HSBC BANK CANADA
THIRD QUARTER 2008 REPORT TO SHAREHOLDERS

- Net income attributable to common shares was C$418 million for the nine months ended 30 September 2008, broadly unchanged compared with the same period in 2007.

- Net income attributable to common shares was C$121 million for the quarter ended 30 September 2008, compared with C$145 million for the quarter ended 30 September 2007.

- Return on average common equity was 18.4 per cent and 15.5 per cent for the nine months and quarter ended 30 September 2008 respectively compared with 21.3 per cent for both of the same periods in 2007.

- The cost efficiency ratio was 52.0 per cent and 54.9 per cent for the nine months and quarter ended 30 September 2008 respectively compared with 50.8 per cent and 48.9 per cent, respectively, for the same periods in 2007.

- Total assets were C$66.9 billion at 30 September 2008 compared with C$63.6 billion at 30 September 2007.

- Total funds under management were C$24.6 billion at 30 September 2008 compared with C$27.1 billion at 30 September 2007.

The world's local bank

HSBC

Third Quarter 2008 Management's Discussion and Analysis

HSBC Bank Canada ("the bank") is an indirectly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the Management's Discussion and Analysis ("MD&A"), the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". The MD&A for the bank for the third quarter of 2008 is dated 6 November 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 used to prepare them. The sections included in the MD&A on risk management from pages 6 to 14 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 30 September 2008. Reference should be made to note 2 on page 26 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			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Earnings					
Net income attributable to common shares	**121**	142	145	**418**	419
Basic earnings per share (C$)	**0.24**	0.28	0.30	**0.84**	0.86
Performance ratios (%)⌖					
Return on average common equity	**15.5**	18.9	21.3	**18.4**	21.3
Return on average assets	**0.70**	0.83	0.91	**0.82**	0.90
Net interest margin	**2.07**	2.03	2.33	**2.06**	2.30
Cost efficiency ratio	**54.9**	52.7	48.9	**52.0**	50.8
Non-interest revenue: total revenue ratio	**34.9**	39.7	36.6	**39.1**	37.2
Credit information					
Gross impaired credit exposures	**295**	290	206		
Allowance for credit losses					
– Balance at end of period	**361**	365	336		
– As a percentage of gross impaired credit exposures	**122 %**	126 %	163 %		
– As a percentage of gross loans and acceptances	**0.79 %**	0.78 %	0.75 %		
Average balances⌖					
Assets	**69,061**	68,471	62,934	**68,479**	62,301
Loans	**39,789**	39,942	38,405	**39,528**	37,164
Deposits	**52,095**	51,830	47,588	**51,634**	46,717
Common equity	**3,101**	3,038	2,693	**3,034**	2,623
Capital ratios (%)⌖⌖					
Tier 1	**10.6**	9.3	8.5		
Total capital	**13.2**	11.5	10.9		
Total assets under administration					
Funds under management	**24,629**	27,118	27,129		
Custody accounts	**8,667**	10,699	9,279		
Total assets under administration	**33,296**	37,817	36,408		

⌖ *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 pages 35 to 37, note 14 in respect of new capital adequacy framework.*

Analysis of Financial Results

Overview

HSBC Bank Canada recorded net income attributable to common shares for the nine months ended 30 September 2008 of C$418 million which was broadly unchanged from the C$419 million reported in the same period in 2007. Net income attributable to common shares for the quarter ended 30 September 2008 was C$121 million, a decrease of C$24 million, or 16.6 per cent, from C$145 million for the third quarter of 2007.

Results for the quarter and for the nine months ended 30 September 2008 were impacted by a loss of C$20 million after related income taxes, arising from the sale of the bank's C$1.5 billion automobile loan portfolio in July 2008. Net income attributable to common shares for the nine months ended 30 September 2007 were impacted by gains of C$21 million after related income taxes, from the sale of the bank's shares in the Montreal Exchange. Excluding these items, net income attributable to common shares for the nine months ended 30 September 2008 increased by 10.1 per cent over the same period last year and for the quarter, net income decreased by 2.8 per cent and 0.7 per cent respectively compared to the third quarter of 2007 and the second quarter of 2008.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer of HSBC Bank Canada, said: "After taking into account the impact of the sale of the bank's automobile loan portfolio, the results for the third quarter showed considerable resilience despite the ongoing volatility in international credit and liquidity markets.

"Our balance sheet is conservatively positioned, with strong capital ratios including a Tier 1 ratio of 10.6 per cent. We plan to continue our existing strategy of working with our customers to meet their personal and business needs while maintaining close control over credit quality. Our credit ratings are among the best of Canadian banks and we are part of the HSBC Group, one of the world's largest and most strongly capitalized banks. Over 100 million customers worldwide entrust HSBC with US$1.2 trillion in deposits."

Net interest income

Net interest income for the nine months ended 30 September 2008 was C$900 million compared with C$920 million for the same period last year, a decrease of C$20 million, or 2.2 per cent. Although average interest earning assets increased to C$58.3 billion from C$53.4 billion, this was offset by a decrease in net interest margin to 2.06 per cent compared with 2.30 per cent in 2007. Reductions in the prime rate during 2008 resulted in reduced interest income on our floating rate loans which was not offset by an equal reduction in interest expense as our deposits repriced downwards less quickly. In addition, wider credit spreads experienced across the banking industry adversely impacted the cost of wholesale funding.

Net interest income for the quarter ended 30 September 2008 was C$306 million compared with C$319 million for the same quarter in 2007, a decrease of C$13 million, or 4.1 per cent. Average interest earning assets for the quarter were C$58.7 billion, 8.1 per cent higher than the same period in 2007. However, this was offset by the effect of the challenging interest rate environment that adversely impacted the net interest margin, decreasing it to 2.07 per cent for the quarter ended 30 September 2008 from 2.33 per cent for the same period in 2007.

Net interest income for the third quarter of 2008 was C$10 million, or 3.4 per cent higher compared with the second quarter of 2008. Average interest earning assets increased to C$58.7 billion from C$58.2 billion in the previous quarter. The net interest margin of 2.07 per cent was four basis points higher than the previous quarter. This was primarily as a result of reducing the interest rate paid on deposits following reductions in the prime rate earlier in the year.

Analysis of Financial Results *(continued)*

Non- interest revenue

For the nine months ended 30 September 2008, non-interest revenue was C$578 million, C$32 million, or 5.9 per cent, higher compared with C$546 million for the same period last year.

