HSBC BANK CANADA
FIRST QUARTER 2007 REPORT TO SHAREHOLDERS

- Net income attributable to common shares was C$139 million for the quarter ended 31 March 2007, an increase of 19.8 per cent over the same period in 2006.
- Return on average common equity was 22.0 per cent for the quarter ended 31 March 2007 compared with 20.7 per cent for the same period in 2006.
- The cost efficiency ratio was 52.2 per cent for the quarter ended 31 March 2007 compared with 53.1 per cent for the same period in 2006.
- Total assets were C$60.9 billion at 31 March 2007 compared with C$52.3 billion at 31 March 2006.
- Total funds under management were C$25.1 billion at 31 March 2007 compared with C$21.8 billion at 31 March 2006.

First Quarter 2007 Management's Discussion and Analysis (MD&A)

MD&A for HSBC Bank Canada ("the bank") for the first quarter of 2007 is dated 20 April 2007. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Reference should be made to pages 6 and 15 to 17 regarding changes in accounting policies. Although certain prior period amounts have been reclassified to conform to the presentation adopted in the current period, prior periods have not been restated for changes in accordance with the new applicable standards. Except where stated, all tabular amounts are in C$ millions.

Financial Highlights

	Quarter ended		
	31 March 2007	*31 December 2006*	*31 March 2006*
Earnings			
Net income attributable to common shares	**139**	128	116
Basic earnings per share (C$)	**0.28**	0.26	0.24
Performance ratios⌖ (%)			
Return on average common equity	**22.0**	20.6	20.7
Return on average assets	**0.93**	0.87	0.92
Net interest margin	**2.29**	2.30	2.36
Cost efficiency ratio	**52.2**	51.4	53.1
Non-interest revenue:total revenue ratio	**38.6**	36.6	37.0
Credit information			
Gross impaired loans	**145**	164	153
Allowance for credit losses			
– Balance at end of period	**327**	327	325
– As a percentage of gross impaired loans	**226 %**	199 %	212 %
– As a percentage of loans outstanding	**0.88 %**	0.92 %	0.99 %
Average balances⌖			
Assets	**60,656**	58,883	50,986
Loans	**35,994**	34,943	32,252
Deposits	**45,855**	44,491	40,022
Common equity	**2,558**	2,464	2,276
Capital ratios⌖⌖ (%)			
Tier 1	**8.9**	9.0	9.0
Total capital	**11.0**	11.1	11.3
Total assets under administration			
Funds under management	**25,083**	23,340	21,796
Custodial accounts	**8,868**	8,574	8,564
Total assets under administration	**33,951**	31,914	30,360

⌖ *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document in the 'GAAP and related non-GAAP measures used in the MD&A' section on page 8.*

⌖⌖ *Calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada.*

Financial Commentary

Overview

HSBC Bank Canada recorded net income attributable to common shares of C$139 million for the quarter ended 31 March 2007, an increase of C$23 million, or 19.8 per cent, from C$116 million for the first quarter of 2006. Compared to the fourth quarter of 2006, net income attributable to common shares was C$11 million, or 8.6 per cent, higher in the first quarter of 2007. Results for the quarter ended 31 March 2007 benefited from a C$14 million gain, after related income taxes, on the sale of some of the bank's shares in the Montreal Exchange.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada is off to a satisfactory start in fiscal 2007 and underlying business performance reflected good year-over-year revenue and net income growth. The Commercial Banking business achieved strong asset growth while maintaining a high level of credit quality. The Corporate, Investment Banking and Markets business also recorded good growth, benefiting from higher advisory and underwriting fees, participating in a number of significant transactions. The Personal Financial Services business achieved good growth in High Rate and Direct Savings Accounts through a continued focus on direct banking capabilities.

"The bank's focus for the rest of this year is to continue to achieve sustainable revenue growth by deepening existing customer relationships and acquiring new customers. The bank will continue to build on direct banking capabilities and the branch network, and focus on further improving efficiency and customer service through business transformation initiatives. The bank will also continue marketing initiatives to build on progress made in increasing the awareness of the HSBC brand within Canada."

Net interest income

Net interest income was C$294 million for the quarter ended 31 March 2007 compared with C$266 million in the same quarter of 2006, an increase of C$28 million, or 10.5 per cent. The increase was driven by growth in assets in all businesses. Average interest earning assets for the quarter were C$6.4 billion, or 13.9 per cent, higher than the same period in 2006. Continuing competitive pressures and a challenging interest rate environment impacted the net interest margin, which decreased to 2.29 per cent for the quarter ended 31 March 2007 from 2.36 per cent for the same period in 2006.

