HSBC BANK CANADA
SECOND QUARTER 2006 REPORT TO SHAREHOLDERS

- Net income attributable to common shares was C$115 million for the quarter ended 30 June 2006, an increase of 10.6 per cent over the quarter ended 30 June 2005.

- Net income attributable to common shares was C$231 million for the half-year ended 30 June 2006, an increase of 9.0 per cent over the same period in 2005.

- Return on average common equity was 19.9 per cent for the quarter ended 30 June 2006 and 20.3 per cent for the half-year ended 30 June 2006 compared with 19.7 per cent and 20.3 per cent respectively for the same periods in 2005.

- The cost efficiency ratio was 52.6 per cent for the quarter ended 30 June 2006 and 52.8 per cent for the half-year ended 30 June 2006 compared with 54.6 per cent and 53.8 per cent respectively for the same periods in 2005.

- Total assets were C$53.1 billion at 30 June 2006 compared with C$47.4 billion at 30 June 2005.

- Total funds under management were C$21.7 billion at 30 June 2006 compared with C$18.8 billion at 30 June 2005.

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Second Quarter 2006 Management's Discussion and Analysis (MD&A)

Our MD&A is dated 24 July 2006. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

Financial Highlights

	Quarter ended			Half-year ended	
Figures in C$ millions (except per share amounts)	***30 June 2006***	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Earnings					
Net income attributable to common shares	**115**	116	104	**231**	212
Basic earnings per share	**0.24**	0.24	0.21	**0.47**	0.43
Performance ratios (%)					
Return on average common equity	**19.9**	20.7	19.7	**20.3**	20.3
Return on average assets	**0.88**	0.92	0.90	**0.90**	0.94
Net interest margin[1]	**2.35**	2.36	2.34	**2.35**	2.38
Cost efficiency ratio[2]	**52.6**	53.1	54.6	**52.8**	53.8
Non-interest revenue:total revenue ratio	**37.7**	37.0	36.6	**37.3**	37.2
Credit information					
Gross impaired credit exposures	**159**	161	125		
Allowance for credit losses	**319**	325	338		
– As a percentage of gross impaired credit exposures	**201 %**	202 %	270 %		
– As a percentage of gross loans and acceptances	**0.84 %**	0.87 %	0.98 %		
Average balances[⌖]					
Assets	**52,573**	50,986	46,523	**51,784**	45,358
Loans	**33,262**	32,252	29,901	**32,760**	29,374
Deposits	**40,847**	40,022	37,028	**40,437**	35,867
Common equity	**2,316**	2,276	2,141	**2,296**	2,119
Capital ratios[⌖⌖] **(%)**					
Tier 1	**9.0**	9.0	9.0		
Total capital	**11.2**	11.3	11.2		
Total assets under administration					
Funds under management	**21,659**	21,796	18,820		
Custody accounts	**8,494**	8,564	5,875		
Total assets under administration	**30,153**	30,360	24,695		

⌖ *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document on page 11.*

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

Financial Commentary

Overview

HSBC Bank Canada recorded net income attributable to common shares of C$115 million for the quarter ended 30 June 2006, an increase of C$11 million, or 10.6 per cent, from C$104 million for the same period in 2005. This increase was due to strong growth in net interest income and non-interest revenue. Net income in the quarter was impacted by a few significant items within non-interest expenses and income tax expense, which held back reported growth in net income, as highlighted in the following commentary. Partially offsetting these items was an increase in the fair value of our investments in private equity funds.

Net income attributable to common shares for the first half of 2006 was C$231 million compared with C$212 million for the same period in 2005, an increase of C$19 million, or 9.0 per cent.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “Our results for the second quarter continue to show good momentum. Underlying revenue growth for the quarter and half-year continues to be strong.

“We are well positioned to invest in areas of growth while continuing to improve our operating efficiency. We will also leverage the success of new products, like the High Rate Savings Account, and enhanced services, such as those created by the Payments and Cash Management business, to help acquire new customers and deepen relationships with our existing customers

“As we celebrate the 25th anniversary of HSBC Bank Canada, I would like to take this opportunity to thank our customers and our colleagues at HSBC. They have helped us achieve this milestone. Canada is one of the greatest countries in the world, full of promise and opportunity, and one of the best examples of how people from diverse backgrounds and perspectives can build something special. It has been a great quarter century and we look forward to great things to come in the next 25 years and beyond!”

Net interest income

Net interest income for the second quarter of 2006 was C$276 million compared with C$243 million for the same period in 2005, an increase of C$33 million, or 13.6 per cent. This increase was driven by loan and deposit growth across all of our customer groups. Average loans for the quarter were C$33.3 billion compared with C$29.9 billion for the same period in 2005. Residential mortgages continued to grow, fuelled by a healthy housing market across Canada. Corporate and commercial loans were higher due to increased activity by clients resulting from the stable economic conditions in Canada and the United States. Average deposits were C$40.8 billion compared with C$37.0 billion for the same period in 2005. Income from securities was higher due partially to rising interest rates and higher average balances from increased trading activities and liquidity.

