similar terms and risks. The carrying value for certain deposits is adjusted for due to being designated as HFT under the fair value option or are subject to a fair value hedging relationship.

17 Derivative instruments

In the ordinary course of business, we enter into various derivative contracts such as foreign exchange contracts, interest rate swaps, forward rate agreements and financial futures contracts whose notional principal is not included in the consolidated balance sheet. Derivative instruments are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. Derivatives are used for both trading and asset/liability management purposes. Trading related activity includes transactions undertaken on our behalf or our customers ("Trading"). Asset/liability management ("ALM") derivatives are used by us to manage exposures to interest rate and foreign currency fluctuations. Where appropriate, customer related trading transactions may be used as part of the ALM program.

A derivative qualifies as a hedge if the hedging relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, the specific risk exposure or exposures being hedged, as well as how effectiveness of the hedge is being assessed. In addition, changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items or changes in the amount of future cash flows. The effectiveness of these hedging relationships is evaluated at inception of the hedge and on an ongoing basis, both retrospectively and prospectively using quantitative statistical measures of correlation. Accounting polices relating to derivatives are set out in note 1(o). Where a non-trading derivative has been designated and functions effectively as a hedge, the existing accounting treatment will continue as described in note 1(o).

We strictly adhere to our formalized risk management policies and procedures. Risk limits are determined for each portfolio of derivative instruments based on product, currency, interest rate repricing and market volatility. All limits are monitored on a daily basis. Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that the fair value of derivatives will fluctuate due to changes in interest or foreign exchange rates, and equity markets. Market risk is managed on a consolidated basis. Credit risk for derivative instruments is not equal to the notional amount of the principal as it is with assets recorded on the consolidated balance sheets. The credit risk for derivatives is principally the replacement cost of any contract with a positive market value plus an estimate for future fluctuation risk. Credit risk for derivatives is managed using our risk management policies.

Notes to Consolidated Financial Statements (continued)

17 Derivative instruments *(continued)*

a *An analysis of the derivative portfolio and related credit exposure at December 31 is as follows:*

	2007				2006			
	Notional amount	*Fair value*	*Credit equiva-lent amount*	*Risk weighted balance*	*Notional amount*	*Fair value*	*Credit equiva-lent amount*	*Risk weighted balance*
Interest rate contracts								
Futures	**$ 609**	**$ –**	**$ –**	**$ –**	$ 765	$ –	$ –	$ –
Swaps	**19,790**	**67**	**157**	**46**	17,350	96	151	41
Caps	**20**	**–**	**–**	**–**	40	–	–	–
	20,419	**67**	**157**	**46**	18,155	96	151	41
Foreign exchange contracts								
Spot contracts	**529**	**1**	**1**	**–**	880	1	1	–
Forward contracts	**35,165**	**355**	**762**	**233**	28,216	425	734	233
Currency futures	**1**	**–**	**–**	**–**	15	–	–	–
Currency swaps and options	**6,702**	**199**	**410**	**154**	3,538	58	168	61
	42,397	**555**	**1,173**	**387**	32,649	484	903	294
Other derivative contracts								
Credit	**290**	**–**	**35**	**7**	290	27	62	12
Equity	**56**	**1**	**2**	**1**	151	2	11	4
Long dated forwards	**–**	**–**	**–**	**–**	1,016	9	–	–
	346	**1**	**37**	**8**	1,457	38	73	16
Total	**$ 63,162**	**$ 623**	**$ 1,367**	**$ 441**	$ 52,261	$ 618	$ 1,127	$ 351

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposure.

Credit equivalent amount is the current replacement cost plus an amount for future credit exposure associated with the potential for future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by OSFI in its capital adequacy guidelines.

Risk-weighted balance represents the amount of regulatory capital required to support the derivative activities. It is estimated by risk weighting the credit equivalent amounts according to the creditworthiness of the counter parties using factors prescribed by OSFI in its capital adequacy guidelines.

Interest rate and currency futures are exchange traded. All other contracts are over-the-counter.