Net interest income in the first quarter of 2007 was C$3 million higher compared with C$291 million in the fourth quarter of 2006 despite there being two fewer days in the first quarter. Average interest earning assets increased by C$2.0 billion while the net interest margin was in line with the fourth quarter of 2006.

Non-interest revenue

Non-interest revenue was C$185 million for the first quarter of 2007 compared with C$156 million in the same quarter of 2006, an increase of C$29 million, or 18.6 per cent. Investment securities gains were C$20 million higher due to gains on the sale of some of the bank's shares in the Montreal Exchange and sale of investments within Private Equity Funds. Investment administration fees were higher as funds managed in the wealth management businesses continued to grow. These increases were partially offset by lower trading income.

The increase in non-interest revenue from the fourth quarter of 2006 was C$17 million, or 10.1 per cent, primarily as a result of higher investment securities gains and higher investment administration fees. Capital market fees were also higher due to higher underwriting fees earned by the Global Investment Banking business. Securitization income, was lower, impacted by the timing of certain securitizations and trading revenues were also lower.

Financial Commentary *(continued)*

Non-interest expenses

Non-interest expenses were C$250 million for the first quarter of 2007 compared with C$224 million in the same quarter of 2006, an increase of C$26 million, or 11.6 per cent. Salaries and employee benefits expenses were higher by C$20 million in 2007 due largely to increased variable compensation costs driven by higher revenues, and a higher employee base. The cost efficiency ratio of 52.2 per cent for the first quarter of 2007 improved from 53.1 per cent for the same period in 2006, favourably impacted by the gain on the sale of shares in the Montreal Exchange.

Non-interest expenses were C$14 million higher than the fourth quarter of 2006. Salaries and benefits were C$19 million higher primarily due to higher pension and other benefits costs, which are usually higher in the first quarter of each year.

Credit quality and provision for credit losses

The provision for credit losses was C$10 million for the first quarter of 2007, compared with C$6 million in the first quarter of 2006, and C$17 million for the fourth quarter of 2006. Overall credit quality remains good, reflecting strong economic conditions in Canada.

Gross impaired loans were C$145 million, C$19 million, or 11.6 per cent, lower compared with C$164 million at 31 December 2006, and C$8 million, or 5.2 per cent, lower compared with C$153 million at 31 March 2006. Total impaired loans, net of specific allowances for credit losses, were C$87 million at 31 March 2007 compared with C$106 million at 31 December 2006 and C$97 million at 31 March 2006. The general allowance for credit losses remained unchanged at C$269 million compared with 31 December 2006 and at 31 March 2006. The total allowance for credit losses, as a percentage of loans outstanding, decreased to 0.88 per cent at 31 March 2007 compared with 0.92 per cent at 31 December 2006 and 0.99 per cent at 31 March 2006 as the bank's loan portfolios grew. The bank considers the total allowance for credit losses to be appropriate given the credit quality of its portfolios and the current credit environment.

Income taxes

The effective tax rate in the first quarter of 2007 was 32.9 per cent compared with 35.1 per cent in the first quarter of 2006 and 33.2 per cent in the fourth quarter of 2006. The lower tax rate in the quarter ended 31 March 2007 was a result of lower taxes applicable on the sale of certain investments.

Balance sheet

Total assets at 31 March 2007 were C$60.9 billion, an increase of C$4.1 billion from 31 December 2006, and C$8.6 billion from 31 March 2006. Commercial loans and bankers' acceptances increased by C$1.4 billion since the end of 2006, as commercial activity was strong, spurred by the strength of the Canadian economy. Residential mortgages increased by C$0.2 billion, although the rate of growth slowed in the first quarter, and consumer loans increased by C$0.1 billion. The securities portfolio increased by C$3.0 billion in the quarter, primarily in Government of Canada securities.

Total deposits increased by C$1.8 billion to C$46.0 billion at 31 March 2007 from C$44.2 billion at 31 December 2006 and were C$5.6 billion higher compared with C$40.4 billion at 31 March 2006. Commercial deposits grew by C$1.6 billion, of which C$0.4 billion was from Commercial Banking relationships. Personal deposits grew by C$0.2 billion driven by growth in High Rate and Direct Savings Accounts.