During the quarter, we recorded, as a reduction of other income, a loss of C$29 million on the disposal of a C$1.5 billion portfolio of automobile loans. This was partially offset by significant increases in activity in the bank's investor immigration programme as well as increases in insurance commissions. Following release of the terms of the expected settlement of the "Montreal Accord" and the impact of wider credit spreads on the value of the bank's holdings of Canadian non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP"), during the third quarter we recorded a further provision of C$15 million of which C$2 million was recorded as a reduction of trading income, and C$13 million as a loss on available-for-sale securities. The reduction of gains on available-for-sale securities compared to the prior year is also impacted by a C$26 million gain that was recorded in 2007 on the sale of the bank's shares in the Montreal Exchange.

Revenues from customer banking activities, including deposit and payment service charges and credit fees, were higher due to increased customer activity reflecting the underlying strength of the banking business. Foreign exchange revenues were higher due to initiatives undertaken to improve business with customers. Investment administration fees were higher as a result of increased customer portfolios. Securitization income increased significantly, partially due to increased activity as well as benefiting from the effect of falling interest rates. Trading revenue was higher as widening credit spreads had a considerable positive impact on the value of certain debt obligations recorded at fair value. Further, trading volumes in fixed income instruments increased with changing interest rates as well. Foreign exchange trading revenue grew on increased customer activity and volatile foreign exchange markets. Capital market fees were lower due to lower market activity in 2008 compared to 2007 caused by market uncertainties, particularly new issue and underwriting mandates.

Non-interest revenue was C$164 million for the third quarter of 2008 compared with C$184 million in the same quarter of 2007, a decrease of C$20 million, or 10.9 per cent. Despite the uncertain markets, deposit and payment service charges and credit fees increased. Securitization income was higher mainly due to increased activity compared to the prior period in 2007. Capital market fees were lower resulting from lower activity owing to uncertainties in the markets. Trading revenue was lower, mainly due to lower impacts of changes in the carrying values of certain debt obligations recorded at fair value compared to the previous year. In addition, the third quarter was impacted by the loss on disposal of the automobile loan portfolio and the additional non-bank ABCP provision.

Non-interest revenue for the third quarter of 2008 was C$31 million lower compared with C$195 million recorded in the previous quarter, mainly due to the loss on disposal of the automobile loan portfolio and the additional non-bank ABCP provision. In addition, capital market fees were lower arising from uncertain markets and securitization income was reduced due to lower activity than the previous quarter. This was partially offset by higher trading revenue mostly arising from the impact of wider credit spreads on the fair value of certain debt obligations.

Non-interest expenses

For the nine months ended 30 September 2008, non-interest expenses were C$769 million compared with C$744 million for the same period last year, an increase of C$25 million, or 3.4 per cent. Salaries and benefits grew, reflecting increased staff levels as we expanded the branch network, the direct bank and the payments and cash management businesses. These were offset by lower variable compensation arising from lower capital market fees and lower pension costs. Premises costs increased by C$12 million due to the new branches as well as increases in information technology costs. Other non-interest expenses were higher due to continued investments in the business, as well as higher customer transaction and marketing costs.

Analysis of Financial Results *(continued)*

Non-interest expenses were C$258 million for the third quarter of 2008 compared with C$246 million for the same quarter of 2007, an increase of C$12 million, or 4.9 per cent. Salary expenses grew reflecting increased numbers of staff. Premises and equipment and other expenses increased mainly as a result of additional investments in information technology, and marketing expenses together with increased operating losses.

Non-interest expenses for the third quarter were little changed compared to C$259 million for the second quarter of 2008. Salaries and benefits were lower as a result of lower variable compensation arising from lower capital market fees and lower pension and benefit expenses. Premises and equipment expenses decreased due to lower property costs in the third quarter offset by higher marketing expenses and operating losses.

Credit quality and provision for credit losses

For the nine months ended 30 September 2008, the provision for credit losses was C$72 million compared with C$43 million for the same period in 2007. An increase in retail provisions primarily related to automobile loans and specific provisions relating to the commercial construction, manufacturing and export sectors in 2008 resulted in an increase of C$29 million compared with the same period in 2007.

The provision for credit losses was C$22 million for the third quarter of 2008, little changed from C$21 million recorded in the third quarter of 2007, and C$25 million for the second quarter of 2008.

Gross impaired credit exposures were C$295 million compared with C$290 million at 30 June 2008, and C$206 million at 30 September 2007. Total impaired exposures, net of specific allowances for credit losses, were C$193 million at 30 September 2008 compared with C$194 million at 30 June 2008 and C$139 million at 30 September 2007.

The general allowance for credit losses of C$259 million at 30 September 2008 is C$10 million lower than C$269 million at 30 June 2008 and 30 September 2007. This reduction occurred following the sale of the C$1.5 billion automobile loan portfolio during the quarter. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.79 per cent at 30 September 2008 compared with 0.78 per cent at 30 June 2008 and 0.75 per cent at 30 September 2007. Although the bank has experienced a small increase in non-accrual loans, the overall credit quality of the portfolio remains sound reflecting the bank's prudent lending standards. 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

On a year-to-date basis in 2008, the effective tax rate was 30.3 per cent compared with 34.6 per cent for the same period last year, primarily due to lower statutory tax rates. The effective tax rate in the third quarter of 2008 was 32.1 per cent, which compared to 35.2 per cent in the same quarter of 2007 and 26.5 per cent in the second quarter of 2008, which benefited from the resolution of certain tax deductions from prior years.

Balance sheet

Total assets at 30 September 2008 were C$66.9 billion, an increase of C$4.0 billion from 31 December 2007, and C$3.3 billion from 30 September 2007. Commercial loans and bankers' acceptances increased by C$1.1 billion from the end of 2007, as commercial activity continued to grow. Although residential mortgage originations increased, this was offset by C$2.7 billion in securitizations in 2008 resulting in a net decrease of about C$440 million. Consumer loans grew by about C$390 million. There was an increase of C$900 million related to part of the industry restructuring of certain non-bank ABCP conduits where the bank re-purchased personal loans that it had previously securitized. During the third quarter, the bank also exercised an option to purchase approximately C$160 million of loans previously securitized. In addition, the bank's consumer loans and other personal lines of credit increased by about C$830 million. These increases were partially offset by the sale of a portfolio of C$1.5

Analysis of Financial Results *(continued)*

billion of automobile loans. The securities portfolio and securities purchased under reverse repurchase arrangements increased by C$3.4 billion from 31 December 2007, improving the bank's liquidity position.

Total deposits increased by C$2.3 billion to C$51.2 billion at 30 September 2008 from C$48.9 billion at 31 December 2007 and were C$3.7 billion higher compared with C$47.5 billion at 30 September 2007. Personal deposits grew by C$1.4 billion over 31 December 2007 mainly driven by growth in the number of High Rate and Direct Savings accounts. In the same period commercial deposits also increased reflecting strong growth among our commercial clients, while wholesale deposits decreased marginally.