17 Derivative instruments *(continued)*

b *The following tables summarize the notional amounts by remaining term to maturity of the derivative portfolio at December 31:*

	2007								
	Trading				*ALM*				
	Under 1 year	*1 – 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 – 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Futures	$ 609	$ –	$ –	$ 609	$ –	$ –	$ –	$ –	$ 609
Swaps	3,015	6,694	1,358	11,067	5,500	2,623	600	8,723	19,790
Caps	–	20	–	20	–	–	–	–	20
	3,624	6,714	1,358	11,696	5,500	2,623	600	8,723	20,419
Foreign exchange contracts									
Spot contracts	354	–	–	354	175	–	–	175	529
Forward contracts	25,225	1,258	–	26,483	8,547	135	–	8,682	35,165
Currency futures	1	–	–	1	–	–	–	–	1
Currency swaps and options	3,566	1,218	1,911	6,695	–	7	–	7	6,702
	29,146	2,476	1,911	33,533	8,722	142	–	8,864	42,397
Other derivative contracts									
Credit	–	290	–	290	–	–	–	–	290
Equity	56	–	–	56	–	–	–	–	56
Long dated forwards	–	–	–	–	–	–	–	–	–
	56	290	–	346	–	–	–	–	346
Total	$ 32,826	$ 9,480	$ 3,269	$ 45,575	$ 14,222	$ 2,765	$ 600	$ 17,587	$ 63,162

Notes to Consolidated Financial Statements (continued)

17 Derivative instruments *(continued)*

	2006								
	Trading				*ALM*				
	Under 1 year	*1 – 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 – 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Futures	$ 609	$ –	$ –	$ 609	$ –	$ –	$ –	$ –	$ 609
Swaps	1,056	3,287	683	5,026	5,987	5,965	372	12,324	17,350
Caps	–	40	–	40	–	–	–	–	40
	1,665	3,327	683	5,675	5,987	5,965	372	12,324	17,999
Foreign exchange contracts									
Spot contracts	829	–	–	829	51	–	–	51	880
Forward contracts	20,864	440	–	21,304	6,893	19	–	6,912	28,216
Currency futures	15	–	–	15	–	–	–	–	15
Currency swaps and options	1,555	1,316	659	3,530	–	8	–	8	3,538
	23,263	1,756	659	25,678	6,944	27	–	6,971	32,649
Other derivative contracts									
Credit	–	–	–	–	–	290	–	290	290
Equity	151	–	–	151	–	–	–	–	151
Long dated forwards	1,016	–	–	1,016	–	–	–	–	1,016
	1,167	–	–	1,167	–	290	–	290	1,457
Total	$ 26,095	$ 5,083	$ 1,342	$ 32,520	$ 12,931	$ 6,282	$ 372	$ 19,585	$ 52,105

17 Derivative instruments *(continued)*

c *The following tables summarize the fair values of the Bank's derivative portfolio at December 31 segregating between derivatives that are in a favorable or receivable position and those in an unfavorable or payable position.* Fair values of derivative instruments are determined using quoted market prices, if one exists.

	2007						
	Trading			*ALM*			
	Favourable position	*Unfavourable position*	*Net position*	*Favourable position*	*Unfavourable position*	*Net position*	*Total net*
Interest rate contracts							
Swaps	**$ 60**	**$ (42)**	**$ 18**	**$ 7**	**$ (11)**	**$ (4)**	**$ 14**
Foreign exchange contracts							
Spot contracts	**–**	**(3)**	**(3)**	**1**	**–**	**1**	**(2)**
Forward contracts	**308**	**(281)**	**27**	**47**	**(107)**	**(60)**	**(33)**
Currency swaps and options	**199**	**(194)**	**5**	**–**	**–**	**–**	**5**
	507	**(478)**	**29**	**48**	**(107)**	**(59)**	**(30)**
Other derivative contracts							
Credit	**–**	**(10)**	**(10)**	**–**	**–**	**–**	**(10)**
Equity	**1**	**(1)**	**–**	**–**	**–**	**–**	**–**
Long dated forwards	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	1	**(11)**	**(10)**	**–**	**–**	**–**	**(10)**
Total	**$ 568**	**$ (531)**	**$ 37**	**$ 55**	**$ (118)**	**$ (63)**	**$ (26)**

