

2008

**HSBC Bank Canada
Capital and Risk Management
Pillar 3 Supplemental Disclosures
as at December 31, 2008**



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Capital and Risk Management Pillar 3 Disclosures

The Pillar 3 Supplemental Disclosures are additional summary descriptions and quantitative financial information which supplement those already made in the Annual Report and Accounts 2008 for the disclosure requirements under OSFI's Pillar 3 Disclosure Requirements Advisory issued September 29, 2006 consistent with the "International Convergence of Capital Measurement and Capital Standards" ("Basel II") issued by the Basel Committee on Banking Supervision in June 2006.

The supervisory objectives of Basel II, which replaces the 1988 Basel Capital Accord, are to promote safety and soundness in the financial system and maintain an appropriate level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel II is structured around three "pillars": pillar 1, minimum capital requirements, pillar 2, supervisory review and pillar 3, market discipline.

Pillar 3 complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

The Office of the Superintendent of Financial Institutions ("OSFI") supervises HSBC Bank Canada (the "Bank") on a consolidated basis. Effective November 1, 2007, OSFI implemented a new regulatory capital management framework, which gives effect to Basel II. OSFI has approved the Bank's application to apply the Advanced Internal Ratings Based ("AIRB") approach to credit risk on our portfolio and the Standardized Approach for measuring Operational Risk. Please refer to the Annual Report and Accounts 2008 for further information on the Bank's risk and capital management framework.

Further information regarding HSBC Group Risk Management Processes can be found in HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures available on HSBC Group's investor relations web site.

This report is unaudited and all amounts are in millions of Canadian dollars, unless otherwise indicated.

Basel II Regulatory Capital and Risk-Weighted Assets(1)

(\$ millions except as noted)



Qualifying Regulatory Capital	December 31, 2008
Common shares	1,225
Retained earnings	1,949
Non-cumulative preferred shares	696
Non-controlling interests in trust and subsidiary	430
Securitization-related deductions and other	(88)
Goodwill	(15)
Total Tier 1 capital	4,197
Subordinated debentures	788
Other	216
Total Tier 2 capital	1,004
Total capital available for regulatory purposes	5,201

Capital Ratios	December 31, 2008
Tier 1 capital ratio	10.1%
Total capital ratio (2)	12.5%
Assets to capital Multiple	14.0x

- (1) As per the Basel II Capital Adequacy Requirement guidelines issued by OSFI.
 (2) OSFI's target total capital ratio for well capitalized Canadian banks is 10%.
 (3) Exposure represents gross exposure at default before allowances and credit risk mitigation.
 (4) Under OSFI guidelines the Bank is exempt from using the AIRB approach based on materiality. Accordingly equity investments are risk weighted at 100%.
 (5) Securitization exposures are currently treated as on balance sheet exposures and included in the Basel II counterparty category to which the exposures relate - see page 7 for further information on Securitization Exposures.
 (6) Under OSFI guidelines the value of the bank's trading assets or liabilities do not meet the threshold for the capital adequacy requirements for market risk.
 (7) The Bank is subject to a regulatory capital floor according to transitional arrangements prescribed by OSFI. OSFI has given the Bank their approval to reduce the capital floor to 90% commencing with the third quarter 2008 regulatory reporting period.

Risk-Weighted Assets (RWA) (\$ millions except as noted)	December 31, 2008			
	Exposure (3)	RWA		
		Standardized Approach	Advanced Approach	Total
Corporate	49,904	-	25,483	25,483
Sovereign	10,882	-	167	167
Bank	8,730	8	453	461
Residential Mortgages	19,354	712	1,587	2,299
HELOC's	4,727	-	547	547
Other Retail (excluding QRR and SME)	7,224	3,128	1,689	4,817
Qualifying Revolving Retail	1,254	-	179	179
Retail SME	743	-	453	453
Exposures subject to standardized or IRB approaches	102,818	3,848	30,558	34,406
Equity (4)	395	-	-	395
Securitization (5)	-	-	-	-
Other assets not included in standardized or IRB approaches	967	-	-	812
Adjustment to IRB risk-weighted assets for scaling factor	-	-	-	1,857
Total Credit Risk	104,180			37,470
Market Risk (6)				-
Operational Risk - Standardized Approach				4,153
Total Risk-Weighted Assets				41,623
Adjustment for Regulatory Floor (7)				-
Total Transitional Risk-Weighted Assets				41,623

Credit Exposure by Counterparty Type

(\$ millions except as noted)