Financial Commentary *(continued)*

Total assets under administration

Funds under management were C$25.1 billion at 31 March 2007 compared with C$23.3 billion at 31 December 2006 and C$21.8 billion at 31 March 2006. Funds under management in the first quarter of 2007 benefited from strong investment sales and buoyant equity markets, particularly in Canada. Including custody and administration balances, total assets under administration were C$34.0 billion compared with C$31.9 billion at 31 December 2006 and C$30.4 billion at 31 March 2006.

Capital management

The tier 1 capital ratio was 8.9 per cent and the total capital ratio was 11.0 per cent at 31 March 2007. These compare with 9.0 per cent and 11.1 per cent, respectively, at 31 December 2006 and 9.0 per cent and 11.3 per cent, respectively, at 31 March 2006.

Subsequent to the quarter end, on 9 April 2007, the bank issued C$400 million of subordinated debentures maturing in 2022. Interest at an annual rate of 4.8 per cent is payable half-yearly until 10 April 2017. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.0 per cent, payable quarterly until maturity. Proceeds from the offering will be used for general corporate purposes and to further strengthen the bank's Tier 2 Capital base.

On 16 April 2007, HSBC Bank Canada gave notice that on 14 June 2007, subject to regulatory approval, the bank will redeem its C$100 million 5.6 per cent Debenture due 14 June 2012 at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest due at the redemption date.

Risk management

Risk management policies and practices are unchanged from those outlined in pages 19 to 24 of the bank's 2006 Annual Report and Accounts.

Related party transactions

Related party transaction policies and practices are unchanged from those outlined in page 15 of the bank's 2006 Annual Report and Accounts. All transactions with related parties continued to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value.

Financial instruments

During the normal course of business, the bank makes extensive use of financial instruments, including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instruments. References should be made to note 2 to the interim financial statements regarding changes in accounting policies relating to financial instruments. Although there have been a number of changes in respect of the accounting for financial instruments, there was no change in the basis of calculating the fair value of financial instruments from 31 December 2006, and no significant changes in fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Financial Commentary *(continued)*

Off-balance sheet arrangements

The bank enters into a number of off-balance sheet arrangements in the normal course of operations. The most significant off-balance sheet arrangements are guarantees and letters of credit, and derivatives, which were described on pages 14 and 15 of the bank's 2006 Annual Report and Accounts. As part of the bank's adoption of new accounting standards relating to financial instruments, accounting policies with respect to derivatives, guarantees and letters of credit have been changed. Although the notional values of these financial instruments are not recorded on the balance sheet, effective from 1 January 2007, derivatives, guarantees and letters of credit are recorded at fair value. For more detailed information, reference should be made to note 2 on pages 15 to 17 of these interim financial statements. Prior year amounts have not been restated.

Accounting policies and critical accounting estimates

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Effective 1 January 2007, new standards were adopted relating to financial instruments as described in note 2 to the interim consolidated financial statements. There were no other changes to the significant accounting policies and methods of computation from those used for the preparation of the bank's consolidated financial statements for the year ended 31 December 2006, which were outlined on pages 38 to 70 of the bank's 2006 Annual Report and Accounts.

The key assumptions and bases for estimates that are made under GAAP, and their impact on the amounts reported in the interim consolidated financial statements and notes, remain substantially unchanged from those described on pages 12 to 14 of the bank's 2006 Annual Report and Accounts.

Outstanding shares and securities

	At 20 April 2007	
(amounts are in C$ millions)	*Number*	*Amount*
HSBC Canada Asset Trust Securities (HSBC HaTS™) [1]		
– Series 2010[2]	200,000	200
– Series 2015[3]	200,000	200
		400
Preferred Shares – Class 1		
– Series C[4]	7,000,000	175
– Series D[5]	7,000,000	175
		350
Common shares	488,668,000	1,125

1 *Reported in non-controlling interest in trust and subsidiary in the Consolidated Balance Sheet.*
2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$38.90 per unit.*
3 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*
4 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*
5 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*

Financial Commentary *(continued)*

Further details regarding features of the bank's securities and shares, including certain restrictions regarding distributions payable for HSBC HaTS, are disclosed in notes 9 and 11 of the bank's 2006 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares in 2007, subject to approval by the Board of Directors, are:

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

During the first quarter of 2007, C$65 million in dividends were declared and paid on common shares.

Payable dates for HSBC HaTS distributions in 2007 are 30 June and 31 December.