	2006						
	Trading			*ALM*			
	Favourable position	*Unfavourable position*	*Net position*	*Favourable position*	*Unfavourable position*	*Net position*	*Total net*
Interest rate contracts							
Swaps	$ 20	$ (29)	$ (9)	$ 76	$ (39)	$ 37	$ 28
Foreign exchange contracts							
Spot contracts	1	(1)	–	–	–	–	–
Forward contracts	218	(219)	(1)	207	(5)	202	201
Currency swaps and options	58	(56)	2	–	–	–	2
	277	(276)	1	207	(5)	202	203
Other derivative contracts							
Credit	–	–	–	27	–	27	27
Equity	2	(2)	–	–	–	–	–
Long dated forwards	9	(9)	–	–	–	–	–
	11	(11)	–	27	–	27	27
Total	$ 308	$ (316)	$ (8)	$ 310	$ (44)	$ 266	$ 258

Notes to Consolidated Financial Statements (continued)

18 Interest rate sensitivity position

The following table provides an analysis of the interest rate sensitivity position at December 31 based on contractual repricing dates of assets and liabilities:

	2007									
	Floating rate	*Within 3 months*	*3 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	**$ 878**	**$ 2,135**	**$ 50**	**4.9**	**$ –**	**–**	**$ –**	**–**	**$ 510**	**$ 3,573**
Securities	**1,245**	**3,971**	**1,469**	**4.0**	**186**	**3.7**	**19**	**4.0**	**36**	**6,926**
Securities purchased under reverse repurchase agreements	**–**	**6,122**	**–**	**4.3**	**–**	**–**	**–**	**–**	**–**	**6,122**
Loans	**25,335**	**1,245**	**3,284**	**6.0**	**8,794**	**5.6**	**141**	**6.7**	**(84)**	**38,715**
Acceptances	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,727**	**5,727**
Other assets	**224**	**–**	**–**	**5.6**	**–**	**–**	**–**	**–**	**1,644**	**1,868**
Total assets	**27,682**	**13,473**	**4,803**	**–**	**8,980**	**–**	**160**	**–**	**7,833**	**62,931**
Deposits	**11,497**	**18,758**	**9,828**	**3.6**	**3,234**	**4.5**	**–**	**–**	**5,560**	**48,877**
Acceptances	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,727**	**5,727**
Securities sold under repurchase agreements	**–**	**320**	**–**	**4.3**	**–**	**–**	**–**	**–**	**–**	**320**
Other liabilities	**1,151**	**–**	**–**	**3.3**	**–**	**–**	**–**	**–**	**2,377**	**3,528**
Non-controlling interest in subsidiaries	**–**	**–**	**–**	**–**	**200**	**7.8**	**200**	**5.1**	**30**	**430**
Subordinated debt	**–**	**40**	**–**	**5.1**	**187**	**4.5**	**574**	**5.1**	**–**	**801**
Shareholders' equity	**–**	**–**	**–**	**–**	**350**	**5.1**	**–**	**–**	**2,898**	**3,248**
Total liabilities & shareholders' equity	**12,648**	**19,118**	**9,828**	**–**	**3,971**	**–**	**774**	**–**	**16,592**	**62,931**
On balance sheet gap	**15,034**	**(5,645)**	**(5,025)**	**–**	**5,009**	**–**	**(614)**	**–**	**(8,759)**	**–**
Off balance sheet positions	**–**	**(3,580)**	**1,664**	**–**	**1,316**	**–**	**600**	**–**	**–**	**–**
Total interest rate gap	**$ 15,034**	**$ (9,225)**	**$ (3,361)**	**–**	**$ 6,325**	**–**	**$ (14)**	**–**	**$ (8,759)**	**$ –**