Total assets under administration

Although the bank benefited from good investment sales, recent declines in equity markets had an adverse impact in funds under management which were C$24.6 billion at 30 September 2008 compared with C$27.1 billion at 30 June 2008 and C$27.1 billion at 30 September 2007. Including custody and administration balances, total assets under administration were C$33.3 billion compared with C$37.8 billion at 30 June 2008 and C$36.4 billion at 30 September 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; and
- 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 (the "Board") for review, ratification and/or approval.

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 the Chief Risk Officer and a variety of sub-committees including Asset and Liability Committee ("ALCO"), Tactical ALCO ("TALCO"), and Credit, Operational Risk Management, and Fiduciary Risk Management committees. We also have committees specifically responsible for the risk assessment and implementation of new products.

Risk Management *(continued)*

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 changing economic and political circumstances, changing customer requirements, demographic trends, regulatory developments and competitor actions. 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 counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry and 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 the 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 the 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 the Board in-line with HSBC Group policy. All new and renewed major authorized facilities, derivative exposures, "watch list" exposures 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 which are approved quarterly by the Audit Committee and disseminated throughout our business along with various credit manuals.

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. 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.

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.

Risk Management *(continued)*

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.

In February 2008, regulatory approval was received to use the Advanced Internal Ratings Based 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 minimum regulatory capital requirements 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.

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 into account any collateral held or other credit enhancements. For financial assets recognized 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.

Risk Management *(continued)*

	At 30 September 2008	*At 31 December 2007*
On balance sheet exposure		
Cash held at Bank of Canada and other regulated financial institutions	**2,266**	3,573
Securities		
As disclosed on balance sheet	**9,389**	6,926
Less: Equity securities not exposed to credit risk	**(186)**	(214)
Securities purchased under reverse repurchase agreements	**7,048**	6,122
Loans	**39,982**	38,715
Customers' liability under acceptances	**5,461**	5,727
Derivatives	**999**	623
Included within other assets		
Accrued interest receivable	**155**	156
Due from clients, dealers and clearing corporations	**756**	236
Accounts receivable and other	**298**	357
	66,168	62,221
Off balance sheet exposure		
Financial and performance standby letters of credit	**2,427**	2,420
Documentary and commercial standby letters of credit	**404**	322
Commitments to extend credit	**33,502**	36,177
Credit and yield enhancement	**16**	50
	36,349	38,969
Maximum exposure	**102,517**	101,190

Securities includes C$8.6 billion of Canadian Federal and Provincial governments issued or guaranteed securities. Loans include C$1 billion of mortgages insured by the Canadian Federal government.

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 categories below, on which the following information is based:

	At 30 September 2008	*At 31 December 2007*
Satisfactory risk	**38,846**	37,713
Watch list and special mention	**665**	531
Sub-standard but not impaired	**283**	218
	39,794	38,462

Satisfactory risk includes corporate facilities demonstrating financial conditions, risk factors and the capacity to repay ranging from satisfactory to excellent, residential mortgages with low to higher loan-to-value ratios and other retail accounts which are maintained within and outside of generally applicable product parameters without being impaired.

Watch list and special mention, and sub-standard but not impaired includes 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 30 September 2008	*At 31 December 2007*
Past due up to 29 days	**188**	268
Past due 30-59 days	**44**	50
Past due 60-89 days	**9**	10
Past due over 90 days	**12**	9
	253	337

The reduction in past due loans mostly relates to the sale of the bank's automobile loan portfolio which closed in July 2008.

Impaired financial assets

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

Risk Management *(continued)*

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.

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$295 million at 30 September 2008 (31 December 2007 – C$272 million).

Due to the terms of the expected settlement of the "Montreal Accord" and the impact of wider credit spreads on the value of the bank's holdings of Canadian non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP"), we adjusted the carrying value, net of provisions, at 30 September 2008 to C$265 million (31 December 2007 – C$280 million). Detailed information on the 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 the Board and HSBC Holdings. Compliance with policies is regularly monitored by the Asset and Liability Committee ("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.

Risk Management *(continued)*

Liquidity and funding contingency 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.

Primary sources of funding

Current accounts and savings deposits payable on demand or on 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 these contingencies, 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 30 September 2008				
Deposits	**37,044**	**10,246**	**5,059**	**4**
Acceptances	**5,461**	–	–	–
Securities sold under repurchase agreements	**353**	–	–	–
Securities sold short	**856**	–	–	–
Derivatives	**917**	–	–	–
Subordinated debentures	**10**	**30**	**160**	**1,160**
Other financial liabilities	**3,269**	–	–	–
	47,910	**10,276**	**5,219**	**1,164**
Loan commitments	**12,815**	**15,353**	**679**	**4,655**
	60,725	**25,629**	**5,898**	**5,819**

Certain balances in the above table will not agree directly to the balances in the unaudited interim consolidated balance sheet as the table incorporates principal and projected interest cash outflows on an undiscounted basis. Furthermore, loan commitments are not recognized on the balance sheet. Derivatives have been classified as “On demand and due within 3 months”, 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 on short notice. However, in practice, short-term deposit balances remain stable as cash inflows and outflows broadly match. Deposits on demand and due within 3 months include personal savings, and notice and commercial notice accounts of C$18.0 billion.

Risk Management *(continued)*

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 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 and 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 the 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.

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

- 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, which 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;

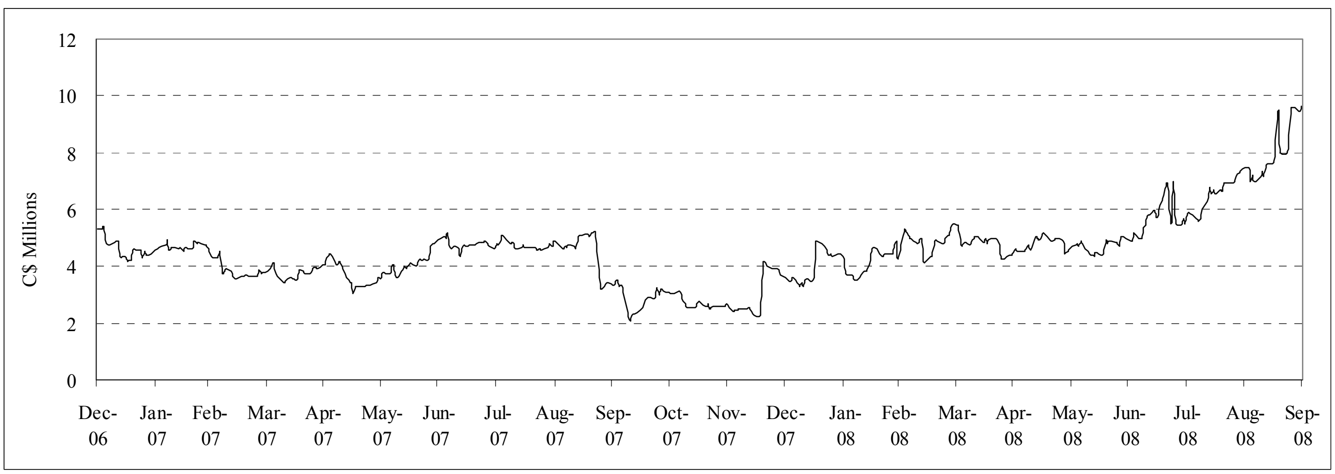
Risk Management *(continued)*

- 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.