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at HSBC Bank Canada and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2007 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the effectiveness of disclosure controls and procedures as well as designing internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP. The bank's CEO and CFO certify the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the period ended 31 March 2007, and that they are responsible for the design and maintenance of disclosure controls and procedures as well as designing internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP. There have been no changes in internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's audit committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in Management's Discussion and Analysis in HSBC Bank Canada's 2006 Annual Report and Accounts, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Regulatory filings

The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's web site at www.hsbc.ca, and on the Canadian Securities Administrators' web site at www.sedar.com. A French Version of this shareholders' report can be downloaded from the bank's website www.hsbc.ca/1/2/fr or from www.sedar.com/homepage_fr.htm. Il est possible de télécharger une version française du rapport aux actionnaires à partir du site web de la banque à www.hsbc.ca/1/2/fr ou à partir de Sedar à www.sedar.com/homepage_fr.htm.

Caution regarding forward-looking financial statements

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

GAAP and related non-GAAP measures used in the MD&A

The bank uses both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized measuring under GAAP and are unlikely to be comparable to similar measures used by other companies. 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 – Average common equity is calculated using month end balances of common equity for the period.

Return on average assets – Average assets are calculated using average daily balances for the period.

Net interest margin – Calculated as net interest income divided by average interest earning assets. Average interest earning assets are calculated using average daily balances for the period.

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, loans, and deposits are calculated using daily average balances for the period. Average common equity is calculated using month end balances of common equity for the period.

Financial Commentary *(continued)*

Quarterly summary of condensed statements of income (unaudited)

Figures in C$ millions (except per share amounts)	***31 March 2007***	*31 December 2006*	*30 September 2006*	*30 June 2006*	*31 March 2006*	*31 December 2005*	*30 September 2005*	*30 June 2005*
Net interest income	**294**	291	282	276	266	269	261	243
Non-interest revenue	**185**	168	160	167	156	141	145	140
Total revenue	**479**	459	442	443	422	410	406	383
Non-interest expenses	**250**	236	213	233	224	205	208	209
Net operating income	**229**	223	229	210	198	205	198	174
Provision for credit losses	**10**	17	5	6	6	6	7	6
Income before the under noted	**219**	206	224	204	192	199	191	168
Provision for income taxes	**70**	66	76	78	65	58	67	55
Non-controlling interest in income of trust	**6**	7	6	6	7	6	7	5
Net income	**143**	133	142	120	120	135	117	108
Preferred share dividends	**4**	5	4	5	4	3	4	4
Net income attributable to common shares	**139**	128	138	115	116	132	113	104
Basic earnings per share (C$)	**0.28**	0.26	0.28	0.24	0.24	0.27	0.23	0.21

Although the bank adopted new accounting standards relating to financial instruments for the first quarter of 2007, prior periods have not been restated.

The quarterly trends in revenue and expenses were disclosed in detail on pages 10 and 11 of the 2006 Annual Report and Accounts.

Review of Customer Group Results

Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2007 was C$27 million, compared with C$31 million for the same period in 2006. Total revenue was C$11 million higher with increases in both net interest income and non-interest revenue. Net interest income was C$3 million higher and was driven by growth in residential mortgages and consumer loans. However, competitive pressures resulted in lower spreads on consumer loans and fixed deposits. Non-interest revenue was C$8 million higher primarily due to a gain on the sale of shares held in the Montreal Exchange. Increased securitization income and growth in investment administration fees were partially offset by lower revenue from retail brokerage fees. Non-interest expenses were C$14 million higher in 2007 and were largely related to continued investments in the business, which increased salaries and benefits, and other expenses. Marketing expenses were higher as brand awareness and direct marketing campaigns increased over the prior year.

Income, before taxes and non-controlling interest in income of trust, was C$2 million lower compared with the fourth quarter of 2006. Total revenue was C$6 million higher primarily from the gain on sale of Montreal Exchange shares. Net interest income was slightly lower as growth in assets was offset by lower spreads and two fewer days in the quarter. Non-interest expenses were C$9 million higher largely from an increased employee base, which drove salaries and employee benefits, including pension costs.

Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2007 was C$132 million, compared with C$111 million for the same period in 2006. Total revenue was C$30 million higher with increases in both net interest income and non-interest revenue. Net interest income continued to benefit from strong economic conditions in Canada, which helped drive loan growth. Deposit growth was also driven by momentum from the enhanced services and products in the Payments and Cash Management businesses introduced in late 2006. Net interest margin, as a percentage of average earning assets continued to be impacted by competitive pressures, but was partially offset by improved spreads on non-fixed term deposits. Non-interest revenue was C$5 million higher due to growth in credit fees and increased gains from the bank’s investment in Private Equity Funds. Non-interest expenses were C$6 million higher largely due to continued investments in the business, which increased salaries and benefits, and other expenses.

