HSBC BANK CANADA
FIRST QUARTER 2008 REPORT TO SHAREHOLDERS

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

The world's local bank

HSBC

First Quarter 2008 Management's Discussion and Analysis (MD&A)

HSBC Bank Canada ("the bank") is an indirectly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the MD&A, the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". MD&A for the bank for the first quarter of 2008 is dated 2 May 2008. Unless otherwise indicated, all amounts are in Canadian dollars (tabular amounts are in C$ millions) and have been derived directly from our financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") or from the information we have used to prepare them. The sections included in the MD&A on risk management from pages 5 to 13 form an integral part of the unaudited consolidated financial statements and should be read in conjunction with the unaudited consolidated financial statements for the quarter ended 31 March 2008. Reference should be made to note 2 on page 24 regarding changes in accounting policies relating to presentation and disclosures of Capital and Financial Instruments, although the basis of measurement is unchanged from previous periods. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

Financial Highlights

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

⌖ *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 17.*

⌖⌖ *Calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada. Refer to page 33 in respect of new capital adequacy framework.*

Analysis of Financial Results

Overview

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

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

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

Net interest income

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

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

Non-interest revenue

Non-interest revenue was C$219 million for the first quarter of 2008 compared with C$185 million in the same quarter of 2007, an increase of C$34 million, or 18.4 per cent. Trading revenues increased C$37 million as a result of volatile foreign exchange and credit markets experienced in the first quarter of 2008 and benefited from a positive impact of C$19 million arising from changes in the fair value of certain debt obligations. Securitization income was C$17 million higher due to increased activity as well as higher gains on securitizations of loans arising from a reduction in the cost of funds. Deposit and payment service charges and credit fees were also higher due to continued business growth. These increases were partially offset by a reduction in capital market fees of C$10 million due to lower capital market activity in the first quarter of 2008. In addition, gains on available for sale securities were C$17 million lower than in the same period last year due to a gain recorded in the first quarter of 2007 from the sale of part of the bank's shares in the Montreal Exchange and gains on other securities were C$7 million lower due to a sale of investments within Private Equity Funds in the first quarter of 2007.

Analysis of Financial Results *(continued)*

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

Non-interest expenses

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

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

Credit quality and provision for credit losses

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

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

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

Income taxes

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

Analysis of Financial Results *(continued)*

Balance sheet

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

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

Total assets under administration

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

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, 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 most important risk categories that we are exposed to include credit, liquidity, market, operational and fiduciary risks. The management of these various risk categories is discussed below. The risk management framework established seeks an integrated evaluation of risks and their interdependencies to foster the continuous monitoring of the risk environment.

Risk governance and ownership

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. Our Risk Management Committee is responsible for the strategic management of all risks to which the bank and its subsidiaries are exposed by performing the following functions:

- Identification of significant risks and measurement thereof;
- Developing and recommending for approval appropriate risk management policies and procedures regarding those activities and units which incur significant risk, including business continuity planning;
- Providing direction regarding our overall risk philosophy and appetite, including the acceptability of new or unusual risk;
- Monitoring adherence to risk management policies and procedures;
- Reporting any policy or major practice change, unusual situations, significant exceptions, new strategy or products to our Executive Committee and where appropriate to the Audit Committee and Board of Directors ("Board") for review, ratification or approval.

Risk Management *(continued)*

Our Board approves our risk management policies presented by the Risk Management Committee. Overall risk management limits are set, taking into account HSBC Group's risk limits.

The Risk Management Committee delegates day to day management of risks to a variety of sub-committees including Asset and Liability Committee ("ALCO"), Tactical 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.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain off-balance sheet products such as guarantees and credit derivatives, and from the bank's holdings of assets in the form of debt securities.

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.

Policies and procedures

Credit risk is managed in accordance with our credit policy, established in consultation with HSBC Group, and has been approved by our Board. Risk limits and credit authorities are delegated to senior credit management staff, which 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 HSBC Group's global risk limits.

Our Risk Management and Credit Committees meet quarterly as does our Audit Committee and Board 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 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.

Risk Management *(continued)*

Integrity of underlying credit metrics is also ensured by the review of applications and ongoing monitoring and review by our Credit and Risk Management department. 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.

Following significant progress made in the Basel II initiative during 2007, in February 2008 regulatory approval was received to use the Advanced Internal Ratings Based (“AIRB”) approach for regulatory capital calculations. The obligation to meet all minimum requirements is ongoing and forms a key part of the approval conditions.

The implementation and validation of a formal and strictly managed dual risk rating system assigned to all borrowing clients and facility structures 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 have developed 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. 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.

Risk Management *(continued)*

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	At 31 March 2008	*At 31 December 2007*
On balance sheet exposure		
Cash held at Bank of Canada and other regulated financial institutions	**3,464**	3,573
Securities		
As disclosed on balance sheet	**8,021**	6,926
Less: Equity securities not exposed to credit risk	**(189)**	(214)
Securities purchased under reverse repurchase agreements	**6,700**	6,122
Loans	**39,223**	38,715
Customers' liability under acceptances	**6,265**	5,727
Derivatives	**905**	623
Included within other assets		
Accrued interest receivable	**141**	156
Due from clients, dealers and clearing corporations	**825**	236
Accounts receivable and other	**445**	357
	65,800	62,221
Off balance sheet exposure		
Financial and performance standby letters of credit	**2,394**	2,420
Documentary and commercial standby letters of credit	**276**	322
Commitments to extend credit	**33,309**	36,177
Credit and yield enhancement	**52**	50
	36,031	38,969
Maximum exposure	**101,831**	101,190

Collateral and other credit enhancements

It is our lending policy to assess the customer's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the customer's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

The principal collateral types are as follows:

- in the personal sector, mortgages over residential properties or charges over other personal assets being financed;
- in the commercial and industrial sector, charges over business assets such as land, buildings and equipment, inventory and receivables;
- in the commercial real estate sector, charges over the properties being financed; and
- in the financial sector, charges over financial instruments such as debt and equity securities in support of trading facilities.