18 Interest rate sensitivity position *(continued)*

	2006									
	Floating rate	*Within 3 months*	*3 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	$ 1,074	$ 2,616	$ 656	5.1	$ –	–	$ –	–	$ 368	$ 4,714
Securities	1,119	2,308	1,024	4.2	208	4.3	23	4.7	84	4,766
Securities purchased under reverse repurchase agreements	–	4,760	–	4.3	–	–	–	–	–	4,760
Loans	21,688	1,451	2,560	6.1	9,581	5.5	119	6.7	(163)	35,236
Acceptances	–	–	–	–	–	–	–	–	5,130	5,130
Other assets	254	–	–	7.5	–	–	–	–	1,910	2,164
Total assets	24,135	11,135	4,240	–	9,789	–	142	–	7,329	56,770
Deposits	9,420	15,873	10,078	3.4	3,358	4.1	6	4.5	5,438	44,173
Acceptances	–	–	–	–	–	–	–	–	5,130	5,130
Securities sold under repurchase agreements	–	162	–	4.3	–	–	–	–	–	162
Other liabilities	1,212	–	–	2.5	–	–	–	–	2,232	3,444
Non-controlling interest in subsidiaries	–	–	–	–	200	7.8	200	5.1	30	430
Subordinated debt	–	40	125	5.6	198	4.6	200	4.9	–	563
Shareholders' equity	–	–	–	–	350	5.1	–	–	2,518	2,868
Total liabilities & shareholders' equity	10,632	16,075	10,203	–	4,106	–	406	–	15,348	56,770
On balance sheet gap	13,503	(4,940)	(5,963)	–	5,683	–	(264)	–	(8,019)	–
Off balance sheet positions	–	(4,857)	2,185	–	2,467	–	205	–	–	–
Total interest rate gap	$ 13,503	$ (9,797)	$ (3,778)	–	$ 8,150	–	$ (59)	–	$ (8,019)	$ –

19 Segmented information

a *Customer groups*

We manage and report our operations according to the customer group definitions used by the HSBC Group. Various estimates and allocation methodologies are used in the preparation of the customer groups' financial information. We allocate expenses directly related to earning revenue to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to customer groups using appropriate allocation formulas. Customer group net interest income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Global Banking and Markets.

Notes to Consolidated Financial Statements (continued)

19 Segmented information *(continued)*

a *Customer groups (continued)*

A description of each customer group is as follows:

Personal Financial Services provides services to individuals by offering a comprehensive range of financial products and services, which include retail banking, asset management, full service and discount brokerage, and trust and advisory services.

Commercial Banking meets the needs of Canadian commercial and corporate clients by offering commercial and corporate banking, asset management, mergers and acquisitions ("M&A") advisory, merchant banking, treasury, and trade finance.

Global Banking and Markets provides a comprehensive range of financial services to an international group of HSBC's large multinational clients as well as client sales, service and distribution, balance sheet management, and proprietary trading. The focus is on entities that have a need for global value added products by offering the following services: corporate banking; asset management; M&A advisory; treasury; and trade finance.

The accounting policies of the segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

Effective January 1, 2007, the reporting of certain of the Bank's businesses was realigned to different customer groups. In addition, there have been certain changes in cost allocation methodologies. Prior year comparatives have been adjusted to reflect the current year's presentation and disclosure.