Income, before taxes and non-controlling interest in income of trust, was C$6 million higher compared with the fourth quarter of 2006. Net interest income was higher on growth in the business, but was partially offset by two fewer days in the quarter. Non-interest revenue was C$3 million higher due to growth in credit fees. Non-interest expenses were higher due to an increased employee base, which drove salaries and employee benefits, including pension costs. Provision for credit losses were C$6 million lower due to a small number of specific commercial exposures in the previous quarter.

Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the first quarter of 2007 was C$60 million, compared with C$50 million for the same period in 2006. Total revenue was C$16 million higher driven by non-interest revenue. Net interest income was flat as asset growth was offset by spread compression and the impact of an inverted yield curve on treasury activities. Non-interest revenue was C$16 million higher and benefited from a gain on the sale of shares held in the Montreal Exchange, higher income from foreign exchange, and an increase in underwriting revenue. Non-interest expenses were C$6 million higher due to increased variable compensation, primarily from the growth in non-interest revenue.

Income, before taxes and non-controlling interest in income of trust, was C$9 million higher compared with the fourth quarter of 2006. Non-interest revenue was higher primarily due to the gain on sale of Montreal Exchange shares. This was partially offset by lower trading income.

Consolidated Statement of Income (Unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* **31 March 2007**	*31 December 2006*	*31 March 2006*
Interest and dividend income			
Loans	**597**	593	462
Securities	**58**	49	43
Deposits with regulated financial institutions	**59**	62	58
	714	704	563
Interest expense			
Deposits	**413**	406	291
Debentures	**7**	7	6
	420	413	297
Net interest income	**294**	291	266
Non-interest revenue			
Deposit and payment service charges	**23**	23	21
Credit fees	**27**	26	25
Capital market fees	**32**	30	32
Investment administration fees	**30**	28	24
Foreign exchange	**9**	9	7
Trade finance	**6**	6	6
Trading revenue	**14**	17	17
Investment securities gains	**25**	7	5
Securitization income	**10**	13	8
Other	**9**	9	11
	185	168	156
Total revenue	**479**	459	422
Non-interest expenses			
Salaries and employee benefits	**143**	124	123
Premises and equipment	**31**	34	29
Other	**76**	78	72
	250	236	224
Net operating income before provision for credit losses	**229**	223	198
Provision for credit losses	**10**	17	6
Income before taxes and non-controlling interest in income of trust	**219**	206	192
Provision for income taxes	**70**	66	65
Non-controlling interest in income of trust	**6**	7	7
Net income	**143**	133	120
Preferred share dividends	**4**	5	4
Net income attributable to common shares	**139**	128	116
Average common shares outstanding (000)	**488,668**	488,668	488,668
Basic earnings per share (C$)	**0.28**	0.26	0.24

See notes to consolidated financial statements

Consolidated Balance Sheet (Unaudited)

Figures in C$ millions	***At 31 March 2007***	*At 31 December 2006*	*At 31 March 2006*
Assets			
Cash and deposits with Bank of Canada	**457**	368	374
Deposits with regulated financial institutions	**4,380**	4,346	4,808
	4,837	4,714	5,182
Available for sale securities	**5,572**	–	–
Investment securities	**–**	3,604	4,254
Trading securities	**2,211**	1,162	1,762
Other securities	**25**	–	–
	7,808	4,766	6,016
Assets purchased under reverse repurchase agreements	**3,592**	4,760	2,536
Loans			
– Businesses and government	**19,059**	17,819	16,149
– Residential mortgage	**14,170**	14,016	13,185
– Consumer	**3,870**	3,728	3,427
– Allowance for credit losses	**(327)**	(327)	(325)
	36,772	35,236	32,436
Customers' liability under acceptances	**5,314**	5,130	4,483
Land, buildings and equipment	**122**	121	100
Other assets	**2,466**	2,043	1,574
	7,902	7,294	6,157
Total assets	**60,911**	56,770	52,327
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	**2,162**	1,469	1,994
– Individuals	**17,248**	17,039	15,809
– Businesses and governments	**26,551**	25,665	22,625
	45,961	44,173	40,428
Acceptances	**5,314**	5,130	4,483
Assets sold under repurchase agreements	**467**	162	165
Other liabilities	**5,220**	3,444	3,605
Non-controlling interest in trust and subsidiary	**430**	430	430
	11,431	9,166	8,683
Subordinated debentures	**560**	563	563
Shareholders' equity			
– Preferred shares	**350**	350	350
– Common shares	**1,125**	1,125	1,125
– Contributed surplus	**203**	202	188
– Retained earnings	**1,266**	1,191	990
– Accumulated other comprehensive income	**15**	–	–
	2,959	2,868	2,653
Total liabilities and shareholders' equity	**60,911**	56,770	52,327