The bank does not disclose the fair value of collateral held as security or other credit enhancements on loans past due but not impaired or individually assessed impaired loans, as it is not practical to do so.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Government and other debt securities, including money market instruments are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets.

Risk Management *(continued)*

Credit quality of financial assets neither past due nor impaired

The credit quality of the portfolio of loans that were neither past due nor impaired can be assessed by reference to the Group's legacy credit risk grading system, on which the following information is based:

	At 31 March 2008	*At 31 December 2007*
Grades:		
1 to 3 – satisfactory risk	**38,160**	37,706
4 – watch list and special mention	**631**	531
5 – sub-standard but not impaired	**198**	218
	38,989	38,455

Grades 1 and 2 include corporate facilities demonstrating financial condition, risk factors and capacity to repay that are good to excellent, residential mortgages with low to moderate loan to value ratios and other retail accounts which are maintained within generally applicable product parameters.

Grade 3 represents satisfactory risk, and includes corporate facilities that require closer monitoring, mortgages with higher loan to value ratios, credit card exposures and other retail exposures which operate outside generally applicable product parameters without being impaired.

Grades 4 and 5 include facilities that require varying degrees of special attention.

Information in respect of geographic and industry concentrations is included on pages 27 to 28 of our 2007 Annual Report and Accounts.

Loans past due but not impaired

Examples of exposures considered past due but not impaired include loans that have missed the most recent payment date but on which there is no evidence of impairment; loans fully secured by cash collateral; residential mortgages in arrears more than 90 days, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

The aging analysis below, includes past due loans on which collective impairment allowances have been assessed, though at their early stage of arrears there is normally no identifiable impairment.

	At 31 March 2008	*At 31 December 2007*
Past due up to 29 days	**231**	275
Past due 30-59 days	**40**	48
Past due 60-89 days	**10**	12
Past due 90-179 days	**12**	9
	293	344

Impaired financial assets

When impairment losses occur, we reduce the carrying amount of loans and for other than temporary impairment on available for sale securities through the use of an allowance account with a charge to income.

Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant.

Risk Management *(continued)*

Individually significant accounts are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by us to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

Loans and other credit facilities that were impaired amounted to C$314 million and C$272 million at 31 March 2008 and 31 December 2007 respectively.

Due to a lack of liquidity and the consequent lack of market prices of non-bank ABCP, we have adjusted the carrying value, net of provisions, as at 31 December 2007 to C$280 million. There has been no change in management's best estimate of fair value from 31 December 2007. Detailed information on valuation of our non-bank ABCP is included in our 2007 Annual Report and Accounts on page 51.

Liquidity and funding management

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due, or will have to obtain such resources at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of our liquidity and funding management strategy is to ensure that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that access to the wholesale markets is coordinated and cost-effective.

Policies and procedures

The management of liquidity and funding is carried out by our treasury department in accordance with practices and limits approved by our Board and HSBC Holdings. Compliance with policies is regularly monitored by ALCO.

Our liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal measures;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within pre-determined caps;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimizing adverse long-term implications for the business.

Risk Management *(continued)*

Primary sources of funding

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding. We place considerable importance on maintaining the stability and growth of these deposits, which provides a diversified pool of funds.

We also access professional markets in order to maintain a presence in local money markets and to optimize the funding of asset maturities not naturally matched by core deposit funding.

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.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	On demand and due within 3 months	***Due between 3 and 12 months***	***Due between 1 and 5 years***	***Due after 5 years***
At 31 March 2008				
Deposits	34,474	10,269	5,079	169
Acceptances	6,265	–	–	–
Securities sold under repurchase agreements	712	–	–	–
Securities sold short	906	–	–	–
Trading derivatives	665	–		
Subordinated debentures	–	–	–	827
Other financial liabilities	3,134	–	–	–
	46,156	10,269	5,079	996
Loan commitments	16,881	11,155	1,035	4,238
	63,037	21,424	6,114	5,234

Certain balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates principal cash flows, on an undiscounted basis, except for derivatives. Furthermore, loan commitments are not recognized on the balance sheet. Trading derivatives have been included under the “On demand and due within 3 months” time bucket, and not by contractual maturity, because they are typically held for short periods of time.

Cash flows payable in respect of deposits are primarily contractually repayable on demand or at short notice. However, in practice, short-term deposit balances remain stable as inflows and outflows broadly match. Deposits on demand due within 3 months include personal savings and notice and commercial notice accounts of C$17.7 billion.

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce our income or the value of our portfolios.

The objective of our market risk management is to manage and control market risk exposures in order to optimize return on risk.

We separate exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other positions designated as held for trading. Non-trading portfolios include positions that arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale and held to maturity.

Policies and procedures

Market risk is managed through strategies in accordance with policies and risk limits set out by ALCO and approved by our Board. 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 use a range of tools to monitor and limit market risk exposures. These include: 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.