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

	Quarter ended	
	30 September 2008	*30 June 2008*
End of quarter	**10**	5
Average	**7**	5
Minimum	**5**	4
Maximum	**10**	5

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 2007 Annual Report and Accounts. All transactions with related parties continue 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 instrument contracts. The most significant off-balance sheet arrangements are guarantees and letters of credit, and derivatives, which were described on page 17 of the 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

Other Information *(continued)*

credit facilities to borrowers. There have been no changes in the basis of calculating the fair value of financial instruments from 31 December 2007, with the exception of the bank's holdings of non-bank ABCP, and no significant changes in the fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Accounting policies and critical accounting estimates

These unaudited interim 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 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 in 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 2007 Annual Report and Accounts.

Management's best estimate of the fair value of the bank's non-bank ABCP is included on page 11. Information relating to estimates used in the valuation of non-bank ABCP is included on page 51 of the 2007 Annual Report and Accounts.

The Canadian Accounting Standards Board recently approved certain amendments to CICA Handbook sections 3855 and 3862 effective 1 July 2008 in respect of reclassification of financial instruments. The bank has not reclassified any financial instruments pursuant to these new amendments.

Outstanding shares and securities

	At 6 November 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	**498,688,000**	**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.

Other Information *(continued)*

During the third quarter of 2008, C$70 million in dividends were declared and paid on common shares.

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 2007 Annual Report and Accounts.

Dividend record and payable dates for the bank's preferred shares for the remainder of 2008 and 2009, subject to approval by the Board, are:

2008		2009	
Record Date	Payable Date	Record Date	Payable Date
December 15	December 31	March 13	March 31
		June 15	June 30
		September 15	September 30
		December 15	December 31

The payable dates for HSBC HaTS distributions in 2008 and 2009 are 31 December 2008, 30 June 2009 and 31 December 2009.

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 the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP. The 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 30 September 2008, and that they are responsible for the design and maintenance of disclosure controls, internal controls and procedures over financial information 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 30 September 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 the Management's Discussion and Analysis in the 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.

Effective for financial years ending after 15 December 2008, Multilateral Instrument 52-109 will be replaced by National Instrument 52-109, which requires the CEO and CFO to certify the appropriateness of the financial disclosures, the effectiveness of disclosure control and procedures, the design and the operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP.

Other Information *(continued)*

Under National Instrument 52-109, an issuer will be required to disclose in its MD&A:

- a conclusion about the effectiveness of its Internal Control Framework;
- a description of the Internal Control Framework evaluation process;
- a description of any reportable deficiency in the operation of its Internal Control Framework; and
- any limitation in the scope of the design of its Internal Control Framework, if applicable.

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 has 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.

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 measures under GAAP and are unlikely to be comparable to similar measures used by other companies. The following outlines various GAAP and 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.

Other Information *(continued)*

Quarterly summary of condensed statements of income (unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* **30 September 2008**	*30 June 2008*	*31 March 2008*	*31 December 2007*	*30 September 2007*	*30 June 2007*	*31 March 2007*	*31 December 2006*
Net interest income	**306**	296	298	302	319	307	294	291
Non-interest revenue	**164**	195	219	162	184	177	185	168
Total revenue	**470**	491	517	464	503	484	479	459
Non-interest expenses	**258**	259	252	253	246	248	250	236
Net operating income	**212**	232	265	211	257	236	229	223
Provision for credit losses	**22**	25	25	24	21	12	10	17
Income before the under noted	**190**	207	240	187	236	224	219	206
Provision for income taxes	**59**	53	75	64	81	77	70	66
Non-controlling interest in income of trust	**6**	7	6	7	6	7	6	7
Net income	**125**	147	159	116	149	140	143	133
Preferred share dividends	**4**	5	4	5	4	5	4	5
Net income attributable to common shares	**121**	142	155	111	145	135	139	128
Basic earnings per share (C$)	**0.24**	0.28	0.31	0.22	0.30	0.28	0.28	0.26

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

Results for the quarter and for the nine months ended 30 September 2008 were impacted by a loss of C$29 million, arising from the sale of the bank's C$1.5 billion automobile loan portfolio. Income before taxes and non-controlling interest in income of trust for the nine months ended 30 September 2007 included a C$9 million gain on the sale of the bank's shares in the Montreal Exchange.

On a year-to-date basis, excluding the items noted above, income before taxes and non-controlling interest in income of trust was C$82 million compared with C$90 million for the same period in 2007. Net interest income was unchanged year on year as growth in the business was offset by lower net interest margins and sale of the automobile loan portfolio. Underlying non-interest revenue was C$34 million higher compared to prior year due largely to higher securitization income arising from increased volumes and higher gains on securitization of loans. Global Investor Immigration Services ("GIIS") revenue was higher on increased volume, and service charges and foreign exchange revenues were also higher than the same period in 2007. These increases were partially offset by a C$5 million write-down of non-bank ABCP held and decreased income from the retail brokerage business due to uncertain equity markets. Non-interest expenses were C$33 million higher and were largely attributable to increased central support costs. Underlying non-interest expense growth was 3 per cent due to increased marketing costs, higher staff costs and continued business growth. Partially offset by lower variable compensation expenses consistent with decreased retail brokerage revenue. Provision for credit losses were higher due largely to losses in the auto lending business.

Excluding the C$29 million loss on the sale of the bank's automobile loan portfolio, underlying income before taxes and non-controlling interest in income of trust for the third quarter of 2008 was C$17 million compared with C$35 million for the same period in 2007. Net interest income decreased C$3 million due to the sale of the automobile loan portfolio and lower net interest margins. This was partially offset by continued volume growth in the business. Underlying non-interest revenue was unchanged as increased securitization income and higher GIIS revenues were offset by a write-down relating to non-bank ABCP held and decreased fee income from the retail brokerage business arising from weak equity markets. Excluding the impact of increased central support costs, underlying non-interest expenses increased C$8 million due to higher marketing spend, increased staff costs and business growth, partially offset by lower variable compensation expenses. Provision for credit losses was higher due largely to losses in the auto lending business.

