

26 October 2004

HSBC BANK CANADA THIRD QUARTER 2004 RESULTS - HIGHLIGHTS

- Net income was C\$265 million for the nine months ended 30 September 2004, an increase of 16.7 per cent over the same period in 2003.
- Net income was C\$84 million for the quarter ended 30 September 2004, an increase of 3.7 per cent over the third quarter of 2003.
- Return on average common equity was 19.0 per cent for the nine months ended 30 September 2004 and 16.4 per cent for the quarter ended 30 September 2004 compared with 19.3 per cent and 19.7 per cent, respectively, for the same periods in 2003.
- The cost:income ratio was 56.1 per cent for the nine months ended 30 September 2004 and 58.1 per cent for the quarter ended 30 September 2004.
- Total assets of C\$42.3 billion at 30 September 2004 compared with C\$37.0 billion at 30 September 2003.
- Total assets under administration were C\$21.4 billion at 30 September 2004, of which C\$16.2 billion were funds under management and C\$5.2 billion were custody and administration accounts.

HSBC Bank Canada recorded net income of C\$265 million for the nine months ended 30 September 2004, an increase of C\$38 million, or 16.7 per cent, from C\$227 million for the same period in 2003. Net income for the quarter ended 30 September 2004 was C\$84 million, an increase of C\$3 million, or 3.7 per cent, from C\$81 million for the quarter ended 30 September 2003. Excluding a large securitisation gain in the third quarter of 2003, the increase would have been C\$10 million, or 12.3 per cent. Net income year-to-date benefited from higher net interest income, lower provision for credit losses, increased fee income from client retail brokerage activities, and a one-time change in accounting for mortgage loan prepayment fees. For the third quarter of 2004, net income benefited from higher net interest income and lower provision for loan losses, offset by higher salaries and benefits costs.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “Results for the quarter were satisfactory. The business continues to grow across all our customer groups, reflecting the balance in our operations. Net interest income is increasing with the growth in the business, however spreads are still low due to the low interest rate and competitive environment. Fee income is benefiting from ongoing investment in the business and additional ways to add more value to the customer proposition. Credit losses remain stable given the favourable conditions in the overall market. As a result of the growth in our business, non-interest expenses have increased accordingly during the quarter.

“Our integration of Intesa Bank Canada is on track and we expect to complete outstanding tasks, with minimal impact to our customers, during the fourth quarter of 2004.”

Net interest income

Net interest income for the nine months ended 30 September 2004 was C\$667 million, including C\$8 million from the former Intesa Bank Canada (Intesa), compared with C\$652 million for the same period in 2003. For the quarter ended 30 September 2004, net interest income was C\$230 million, with C\$6 million from Intesa, compared with C\$213 million for the same quarter in 2003. Net interest income in 2004 benefited from strong growth in assets across all customer groups. Despite some tightening of interest rates in Canada and the US during the third quarter of 2004, commercial loans continued to increase driven by the prospects of improving economic factors. The stronger economy and historically low borrowing costs in 2004 also continued to drive the increases in consumer loans and residential mortgages.

Net interest margins were negatively impacted by lower average interest rates in 2004 compared with 2003. The net interest margin, as a percentage of average interest earning assets, was 2.53 per cent for the nine months ended 30 September 2004 compared with 2.71 per cent for the same period in 2003. For the quarter ended 30 September 2004 the net interest margin was 2.51 per cent compared with 2.58 per cent for the same period in 2003. Competitive product pricing, particularly in personal financial services, continues to negatively impact net interest margins in the industry in Canada.

Other income

Other income was C\$383 million for the nine months ended 30 September 2004 compared with C\$328 million for the same period in 2003. For the quarter ended 30 September 2004, other income was C\$126 million compared with C\$121 million for the same quarter in 2003.

Credit fees year to date in 2004 were higher than in 2003 due to an increase in commercial lending activities as economic conditions improved. Capital market fees in 2004 were significantly higher than the comparative periods in 2003 due to higher retail brokerage commissions, which were driven by an overall increase in the average number of client retail equity trading transactions. However, fees from client transactions in the third quarter of 2004 were impacted due to uncertainty in the equity markets over this period resulting from geopolitical events and increasing oil prices. Investment administration fees continue to benefit from investment into the higher value wealth management products. Foreign exchange revenue in 2004 has benefited from continued volatility in foreign exchange rates, primarily between the Canadian and US dollars, which has increased customer activity. Securitisation income was lower in the third quarter of 2004 compared with last year as the prior year quarter included a C\$11 million gain on sale of personal loans. Higher fees and income from merchant banking activities benefited other income in 2004 compared with the same periods in 2003.

Non-interest expenses

Non-interest expenses were C\$589 million, including C\$8 million from Intesa, for the nine months ended 30 September 2004 compared with C\$543 million for the same period in 2003. For the quarter ended 30 September 2004 non-interest expenses were C\$207 million, with C\$6 million from Intesa, compared with C\$183 million for the same quarter in 2003.