See notes to consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

Figures in C$ millions	*Quarter ended* ***31 March 2007***	*31December 2006*	*31 March 2006*
Preferred shares			
Balance at beginning and end of period	**350**	350	350
Common shares			
Balance at beginning and end of period	**1,125**	1,125	1,125
Contributed surplus			
Balance at beginning of period	**202**	199	187
Stock-based compensation	**1**	3	1
Balance at end of period	**203**	202	188
Retained earnings			
Balance at beginning of period	**1,191**	1,123	934
Transitional adjustment – financial instruments (note 2)	**1**	–	–
Net income for the period	**143**	133	120
Preferred share dividends	**(4)**	(5)	(4)
Common share dividends	**(65)**	(60)	(60)
Balance at end of period	**1,266**	1,191	990
Accumulated other comprehensive income			
Balance at beginning of period	**–**		
Transition adjustment – financial instruments, net of income taxes of C$4 million (note 2)	**7**		
Net unrealized gains on available for sale securities, net of income taxes of C$2 million	**7**		
Net gain on cash flow hedges	**1**		
Balance at end of period	**15**		
Total shareholders' equity	**2,959**	2,868	2,653

Consolidated Statement of Comprehensive Income (Unaudited)

	Quarter ended ***31 March 2007***
Net income	**143**
Net unrealized gains on available for sale securities, net of income taxes of C$2 million	**7**
Net gain on cash flow hedges	**1**
Comprehensive income for the period	**151**

See notes to consolidated financial statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

Figures in C$ millions	***Quarter ended* 31 March 2007**	*31 December 2006*	*31 March 2006*
Cash flows provided by/(used in) operating activities			
Net income	**143**	133	120
Trading securities	**(1,049)**	659	(344)
Other, net	**1,372**	(431)	477
	466	361	253
Cash flows provided by/(used in) financing activities			
Deposits received	**1,788**	1,358	1,820
Securities sold (purchased) under repurchase agreements	**305**	(128)	(137)
Proceeds from issuance of debentures	**–**		200
Redemption of debentures	**–**		(60)
Dividends paid	**(69)**	(65)	(124)
	2,024	1,165	1,699
Cash flows (used in)/provided by investing activities			
Loans funded, excluding securitizations	**(1,822)**	(916)	(1,266)
Proceeds from loans securitized	**273**	296	655
Available for sale/investment securities (purchased)	**(1,981)**	(379)	(1,331)
Securities sold (purchased) under reverse repurchase agreements	**1,168**	(917)	(784)
Net change in non-operating deposits with regulated financial institutions	**179**	(479)	225
Acquisition of land, buildings and equipment	**(5)**	(35)	(2)
	(2,188)	(2,430)	(2,503)
Increase (decrease) in cash and cash equivalents	**302**	(904)	(551)
Cash and cash equivalents, beginning of period	**4,038**	4,942	5,200
Cash and cash equivalents, end of period	**4,340**	4,038	4,649
Represented by:			
– Cash resources per balance sheet	**4,837**	4,714	5,182
– less non-operating deposits⌖	**(497)**	(676)	(533)
– Cash and cash equivalents, – end of period	**4,340**	4,038	4,649

⌖ *Non-operating deposits are comprised primarily of cash that reprices after 90 days and cash restricted for recourse on securitization transactions.*

See notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of presentation

These consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of HSBC Bank Canada ("the bank") for the year ended 31 December 2006 as set out on pages 38 to 70 of the 2006 Annual Report and Accounts. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used for the bank's consolidated financial statements for the year ended 31 December 2006 except as described in note 2. Unless otherwise stated, all tabular amounts are in C$ millions.

2. Changes in accounting policies

Effective 1 January 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. Although these standards were adopted prospectively without restatement of prior year comparatives, the impact on initial adoption as well as the effects of certain transitional adjustments have been recorded as adjustments to opening retained earnings or opening accumulated other comprehensive income as described below.