Underlying income before taxes and non-controlling interest in income of trust was C$20 million lower compared with the second quarter of 2008. Net interest income was C$5 million lower due largely to decreased volumes as a result of the sale of assets from the automobile loan portfolio. Underlying non-interest revenue was C$15 million lower due to decreased securitization income, lower fee income from our retail brokerage business arising from uncertain equity markets, and a write-down relating to non-bank ABCP held in the current quarter. This was partially offset by increased revenue from GIIS due to higher volumes. Non-interest expenses were C$1 million higher due to in increase brokerage fees related to GIIS.

Commercial Banking

On a year-to-date basis, income before taxes and non-controlling interest in income of trust was C$385 million compared with C$391 million in the same period in 2007. Net interest income decreased C$8 million as net interest margins declined due to higher funding costs. This was partially offset by continued growth in volumes. Non-interest revenue was C$13 million higher from growth of credit fees, Payments and Cash Management revenue, and foreign exchange revenues. Partially offsetting was a C$5 million write-down in the current year relating to non-bank ABCP held. Non-interest expenses were C$9 million lower due to lower allocated support costs as a result of changes to cost allocation methodologies. Underlying non-interest expenses increased C$11 million or 5 per cent due to increased staff costs and higher premises and equipment expenses. Provisions for credit losses increased C$20 million due to an uncertain credit environment compared to the benign credit environment in early 2007.

Review of Customer Group Results *(continued)*

Income before taxes and non-controlling interest in income of trust for the third quarter of 2008 was C$132 million, an increase of C$3 million over the comparative quarter in 2007. Net interest income was C$9 million lower as net interest margins declined due to higher funding costs arising from dislocated financial markets and widening credit spreads. This was partially offset by continued growth in volumes. Non-interest revenue was C$6 million higher and was driven by growth of fees on bankers' acceptances and other financial guarantees, and revenues from the Payments and Cash Management business. This was partially offset by a write-down of non-bank ABCP held. Non-interest expenses were C$5 million lower due to a decrease in central support costs. Underlying non-interest expenses were C$2 million or 3 per cent higher due to increased staff costs and premise and equipment expenses. Provision for credit losses was C$1 million lower than the third quarter of 2007.

Income before taxes and non-controlling interest in income of trust was C$7 million higher in the third quarter of 2008 compared with the prior quarter. Net interest income increased C$6 million due to higher net interest margins and loan fees. Non-interest revenue was C$3 million lower due to a write-down of non-bank ABCP held. Non-interest expenses were C$2 million lower due to decreased staff and occupancy expenses. Provisions for credit losses decreased C$2 million from the second quarter of 2008.

Global Banking and Markets

Income before taxes and non-controlling interest in income of trust for the nine months ended 30 September 2007 included a C$16 million gain on the sale of the bank's shares in the Montreal Exchange.

On a year-to-date basis, excluding the item noted above, income before taxes and non-controlling interest in income of trust was C$199 million compared with C$173 million for the same period in 2007. Net interest income declined C$12 million due to lower net interest margins and lower securities yields. Underlying non-interest revenue was C$39 million higher as trading revenue benefited from volatile foreign exchange and credit markets. Additionally, income for the nine months ended 30 September 2008 included a C$9 million gain recognized from a funding transaction. These were partially offset by a C$5 million write-down relating to non-bank ABCP held. Non-interest expenses were C$1 million higher due to increased staff costs.

Income before taxes and non-controlling interest in income of trust for the third quarter was C$70 million, compared with C$72 million for the same period in 2007. Net interest income was C$1 million lower due to decreased net interest margins and lower securities yields. Non-interest revenue was C$2 million higher arising largely from increased trading revenues as a result of volatile foreign exchange and credit markets. Non-interest expenses were C$3 million higher due to increased staff costs and variable compensation expenses.

Income before taxes and non-controlling interest in income of trust for third quarter was C$25 million higher compared to the prior quarter. Net interest income increased C$9 million due to a reduction in interest expense from re-pricing on deposits and higher net interest income from Corporate and Institutional Banking. Non-interest revenue was C$16 million higher as the current quarter included a C$9 million gain recognized from a funding transaction. In addition, changing credit spreads impacted the fair value of certain debt obligations. Credit spreads widened in the current quarter resulting in a large credit compared to the second quarter which recorded a small charge due to narrowing of credit spreads. Partially offsetting was a C$5 million write-down of non-bank ABCP held in the current quarter. Non-interest expenses were unchanged compared to the second quarter of 2008.

Transition to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board announced that for fiscal years commencing on or after 1 January 2011, all publicly accountable enterprises, including HSBC Bank Canada, are mandated to report their financial results using International Financial Reporting Standards ("IFRS"). We have developed an implementation strategy and timetable. Our transition to IFRS will be building on our current process of reporting our results to the HSBC Group (based on IFRS). During the third quarter of 2008, we started a detailed assessment identifying any impacts on our local accounting policies, disclosures, financial systems and processes, and internal controls in transitioning to these new standards. We anticipate substantial completion of this assessment within the final quarter of 2008, during which we plan to establish an appropriate governance structure to coordinate the transition to IFRS and begin to formulate our detailed roll out plan for 2009.

Consolidated Statements of Income (Unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* ***30 September 2008***	*30 June 2008*	*30 September 2007*	*Nine months ended* ***30 September 2008***	*30 September 2007*
Interest and dividend income					
Loans	**595**	602	663	**1,839**	1,876
Securities	**71**	65	70	**209**	199
Deposits with regulated financial institutions	**16**	21	61	**73**	182
	682	688	794	**2,121**	2,257
Interest expense					
Deposits	**367**	382	464	**1,192**	1,308
Debentures	**9**	10	11	**29**	29
	376	392	475	**1,221**	1,337
Net interest income	**306**	296	319	**900**	920
Non-interest revenue					
Deposit and payment service charges	**27**	28	25	**82**	73
Credit fees	**31**	30	30	**92**	85
Capital market fees	**17**	27	21	**66**	82
Investment administration fees	**34**	35	33	**102**	96
Foreign exchange	**11**	11	10	**32**	28
Trade finance	**6**	6	6	**17**	18
Trading revenue	**37**	19	40	**107**	70
Gains on available-for-sale securities	**(13)**	2	(5)	**(11)**	21
Gains on other securities	**–**	1	–	**2**	9
Securitization income	**15**	21	10	**63**	29
Other	**(1)**	15	14	**26**	35
	164	195	184	**578**	546
Total revenue	**470**	491	503	**1,478**	1,466
Non-interest expenses					
Salaries and employee benefits	**139**	143	132	**424**	414
Premises and equipment	**33**	38	31	**106**	94
Other	**86**	78	83	**239**	236
	258	259	246	**769**	744
Net operating income before provision for credit losses	**212**	232	257	**709**	722
Provision for credit losses	**22**	25	21	**72**	43
Income before taxes and non-controlling interest in income of trust	**190**	207	236	**637**	679
Provision for income taxes	**59**	53	81	**187**	228
Non-controlling interest in income of trust	**6**	7	6	**19**	19
Net income	**125**	147	149	**431**	432
Preferred share dividends	**4**	5	4	**13**	13
Net income attributable to common shares	**121**	142	145	**418**	419
Average common shares outstanding (000)	**498,668**	498,668	488,668	**498,668**	488,668
Basic earnings per share (C$)	**0.24**	0.28	0.30	**0.84**	0.86