Competitive pressures and the interest rate environment are still a risk factor. However, the net interest margin, as a percentage of average interest earning assets, was 2.35 per cent for the quarter compared with 2.34 per cent for the same period in 2005. The net interest margin benefited from higher deposit spreads in the rising interest rate environment.

Net interest income was C$10 million higher compared with the previous quarter, due partly to one extra day in the quarter and from growth in loans and deposits. Average loans for the quarter were C$33.3 billion compared with C$32.3 billion last quarter, while average deposits grew C$0.8 billion to C$40.8 billion in the quarter. The net interest margin, as a percentage of average interest earning assets, was one basis point lower compared with the previous quarter.

Financial Commentary *(continued)*

On a year-to-date basis, net interest income was C$542 million compared with C$480 million for the same period last year, an increase of C$62 million, or 12.9 per cent. Year-to-date net interest income in 2006 benefited from continued growth in assets and deposits. However, the growth was negatively effected by securitisations of residential mortgages and personal lines of credit totalling C$1.2 billion in the latter part of the fourth quarter of 2005 and C$0.7 billion early in the first quarter of 2006. Average loans in 2006 were C$32.8 billion compared with C$29.4 billion in the same period last year, while average deposits were C$40.4 billion compared with C$35.9 billion in the same period last year. The net interest margin, as a percentage of average interest earning assets, was 2.35 per cent compared with 2.38 per cent for the same period in 2005.

Non-interest revenue

Non-interest revenue for the second quarter of 2006 was C$167 million compared with C$140 million in the same quarter of 2005, an increase of C$27 million, or 19.3 per cent. In the current quarter, we recorded a C$10 million increase in the fair value of our investments in private equity funds, which increased investment securities gains. The continued volatility in the exchange rate between the Canadian and US dollars resulted in higher trading and foreign exchange revenue. The success of our Private Client products and services helped grow personal funds under management, which increased investment administration fees. Securitisation income was higher due to increased recurring income from previous securitisations and from gains on sales of C$800 million in residential mortgages in the current quarter. An increase in capital market fees was driven primarily from higher underwriting and advisory activities in the quarter. Other non-interest revenue was lower due largely to immigrant investor program fees arising from timing of approvals by the government agencies.

Non-interest revenue was C$11 million higher compared with the previous quarter. Securitisation income and fair value increases in our private equity fund investments were higher. This was partially offset by lower commissions from trading activities by our retail customers, due largely to the increased volatility of the equity markets in the latter part of the second quarter.

On a year-to-date basis, non-interest revenue was C$323 million, C$39 million, or 13.7 per cent higher compared with C$284 million for the same period last year. The main drivers were growth in our wealth management businesses, which increased investment administration fees, and higher credit fees from increased business activity. Non-interest revenue also benefited from larger fair value increases in our private equity fund investments and higher securitisation income.

Non-interest expenses and operating efficiency

Non-interest expenses for the second quarter of 2006 were C$233 million compared with C$209 million in the same quarter of 2005, an increase of C$24 million, or 11.5 per cent. We have maintained our focus on operating efficiency while continuing to invest in our businesses and reallocate resources to areas of growth. As a result, the cost efficiency ratio was 52.6 per cent compared with 54.6 per cent for the same period in 2005. Salaries and employee benefits expenses were higher in 2006 due to an increased employee base from continued investments in our businesses and increased defined benefit pension plan costs. Additionally, a charge of C$9 million was recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan. Other non-interest expenses were slightly lower as increased investments in our business were offset by lower fees paid on the guarantee of our customers' deposits, due to the termination of the guarantee by HSBC Holdings plc for deposits taken after 30 June 2005.

Non-interest expenses were C$9 million higher than the previous quarter due largely to the incremental expense on stock options.

Financial Commentary *(continued)*

On a year-to-date basis, non-interest expenses were C$457 million compared with C$411 million for the same period last year, an increase of C$46 million, or 11.2 per cent. The cost efficiency ratio was 52.8 per cent compared with 53.8 per cent for the same period in 2005. Salaries and benefits expenses were higher due to an increased employee base, increased variable compensation, higher stock option expense, and increased pension costs. Other non-interest expenses were higher due to continued investments in our business, including higher brand awareness initiatives. These were partially offset by lower fees paid on the guarantee of our customers' deposits.