	Year ended December 31, 2007			
	Personal financial services	*Commercial banking*	*Global banking and markets*	*Total*
Net interest income	**$ 402**	**$ 704**	**$ 116**	**$ 1,222**
Other income	**269**	**179**	**260**	**708**
Total revenue	**671**	**883**	**376**	**1,930**
Non-interest expenses	**536**	**329**	**132**	**997**
Net operating income	**135**	**554**	**244**	**933**
Provision for credit losses	**24**	**43**	**–**	**67**
Income before undernoted	**111**	**511**	**244**	**866**
Provision for income taxes	**36**	**173**	**83**	**292**
Minority interest	**7**	**15**	**4**	**26**
Net income	**$ 68**	**$ 323**	**$ 157**	**$ 548**
Average assets	**$ 19,528**	**$ 24,232**	**$ 19,513**	**$ 63,273**

	Year ended December 31, 2006			
	Personal financial services	*Commercial banking*	*Global banking and markets*	*Total*
Net interest income	$ 375	$ 615	$ 125	$ 1,115
Other income	253	197	201	651
Total revenue	628	812	326	1,766
Non-interest expenses	477	305	124	906
Net operating income	151	507	202	860
Provision for credit losses	20	14	–	34
Income before undernoted	131	493	202	826
Provision for income taxes	45	169	71	285
Minority interest	7	15	4	26
Net income	$ 79	$ 309	$ 127	$ 515
Average assets	$ 18,307	$ 19,651	$ 16,160	$ 54,118

19 Segmented information *(continued)*

b *Geographic*

Assets are allocated on the basis of the location of ultimate risk. Liabilities are allocated on the basis of the residence status of the bearer of the deposit, bankers' acceptances or other liability.

	2007			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	**$ 60,284**	**95.8**	**$ 54,979**	**92.1**
United States	**1,266**	**2.0**	**1,204**	**2.0**
Other countries	**1,381**	**2.2**	**3,500**	**5.9**
Total	**$ 62,931**	**100.0**	**$ 59,683**	**100.0**

	2006			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	$ 54,332	95.7	$ 49,588	92.0
United States	1,268	2.2	429	0.8
Other countries	1,170	2.1	3,885	7.2
Total	$ 56,770	100.0	$ 53,902	100.0

20 Related party transactions

Fees are charged by HSBC Group companies with respect to guarantees of deposits, and administrative and technical services provided to us. The total fees for the year amounted to $82 million (2006 – $68 million) and were recorded in non-interest expenses.

HSBC Group companies hold certain debentures and preferred shares (notes 9 and 10).

An HSBC Group company has agreed to provide a standby borrowing facility of up to US$500 million to us at market rates and conditions. Funds have not been drawn from the facility since entering into the agreement.

In addition to the above related party transactions, transactions of a routine nature are completed with Group companies, none of which are material to these financial statements.

In 2005, the Canadian Competent Authority of the Canada Revenue Agency ("CRA") and the UK Competent Authority of HM Revenue & Customs in the UK agreed, in principle, to a Bilateral Advance Pricing Agreement ("BAPA"). The BAPA outlines the agreed upon rates to be used in determining the amount we can deduct as an expense for the HSBC Group guarantee, and the HSBC Group includes as income, for income tax purposes for the years 2002 to 2007 inclusive. The rates in the BAPA are lower than the historical defined rate we had been using to calculate the guarantee fee expense. We also entered into a separate agreement with CRA to acknowledge this arrangement under the BAPA. We also concluded a separate agreement, in principle, which required the HSBC Group to reimburse us for the non-deductible portion of the fee paid in excess of the amount as outlined in the BAPA relating to the 2002 to 2004 years. In 2006, all of the agreements summarized above were finalized as agreed.

Notes to Consolidated Financial Statements (continued)

21 Variable interest entities

The following table provides information about VIEs as at December 31, 2007 and 2006, in which we have a significant variable interest and including one that we consolidated under AcG-15.