Salaries and benefits in 2004 were higher than comparative periods in 2003, and included C\$4 million from Intesa year-to-date. Variable compensation costs increased resulting from higher capital market fees and other revenue-related compensation. In addition, 2004 was impacted by higher stock-based compensation, pension and employee benefits costs, including a year-to-date adjustment to pension costs in the third quarter. Business activity increased in 2004 resulting in higher other non-interest expenses, and administrative and technical services fees when compared with the same periods in 2003. These increased costs were partially offset by lower operating losses incurred in 2004.

Credit quality and provision for credit losses

The provision for credit losses was C\$44 million for the nine months ended 30 September 2004 compared with C\$53 million in the same period of 2003. For the quarter ended 30 September 2004 the provision for credit losses was C\$10 million compared with C\$14 million in the same period last year. The decrease in the year-to-date provision reflects the continuing improvement in the performance of the credit portfolio. There have been lower non-performing loans due to declining corporate default rates and improving economic conditions in Canada and the United States.

Gross impaired loans decreased C\$31 million to C\$190 million at 30 September 2004 compared with C\$221 million at 30 September 2003. Total impaired loans, net of specific allowances, were C\$108 million at 30 September 2004 compared with C\$145 million at 30 September 2003. The general allowance for credit losses was C\$273 million compared with C\$254 million at 30 September 2003. The total allowance for credit losses, as a percentage of loans outstanding, was 1.25 per cent at 30 September 2004 compared with 1.31 per cent at 30 September 2003.

Balance sheet

Total assets at 30 September 2004 were C\$42.3 billion, an increase of C\$4.8 billion from C\$37.5 billion at 31 December 2003 and an increase of C\$5.3 billion from C\$37.0 billion at 30 September 2003. The acquisition of Intesa in the second quarter of 2004 added approximately C\$1.2 billion in assets. The underlying growth in assets during 2004 was strong due to improved economic factors, continued strong activity in the housing market and low interest rates. Commercial loans increased, excluding Intesa, by C\$1.3 billion year-to-date and by C\$0.2 billion for the quarter ended 30 September 2004. Total residential mortgages and consumer loans, excluding Intesa, grew by C\$1.2 billion year-to-date and by C\$0.6 billion for the quarter ended 30 September 2004.

Total deposits at 30 September 2004 were C\$33.0 billion, an increase of C\$3.7 billion from C\$29.3 billion at 31 December 2003 and an increase of C\$3.9 billion from C\$29.1 billion at 30 September 2003. Commercial deposits increased, excluding Intesa, by C\$2.7 billion year-to-date and by C\$1.2 billion for the quarter ended 30 September 2004. Personal deposits, excluding Intesa, grew by C\$0.4 billion year-to-date. For the quarter ended 30 September 2004, personal deposits decreased by C\$0.1 billion due in part to the strengthening of the Canadian dollar against the US dollar and seasonality of deposit growth in the first half of the year. At constant exchange rates, personal deposits in the third quarter of 2004 would have increased by C\$0.1 billion.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 June</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Earnings					
Net income	84	89	81	265	227
Basic earnings per share	0.17	0.18	0.17	0.54	0.47
Performance ratios (%)					
Return on average common equity	16.4	19.7	19.7	19.0	19.3
Return on average assets	0.80	0.88	0.85	0.87	0.82
Net interest margin	2.51	2.52	2.58	2.53	2.71
Cost:income ratio	58.1	54.1	54.8	56.1	55.4
Other income:total income ratio	35.4	37.0	36.2	36.5	33.5
Credit information					
Impaired loans	190	232	221		
Allowance for credit losses					
- Balance at end of period	355	359	330		
- As a percentage of impaired loans	187 %	155 %	149 %		
- As a percentage of loans outstanding	1.25 %	1.30 %	1.31 %		
Average balances					
Assets	40,925	39,650	36,874	39,552	36,253
Loans	27,727	26,280	24,764	26,481	24,352
Deposits	31,825	30,668	29,251	30,544	28,819
Common equity	1,991	1,772	1,582	1,825	1,532
Capital ratios (%)					
Tier 1	8.7	8.7	8.3		
Total capital	11.2	11.2	11.0		
Total assets under administration					
Funds under management	16,220	15,761	13,455		
Custodial and administration accounts	5,190	4,721	4,055		
Total assets under administration	21,410	20,482	17,510		