Credit quality and provision for credit losses

Credit quality was stable in the second quarter. The provision for credit losses of C$6 million this quarter was in line with the previous quarter and the same period a year ago. On a year-to-date basis, the provision for credit losses was C$12 million compared with C$14 million for the same period last year. Corporate default rates continue to be at historically low levels and result from stable economic conditions in Canada and the United States. We continue to proactively manage our risks and level of exposure to companies in industry sectors that may be at risk due to adverse changes in economic conditions.

Gross impaired credit exposures were C$159 million, C$34 million, or 27.2 per cent, higher compared with C$125 million at the same time last year, and were in line with the balance at the previous quarter end of C$161 million. Total impaired credit exposures, net of specific allowances for credit losses, were C$109 million compared with C$70 million at the same time last year, and were slightly higher compared to the C$104 million balance at the previous quarter end. The general allowance for credit losses remained at C$269 million compared with the previous quarter and was down from C$283 million at the same time last year. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, was 0.84 per cent compared with 0.87 per cent at the previous quarter end and 0.98 per cent at the same time last year.

Income taxes

The effective tax rate in the second quarter of 2006 was 39.4 per cent compared with 33.7 per cent in the same quarter of 2005 and 35.1 per cent in the previous quarter. On a year-to-date basis in 2006, the effective tax rate was 37.3 per cent compared with 33.9 per cent for the same period last year.

The income tax provision in the second quarter of 2006 included a C$6 million charge to reflect the write-down of future income tax assets resulting from tax rate decreases announced in the federal budget. In addition, the expense related to stock options is not deductible for income tax purposes and, therefore, increased the effective tax rate. The effective tax rate in the comparative periods in 2005 benefited from a reduction in tax expense resulting from adjustments to the net realizable values of certain future income tax assets. Excluding these impacts, the effective tax rate in the second quarter of 2006 was in line with the same period last year.

Financial Commentary *(continued)*

Balance sheet

Total assets at 30 June 2006 were C$53.1 billion, an increase of C$5.7 billion over the same time last year. Our loan portfolio continues to be the key driver of balance sheet growth. Commercial loans and bankers' acceptances grew C$2.9 billion on the continued strong economy, primarily in western Canada. Residential mortgages increased C$2.9 billion, before securitisation of C$2.2 billion in the period, on continued buoyancy in housing markets. Consumer loans increased C$0.8 billion, which was before securitisation of C$0.9 billion of personal lines of credit and consumer term loans in the period. Increased activity in our markets business has increased the securities portfolio by C$1.8 billion and balances under reverse repurchase agreements by C$1.0 billion.

Total deposits increased C$3.6 billion to C$41.0 billion at 30 June 2006 from C$37.4 billion at the same time last year. Growth in deposits from individuals resulted from higher interest rates and initiatives such as our 25th Anniversary Sale campaign, which highlighted term savings products as well as our new High Rate Savings Account. Commercial deposits were higher due to growth in term products, driven by higher interest rates, and in an increase in payments and cash management balances. Other liabilities increased C$0.7 billion largely from an increase in short positions in securities resulting from an increase in activities in our markets business.

Compared with the balance at 31 December 2005, total assets were C$3.9 billion higher largely from growth in loans and markets activities. Deposit growth benefited from increased cash management balances from corporate customers as well as personal deposit growth from the High Rate Savings Account.

Total assets under administration

Funds under management were C$21.7 billion at 30 June 2006 compared with C$18.8 billion at the same time last year. Including custody and administration balances, total assets under administration were C$30.2 billion compared with C$24.7 billion at 30 June 2005.

Growth in funds under management benefited from strong acquisition of new clients and the success of our Private Client products. The buoyant equity markets had a positive impact on retail investor activity, particularly in Canada, which was driven by large increases in commodity prices. Custodial accounts grew C$2.6 billion due to growth in institutional and corporate custody business and an increase in securitised assets under management.

Compared with the previous quarter, funds under management were lower by C$0.1 billion. Despite the drop in the equity markets in the latter part of the second quarter of 2006, personal funds increased by C$0.1 billion. Institutional funds accounted for the decrease due to maturity of various mandates.

Capital management

The tier 1 capital ratio was 9.0 per cent and the total capital ratio was 11.2 per cent at 30 June 2006. These compare with 9.0 per cent and 11.3 per cent, respectively, at 31 March 2006 and 9.0 per cent and 11.2 per cent, respectively, at 30 June 2005.

In addition to net income, regulatory capital increased from an issuance of C$200 million in subordinated debentures in the first quarter of 2006. This was partially offset by dividends declared on our preferred shares and common shares and the redemption of C$60 million in subordinated debentures in the first quarter of 2006.

Financial Commentary *(continued)*

Credit ratings

In the second quarter of 2006, the counterparty credit rating on our deposits was raised to AA-/Stable/A-1+ from A+/positive/A-1 by Standard & Poor's Ratings Services. This upgrade is a reflection of the quality and success of our business in Canada.