See notes to consolidated financial statements

Consolidated Balance Sheets (Unaudited)

Figures in C$ millions	***At 30 September 2008***	*At 31 December 2007*	*At 30 September 2007*
Assets			
Cash and non-interest bearing deposits with banks	**518**	510	384
Interest bearing deposits with regulated financial institutions	**1,748**	3,063	4,066
	2,266	3,573	4,450
Available-for-sale securities	**7,958**	5,639	4,675
Trading securities	**1,377**	1,227	1,920
Other securities	**54**	60	59
	9,389	6,926	6,654
Securities purchased under reverse repurchase agreements	**7,048**	6,122	4,552
Loans			
– Businesses and government	**22,644**	21,322	20,995
– Residential mortgage	**12,482**	12,920	14,220
– Consumer	**5,217**	4,826	4,612
– Allowance for credit losses	**(361)**	(353)	(336)
	39,982	38,715	39,491
Customers' liability under acceptances	**5,461**	5,727	5,237
Derivatives	**999**	623	737
Land, buildings and equipment	**157**	149	136
Other assets	**1,617**	1,096	2,301
	8,234	7,595	8,411
Total assets	**66,919**	62,931	63,558
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	**1,486**	1,535	2,608
– Individuals	**19,720**	18,291	18,244
– Businesses and governments	**29,982**	29,051	26,683
	51,188	48,877	47,535
Acceptances	**5,461**	5,727	5,237
Assets sold under repurchase agreements	**353**	320	686
Derivatives	**917**	649	941
Securities sold short	**856**	623	1,461
Other liabilities	**3,433**	2,256	3,372
Non-controlling interest in trust and subsidiary	**430**	430	430
	11,450	10,005	12,127
Subordinated debentures	**796**	801	799
Shareholders' equity			
– Preferred shares	**350**	350	350
– Common shares	**1,225**	1,225	1,125
– Contributed surplus	**209**	206	205
– Retained earnings	**1,680**	1,462	1,416
– Accumulated other comprehensive income	**21**	5	1
	3,485	3,248	3,097
Total liabilities and shareholders' equity	**66,919**	62,931	63,558

See notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Quarter ended			Nine months ended	
Figures in C$ millions	***30 September 2008***	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Preferred shares					
Balance at beginning and end of period	**350**	350	350	**350**	350
Common shares					
Balance at beginning and end of period	**1,225**	1,225	1,125	**1,225**	1,125
Contributed surplus					
Balance at beginning of period	**208**	207	204	**206**	202
Stock-based compensation	**1**	1	1	**3**	3
Balance at end of period	**209**	208	205	**209**	205
Retained earnings					
Balance at beginning of period	**1,629**	1,552	1,336	**1,462**	1,192
Net income for the period	**125**	147	149	**431**	432
Preferred share dividends	**(4)**	(5)	(4)	**(13)**	(13)
Common share dividends	**(70)**	(65)	(65)	**(200)**	(195)
Balance at end of period	**1,680**	1,629	1,416	**1,680**	1,416
Accumulated other comprehensive income					
Balance at beginning of period	**4**	34	(12)	**5**	7
Net change in unrealized gains and losses on available for sale securities	**(3)**	(11)	2	**(6)**	(3)
Net change in cash flow hedges	**20**	(19)	11	**22**	(3)
Balance at end of period	**21**	4	1	**21**	1
Total shareholders' equity	**3,485**	3,416	3,097	**3,485**	3,097

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Unaudited)

Figures in C$ millions	*Quarter ended*			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Net income	**125**	147	149	**431**	432
Other comprehensive income (loss) on available-for-sale securities					
Net unrealized gains (losses) from changes in fair value (net of taxes of $1, $4, $(1), $1, $(1))	**(3)**	(9)	2	**(4)**	4
Reclassification of realized gains to earnings (net of taxes of $–, $1, $–, $1, $2)	**–**	(2)	–	**(2)**	(7)
	(3)	(11)	2	**(6)**	(3)
Other comprehensive income (loss) on cash flow hedges					
Unrealized gains (losses) from changes in fair value (net of taxes of $(10), $9, $(6), $(11), $3)	**20**	(19)	11	**22**	(3)
Comprehensive income for the periods	**142**	117	162	**447**	426

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

	Quarter ended			Nine months ended	
Figures in C$ millions	***30 September 2008***	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Cash flows provided by/(used in) operating activities					
Net income	**125**	147	149	**431**	432
Adjustment to net income to determine net cash provided by operating losses:					
Amortization expense	**10**	10	8	**28**	26
Provision for credit losses	**22**	25	21	**72**	43
Provision impairment of available-for-sale securities	**15**	–	–	**15**	–
Net accrued interest receivable and payable	**(19)**	3	(2)	**10**	50
Trading securities	**29**	222	(29)	**(152)**	(758)
Other, net	**184**	156	58	**788**	1,267
	366	563	205	**1,192**	1,060
Cash flows provided by/(used in) financing activities					
Deposits received	**(62)**	1,259	1,370	**2,311**	3,362
Securities (purchased) sold under repurchase agreements	**(19)**	(340)	591	**33**	524
Proceeds from issuance of debentures	**–**	–	–	**–**	400
Redemption of debentures	**–**	–	(25)	**–**	(125)
Dividends paid	**(74)**	(70)	(69)	**(212)**	(208)
	(155)	849	1,867	**2,132**	3,953
Cash flows (used in)/provided by investing activities					
Loans funded, excluding securitizations	**(71)**	(1,393)	(3,016)	**(2,931)**	(6,041)
Proceeds from loans securitized	**716**	1,000	972	**2,650**	1,727
Loans purchased from securitizations conduits	**(162)**	(900)	–	**(1,062)**	–
Available-for-sale securities, net	**(1,154)**	(468)	1,341	**(2,332)**	(1,135)
Non-trading securities (purchased) sold	**(6)**	(6)	–	**6**	–
Securities sold (purchased) under reverse repurchase agreements	**(78)**	(270)	(1,758)	**(926)**	208
Net change in non-operating deposits with regulated financial institutions	**558**	648	337	**1,325**	272
Acquisition of land, buildings and equipment	**(12)**	(17)	(12)	**(36)**	(36)
	(209)	(1,406)	(2,136)	**(3,306)**	(5,005)
Increase (decrease) in cash and cash equivalents	**2**	6	(64)	**18**	8
Cash and cash equivalents, beginning of period	**500**	494	419	**484**	347
Cash and cash equivalents, end of period	**502**	500	355	**502**	355
Represented by:					
Cash and non-interest bearing deposits with banks	**518**	527	384		
Less non-operating deposits⌖	**(16)**	(27)	(29)		
Cash and cash equivalents, end of period	**502**	500	355		

⌖ *Non-operating deposits 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 14.