Value at risk (VaR)

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR models used are predominantly based on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking account of inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporate the following features:

- potential market movements are calculated with reference to data from the past two years;
- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- VaR is calculated to a 99 per cent confidence level; and
- VaR is calculated for a one-day holding period.

Statistically, we would expect to see losses in excess of VaR only 1 per cent of the time over a one-year period.

Risk Management *(continued)*

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

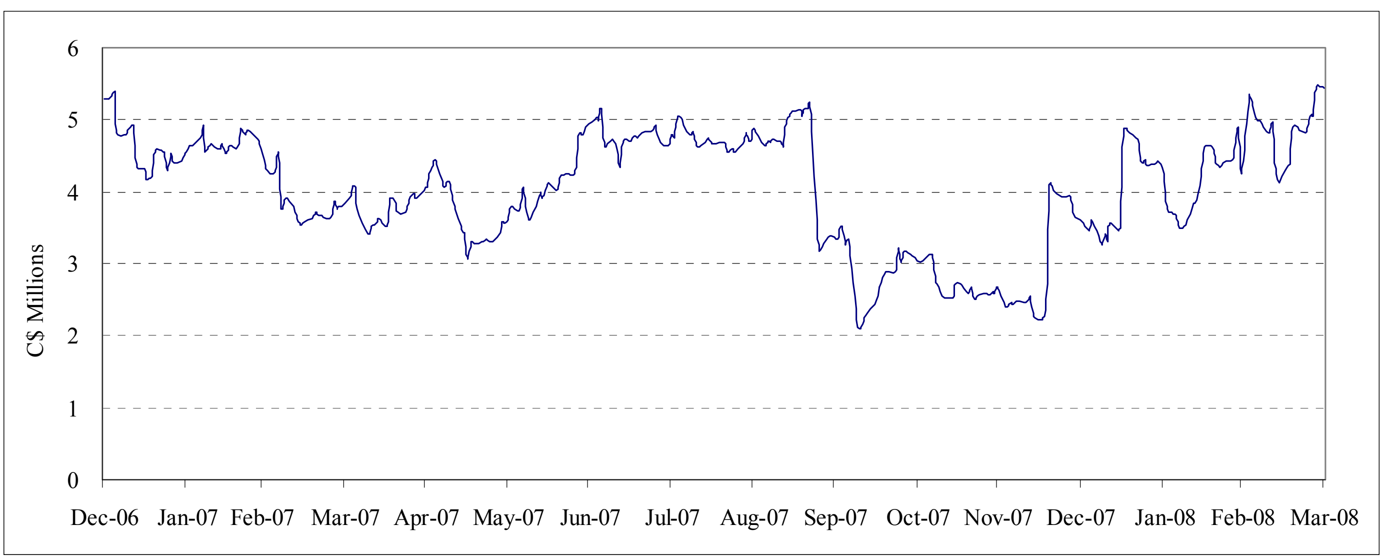
- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

Value at risk

Value at risk disclosed in the table and graph below is the bank's total value at risk for both trading and non-trading financial instruments.

	31 March 2008	*31 December 2007*
End of quarter	**5**	4
Average	**4**	3
Minimum	**3**	2
Maximum	**5**	4

Daily Value at risk



Other Information

Related party transactions

Related party transaction policies and practices are unchanged from those outlined on page 75 of the bank’s 2007 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, including off-balance sheet arrangements

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. The most significant off-balance sheet arrangements are guarantees and letters of credit, and derivatives, which were described on page 17 of the bank’s 2007 Annual Report and Accounts. Although the notional values of these financial instruments are not recorded on the balance sheet derivatives, guarantees and letters of credit are recorded at fair value. In addition, in certain circumstances, the bank provides guarantees and letters of credit facilities to borrowers. There was no change in the basis of calculating the fair value of financial instruments from 31 December 2007, and no significant changes in fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Accounting policies and critical accounting estimates

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). 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 14 to 17 of the bank’s 2007 Annual Report and Accounts. Effective 1 January 2008, we adopted CICA Standards relating to the presentation and disclosure of Capital and Financial Instruments in accordance with CICA Handbook sections 1535, 3862 and 3863. There were no 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 2007, which were outlined on pages 42 to 77 of the bank’s 2007 Annual Report and Accounts.

There was no change in management’s best estimate of the fair value of the bank’s non-bank sponsored Asset Backed Commercial Paper (“non-bank ABCP”) from 31 December 2007. Information relating to estimates used in the valuation of non-bank ABCP is included on page 51 of the bank’s 2007 Annual Report and Accounts.

Other Information *(continued)*

Outstanding shares and securities

	At 2 May 2008	
	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	498,668,000	1,225

Notes:
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.

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(a) and 11 of the bank's 2007 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares for remainder of 2008, subject to approval by the Board, are:

Record Date	Payable Date
June 13	June 30
September 15	September 30
December 15	December 31

During the first quarter of 2008, C$65 million in dividends were declared and paid on common shares.

Payable dates for HSBC HaTS distributions in 2008 are 30 June and 31 December.

Other Information *(continued)*

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at the bank 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 2008 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 quarter ended 31 March 2008, 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 31 March 2008 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 2007 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.

Caution regarding forward-looking financial statements

This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the bank. 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 the bank operates. Canada is an extremely competitive banking environment and pressures on interest rates and the bank's net interest margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. In addition, there may be a number of factors relating to the valuation of non-bank ABCP. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition.