Financial instruments

During the normal course of our business, we make extensive use of financial instruments, including funding loans, purchasing investments, accepting deposits and entering into various derivative instruments. Financial instruments are generally carried at cost or amortized cost, except those held for trading purposes, which are carried at their estimated fair value. There was no change to the basis of calculating the fair value of financial instruments from 31 December 2005, and no significant changes in fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Off-balance sheet arrangements

We enter into a number of off-balance sheet arrangements in the normal course of operations. The most significant off-balance sheet arrangements we enter into are guarantees and letters of credit, and derivatives, which were described on page 14 of our 2005 Annual Report and Accounts. There were no significant changes to these off-balance sheet arrangements from 31 December 2005.

Outstanding shares and securities

	At 24 July 2006	
(amounts are in C$ millions)	*Number*	*Amount*
HSBC Canada Asset Trust Securities (HaTS™)[1]		
– Series 2010[2]	200,000	200
– Series 2015[3]	200,000	200
		400
Preferred Shares – Class 1		
– Series C[4]	7,000,000	175
– Series D[5]	7,000,000	175
		350
Common shares	488,668,000	1,125

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

Further details regarding features of our securities and shares are disclosed in notes 9 and 11 to the Consolidated Financial Statements in our 2005 Annual Report and Accounts.

Unless we fail to declare dividends on our preferred shares, cash distributions will be made to the holders of our HaTS with payable dates in 2006 on 30 June and 31 December.

Financial Commentary *(continued)*

Dividend record and payable dates in 2006 for our preferred shares, subject to approval by our Board of Directors, are:

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

During 2006, we declared and paid dividends on our common shares as follows:

(amounts are in C$ millions)	*Amount*
First quarter	60
Second quarter	60
Total	120

Quarterly summary of condensed statements of income (unaudited)

Our quarterly earnings, revenue and expense are impacted by a number of trends and recurring factors, which include seasonality, general economic trends and competition.

Seasonal factors impact our results in most quarters. The first quarter has the fewest number of days, and therefore net interest income is lower compared with the other three quarters. The second and third quarters generally have lower capital market revenues as market activity is slower than in the first and fourth quarters.

Strong economic conditions over the past eight quarters have impacted our businesses favourably. The low, but rising, interest rate environment, and higher consumer and business spending has resulted in growth in our loans and deposits. Additionally, this has benefited our wealth management businesses. The favourable economic conditions, along with our risk management efforts, have positively impacted our loan portfolio, which has resulted in relatively low loan losses each quarter.

Competitive factors have increased over the eight quarters, resulting in spread compression in loan and deposit products, particularly in Personal Financial Services group.

Over the last eight quarters, our business has been affected by a number of favourable and unfavourable items. In the second quarter of 2006, we recorded an incremental expense relating to an increase in the fair value of stock options issued in 2003, and a write-down of our future income tax assets. Also in the quarter, we recorded a significant gain on our investment in private equity funds. In the fourth quarter of 2005, resolution of the tax deductibility of our guarantee expense reduced non-interest expenses and income taxes. In the first quarter of 2005, non-interest expenses were lower on successful resolution of certain commodity tax issues from previous years.

Financial Commentary *(continued)*

The following table summarizes our results for the eight most recently completed quarters.

Figures in C$ millions (except per share amounts)	Quarter ended 30 June 2006	31 March 2006	31 December 2005	30 September 2005	30 June 2005	31 March 2005	31 December 2004	30 September 2004
Net interest income	**276**	266	269	261	243	237	229	230
Non-interest revenue	**167**	156	141	145	140	144	143	126
Total revenue	**443**	422	410	406	383	381	372	356
Non-interest expenses	**233**	224	205	208	209	202	207	207
Net operating income	**210**	198	205	198	174	179	165	149
Provision for credit losses	**6**	6	6	7	6	8	22	10
Income before the undernoted	**204**	192	199	191	168	171	143	139
Provision for income taxes	**78**	65	58	67	55	57	51	51
Non-controlling interest in income of trust	**6**	7	6	7	5	4	4	4
Net income	**120**	120	135	117	108	110	88	84
Preferred share dividends	**5**	4	3	4	4	2	2	2
Net income attributable to common shares	**115**	116	132	113	104	108	86	82
Basic earnings per share (C$)	**0.24**	0.24	0.27	0.23	0.21	0.22	0.18	0.17

Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2006 was C$35 million, compared with C$34 million for the same period in 2005. Total revenue was higher as net interest income continues to benefit from growth in residential mortgages and consumer loans, despite securitisation of C$3.1 billion in assets in the period. Average assets for the quarter were C$18.0 billion compared with C$16.3 billion for the same period in 2005. Growth in deposits was aided by higher interest rates and new products, such as our High Rate Savings Account. However, this growth was tempered somewhat by the strengthening of the Canadian dollar relative to the US dollar, which effected our US denominated deposits. Competitive pressures offset some of the growth in net interest income by lowering spreads on loans. Non-interest revenue was higher due to growth in funds under management, which increased investment administration fees, and higher securitisation income. Non-interest expenses were higher in 2006 due to a charge recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan, and from investments in the business, which increased salaries and benefits, premises, and other expenses. These were partially offset by lower deposit guarantee fee expenses.