The principal changes due to the adoption of these new standards are as follows:

a) Comprehensive Income

CICA Handbook Section 1530 Comprehensive Income requires the accounting for and disclosure of a new category of equity, which includes recording the impact of net unrealized gains and losses in the recorded fair values of available for sale assets and 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.

Accordingly, unrealized gains and losses on financial instruments that are held as available for sale, and changes in the fair value of the effective portions of cash flow hedging instruments are recorded in a consolidated statement of Other Comprehensive Income ("OCI") until recognized in the consolidated statement of income. Accumulated Other Comprehensive 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.

b) Financial Instruments

In accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, all financial instruments, with certain exceptions, are now designated as one of the following: held-to-maturity ("HTM"), loans and receivables, held for trading ("HFT") or available-for-sale ("AFS"). All financial instruments must be recorded 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.

Notes to Consolidated Financial Statements (Unaudited)

2. Changes in accounting policies (continued)

Subsequent to initial recognition, financial assets and liabilities held for trading are recorded at fair value with changes in value recognized as gains and losses in net income. All derivatives, including embedded derivatives must be designated as HFT and measured at fair value. HTM assets, loans and receivables and financial liabilities other than those HFT, are measured at amortized cost ("AC"). AFS instruments are measured at fair value with unrealized gains and losses recognized in OCI.

The standard also permits designation of any financial instrument as held-for-trading on initial recognition, ("the fair value option") although use of the fair value option requires that fair values of such instruments can be measured reliably, and compliance is necessary with certain criteria issued by the Office of the Superintendent of Financial Institutions Canada.

Other requirements of Section 3855 include the requirement to recognize interest income or expense, including amortization of transaction costs and fees as well as accretion of premiums or discounts and mortgage penalty fees associated with instruments recorded as HTM, AFS or AC including deposit liabilities, other than those designated as held for trading, using the effective interest rate method whereby the amount recognized in income varies over the life of the instrument based on principal outstanding. Transaction costs are expensed as incurred for financial instruments designated as held-for-trading. For all other financial instruments, transaction costs are capitalized on initial recognition.

On initial adoption of these new standards, all instruments previously recognized as HFT continued to be recognized as HFT. Except for merchant banking investments, all instruments previously designated as investments are now designated as available for sale, with the exception of a non-material amount of investments now designated as HTM. Certain instruments recorded as deposits with regulated financial institutions are also designated as AFS as are retained interests in securitized loans included in other assets.

An adjustment to opening retained earnings was recorded as a result of recognizing adjustments to the carrying values of instruments from initial adoption of the effective interest method as well as recording the fair values of guarantees associated with banker's acceptances and other guarantees.

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, the bank has designated such liabilities as trading under the fair value option. Adjustments to the carrying values of AFS instruments as at January 1, 2007 have also been included as an opening adjustment to AOCI.

There have been no changes in the bank's accounting policies related to merchant banking investments held in investment companies, which are recorded at fair values, nor investments in entities where the bank exerts influence but does not control.

Included in deposits at 31 December 2006 and 31 March 2007 was C$1,006 million and C$895 million respectively of trading liabilities and C$190 million and C$1,024 million respectively of deposit liabilities designated as trading under the fair value option.

Notes to Consolidated Financial Statements (Unaudited)

2. Changes in accounting policies (continued)

c) Hedges

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.

Hedges are designated as either fair value hedges or cash flow hedges. 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 income before taxes. 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, which changes are also recorded in income before taxes. 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 income before taxes. 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.

On initial adoption of this new standard, all derivatives were marked to market. 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 no longer qualified as hedge accounting instruments have been recognized as an adjustment to opening retained earnings.

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:			
Initial adoption of effective interest rate method	15	(5)	10
Recognition of 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.

	Gross	Tax Impact	Net
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 C$6 million relating to hedges discontinued prior to maturity, offset by a debit of C$4 million on qualifying cash flow hedges now accounted for as fair value hedges.