	December 31, 2008					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Corporate	30,761	11,413	3,855	944	2,931	49,904
Sovereign	10,093	42	634	93	20	10,882
Bank	1,745	1,154	4,042	1,783	6	8,730
Total Corporate, Sovereign and Bank	42,599	12,609	8,531	2,820	2,957	69,516
Residential Mortgages	19,354	-	-	-	-	19,354
HELOC's	2,463	2,264	-	-	-	4,727
Other Retail (excluding QRR and SME)	4,625	2,585	-	-	14	7,224
Qualifying Revolving Retail	388	866	-	-	-	1,254
Retail SME	684	4	-	-	55	743
Total Retail	27,514	5,719	-	-	69	33,302
Total Gross Credit Exposure	70,113	18,328	8,531	2,820	3,026	102,818

Credit Exposure by Geography

(\$ millions except as noted)

	December 31, 2008					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
British Columbia	26,549	6,914	-	197	837	34,497
Western Canada, excluding British Columbia	11,048	4,687	-	234	839	16,808
Ontario	26,149	4,802	8,025	1,952	943	41,871
Quebec & Atlantic provinces	6,367	1,925	506	437	407	9,642
Total Gross Credit Exposure	70,113	18,328	8,531	2,820	3,026	102,818

Residual Contract Maturity Breakdown

(\$ millions except as noted)

	December 31, 2008					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Within 1 year	36,535	17,799	3,804	1,585	2,884	62,607
1-5 years	28,412	101	1,960	870	93	31,436
Greater than 5 years	5,166	428	2,767	365	49	8,775
Total Gross Credit Exposure	70,113	18,328	8,531	2,820	3,026	102,818

Portfolio Breakdown by Basel II Approaches

(\$ millions except as noted)



	December 31, 2008			
	Standardized		AIRB	
	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn
Corporate	-	-	30,761	11,413
Sovereign	-	-	10,093	42
Bank	42	-	1,703	1,154
Total Corporate, Sovereign and Bank	42	-	42,557	12,609
Residential Mortgages	1,630	-	17,724	-
HELOC's	-	-	2,463	2,264
Other Retail (excluding QRR and SME)	2,391	1,780	2,234	805
Qualifying Revolving Retail	-	-	388	866
Retail SME	-	-	684	4
Total Retail	4,021	1,780	23,493	3,939
Total Gross Credit Exposure	4,063	1,780	66,050	16,548

Standardized Exposures by Risk Weight Category (1)

(\$ millions except as noted)

	December 31, 2008							
	Risk Weight Category							
	0%	20%	35%	50%	75%	100%	150%	Total
Bank	-	42	-	-	-	-	-	42
<i>Total Corporate, Sovereign and Bank</i>	-	42	-	-	-	-	-	42
Residential Mortgages	-	-	1,273	-	338	13	-	1,624
Other Retail	-	-	-	-	4,039	40	39	4,118
<i>Total Retail</i>	-	-	1,273	-	4,377	53	39	5,742
Total Exposure at Default	-	42	1,273	-	4,377	53	39	5,784

(1) Exposure at default, net of allowances for credit losses

Risk Assessment - AIRB Retail Credit Portfolio

(\$ millions except as noted)

	December 31, 2008					
	Residential Mortgages	Heloc's	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total
Strong	17,428	4,711	2,887	1,144	659	26,829
Medium	255	8	99	106	64	532
Sub-Standard	-	-	-	-	1	1
Impaired/Default	41	8	67	4	18	138
Total Exposure at Default	17,724	4,727	3,053	1,254	742	27,500

Risk Assessment - AIRB Non-Retail Credit Portfolio

(\$ millions except as noted)



Internal Rating	December 31, 2008			
	Exposure at Default (1)	Exposure-Weighted Average PD (%)	Exposure-Weighted Average LGD (%)	Exposure-Weighted Average Risk Weight (%)
Corporate				
Minimal Risk	1,716	0.04	46	12
Low Risk	4,177	0.10	44	19
Satisfactory Risk	17,189	0.48	33	41
Fair Default Risk	19,084	1.15	32	62
Moderate Default Risk	1,449	2.63	32	84
Significant Default Risk	643	5.84	30	101
High Default Risk	692	10.29	32	135
Special Management	270	27.98	31	157
Default	993	100.00	36	244
Total Corporate	46,213	3.29	34	55
Sovereign				
Minimal Risk	10,172	0.01	10	1
Low Risk	31	0.07	30	16
Satisfactory Risk	29	0.37	18	21
Fair Default Risk	15	1.38	51	150
Moderate Default Risk	1	1.93	52	109
Significant Default Risk	-	-	-	-
High Default Risk	-	-	-	-
Special Management	-	-	-	-
Default	-	-	-	-
Total Sovereign	10,248	0.01	10	2
Bank				
Minimal Risk	3,709	0.03	26	7
Low Risk	919	0.07	20	10
Satisfactory Risk	78	0.22	35	36
Fair Default Risk	118	1.31	36	73
Moderate Default Risk	-	-	-	-
Significant Default Risk	-	-	-	-
High Default Risk	-	-	-	-
Special Management	-	-	-	-
Default	-	-	-	-
Total Bank	4,824	0.07	25	9

(1) Total exposure includes loans outstanding and EAD on undrawn commitments and represents exposure at default (EAD), after credit mitigation.