Income, before taxes and non-controlling interest in income of trust, was C$3 million higher compared with the previous quarter. Net interest income was higher due to growth in loans and deposits, offset by slightly lower spreads and the impact of securitisation activity in the first quarter of 2006. Non-interest revenue grew on increased investment administration fees and securitisation income. However, these were partially offset by lower capital market fees as revenue from customer trading was impacted by volatile equity markets in the second quarter of 2006. Non-interest expenses were higher due largely to higher stock option expense.

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was the same compared with the same period last year. Total revenue was higher on asset growth and revenue from the wealth management business. However, this was offset by continued investment in the business and the impact of the higher stock option expense in 2006, partially offset by lower deposit guarantee fee expenses.

Financial Commentary *(continued)*

Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2006 was C$122 million, compared with C$100 million for the same period in 2005. Net interest income increased on continued growth in assets and deposits. Average assets for the quarter were C$18.7 billion compared with C$17.1 billion for the same period in 2005. Loans were higher due to growth in the number of clients and increased activity from existing clients. Deposits increased partially due to initiatives to enhance our services and products in the Payments and Cash Management businesses. Non-interest revenue was higher due largely to higher income from our investment in private equity funds and credit fees due to increased client activity. These were partially offset by lower immigrant investor program fees. Non-interest expenses were higher due to a charge recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan, and higher salaries and other expenses due to continued growth in the business. These were partially offset by lower deposit guarantee expenses.

Income, before taxes and non-controlling interest in income of trust, was C$11 million higher compared with the previous quarter. Net interest income was higher from higher spreads on deposits. Non-interest revenue increased from our investment in private equity funds and higher credit fees. Non-interest expenses were higher largely from the higher stock option expense.

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was C$233 million compared with C$200 million in the same period last year. Total revenue was higher on increased net interest income from growth in assets as average assets were C$18.6 billion compared with C$16.6 billion for the same period in 2005. Non-interest revenue was higher from growth in credit fees and higher fair value gains from our investments in private equity funds. Non-interest expenses were higher due to the incremental stock option expense and higher operating costs largely resulting from investments in the business.

Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2006 was C$47 million, compared with C$34 million for the same period in 2005. Net interest income was higher due to continued growth in assets and increased securities income, which benefited from rising interest rates. Non-interest revenue was higher due largely to higher foreign exchange revenue from increased customer activity resulting from continued volatility of the Canadian dollar relative to the US dollar. Non-interest expenses were lower due largely to lower deposit guarantee fees, partially offset by higher salaries and benefits and operating costs on growth in the business.

Income, before taxes and non-controlling interest in income of trust, was C$2 million lower compared with the previous quarter. Higher net interest income, primarily from rising interest rates, was partially offset by lower underwriting revenue. Non-interest expenses were higher due largely to a charge recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan.

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was C$96 million compared with C$72 million in the same period last year. Total revenue was higher on increased net interest income resulting from growth in assets and rising interest rates. Non-interest revenues continue to benefit from the volatility in foreign exchange rates and higher capital market fees in 2006. Non-interest expenses were lower from reduced deposit guarantee fees. This was partially offset by higher salaries and benefits, including higher stock option expense.

Financial Commentary *(continued)*

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

We use both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized measuring under GAAP and are unlikely to be comparable to similar measures used by other companies. The following outlines various GAAP or non-GAAP measures, which management regularly monitors, to more clearly indicate the derivation of the measure.

Return on average common equity – Average common equity is calculated using month end balances of common equity for the period.

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

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

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

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

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

Risk management

Our risk management policies and practices are unchanged from those outlined in pages 18 to 22 of our 2005 Annual Report and Accounts.

Related party transactions

Our related party transaction policies and practices are unchanged from those outlined in page 26 of our 2005 Annual Report and Accounts. All transactions with related parties continued to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value.

Accounting policies and critical accounting estimates

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 our consolidated financial statements for the year ended 31 December 2005 and were outlined on pages 39 to 73 of our 2005 Annual Report and Accounts. There were no changes to our significant accounting policies from 31 December 2005.

The key assumptions and bases for estimates that we have made under GAAP, and their impact on the amounts reported in the interim consolidated financial statements and notes, remain substantially unchanged from those described on pages 12 to 14 of our 2005 Annual Report and Accounts.