Notes to Consolidated Financial Statements (Unaudited)

3. Allowance for credit losses

A continuity of the bank's allowance for credit losses is as follows:

	Quarter ended		
	31 March 2007	31 December 2006	31 March 2006
Balance at beginning of period	**327**	318	326
Provision for credit losses	**10**	17	6
Write-offs	**(10)**	(9)	(7)
Recoveries and other	**–**	1	–
Balance at end of period	**327**	327	325

4. Securitization

Securitization activity during the first quarter of 2007 was as follows:

	Residential mortgages	*Consumer term loans*
Securitized and sold	169	107
Net cash proceeds received	168	105
Retained rights to future excess interest	2	5
Retained servicing liability	1	–
Pre-tax gain on sale	1	1

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

Prepayment rate	57.10 %	26.82 %
Excess spread	0.88 %	3.36 %
Expected credit losses	0.02 %	0.63 %
Discount rate	5.40 %	8.36 %

5. Subordinated debentures

Subsequent to the quarter end, on 9 April 2007, the bank issued C$ 400 million of subordinated debentures maturing in 2022. Interest at an annual rate of 4.80 per cent is payable half-yearly until 10 April 2017. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.00 per cent, payable quarterly until maturity.

On 16 April 2007, HSBC Bank Canada gave notice that on 14 June 2007, subject to regulatory approval, the bank will redeem its C$100 Million 5.6 per cent Debenture due 14 June 2012 at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest due at the redemption date.

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

6. Issued and outstanding shares

	At 31 March 2007		At 31 December 2006		At 31 March 2006	
	Number	**Amount**	Number	Amount	Number	Amount
Preferred Shares – Class 1						
– Series C	**7,000,000**	**175**	7,000,000	175	7,000,000	175
– Series D	**7,000,000**	**175**	7,000,000	175	7,000,000	175
		350		350		350
Common shares	**488,668,000**	**1,125**	488,668,000	1,125	488,668,000	1,125

7. Stock-based compensation

During the first quarter of 2007, compensation expense totalling C$1 million (first quarter of 2006 – C$1 million) was recorded in respect of awards granted in 2006 and prior. No awards were granted during the first quarter of 2007 or 2006.

8. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended		
	31 March 2007	31 December 2006	31March 2006
Pension plans – defined benefit	**6**	(1)	4
Pension plans – defined contribution	**4**	3	3
Other benefits	**2**	2	2
	12	4	9

9. Customer group segmentation

The bank reports and manages its operations according to the customer group definitions of the HSBC Group.

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

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

(all tabular amounts are in C$ millions)

9. Customer group segmentation (continued)

	Quarter ended		
	31 March 2007	*31 December 2006*	*31 March 2006*
Personal Financial Services			
Net interest income	**95**	96	92
Non-interest revenue	**71**	64	63
Total revenue	**166**	160	155
Non-interest expenses	**133**	124	119
Net operating income	**33**	36	36
Provision for credit losses	**6**	7	5
Income before taxes and non-controlling interest in income of trust	**27**	29	31
Provision for income taxes	**8**	9	10
Non-controlling interest in income of trust	**1**	2	2
Net income	**18**	18	19
Average assets	**18,851**	19,412	17,183
Commercial Banking			
Net interest income	**168**	165	143
Non-interest revenue	**52**	49	47
Total revenue	**220**	214	190
Non-interest expenses	**84**	78	78
Net operating income	**136**	136	112
Provision for credit losses	**4**	10	1
Income before taxes and non-controlling interest in income of trust	**132**	126	111
Provision for income taxes	**43**	40	38
Non-controlling interest in income of trust	**3**	4	4
Net income	**86**	82	69
Average assets	**22,809**	20,995	18,554

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

9. Customer group segmentation (continued)

	Quarter ended		
	31 March 2007	*31 December 2006*	*31 March 2006*
Corporate, Investment Banking and Markets			
Net interest income	**31**	30	31
Non-interest revenue	**62**	55	46
Total revenue	**93**	85	77
Non-interest expenses	**33**	34	27
Net operating income	**60**	51	50
Provision for credit losses	**–**	–	–
Income before taxes and non-controlling interest in income of trust	**60**	51	50
Provision for income taxes	**19**	17	17
Non-controlling interest in income of trust	**2**	1	1
Net income	**39**	33	32
Average assets	**18,996**	18,476	15,249

10. Guarantees, commitments and contingent liabilities

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

	At 31 March 2007	*At 31 December 2006*	*At 31 March 2006*
Financial and performance standby letters of credit	**2,069**	2,046	2,156
Documentary and commercial letters of credit	**382**	492	467
Commitments to extend credit			
– Original term of one year or less	**29,043**	29,451	24,031
– Original term of more than one year	**4,522**	4,401	4,398
Credit and yield enhancement	**52**	51	42
	36,068	36,441	31,094

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

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With around 10,000 offices in 82 countries and territories and assets of US$1,861 billion at 31 December 2006, the HSBC Group is one of the world's largest banking and financial services organisations.

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