	2007		2006	
	Total assets	*Maximum exposure to loss*	*Total assets*	*Maximum exposure to loss*
Unconsolidated VIEs:				
Securitization vehicles managed by the Bank[1]	**$ 877**	**$ 798**	$ 524	$ 380
Securitization vehicles managed by others[2]	**12,066**	**66**	25,108	84
Investment funds[3]	**1**	**–**	1	1
Consolidated VIEs:				
Specialised Financing Entity[4]	**700**	**–**	700	–

(1) *The maximum exposure to loss resulting from our significant variable interests in these VIE's consists mainly of the Bank's ownership interests in the asset backed commercial paper issued by these VIE's, the fair value of derivatives and the provision of credit enhancement and liquidity facilities. Included on our consolidated balance sheet is $356 million (2006 – $nil) of asset backed commercial paper issued by this VIE. An additional $300 million (2006 – $nil) of this commercial paper is included on the balance sheet of one of our unconsolidated affiliates.*

(2) *The maximum exposure to loss consists mainly of segregated deposits provided as first loss protection and retained interests in securitizations where we have sold loans. We have recognized this exposure on our consolidated balance sheet.*

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

(4) *We have issued innovative Tier 1 capital under a capital trust (note 9). This trust is a VIE, but we are considered its primary beneficiary and, therefore, consolidate this structure in our consolidated balance sheet.*

Securitization Vehicles Managed by the Bank

Multi-Seller Conduits

We act as financial services agent for a multi-seller asset backed commercial paper conduit program ("multi-seller conduit") and also provide a program wide credit enhancement facility, swap facilities, liquidity facilities and securities distribution services as the lead dealer to the multi-seller conduit. From time to time, the Bank in its capacity as lead dealer may hold asset backed commercial paper issued by the conduit, which is classified as trading securities. Also, the Bank earns fees which are recognized in income when received.

This multi-seller conduit provides the Bank's clients with alternate sources of financing through the securitization of their assets. Clients sell financial assets to the conduit and the conduit funds its purchase of such financial assets through the issuance of short term asset backed commercial paper to investors. Each client continues to service the financial assets they have sold to the multi-seller conduit and absorbs the first losses associated with such assets. The Bank has no rights to the assets as they are owned by the multi-seller conduit.

Through the issuance of capital notes to a single unrelated third party, the unrelated third party absorbs the expected future losses, up to a maximum contractual amount, of the assets in the multi-seller conduit before the Bank and the multi-seller conduit's debt holders. As at December 31, 2007 and 2006, the amount of capital notes issued and outstanding exceeded the conduits expected losses, and therefore, the Bank is not the primary beneficiary and thus, is not required to consolidate the multi-seller conduit under AcG-15. However, the Bank and its affiliates, hold significant variable interests in this multi-seller conduit primarily through holding its asset backed commercial paper, providing liquidity facilities and a program wide credit enhancement facility and through its entitlement to residual fees.

During 2007, the Bank converted its liquidity facilities provided to the multi-seller conduit from general market disruption liquidity facilities to liquidity facilities which can be drawn by the multi-seller conduit as long as at the time of draw, the multi-seller conduit meets certain tests designed to ensure that such liquidity facilities do not provide credit enhancement. For more detail on the liquidity facilities and program wide credit enhancement facility outlined above, please refer to the disclosure on guarantees, commitments and contingent liabilities in Note 15.

21 Variable interest entities *(continued)*

Securitization Vehicles Managed by the Bank (continued)

Single Seller Conduits

The Bank currently uses one single-seller special purpose entity (SPE) in the process of securitizing the asset pools associated with one of its securitization programs. The Bank holds variable interests to this SPE in its role as financial services agent and through the provision of first loss credit support associated with its sale of assets to this SPE. This SPE meets the conditions of a Qualifying Special Purpose Entity (QSPE) under AcG-12 and thus, is exempt from consolidation under AcG-15. For more detail on the Bank's securitization activities, refer to Note 3 (b).

Securitization Vehicles Managed by Others

We hold variable interests in third-party asset backed commercial paper conduits, primarily through providing liquidity facilities to such conduits. However, we are not the Primary Beneficiary and do not consolidate these conduits under AcG-15.