Other Information *(continued)*

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.

Quarterly summary of condensed statements of income (unaudited)

	Quarter ended							
Figures in C$ millions (except per share amounts)	***31 March 2008***	*31 December 2007*	*30 September 2007*	*30 June 2007*	*31 March 2007*	*31 December 2006*	*30 September 2006*	*30 June 2006*
Net interest income	298	302	319	307	294	291	282	276
Non-interest revenue	219	162	184	177	185	168	160	167
Total revenue	517	464	503	484	479	459	442	443
Non-interest expenses	252	253	246	248	250	236	213	233
Net operating income	265	211	257	236	229	223	229	210
Provision for credit losses	25	24	21	12	10	17	5	6
Income before the under noted	240	187	236	224	219	206	224	204
Provision for income taxes	75	64	81	77	70	66	76	78
Non-controlling interest in income of trust	6	7	6	7	6	7	6	6
Net income	159	116	149	140	143	133	142	120
Preferred share dividends	4	5	4	5	4	5	4	5
Net income attributable to common shares	155	111	145	135	139	128	138	115
Basic earnings per share (C$)	0.31	0.22	0.30	0.28	0.28	0.26	0.28	0.24

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 12 to 14 of the 2007 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 2008 was C$30 million, compared with C$27 million for the same period in 2007. Net interest income benefited from growth in residential mortgages and personal loans, and higher savings account balances. However, interest margins declined compared to prior year due to higher funding costs and competitive pricing. Non-interest revenue was higher mainly due to gains and recurring income on securitizations of certain retail portfolios. The weak equity markets in the first quarter of 2008 negatively impacted retail brokerage commissions compared to the prior year. In addition, the prior year included a one-time gain on sale of shares in the Montreal Exchange. Non-interest expenses were higher due to an increase in staff costs and operating expenses from growth and ongoing investments partially offset by lower variable employee compensation. Provision for credit losses was higher due largely to losses in the auto lending business.

Income before taxes and non-controlling interest in income of trust, was C$18 million higher compared with the fourth quarter of 2007. Net interest income was higher due to growth in loan and deposit volume, partially offset by lower net interest margins. Non-interest revenue was higher due to higher gains and recurring income from asset securitizations. Additionally, the fourth quarter of 2007 included C$14 million loss on the write-down of non-bank ABCP holdings. Non-interest expenses were higher due to an increase in staff costs and premise expenses, partially offset by lower marketing spend in the quarter. Provision for credit losses was higher due largely to losses in the auto lending business.

Commercial Banking

Income before taxes and non-controlling interest in income of trust, for the first quarter of 2008 was C$129 million, compared with C$132 million for the same period in 2007. Net interest income was higher due to growth across all products, particularly in commercial loan and cash management products. However, interest margins declined compared to prior year due to increased funding costs. Non-interest revenue was lower as prior year included higher gains recognized from our investments in Private Equity Funds. Excluding this, underlying revenue was higher due to fees on bankers' acceptances and other financial guarantees. Non-interest expenses were lower due to lower capital tax, staff costs and premise expenses. Provision for credit losses was higher due to increased loss rates in the manufacturing and export sectors. In addition, the credit environment was benign in the first quarter of 2007.

Income before taxes and non-controlling interest in income of trust, was C$9 million higher compared with the fourth quarter of 2007. Net interest income declined as interest rate cuts in November, January, and March combined with higher funding costs adversely affected interest margins on loans. Non-interest revenues increased as the fourth quarter of 2007 included C$14 million loss on the write down of non-bank ABCP holdings. Non-interest expenses decreased compared to the fourth quarter of prior year primarily due to lower capital tax expenses.

Global Banking and Markets

Income before taxes and non-controlling interest in income of trust, for the first quarter of 2008 was C$81 million, compared with C$60 million for the same period in 2007. Net interest income was lower due to a compression of interest margins resulting from higher funding costs and a challenging interest rate environment. Non-interest revenue was higher due largely to increased trading revenues as a result of volatile foreign exchange and interest markets experienced in the first quarter of 2008. Additionally, non-interest revenue benefited from a change in the fair value of certain debt obligations. These increases were partially offset by C$11 million gain on the sale of shares in the Montreal Exchange during the first quarter of 2007 and lower revenues from capital markets activities due to the weak financial markets. Non-interest expenses were lower due to lower variable employee compensation, primarily resulting from lower capital markets revenue.

Review of Customer Group Results *(continued)*

Global Banking and Markets (continued)

Income before taxes and non-controlling interest in income of trust, was C$26 million higher compared with the fourth quarter of 2007. Total revenue was higher as a result of increased trading revenues from the positive impact of changes in the value of certain debt obligations recorded at fair value. Furthermore, included in the fourth quarter of 2007 was C$14 million loss on the write-down of non-bank ABCP holdings. Non-interest expenses were lower in comparison to the fourth quarter of 2007 primarily due to lower variable employee compensation.