Financial Commentary *(continued)*

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at HSBC Bank Canada and our subsidiaries at both the management and board levels. Each year, our 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. We filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2006 when we filed our Annual Report and Accounts and other annual disclosure documents. In those filings, our 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 our annual filings and the effectiveness of our disclosure controls and procedures. Our CEO and CFO certify the appropriateness of the financial disclosures in our interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the period ended 30 June 2006, and that they are responsible for the design and maintenance of disclosure controls and procedures.

As in prior quarters, our 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 our businesses, strategies and objectives can be found in Management's Discussion and Analysis in our 2005 Annual Report and Accounts, which can be accessed on our web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

The attached unaudited interim consolidated financial statements have not been reviewed by our external auditors.

Regulatory filings

Our continuous disclosure materials, including our interim and annual filings, are available on our 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 HSBC Bank Canada. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation level and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on interest rates and our 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 our revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact our results and financial condition.

Consolidated Statement of Income (Unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended* **30 June 2006**	*31 March 2006*	*30 June 2005*	*Half-year ended* **30 June 2006**	*30 June 2005*
Interest and dividend income					
Loans	**523**	462	396	**985**	770
Securities	**46**	43	25	**89**	49
Deposits with regulated financial institutions	**55**	58	39	**113**	69
	624	563	460	**1,187**	888
Interest expense					
Deposits	**341**	291	211	**632**	395
Debentures	**7**	6	6	**13**	13
	348	297	217	**645**	408
Net interest income	**276**	266	243	**542**	480
Non-interest revenue					
Deposit and payment service charges	**23**	21	22	**44**	42
Credit fees	**27**	25	24	**52**	46
Capital market fees	**26**	32	24	**58**	56
Investment administration fees	**25**	24	17	**49**	34
Foreign exchange	**8**	7	6	**15**	13
Trade finance	**6**	6	7	**12**	14
Trading revenue	**17**	17	15	**34**	30
Investment securities gains	**13**	5	4	**18**	11
Securitisation income	**11**	8	5	**19**	13
Other	**11**	11	16	**22**	25
	167	156	140	**323**	284
Total revenue	**443**	422	383	**865**	764
Non-interest expenses					
Salaries and employee benefits	**136**	123	110	**259**	219
Premises and equipment	**27**	29	27	**56**	54
Other	**70**	72	72	**142**	138
	233	224	209	**457**	411
Net operating income before provision for credit losses	**210**	198	174	**408**	353
Provision for credit losses	**6**	6	6	**12**	14
Income before provision and non-controlling interest in income of trust	**204**	192	168	**396**	339
Provision for income taxes	**78**	65	55	**143**	112
Non-controlling interest in income of trust	**6**	7	5	**13**	9
Net income	**120**	120	108	**240**	218
Preferred share dividends	**5**	4	4	**9**	6
Net income attributable to common shares	**115**	116	104	**231**	212
Average common shares outstanding (000)	**488,668**	488,668	488,668	**488,668**	488,668
Basic earnings per share (C$)	**0.24**	0.24	0.21	**0.47**	0.43

See notes to consolidated financial statements

Consolidated Balance Sheet (Unaudited)

Figures in C$ millions	***At 30 June 2006***	*At 31 December 2005*	*At 30 June 2005*
Assets			
Cash and deposits with Bank of Canada	**378**	409	347
Deposits with regulated financial institutions	**4,193**	5,549	4,997
	4,571	5,958	5,344
Investment securities	**3,576**	2,923	2,489
Trading securities	**2,120**	1,418	1,421
	5,696	4,341	3,910
Assets purchased under reverse repurchase agreements	**3,473**	1,752	2,475
Loans			
– Businesses and government	**16,979**	15,571	14,768
– Residential mortgage	**13,130**	12,865	12,427
– Consumer	**3,638**	3,734	3,714
– Allowance for credit losses	**(319)**	(326)	(338)
	33,428	31,844	30,571
Customers' liability under acceptances	**4,454**	4,002	3,722
Land, buildings and equipment	**99**	103	97
Other assets	**1,411**	1,210	1,312
	5,964	5,315	5,131
Total assets	**53,132**	49,210	47,431
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	**1,709**	1,975	1,199
– Individuals	**16,108**	15,300	15,343
– Businesses and governments	**23,172**	21,333	20,845
	40,989	38,608	37,387
Acceptances	**4,454**	4,002	3,722
Assets sold under repurchase agreements	**375**	302	101
Other liabilities	**3,606**	2,849	2,898
Non-controlling interest in trust and subsidiary	**430**	430	430
	8,865	7,583	7,151
Subordinated debentures	**559**	423	428
Shareholders' equity			
– Preferred shares	**350**	350	300
– Common shares	**1,125**	1,125	1,125
– Contributed surplus	**199**	187	182
– Retained earnings	**1,045**	934	858
	2,719	2,596	2,465
Total liabilities and shareholders' equity	**53,132**	49,210	47,431