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.

As permitted by Section 3862, we have included certain of the disclosure requirements of these sections in the MD&A – "Risk Management" on pages 6 to 14, which form an integral part of these financial statements.

Effective 1 July 2008, the Canadian Accounting Standards Board approved amendments to CICA Sections 3855, Financial Instruments – Recognition and Management, and Section 3862, Financial Instruments – Disclosures. These amendments focus on the ability to reclassify, under rare circumstances, financial assets out of trading. The bank has not reclassified any of its financial instruments.

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			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Income					
Interest earned on financial instruments not held- for-trading	**666**	668	762	**2,063**	2,164
Fees earned on financial instruments not held-for-trading, other than fees included in effective interest rate calculations on these types of financial instruments	**37**	36	36	**109**	102
Fees earned on trust and other fiduciary activities where we hold or invest assets on behalf of our customers	**34**	36	34	**104**	99
Expense					
Interest expense on financial instruments not held-for-trading	**356**	372	437	**1,156**	1,228
Fee expense on financial instruments not held-for-trading, other than fees included in effective interest rate calculations on these types of financial instruments	**8**	7	6	**19**	13
Fee expense relating to trust and other fiduciary activities where we hold or invest assets on behalf of our customers	**3**	3	3	**9**	9
Gains/(losses) recognized					
Securitized loans sold to third parties	**15**	19	5	**51**	9
Financial instruments held-for-trading ⌖	**25**	25	24	**79**	60
Financial liabilities designated as held-for-trading ⌖	**17**	(5)	17	**31**	17
Hedging items ⌖					
Ineffectiveness:					
Cash flow hedges	**3**	(3)	1	**7**	(6)
Fair value hedges	**–**	(1)	(1)	**(1)**	(2)
Economic hedges ⌖, ⌖⌖	**(8)**	3	(1)	**(9)**	1

⌖ Included in trading income.

⌖⌖ Gains/losses on hedging derivatives that do not qualify for hedge accounting under GAAP.

4. Stock-based compensation

The expense for stock-based compensation was as follows:

	Quarter ended			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Group share options and savings-related option plans	**1**	1	1	**3**	3
Restricted share plan	**7**	6	8	**18**	18
	8	7	9	**21**	21

5. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Pension plans – defined benefit	**3**	2	6	**8**	18
Pension plans – defined contribution	**4**	4	4	**13**	11
Other benefits	**2**	3	3	**7**	7
	9	9	13	**28**	36

6. Allowance for credit losses

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

	Quarter ended			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Balance at beginning of period	**365**	370	323	**353**	327
Charge to income statement	**22**	25	21	**72**	43
Amount written-off ⌖	**(26)**	(30)	(8)	**(64)**	(34)
Balance at end of period	**361**	365	336	**361**	336

⌖ C$10 million relates to the sale of the bank's C$1.5 billion automobile loan portfolio.

As part of the sale of the automobile loan portfolio, the bank has agreed, for a period of two years ending in July 2010, to indemnify the acquirer for 80 per cent of any cumulative losses on the portfolio in excess of a certain limit, with a maximum potential payment of C$20 million. The bank does not anticipate any payment pursuant to this indemnity, as its current estimate of losses is less than that limit.

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

7. 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 30 September 2008								
Financial Assets:								
Cash or deposits with Bank of Canada	–	–	–	–	**117**	–	–	**117**
Deposits with regulated financial institutions	**711**	–	**100**	–	**1,338**	–	–	**2,149**
Securities	**1,377**	–	**7,958**	–	–	–	**54**	**9,389**
Securities purchased under reverse repurchase agreements	–	–	–	–	**7,048**	–	–	**7,048**
Loans	–	–	–	–	**39,982**	–	–	**39,982**
Customers' liability under acceptances	–	–	–	–	**5,461**	–	–	**5,461**
Derivatives	**908**	–	–	**91**	–	–	–	**999**
Land, building, equipment and other assets	–	–	–	–	**1,477**	–	**297**	**1,774**
Total	**2,996**	–	**8,058**	**91**	**55,423**	–	**351**	**66,919**
Financial Liabilities:								
Deposits	**428**	**688**	–	–	–	**50,072**	–	**51,188**
Acceptances	–	–	–	–	–	**5,461**	–	**5,461**
Securities sold under repurchase agreements	–	–	–	–	–	**353**	–	**353**
Derivatives	**784**	–	–	**133**	–	–	–	**917**
Securities sold short	**856**	–	–	–	–	–	–	**856**
Equity and other liabilities	–	–	–	–	–	**3,269**	**3,649**	**6,918**
Non-controlling interest in trust and subsidiary	–	–	–	–	–	–	**430**	**430**
Subordinated Debentures	–	**362**	–	–	–	**339**	**95**	**796**
Total	**2,068**	**1,050**	–	**133**	–	**59,494**	**4,174**	**66,919**
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)*

7. 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 (31 December 2007 – C$8 million).

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 30 September 2008				
Deposits	**800**	**688**	**112**	**6**
Subordinated debentures	**400**	**362**	**38**	**52**
	1,200	**1,050**	**150**	**58**
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.

8. 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) Methods employed in the 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 or 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, 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 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 a hierarchy level is based on the lowest level

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

8. Fair value of financial instruments (continued)

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 calculation of fair value. 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

T-Bills, equities, government bonds, preferred shares and financial liability short position in government bonds are valued using a quoted market price. Non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP") are valued using a valuation technique with significant non-observable inputs. All other financial instruments are valued using a valuation technique with observable inputs.

Due to the terms of the expected settlement of the "Montreal Accord" and the impact of wider credit spreads on the value of the bank's holding of Canadian non-bank sponsored Asset Backed Commercial Paper ("non-bank ABCP"), we adjusted the carrying value, net of provisions, at 30 September 2008 to C$265 million (31 December 2007 – C$280 million). Detailed information on the valuation of our non-bank ABCP is included in our 2007 Annual Report and Accounts on page 51.