Consolidated Statement of Income (Unaudited)

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

See notes to consolidated financial statements

Consolidated Balance Sheet (Unaudited)

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

See notes to consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

Figures in C$ millions	***31 March 2008***	*31 December 2007*	*31 March 2007*
	Quarter ended		
Preferred shares			
Balance at beginning and end of period	**350**	350	350
Common shares			
Balance at beginning of period	**1,225**	1,125	1,125
Issued	**–**	100	–
Balance at end of period	**1,225**	1,225	1,125
Contributed surplus			
Balance at beginning of period	**206**	205	202
Stock-based compensation	**1**	1	1
Balance at end of period	**207**	206	203
Retained earnings			
Balance at beginning of period	**1,462**	1,416	1,192
Net income for the period	**159**	116	143
Preferred share dividends	**(4)**	(5)	(4)
Common share dividends	**(65)**	(65)	(65)
Balance at end of period	**1,552**	1,462	1,266
Accumulated other comprehensive income			
Balance at beginning of period	**5**	1	7
Net unrealized gains on available for sale securities, net of income taxes	**8**	(2)	7
Net gain on cash flow hedges	**21**	6	1
Balance at end of period	**34**	5	15
Total shareholders' equity	**3,368**	3,248	2,959

Consolidated Statement of Comprehensive Income (Unaudited)

	31 March 2008	*31 December 2007*	*31 March 2007*
	Quarter ended		
Net income	**159**	116	143
Other comprehensive income (loss) on available for sale securities			
Net unrealized gains (losses) from changes in fair value (net of income taxes of \$(4), \$2, \$(2))	**8**	(2)	7
Other comprehensive income on cash flow hedges			
Unrealized gains from changes in fair value (net of taxes of \$(10), \$(3), \$–)	**21**	6	1
Comprehensive income for the periods	**188**	120	151

See notes to consolidated financial statements

Consolidated Statement of Cash Flows (Unaudited)

Figures in C$ millions	*Quarter ended* ***31 March 2008***	*31 December 2007*	*31 March 2007*
Cash flows provided by/(used in) operating activities			
Net income	**159**	116	143
Trading securities	**(403)**	710	(1,049)
Other, net	**508**	(856)	1,372
	264	(30)	466
Cash flows provided by/(used in) financing activities			
Deposits received	**1,114**	1,342	1,788
Securities sold (purchased) under repurchase agreements	**392**	(366)	305
Proceeds from issue of common shares	**–**	100	–
Dividends paid	**(69)**	(70)	(69)
	1,437	1,006	2,024
Cash flows (used in)/provided by investing activities			
Loans (funded) repaid, excluding securitizations	**(1,467)**	34	(1,822)
Proceeds from loans securitized	**934**	667	273
Available for sale securities	**(710)**	(964)	(1,981)
Non-trading securities sold	**18**	–	–
Securities sold (purchased) under reverse repurchase agreements	**(578)**	(1,570)	1,168
Net change in non-operating deposits with regulated financial institutions	**119**	1,006	(40)
Acquisition of land, buildings and equipment	**(7)**	(20)	(5)
	(1,691)	(847)	(2,407)
Increase in cash and cash equivalents	**10**	129	83
Cash and cash equivalents, beginning of period	**484**	355	347
Cash and cash equivalents, end of period	**494**	484	430
Represented by:			
Cash resources per balance sheet	**520**	510	457
– less non-operating deposits ⌖	**(26)**	(26)	(27)
Cash and cash equivalents, end of period	**494**	484	430

⌖ *Non-operating deposits are comprised primarily of 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 the bank for the year ended 31 December 2007 as set out on pages 42 to 77 of the 2007 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 2007. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period. Unless otherwise stated, all tabular amounts are in C$ millions.

2. Changes in accounting policies

There have been no changes in accounting policies relating to measurement or computation of amounts included in the financial statements. Changes in policies relating to presentation and disclosure have been adopted as follows:

i) Capital Disclosures

Effective 1 January 2008, the bank adopted CICA Handbook Section 1535, Capital Disclosures, which 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. These are included in note 13.

ii) Financial Instruments – Presentation and Disclosure

Effective 1 January 2008, the bank adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These sections 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.

We have included some of the disclosure requirements of these sections in the MD&A – "Risk Management" on pages 5 to 13, which form an integral part of these financial statements.

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

3. Net operating income

Net operating income is stated after the following items of income, expense, gains and losses:

	Quarter ended		
	31 March 2008	*31 December 2007*	*31 March 2007*
Income			
Interest earned on financial instruments not held for trading	**733**	780	690
Fees earned on financial instruments not held for trading, other than fees included in effective interest rate calculations on these types of financial instruments	**36**	34	33
Fees earned on trust and other fiduciary activities where we hold or invest assets on behalf of our customers	**34**	36	30
Expense			
Interest payable on financial instruments not held for trading	**428**	471	388
Fees payable on financial instruments not held for trading, other than fees included in effective interest rate calculations on these types of financial instruments	**4**	5	3
Fees payable relating to trust and other fiduciary activities where we hold or invest assets on behalf of our customers	**3**	4	2
Gains/(losses) recognized			
Loans securitized	**17**	11	2
Financial instruments held for trading	**32**	26	14
Financial liabilities designated as held for trading, net of related hedge	**19**	6	–

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

4. Classification of financial instruments

a) The carrying value of financial instruments by classification is as follows:

	Trading	*Designated as trading*	*Available for Sale*	*Hedging items*	*Loans and receivables*	*Financial liabilities* [(1)]	*Other* [(2)]	*Total*
At 31 March 2008								
Financial Assets:								
Cash or deposits with Bank of Canada	–	–	–	–	132	–	–	132
Deposits with regulated financial institutions	838	–	448	–	2,046	–	–	3,332
Securities	1,630	–	6,349	–	–	–	42	8,021
Securities purchased under reverse repurchase agreements	–	–	–	–	6,700	–	–	6,700
Loans	–	–	–	–	39,223	–	–	39,223
Customers' liability under acceptances	–	–	–	–	6,265	–	–	6,265
Derivatives	862	–	–	43	–	–	–	905
Land, building, equipment and other assets	–	–	–	–	1,569	–	364	1,933
Total	3,330	–	6,797	43	55,935	–	406	66,511
Financial Liabilities:								
Deposits	522	851	–	–	–	48,618	–	49,991
Acceptances	–	–	–	–	–	6,265	–	6,265
Securities sold under repurchase agreements	–	–	–	–	–	712	–	712
Derivatives	665	–	–	27	–	–	–	692
Securities sold short	906	–	–	–	–	–	–	906
Equity and other liabilities	–	–	–	–	–	3,134	3,576	6,710
Non-controlling interest in trust and subsidiary	–	–	–	–	–	–	430	430
Subordinated Debentures	–	373	–	–	–	339	93	805
Total	2,093	1,224	–	27	–	59,068	4,099	66,511
At 31 December 2007								
Financial Assets:								
Cash or deposits with Bank of Canada	–	–	–	–	202	–	–	202
Deposits with regulated financial institutions	878	–	175	–	2,318	–	–	3,371
Securities	1,227	–	5,639	–	–	–	60	6,926
Securities purchased under reverse repurchase agreements	–	–	–	–	6,122	–	–	6,122
Loans	–	–	–	–	38,715	–	–	38,715
Customers' liability under acceptances	–	–	–	–	5,727	–	–	5,727
Derivatives	584	–	–	39		–	–	623
Land, building, equipment and other assets	–	–	–	–	927	–	318	1,245
Total	2,689	–	5,814	39	54,011	–	378	62,931
Financial Liabilities:								
Deposits	456	982	–	–	–	47,439	–	48,877
Acceptances	–	–	–	–	–	5,727	–	5,727
Securities sold under repurchase agreements	–	–	–	–	–	320	–	320
Derivatives	617	–	–	32	–	–	–	649
Securities sold short	623	–	–	–	–	–	–	623
Equity and other liabilities	–	–	–	–	–	2,104	3,400	5,504
Non-controlling interest in trust and subsidiary	–	–	–	–	–	–	430	430
Subordinated Debentures	–	374	–	–	–	339	88	801
Total	1,696	1,356	–	32	–	55,929	3,918	62,931

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

4. Classification of financial instruments (continued)

Notes:
1) Measured at amortized cost.
2) Included in other is a subordinated debenture in a fair value hedging relationship which is adjusted for the fair value of the hedged risk, items that do not meet the definition of a financial instrument, financial instruments that have been excluded from the scope of CICA Handbook Section 3855 and held to maturity securities of C$9 million (C$8 million – 31 December 2007).

b) Additional information relating to financial liabilities designated as trading is as follows:

	Contractual amount payable at maturity	*Fair value*	*Cumulative fair value (loss)/gain*	*Cumulative fair value gain attributable to credit risk*
At 31 March 2008				
Deposits	896	851	45	2
Subordinated debentures	400	373	27	38
	1,296	1,224	72	40
At 31 December 2007				
Deposits	966	982	(16)	
Subordinated debentures	400	374	26	
	1,366	1,356	10	

The cumulative fair value adjustment attributable to credit risk was computed by calculating the total cumulative fair value adjustment and eliminating fair value attributable to market risk.

5. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

a) Determination of fair value

Fair values are determined according to the following hierarchy:

i) Quoted market price: Financial instruments with quoted prices for identical instruments in active markets.
ii) Valuation technique using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
iii) Valuation technique with significant non-observable inputs: Financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value derived is more judgmental. 'Not observable' in this context means that there is little or no current market data available

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

5. Fair value of financial instruments (continued)

from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (historical data may, for example, be used). Furthermore, the assessment of hierarchy level is based on the lowest level of input that is significant to the fair value of the financial instrument. Consequently, the level of uncertainty in the determination of the unobservable inputs will generally give rise to valuation uncertainty that is less than the fair value itself.

The valuation models used where quoted market prices are not available incorporate certain assumptions that we anticipate would be used by a market participant to establish fair value. Where we believe that there are additional considerations not included within the valuation model, appropriate adjustments may be made.

Transaction costs are not included in the fair value calculation. Trade origination costs such as brokerage fees are included in operating expenses. The future costs of administering the over the counter derivative portfolio are also not included in fair value, but are expensed as incurred.

b) Analysis of fair value determination

Derivatives, trading deposits and financial liabilities designated as trading are valued using observable market inputs of similar financial instruments. Non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP") is valued using non-observable market inputs as set out on page 51 of our 2007 Annual Report and Accounts. All other financial instruments are valued using quoted market prices.

There was no change in management's best estimate of the fair value of the bank's non- bank ABCP from 31 December 2007.

c) Effect of changes in significant non-observable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. A summary of the significant assumptions relating to the valuation of non-bank ABCP is set out on page 51 of the 2007 Annual Report and Accounts. The effect of a 10 per cent adverse change in key assumptions would result in a further provision of C$15 million.

d) Analysis of financial instruments not carried at fair value

The table below provides an analysis of the fair value of financial instruments not carried at fair value on the balance sheet. Other financial instruments that are not included below are either carried at fair value or their carrying value is a reasonable approximation of their fair value.