See notes to consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

Figures in C$ millions	*Quarter ended*			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Preferred shares					
Balance at beginning of period	**350**	350	125	**350**	125
Issued	**–**	–	175	**–**	175
Balance at end of period	**350**	350	300	**350**	300
Common shares					
Balance at beginning and end of period	**1,125**	1,125	1,125	**1,125**	1,125
Contributed surplus					
Balance at beginning of period	**188**	187	179	**187**	177
Stock-based compensation	**11**	1	3	**12**	5
Balance at end of period	**199**	188	182	**199**	182
Retained earnings					
Balance at beginning of period	**990**	934	818	**934**	770
Net income for the period	**120**	120	108	**240**	218
Preferred share dividends	**(5)**	(4)	(4)	**(9)**	(6)
Common share dividends	**(60)**	(60)	(60)	**(120)**	(120)
Capital issue costs	**–**	–	(4)	**–**	(4)
Balance at end of period	**1,045**	990	858	**1,045**	858
Total shareholders' equity	**2,719**	2,653	2,465	**2,719**	2,465

See notes to consolidated financial statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

Figures in C$ millions	*Quarter ended*			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Cash flows provided by/(used in) operating activities					
Net income	**120**	120	108	**240**	218
Trading securities	**(358)**	(344)	(392)	**(702)**	(366)
Other, net	**169**	477	(9)	**646**	260
	(69)	253	(293)	**184**	112
Cash flows provided by/(used in) financing activities					
Change in deposits	**561**	1,820	1,803	**2,381**	3,539
Securities sold (purchased) under repurchase agreements	**210**	(137)	40	**73**	78
Proceeds from issuance of preferred shares	**–**	–	175	**–**	175
Proceeds from asset trust securities issued	**–**	–	200	**–**	200
Proceeds from issuance of debentures	**–**	200	–	**200**	–
Redemption of debentures	**–**	(60)	–	**(60)**	–
Dividends paid	**(65)**	(124)	(64)	**(189)**	(176)
	706	1,699	2,154	**2,405**	3,816
Cash flows (used in)/provided by investing activities					
Loans funded, excluding securitisations	**(1,781)**	(1,266)	(1,326)	**(3,047)**	(3,036)
Proceeds from loans securitised	**796**	655	119	**1,451**	768
Investment securities purchased (sold)	**678**	(1,331)	596	**(653)**	(522)
Securities purchased under reverse repurchase agreements	**(937)**	(784)	(1,038)	**(1,721)**	(211)
Net change in non-operating deposits with regulated financial institutions	**120**	225	29	**345**	(208)
Acquisition of land, buildings and equipment	**(4)**	(2)	(3)	**(6)**	(5)
	(1,128)	(2,503)	(1,623)	**(3,631)**	(3,214)
Increase (decrease) in cash and cash equivalents	**(491)**	(551)	238	**(1,042)**	714
Cash and cash equivalents, beginning of period	**4,649**	5,200	4,483	**5,200**	4,007
Cash and cash equivalents, end of period	**4,158**	4,649	4,721	**4,158**	4,721
Represented by:					
– Cash resources per balance sheet	**4,571**	5,182	5,344		
– less non-operating deposits[♦]	**(413)**	(533)	(623)		
– Cash and cash equivalents, end of period	**4,158**	4,649	4,721		

[♦] *Non-operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitisation transactions.*

See notes to unaudited consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C$ millions)

1. Basis of presentation

These consolidated financial statements should be read in conjunction with the notes to our consolidated financial statements for the year ended 31 December 2005 as set out on pages 39 to 73 of our 2005 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 our consolidated financial statements for the year ended 31 December 2005. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

2. Allowance for credit losses

A continuity of our allowance for credit losses is as follows:

	Quarter ended			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Balance at beginning of period	**325**	326	343	**326**	349
Provision for credit losses	**6**	6	6	**12**	14
Write-offs	**(12)**	(7)	(12)	**(19)**	(27)
Foreign exchange and other	**–**	–	1	**–**	2
Balance at end of period	**319**	325	338	**319**	338

3. Securitisation

Securitisation activity during the second quarter of 2006 was as follows:

	Residential mortgages
Securitised and sold	800
Net cash proceeds received	796
Retained rights to future excess interest	7
Retained servicing liability	3
Pre-tax gain on sale	3

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

	Residential mortgages
Prepayment rate	31.04
Excess spread	0.64
Expected credit losses	0.02
Discount rate	5.32

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

(all tabular amounts are in C$ millions)

4. Subordinated debentures

On 1 March 2006, we redeemed all of our 7.70 per cent subordinated debentures that mature in 2011, totalling C$60 million, at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest at the redemption date.