22 Principal subsidiaries

Principal subsidiaries (wholly-owned)	*Principal office address*	*Shareholders' equity*
HSBC Capital (Canada) Inc.	Vancouver, British Columbia	$ 60
HSBC Investments (Canada) Limited	Vancouver, British Columbia	13
HSBC Investment Funds (Canada) Inc.	Vancouver, British Columbia	9
HSBC Loan Corporation (Canada)	Vancouver, British Columbia	11
HSBC Mortgage Corporation (Canada)	Vancouver, British Columbia	112
HSBC Securities (Canada) Inc.	Toronto, Ontario	354
HSBC Trust Company (Canada)	Vancouver, British Columbia	55

The HSBC Group: International Network*

Services are provided by around 10,000 offices in 83 countries and territories:

Europe	Offices
Armenia	8
Belgium	3
Channel Islands	35
Cyprus	2
Czech Republic	10
France	833
Germany	13
Greece	27
Hungary	11
Ireland	12
Isle of Man	8
Italy	4
Luxembourg	4
Malta	48
Monaco	2
Netherlands	1
Poland	17
Russia	5
Slovakia	4
Spain	2
Sweden	3
Switzerland	18
Turkey	242
United Kingdom	1,678

Asia-Pacific	Offices
Australia	35
Bangladesh	9
Brunei Darussalam	12
China	103
Cook Islands	1
Hong Kong Special Administrative Region	345
India	70
Indonesia	14
Japan	7
Kazakhstan	1
Korea, Republic of	15
Macau Special Administrative Region	6
Malaysia	48
Maldives	1
New Zealand	10
Pakistan	9
Philippines	28
Singapore	26
Sri Lanka	15
Taiwan	19
Thailand	1
Vietnam	4

Americas	Offices
Argentina	248
Bahamas	8
Bermuda	16
Brazil	1,722
British Virgin Islands	3
Canada**	313
Cayman Islands	15
Chile	2
Colombia	35
Costa Rica	40
El Salvador	68
Honduras	84
Mexico	1,625
Nicaragua	3
Panama	83
Paraguay	6
Peru	11
United States of America	1,651
Uruguay	5
Venezuela	1

Middle East and Africa	Offices
Algeria	1
Bahrain	6
Egypt	54
Iran	1
Iraq	13
Israel	4
Jordan	3
Kuwait	1
Lebanon	6
Libya	2
Mauritius	12
Oman	6
Palestinian Autonomous Area	1
Qatar	6
Saudi Arabia	79
South Africa	5
United Arab Emirates	18

Associated companies are included in the network of offices.

HSBC Bank Canada Branches and Subsidiaries*

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Burnaby (2)
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Chilliwack
Coquitlam (2)
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Delta
Kamloops
Kelowna (2)
Langford
Langley
Maple Ridge
Nanaimo
New Westminster
North Vancouver (2)
Penticton
Port Coquitlam
Prince George
Richmond (4)
Surrey (3)
Vancouver (16)
Vernon
Victoria (3)
West Vancouver
White Rock

Alberta:
Calgary (6)
Edmonton (4)
Lethbridge
Medicine Hat
Red Deer

Saskatchewan:
Regina
Saskatoon

Manitoba:
Winnipeg (2)

Ontario:
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Barrie
Brampton (2)
Burlington
Etobicoke
Hamilton
Kanata
Kingston
Kitchener
London
Markham (3)
Mississauga (4)
Oakville
Oshawa
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Sault Ste. Marie
Scarborough (3)
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Timmins
Toronto (10)
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Vaughan (2)
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Willowdale
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Brossard
Chicoutimi
Laval
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Quebec City
Saint Leonard
Sherbrooke
Trois-Rivières

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Saint John

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(604) 631–8088
(416) 864–2897
hsbc.ca/capital

HSBC Insurance Agency (Canada) Inc.
1 (866) 899-4722

HSBC Investments (Canada) Limited
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hsbc.ca/hsbcinvestments

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hsbc.ca/funds

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1 (888) 887–3388
hsbc.ca/trust

For more information, or to find the HSBC Bank Canada branch nearest you, call 1 (888) 310-4722 or visit our website: hsbc.ca

** At March 3, 2008.*
*** Includes offices of HSBC Financial Corporation Limited.*

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** At March 3, 2008.*

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