	Carrying amount	*Fair value*	*Fair value over/(under) carrying amount*
At 31 March 2008			
Loans	39,223	39,121	(102)
Deposits	49,991	50,157	166
At 31 December 2007			
Loans	38,715	38,516	(199)
Deposits	48,877	48,890	13

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

6. Allowance for credit losses

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

	Quarter ended		
	31 March 2008	*31 December 2007*	*31 March 2007*
Balance at beginning of period	**353**	336	327
Charge to income statement	**25**	24	10
Amount written-off	**(8)**	(7)	(10)
Balance at end of period	**370**	353	327

7. Securitization

Securitization activity during the first quarter of 2008 was as follows:

	Residential mortgages
Securitized and sold	933
Net cash proceeds received	934
Retained rights to future excess interest	22
Retained servicing liability	5
Pre-tax gain on sale	17

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

Prepayment rate	22.53 %
Excess spread	1.33 %
Expected credit losses	0.01 %
Discount rate	5.25 %

8. Issued and outstanding shares

	At 31 March 2008		*At 31 December 2007*		*At 31 March 2007*	
	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	**498,668,000**	**1,225**	498,668,000	1,225	488,668,000	1,125

9. Stock-based compensation

No awards were granted during the first quarter of 2008 or 2007.

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

10. Customer group segmentation

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

Effective 1 January 2008, 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.

	Quarter ended		
	31 March 2008	*31 December 2007*	*31 March 2007*
Personal Financial Services			
Net interest income	**96**	95	95
Non-interest revenue	**86**	61	71
Total revenue	**182**	156	166
Non-interest expenses	**142**	138	133
Net operating income	**40**	18	33
Provision for credit losses	**10**	6	6
Income before taxes and non-controlling interest in income of trust	**30**	12	27
Provision for income taxes	**9**	5	8
Non-controlling interest in income of trust	**1**	2	1
Net income	**20**	5	18
Average assets	**19,196**	20,418	18,851
Commercial Banking			
Net interest income	**173**	180	168
Non-interest revenue	**50**	39	52
Total revenue	**223**	219	220
Non-interest expenses	**79**	81	84
Net operating income	**144**	138	136
Provision for credit losses	**15**	18	4
Income before taxes and non-controlling interest in income of trust	**129**	120	132
Provision for income taxes	**41**	39	43
Non-controlling interest in income of trust	**4**	4	3
Net income	**84**	77	86
Average assets	**26,481**	25,337	22,809

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

10. Customer group segmentation (continued)

	Quarter ended		
	31 March 2008	*31 December 2007*	*31 March 2007*
Global Banking and Markets			
Net interest income	**29**	27	31
Non-interest revenue	**83**	62	62
Total revenue	**112**	89	93
Non-interest expenses	**31**	34	33
Net operating income	**81**	55	60
Provision for credit losses	**–**	–	–
Income before taxes and non-controlling interest in income of trust	**81**	55	60
Provision for income taxes	**25**	20	19
Non-controlling interest in income of trust	**1**	1	2
Net income	**55**	34	39
Average assets	**22,220**	20,403	18,996

11. Financial assets pledged and collateral accepted

a) Financial assets pledged to secure liabilities were as follows:

	At 31 March 2008	*At 31 December 2007*
Securities	2,888	3,419
Loans	3,287	3,457
Other	3	3
	6,178	6,879

In the ordinary course of business as a financial institution, we pledge assets recorded on our balance sheet to secure our liabilities held with the Bank of Canada, clearing and payment systems and depositories. In addition, we also pledge assets in relation to borrowing, securities lending and securities sold under repurchase agreements.

These transactions are conducted under terms that are usual and customary to financial institutions asset pledging to the above mentioned parties and to standard securities lending and repurchase agreements.

b) Collateral accepted as security

The fair value of assets accepted as collateral that we are permitted to sell or repledge in the absence of default is C$7,811 million (31 December 2007 – C$6,700 million). The fair value of any such collateral that has been sold or repledged is C$1,171 million (31 December 2007 – C$516 million). We are obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to financial institutions asset pledging to the above mentioned parties and to standard securities borrowing and reverse repurchase agreements.

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

12. Financial assets not qualifying for derecognition

a) 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 31 March 2008 were C$486 million (31 December 2007 – C$436 million) and are included in other liabilities.

b) Securities lending

We have lent securities which we have agreed to repurchase at notice of the customer. The customer has agreed to return lent securities at our request under terms and conditions that are usual and customary to standard securities lending agreements. The total securities lent as at 31 March 2008 were C$260 million (31 December 2007 - C$119 million) and are included in other liabilities.

c) Repurchase agreements

We have lent securities which we have agreed to repurchase at a specified future date under terms and conditions that are usual and customary to standard repurchase agreements. Total securities we have agreed to repurchase at a specified future date as at 31 March 2008 were C$712 million (31 December 2007 - C$320 million) and are separately disclosed on the balance sheet.

13. Capital management

a) Objectives, policies and processes

Our objectives in managing our financial capital resources include: generating shareholder value while supporting business activities including the asset base and risk positions; providing prudent depositor security; and exceeding applicable regulatory requirements and long-term internal targets.

To ensure our processes are appropriately governed and to meet our objectives, we enforce policies approved by our Board of Directors (“Board”) and HSBC Holdings approved policies. An annual capital plan is prepared and approved by the Board and HSBC Holdings with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. Our policy is to hold capital in a range of different forms and from diverse sources.

Our Finance and Treasury departments manage compliance with our policies daily, with bi-weekly 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.

b) Capital managed

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 together with certain other adjustments.