On 15 March 2006, we issued C$200 million of subordinated debentures that mature in 2021. Interest at an annual rate of 4.94 per cent is payable half-yearly in arrears until 16 March 2016. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.00 per cent, payable quarterly in arrears.

5. Issued and outstanding shares

	At 30 June 2006		*At 31 December 2005*		*At 30 June 2005*	
	Number	***Amount***	*Number*	*Amount*	*Number*	*Amount*
Preferred Shares – Class 1						
– Series A	**–**	**–**	–	–	5,000,000	125
– Series C	**7,000,000**	**175**	7,000,000	175	7,000,000	175
– Series D	**7,000,000**	**175**	7,000,000	175	–	–
		350		350		300
Common shares	**488,668,000**	**1,125**	488,668,000	1,125	488,668,000	1,125

6. Stock-based compensation

The expense for stock-based compensation was as follows:

	Quarter ended			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Group share options and savings-related option plans	**11**	1	3	**12**	5
Restricted share plan	**4**	2	2	**6**	3
	15	3	5	**18**	8

7. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Pension plans – defined benefit	**6**	4	3	**10**	5
Pension plans – defined contribution	**3**	3	3	**6**	5
Other benefits	**2**	2	2	**4**	4
	11	9	8	**20**	14

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

8. Customer group segmentation

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

Prior to 2006, we primarily measured the performance of each customer group based on the net income of the customer group, excluding expenses related to the deposit guarantee. These expenses were previously consolidated and disclosed separately in a customer group entitled "Other". With the termination of the deposit guarantee for new deposits after 30 June 2005, customer group results are now measured including all relevant expenses. As a result, beginning in fiscal 2006, expenses related to the deposit guarantee have been included in non-interest expenses of each customer group. The comparative amounts for 2005 have been restated to conform to the current period's disclosure.

	Quarter ended			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Personal Financial Services					
Net interest income	**95**	92	89	**187**	172
Non-interest revenue	**78**	75	65	**153**	136
Total revenue	**173**	167	154	**340**	308
Non-interest expenses	**134**	130	116	**264**	233
Net operating income	**39**	37	38	**76**	75
Provision for credit losses	**4**	5	4	**9**	8
Income before taxes and non-controlling interest in income of trust	**35**	32	34	**67**	67
Provision for income taxes	**14**	10	11	**24**	22
Non-controlling interest in income of trust	**2**	2	2	**4**	3
Net income	**19**	20	21	**39**	42
Average assets	**18,035**	17,183	16,339	**17,612**	16,146
Commercial Banking					
Net interest income	**148**	143	129	**291**	256
Non-interest revenue	**58**	49	48	**107**	95
Total revenue	**206**	192	177	**398**	351
Non-interest expenses	**82**	80	75	**162**	145
Net operating income	**124**	112	102	**236**	206
Provision for credit losses	**2**	1	2	**3**	6
Income before taxes and non-controlling interest in income of trust	**122**	111	100	**233**	200
Provision for income taxes	**46**	38	33	**84**	66
Non-controlling interest in income of trust	**3**	4	3	**7**	5
Net income	**73**	69	64	**142**	129
Average assets	**18,661**	18,554	17,124	**18,608**	16,569

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

8. Customer group segmentation (continued)

	Quarter ended			*Half-year ended*	
	30 June 2006	*31 March 2006*	*30 June 2005*	***30 June 2006***	*30 June 2005*
Corporate, Investment Banking and Markets					
Net interest income	**33**	31	25	**64**	52
Non-interest revenue	**31**	32	27	**63**	53
Total revenue	**64**	63	52	**127**	105
Non-interest expenses	**17**	14	18	**31**	33
Net operating income	**47**	49	34	**96**	72
Provision for credit losses	**–**	–	–	**–**	–
Income before taxes and non-controlling interest in income of trust	**47**	49	34	**96**	72
Provision for income taxes	**18**	17	11	**35**	24
Non-controlling interest in income of trust	**1**	1	–	**2**	1
Net income	**28**	31	23	**59**	47
Average assets	**15,876**	15,249	13,074	**15,564**	12,643

9. Guarantees, commitments and contingent liabilities

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

	At 30 June 2006	*At 31 December 2005*	*At 30 June 2005*
Financial and performance standby letters of credit	**1,893**	2,235	1,999
Documentary and commercial letters of credit	**501**	516	566
Commitments to extend credit			
– Original term of one year or less	**25,137**	23,768	22,360
– Original term of more than one year	**4,011**	3,702	3,283
Credit and yield enhancement	**48**	32	18
	31,590	30,253	28,226

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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 170 offices. With around 9,500 offices in 76 countries and territories and assets of US$1,738 billion at 30 June 2006, the HSBC Group is one of the world's largest banking and financial services organisations.

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