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<u>30 September 2004</u>	<u>30 June 2004</u>	<u>30 September 2003</u>	<u>30 September 2004</u>	<u>30 September 2003</u>
Interest and dividend income					
Loans	352	338	347	1,030	1,032
Securities	20	19	22	60	79
Deposits with regulated financial institutions	17	12	14	43	41
Total interest income	389	369	383	1,133	1,152
Interest expense					
Deposits	150	140	161	440	473
Debentures	9	8	9	26	27
Total interest expense	159	148	170	466	500
Net interest income	230	221	213	667	652
Provision for credit losses	10	20	14	44	53
Net interest income after provision for credit losses	220	201	199	623	599
Other income					
Deposit and payment service charges	20	21	20	61	60
Credit fees	21	21	18	60	51
Capital market fees	21	25	26	78	64
Investment administration fees	16	15	13	45	39
Foreign exchange	16	17	15	50	44
Trade finance	8	8	7	22	20
Trading revenue	4	4	3	10	8
Securitization income	6	9	16	21	24
Other	14	10	3	36	18
Total other income	126	130	121	383	328
Net interest and other income	346	331	320	1,006	927
Non-interest expenses					
Salaries and employee benefits	113	103	94	316	272
Premises and equipment	26	26	27	79	83
Other	68	61	62	194	188
Total non-interest expenses	207	190	183	589	543
Income before effect of accounting change	139	141	137	417	384
Effect of accounting change	-	-	-	14	-
Income before provision and non- controlling interest in income of trust	139	141	137	431	384
Provision for income taxes	(51)	(52)	(53)	(159)	(147)
Non-controlling interest in income of trust	(4)	(4)	(4)	(12)	(12)
Income from continuing operations	84	85	80	260	225
Income from discontinued operations	-	4	1	5	2
Net income	84	89	81	265	227
Preferred share dividends	2	2	2	6	6
Net income attributable to common shares	82	87	79	259	221
Average common shares outstanding (000)	488,668	475,591	471,168	478,513	471,168
Basic earnings per share (C\$)	0.17	0.18	0.17	0.54	0.47

<i>Figures in C\$ millions</i>	<i>At 30 September 2004</i>	<i>At 31 December 2003</i>	<i>At 30 September 2003</i>
Assets			
Cash and deposits with Bank of Canada	297	256	353
Deposits with regulated financial institutions	<u>4,123</u>	<u>3,373</u>	<u>3,718</u>
	<u>4,420</u>	<u>3,629</u>	<u>4,071</u>
Investment securities	2,023	2,234	2,326
Trading securities	<u>966</u>	<u>642</u>	<u>768</u>
	<u>2,989</u>	<u>2,876</u>	<u>3,094</u>
Assets purchased under reverse repurchase agreements	<u>2,002</u>	<u>1,572</u>	<u>1,020</u>
Loans			
- Businesses and government	13,230	11,664	11,954
- Residential mortgage	11,835	10,880	10,708
- Consumer	3,320	2,702	2,588
- Allowance for credit losses	<u>(355)</u>	<u>(313)</u>	<u>(330)</u>
	<u>28,030</u>	<u>24,933</u>	<u>24,920</u>
Customers' liability under acceptances	3,560	3,247	2,926
Land, buildings and equipment	95	111	102
Other assets	<u>1,209</u>	<u>1,141</u>	<u>898</u>
	<u>4,864</u>	<u>4,499</u>	<u>3,926</u>
Total assets	<u>42,305</u>	<u>37,509</u>	<u>37,031</u>
Liabilities and shareholders' equity			
Deposits			
- Regulated financial institutions	594	641	749
- Individuals	14,822	13,924	13,993
- Businesses and governments	<u>17,595</u>	<u>14,774</u>	<u>14,338</u>
	<u>33,011</u>	<u>29,339</u>	<u>29,080</u>
Subordinated debentures	<u>501</u>	<u>504</u>	<u>509</u>
Acceptances	3,560	3,247	2,926
Assets sold under repurchase agreements	119	30	120
Other liabilities	2,725	2,340	2,420
Non-controlling interest in trust and subsidiary	<u>230</u>	<u>230</u>	<u>230</u>
	<u>6,634</u>	<u>5,847</u>	<u>5,696</u>
Shareholders' equity			
- Preferred shares	125	125	125
- Common shares	1,125	950	950
- Contributed surplus	175	169	167
- Retained earnings	<u>734</u>	<u>575</u>	<u>504</u>
	<u>2,159</u>	<u>1,819</u>	<u>1,746</u>
Total liabilities and shareholders' equity	<u>42,305</u>	<u>37,509</u>	<u>37,031</u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 June</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Cash flows (used in)/provided by:					
- Operating activities	(28)	(42)	(202)	356	860
- Financing activities	841	1,390	908	2,823	644
- Investing activities	<u>(641)</u>	<u>(1,297)</u>	<u>(422)</u>	<u>(2,772)</u>	<u>(1,324)</u>
Increase in cash and cash equivalents	172	51	284	407	180
Cash and cash equivalents, beginning of period	<u>3,684</u>	<u>3,633</u>	<u>3,533</u>	<u>3,449</u>	<u>3,637</u>
Cash and cash equivalents, end of period	<u>3,856</u>	<u>3,684</u>	<u>3,817</u>	<u>3,856</u>	<u>3,817</u>
Represented by:					
- Cash resources per balance sheet	4,420	4,384	4,071		
- less non-operating deposits [†]	<u>(564)</u>	<u>(700)</u>	<u>(254)</u>		
- Cash and cash equivalents, end of period	<u>3,856</u>	<u>3,684</u>	<u>3,817</u>		

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