



21 February 2005

**HSBC BANK CANADA
FOURTH QUARTER 2004 RESULTS - HIGHLIGHTS**

- Net income attributable to common shares was C\$345 million for the year ended 31 December 2004, an increase of 18.2 per cent over 2003.
- Net income attributable to common shares was C\$86 million for the quarter ended 31 December 2004, an increase of 21.1 per cent over the same period in 2003.
- Return on average common equity was 18.3 per cent for the year ended 31 December 2004 and 16.6 per cent for the quarter ended 31 December 2004 compared with 18.7 per cent and 17.0 per cent, respectively, for the same periods in 2003.
- The cost:income ratio improved to 56.0 per cent for the year ended 31 December 2004 and 55.6 per cent for the quarter ended 31 December 2004 compared with 57.0 per cent and 61.6 per cent, respectively, for the same periods in 2003.
- Total assets were C\$43.3 billion at 31 December 2004, an increase of C\$5.8 billion, or 15.5 per cent, from C\$37.5 billion at 31 December 2003.
- Total funds under management were C\$17.7 billion at 31 December 2004, an increase of C\$3.4 billion, or 23.8 per cent, from C\$14.3 billion at 31 December 2003.

Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$345 million for the year ended 31 December 2004, an increase of C\$53 million, or 18.2 per cent, from C\$292 million for 2003. Net income attributable to common shares for the quarter ended 31 December 2004 was C\$86 million, an increase of C\$15 million, or 21.1 per cent, compared with C\$71 million for the same period in 2003. Net income in 2004 benefited from growth in the balance sheet, growth in funds under management, an improvement in the equity markets and a one-time change in accounting for mortgage loan prepayment fees. These were partially offset by higher salaries and benefits costs and other operating expenses due to increased business activities.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “We are pleased with our results for the year. We have achieved our objectives for 2004 in that we grew revenues, controlled our costs and managed our capital efficiently. Revenue grew faster than costs, and resulted in a 100 basis point improvement in our cost:income ratio over 2003. We achieved this in an extremely competitive interest rate environment, which negatively impacted spreads throughout 2004. It was encouraging to see increased growth in our non-interest revenue during 2004, which shows the better balance of our operations.

“The integration of Intesa Bank Canada was successfully completed in the fourth quarter of 2004, with minimal impact to our customers. We will leverage these assets, along with the expanded capabilities of the ABM-network sharing agreement with the BMO Financial Group, to further increase our customers’ access to our banking services.”

Net interest income

Net interest income for the year ended 31 December 2004 was C\$896 million, an increase of C\$31 million, or 3.6 per cent, from C\$865 million for 2003. For the quarter ended 31 December 2004 net interest income was C\$229 million, an increase of C\$16 million, or 7.5 per cent, from C\$213 million for the same quarter in 2003. Net interest income benefited from the acquisition of the former Intesa Bank Canada (Intesa) and a one-time change in accounting for mortgage loan prepayment fees. An improving economy in Canada, along with historically low borrowing costs, helped spur increases in lending across all customer groups. Average loan balances for the year ended 31 December 2004 were C\$26,922 million, an increase of C\$2,379 million, or 9.7 per cent, compared with C\$24,543 million for last year. For the fourth quarter of 2004, average loan balances were C\$28,235 million compared with C\$25,113 million for the same period in 2003.

The net interest margin, as a percentage of average interest earning assets, was 2.49 per cent for the year ended 31 December 2004 and 2.38 per cent for fourth quarter of 2004. For the same periods in 2003, the net interest margin was 2.66 per cent and 2.53 per cent, respectively. Net interest margins continue to be impacted by extremely competitive industry pricing on all lending and deposit products, particularly in personal financial services.

Non-interest revenue

Other income was C\$526 million for the year ended 31 December 2004, an increase of C\$83 million, or 18.7 per cent, compared with C\$443 million for 2003. For the quarter ended 31 December 2004, other income was C\$143 million, an increase of C\$28 million, or 24.3 per cent, from C\$115 million in the fourth quarter of 2003.

Credit fees were higher in 2004 due to increased commercial lending activities as economic conditions improved through the year. In addition, expectations of continued low interest rates in 2004 shortened the average term of loans entered into, which resulted in an increase in the number of lending transactions. Capital market fees in 2004 were higher than the comparative periods in 2003 due to increased retail brokerage commissions as customer trading volume improved alongside the equity markets in 2004. Benefits from our investment in our wealth management businesses during 2004 also drove higher trading volumes. Investment administration fees increased in 2004 over 2003 due to higher sales of our personal investment products. The continued volatility of foreign currency exchange rates during 2004, particularly between the Canadian and US dollars, benefited foreign exchange revenue as it drove increased customer activity. Other income in 2004 was higher than in 2003 due to gains from merchant banking activities and higher advisory fees.

Non-interest expenses

Non-interest expenses were C\$796 million for the year ended 31 December 2004, an increase of C\$51 million, or 6.8 per cent, compared with C\$745 million for 2003. For the quarter ended 31 December 2004, non-interest expenses were C\$207 million, an increase of C\$5.0 million, or 2.5 per cent, from C\$202 million in the fourth quarter of 2003.