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$4 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 30 September 2008			
Loans	**39,982**	**39,977**	**(5)**
Deposits	**51,188**	**51,259**	**71**
At 30 June 2008			
Loans	40,489	40,435	(54)
Deposits	51,250	51,376	126

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

9. Securitization

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

	Residential mortgages
Sold to third parties	**718**
Net cash proceeds received	**716**
Retained rights to future excess interest	**23**
Retained servicing liability	**5**
Pre-tax gain on sale	**15**

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

Prepayment rate	**18.00** %
Excess spread	**1.39** %
Expected credit losses on insured mortgages securitized and sold	**0.00** %
Discount rate	**4.43** %

During the quarter, the bank exercised an option to purchase approximately C$162 million of personal loans previously securitized and sold. There was no material gain or loss recognized as a result of this transaction. The assets purchased were recorded as loans and receivables.

10. Issued and outstanding shares

	At 30 September 2008		*At 31 December 2007*		*At 30 September 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

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

11. 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. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

	Quarter ended			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Personal Financial Services					
Net interest income	**103**	108	106	**307**	307
Non-interest revenue	**38**	82	66	**204**	208
Total revenue	**141**	190	172	**511**	515
Non-interest expenses	**145**	144	131	**431**	398
Net operating income (loss)	**(4)**	46	41	**80**	117
Provision for credit losses	**8**	9	6	**27**	18
Income (loss) before taxes and non-controlling interest in income of trust	**(12)**	37	35	**53**	99
Provision for income taxes (credit)	**(3)**	10	11	**15**	31
Non-controlling interest in income of trust	**1**	2	2	**4**	5
Net income (loss)	**(10)**	25	22	**34**	63
Average assets	**19,334**	20,148	19,736	**19,559**	19,521
Commercial Banking					
Net interest income	**175**	169	184	**516**	524
Non-interest revenue	**50**	53	44	**153**	140
Total revenue	**225**	222	228	**669**	664
Non-interest expenses	**79**	81	84	**239**	248
Net operating income	**146**	141	144	**430**	416
Provision for credit losses	**14**	16	15	**45**	25
Income before taxes and non-controlling interest in income of trust	**132**	125	129	**385**	391
Provision for income taxes	**39**	32	45	**112**	134
Non-controlling interest in income of trust	**4**	4	3	**12**	11
Net income	**89**	89	81	**261**	246
Average assets	**27,229**	26,594	24,332	**26,770**	23,754

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

11. Customer group segmentation (continued)

	Quarter ended			*Nine months ended*	
	30 September 2008	*30 June 2008*	*30 September 2007*	***30 September 2008***	*30 September 2007*
Global Banking and Markets					
Net interest income	**28**	19	29	**77**	89
Non-interest revenue	**76**	60	74	**221**	198
Total revenue	**104**	79	103	**298**	287
Non-interest expenses	**34**	34	31	**99**	98
Net operating income	**70**	45	72	**199**	189
Provision for credit losses	**–**	–	–	**–**	–
Income before taxes and non-controlling interest in income of trust	**70**	45	72	**199**	189
Provision for income taxes	**23**	11	25	**60**	63
Non-controlling interest in income of trust	**1**	1	1	**3**	3
Net income	**46**	33	46	**136**	123
Average assets	**22,498**	21,729	18,866	**22,150**	19,026

12. Financial assets pledged and collateral accepted

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

	At 30 September 2008	*At 31 December 2007*
Securities	**3,222**	3,419
Loans	**1,631**	3,457
Other	**–**	3
	4,853	6,879

In the ordinary course of business, 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$7,772 million (31 December 2007 – C$6,700 million). The fair value of any such collateral that has been sold or repledged is C$630 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.

13. 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 30 September 2008 were C$553 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 30 September 2008 were C$108 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 30 September 2008 were C$353 million (31 December 2007 - C$320 million) and are separately disclosed on the balance sheet.

14. 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 the Board of Directors ("the 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 Chief Financial Officer (CFO) and includes the Chief Executive Officer (CEO,) Chief Operating Officer (COO), 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 the 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.

14. 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 per cent and 8 per cent 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 per cent and 10 per cent, respectively. We exceeded these capital ratios at all times during the nine months ended 30 September 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, the bank, 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 per cent 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 per cent, subject to OSFI approval.

In February 2008, OSFI provided the bank with conditional approval, subject to certain conditions, to use the Advance Internal Ratings Based approach for calculating regulatory capital under the new Framework. In September 2008, OSFI has advised the bank that it has satisfied the conditions that will allow the bank to reduce the transitional floor for Regulatory Capital, as required under OSFI's capital adequacy guidelines, from 100 per cent to 90 per cent, commencing with the third quarter 2008 regulatory reporting period.

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 nine months ended 30 September 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 periods presented below are not comparable.

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

14. Capital management (continued)

	At 30 September 2008 (Basel II)	At 31 December 2007 (Basel I)
Tier 1 capital		
Common shares	**1,225**	1,225
Contributed surplus	**209**	206
Retained earnings	**1,680**	1,462
Non-cumulative preferred shares (1)	**350**	350
Non-controlling interests in trust and subsidiary (2)	**430**	430
Securitization-related deductions and other	**(61)**	(50)
Goodwill	**(15)**	(15)
Total Tier 1 capital	**3,818**	3,608
Tier 2 capital		
Subordinated debentures	**796**	801
Other	**116**	269
Total Tier 2 capital	**912**	1,070
Total Tier 1 and Tier 2 capital	**4,730**	4,678
Total capital available for regulatory purposes	**4,730**	4,678
Total risk-weighted assets (3)	**35,935**	41,372
Actual Regulatory capital ratios		
Tier 1 capital	**10.6 %**	8.8 %
Total capital	**13.2 %**	11.3 %
Actual Assets to capital multiple (4)	**14.4 x**	14.1 x
Minimum regulatory capital ratios required		
Tier 1 capital	**7 %**	7 %
Total capital	**10 %**	10 %
Maximum assets to capital multiple allowed	**20.0 x**	20.0 x

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.
(4) OSFI has amended the Basel II Asset to Capital Multiple calculation for the treatment of any general allowance effective the second quarter of 2008.

15. Subsequent event

As a result of an ongoing strategic review of the HSBC Group's North American operations, HSBC Bank Canada is expected, subject to regulatory approval, to acquire HSBC Financial Corporation Limited from HSBC Finance Corporation in the United States by the end of 2008. HSBC Financial Corporation Limited had total assets of C$5.2 billion at 30 June 2008 and net income of C$43 million for the six months then ended.

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HSBC Bank Canada securities are listed on the Toronto Stock Exchange

HSBC Bank Canada
Class 1 Preferred Shares – Series C (HSB.PR.C)
Class 1 Preferred Shares – Series D (HSB.PR.D)

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

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 180 offices. With around 9,500 offices in 85 countries and territories around the world and assets of US$2,547 billion at 30 June 2008, the HSBC Group is one of the world's largest banking and financial services organizations.

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