Exposures Covered By Credit Risk Mitigation

(\$ millions except as noted)



Counterparty Type	December 31, 2008		
	Standardized		AIRB
	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees
Corporate	-	-	1,663
Sovereign	-	-	-
Bank	-	-	-
Total Corporate, Sovereign and Bank	-	-	1,663
Residential Mortgages	-	-	1,464
HELOC's	-	-	-
Other Retail (excluding QRR and SME)	-	-	-
Qualifying Revolving Retail	-	-	-
Retail SME	-	-	-
Total Retail	-	-	1,464
Total	-	-	3,127

AIRB Credit Risk Exposures - Credit Commitments

(\$ millions except as noted)

Counterparty Type	December 31, 2008	
	Notional Undrawn	EAD on Undrawn
Corporate	24,284	11,413
Sovereign	89	42
Bank	2,456	1,154
Total Corporate, Sovereign and Bank	26,829	12,609
Residential Mortgages	64	-
HELOC's	2,904	2,264
Other Retail (excluding QRR and SME)	1,458	805
Qualifying Revolving Retail	958	866
Retail SME	615	4
Total Retail	5,999	3,939
Total	32,828	16,548

Securitization Portfolio Exposure (1)

(\$ millions except as noted)



Exposure type	December 31, 2008						
	Total Outstanding Securitization Exposures Retained/Purchased (2)			Delinquent Portion of Total Outstanding Securitization Exposures		Securitization Activity for the Current Period	
	Retained	Purchased	Total	Impaired & Past Due	Recognised Losses	Exposures Securitized	Recognised Gain/Loss on Sale
Residential Mortgages	874	641	1,515	2	-	4,304	84
Loans to Corporates or SMEs	-	254	254	-	-	-	-
Other	212	362	574	-	-	-	-
Total	1,086	1,257	2,343	2	-	4,304	84

External Credit Assessment (S&P)	December 31, 2008		
	Securitization Exposures		
	Retained	Purchased	Total
AAA to AA-	898	984	1,882
A+ to A-	38	19	57
BBB+ to BBB-	-	-	-
BB+ to BB-	-	-	-
B+ and below or unrated	150	254	404
Total	1,086	1,257	2,343

(1) Securitization information is presented here for information only.

For capital adequacy purposes, securitization exposures are currently included in the EAD of the Basel II counterparty category to which the exposures relate, including all assets securitized by the bank still outstanding of \$7,300 million.

(2) All securitization exposures result from traditional securitization transactions.

Advanced Internal Ratings Based (AIRB) approach for credit risk - Under this approach, banks use their own internal historical experience of PD, LGD, EAD and other key risk assumptions to calculate credit risk capital requirements.

Bank - Includes exposures to deposit taking institutions, securities firms and certain public sector entities.

Commitments (Undrawn) - The amount of credit risk exposure resulting from the unutilized portion of an authorized credit line/committed credit facility.

Corporate - Includes exposures to corporations, partnerships and proprietorships.

Drawn - The amount of credit risk exposure resulting from loans advanced to a borrower.

Exposure At Default (EAD) - An estimate of the amount of exposure to a customer at the time of default.

Home Equity Lines of Credit (HELOC's) - Revolving personal lines of credit secured by home equity.

Loss Given Default (LGD) - An estimate of the economic loss, expressed as a percentage (0%-100%) of the exposure at default, that the Bank will incur in the event a borrower defaults

OTC Derivatives - Includes over-the-counter derivatives contracts.

Other Off Balance Sheet Items - Includes all off-balance sheet arrangements other than derivatives and undrawn commitments, such as standby letters of credit and letters of guarantee.

Other Retail - Includes all other personal loans.

Probability of Default (PD) - An estimate of the likelihood of a customer defaulting on any credit related obligation within a 1 year time horizon, expressed as a percentage.

Qualifying Revolving Retail (QRR) - Includes credit cards and unsecured lines of credit extended to individuals.

Repo-Style Transactions - Includes repurchase and reverse repurchase agreements and securities borrowing and lending.

Retail SME - Includes small business loans.

Sovereign - Includes exposures to central governments, central banks, multilateral development banks and certain public sector entities.

Standardized Approach for credit risk - Under this approach, banks use a standardized set of risk-weights as prescribed by OSFI to calculate credit risk capital requirements. The standardized risk-weights are based on external credit assessments, where available, and other risk-related factors, including exposure asset class, collateral, etc.