13. Capital management (continued)

c) Capital ratio regulations

The Office of the Superintendent of Financial Institutions Canada ("OSFI"), regulates capital adequacy for Canadian federally incorporated financial institutions including banks. OSFI's regulations are based on international standards set 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. We adhered to these capital ratios during the quarter ended 31 March 2008 and during 2007.

d) Revision of capital framework in the calculation of capital ratios

The bank has adopted and implemented the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)", commonly known as the Basel II framework. Of the various approaches available in the framework, HSBC Bank Canada, in concurrence with HSBC Group, has adopted the Advanced Internal Ratings Based approach ("AIRB") for calculating capital requirements for credit risk. The AIRB approach allows the bank to use the internal estimates for certain risk measures, including probability of default, loss given default, exposure at default and effective maturity for calculating risk weights for credit risk. This, compared to the treatment under the Basel I accord, aligns regulatory capital requirements more closely with the risk profile of the business. For operational risk, a new requirement of the Basel II framework, the bank has adopted the Standardized Approach. Operational risk capital is required to cover the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Under the Standardized Approach, the capital required is calculated by applying a specific factor, ranging from 12 per cent to 18 per cent, to the gross income of specific business lines.

Reporting under the AIRB approach requires the approval of OSFI. Once banks have demonstrated full compliance with the requirements for the use of the AIRB approach, and OSFI has approved its use, they may apply the AIRB approach in computing risk weighted assets and minimum capital requirements. However, certain capital floors are in place after full implementation of AIRB. A capital floor of 90% of the Basel I based minimum capital calculation will apply in the first year of full approval and in the second year this may be reduced to 80%, subject to OSFI approval.

In February 2008 OSFI has provided the bank with conditional approval subject to certain conditions to use the AIRB approach for calculating regulatory capital. Until the conditions are met, a capital floor is in effect at 100% of the Basel I based minimum capital requirement.

e) Regulatory capital and ratios

OSFI's maximum permitted assets to capital multiple is 20 times and we target to be prudently below this threshold at 17 times. We maintained a capital multiple ratio below the required maximum threshold during the quarter ended 31 March 2008 and during 2007.

The components of our regulatory capital and our actual regulatory capital ratios are stated in the table below. As mentioned above, we have adopted a revised Basel II framework as of 1 January 2008 that changes how capital ratios are calculated. Due to the adoption of the revised Basel II framework, the quarters presented below are not comparable.

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

13. Capital management (continued)

	At 31 March 2008 (Basel II)	*At 31 December 2007 (Basel I)*
Tier 1 capital		
Common shares	**1,225**	1,225
Contributed surplus	**207**	206
Retained earnings	**1,552**	1,462
Non-cumulative preferred shares (1)	**350**	350
Non-controlling interests in trust and subsidiary (2)	**430**	430
Securitization- related deductions	**(66)**	-
Goodwill	**(15)**	(15)
Total Tier 1 capital	**3,683**	3,658
Tier 2 capital		
Subordinated debentures	**805**	801
Other	**98**	269
Total Tier 2 capital	**903**	1,070
Total Tier 1 and Tier 2 capital	**4,586**	4,728
Securitization-related deductions	**-**	(50)
Total capital available for regulatory purposes	**4,586**	4,678
Total risk-weighted assets (3)	**40,466**	41,372
Actual Regulatory capital ratios		
Tier 1 capital	**9.1 %**	8.8 %
Total capital	**11.3 %**	11.3 %
Actual Assets to capital multiple	**15.1x**	14.1x
Minimum regulatory capital ratios required		
Tier 1 capital	**7%**	7%
Total capital	**10%**	10%
Maximum assets to capital multiple allowed	**20.0x**	20.0x

Notes:
1) Represents C$175 million in each of Series C and Series D preferred shares.
2) Includes C$400 million of HSBC HaTS™.
3) 2008 Basel II risk weighted assets include an adjustment according to the Transitional Arrangements outlined in Section 1.7 of the Capital Adequacy Requirements guidelines.

14. Subsequent event

As part of the industry restructuring of certain non-bank ABCP conduits involved in the Montreal Accord, on 16 April 2008, the bank purchased approximately C$900 million of personal loans previously securitized and sold to certain of these conduits. There was no material gain or loss recognized as a result of this transaction. The assets purchased will be recognized and accounted for as loans and receivables.

Shareholder Information

PRINCIPAL ADDRESSES

Vancouver (head office):
HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: (604) 685-1000
Fax: (604) 641-1849

Toronto:
HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J 1S9
Tel: (416) 868-8000
Fax: (416) 868-3800

WEB SITE
hsbc.ca

MEDIA ENQUIRIES

Ernest Yee (604) 641-2973
Sharon Wilks (416) 868-3878

For dividend information, change in shareholder address or to advise of duplicate mailings, please contact:

Computershare Trust Company of Canada
Shareholder Service Department
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253
Fax: 1 (800) 453-0330

For other shareholder enquiries please contact:

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

Chris Young (604) 641-1976
Santokh Birk (604) 641-1918

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)

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 180 offices. With around 10,000 offices in 83 countries and territories and assets of US$2,354 billion at 31 December 2007, the HSBC Group is one of the world's largest banking and financial services organizations.

Published by HSBC Bank Canada, Vancouver
Printed by Western Printers, Burnaby

HSBC Bank Canada
885 West Georgia Street
Vancouver, B.C.
Canada V6C 3E9
Telephone: (604) 685-1000
Web: hsbc.ca