Salaries and benefits in 2004 were C\$423 million compared with C\$379 million in 2003. Variable compensation costs were higher in 2004, reflective of the increase in capital market fees and other revenue-related compensation. The balance of the increase in salaries and benefits was primarily due to the acquisition of Intesa and from higher benefits costs, resulting from increased pension and employee benefits costs.

Premises and equipment expenses in 2004 were C\$101 million compared with C\$107 million in 2003. Higher occupancy costs in 2004, and the costs from the acquisition of Intesa, were offset by lower expenses related to owned infrastructure equipment.

Other non-interest expenses in 2004 were C\$272 million compared with C\$259 million in 2003. Expenses were higher in the fourth quarter of 2004 compared with the same period in 2003 due to Intesa expenses, increased operating losses and increased administrative and information technology service fees arising from increased business volumes. For the year, other non-interest expenses were higher primarily due to the increased information technology service fees resulting from increased business activity during the year. These were partially offset by lower operating losses in 2004 compared with 2003.

Credit quality and provision for credit losses

The provision for credit losses was C\$66 million for the year ended 31 December 2004 compared with C\$61 million for 2003. For the quarter ended 31 December 2004 the provision for credit losses was C\$22 million compared with C\$8.0 million for the same period in 2003. The increase in the provision in the fourth quarter of 2004 compared with the same period in 2003 was primarily attributable to a small number of exposures across the customer groups. For the year, the provision for credit losses increased slightly compared to 2003. This was a result of the increased lending volumes in 2004, which was reflective of the improvement in economic conditions in North America.

Gross impaired loans decreased to C\$182 million at 31 December 2004 compared with C\$203 million at 31 December 2003. Total impaired loans, net of specific allowances for credit losses, were C\$112 million at 31 December 2004 compared with C\$148 million at 31 December 2003. The general allowance for credit losses was C\$279 million at 31 December 2004 compared with C\$258 million at 31 December 2003. The total allowance for credit losses, as a percentage of loans outstanding was 1.22 per cent at 31 December 2004 compared with 1.24 per cent at 31 December 2003.

Balance sheet

Total assets at 31 December 2004 were C\$43.3 billion, an increase of C\$5.8 billion from C\$37.5 billion at 31 December 2003. The acquisition of Intesa in the second quarter of 2004 added approximately C\$1.2 billion in assets. Commercial loans and acceptances increased by C\$2.3 billion year-to-date due to our continued strategy to grow this business and due to the improved economic factors. Total residential mortgages and consumer loans grew by C\$1.6 billion year-to-date as a result of the continued strong residential housing market and low interest rates.

Total deposits at 31 December 2004 were C\$33.8 billion, an increase of C\$4.5 billion from C\$29.3 billion at 31 December 2003. Commercial deposits increased by C\$3.6 billion year-to-date which reflected increased business activity as a result of the improved economy. Personal deposits grew by C\$0.9 billion year-to-date. The strengthening of the Canadian dollar relative to the US dollar during 2004 impacted personal deposits. At constant exchange rates, personal deposits in 2004 would have increased by C\$1.2 billion.

Total assets under administration

Funds under management were C\$17.7 billion at 31 December 2004 compared with C\$14.3 billion at 31 December 2003. The increase during the year was primarily attributable to growth in our retail brokerage company from continued investment in the business during the year and by the improvement in the equity markets compared to 2003.

Including custody and administration balances, total assets under administration were C\$22.8 billion at 31 December 2004 compared with C\$18.7 billion at 31 December 2003.

Capital ratios

The bank's tier 1 capital ratio was 8.6 per cent and the total capital ratio was 11.0 per cent at 31 December 2004. This compares with 8.4 per cent and 11.1 per cent, respectively, at 31 December 2003. The improvement in the tier 1 ratio was attributable to the issuance of C\$175 million in common shares and net income earned in excess of the C\$150 million in dividends declared. These were partially offset by an increase in risk-weighted assets due to the growth in our businesses during 2004.

Preferred share dividends

A quarterly dividend of 39.0625 cents per share, totalling C\$2 million, has been declared on the Class 1 Preferred Shares – Series A. The dividend will be payable in cash on 31 March 2005, for shareholders of record on 18 March 2005.

About HSBC Bank Canada

HSBC Bank Canada (HSB.PR.A - TSX), a subsidiary of HSBC Holdings plc, has more than 170 offices. With about 10,000 offices in 76 countries and territories and assets of US\$1,154 billion at 30 June 2004, the HSBC Group is one of the world's largest banking and financial services organisations. For more information about HSBC Bank Canada and its products and services, visit our website at hsbc.ca.

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Copies of HSBC Bank Canada's 2004 Annual Report will be sent to shareholders during March 2005.

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, competition, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where HSBC Bank Canada operates.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Year ended</i>	
	<i>31 December 2004</i>	<i>30 September 2004</i>	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>31 December 2003</i>
Earnings					
Net income attributable to common shares	86	82	71	345	292
Basic earnings per share	0.18	0.17	0.15	0.72	0.62
Performance ratios (%)					
Return on average common equity	16.6	16.4	17.0	18.3	18.7
Return on average assets	0.80	0.80	0.75	0.85	0.80
Net interest margin	2.38	2.51	2.53	2.49	2.66
Cost:income ratio	55.6	58.1	61.6	56.0	57.0
Non-interest revenue:total revenue ratio	38.4	35.4	35.1	37.0	33.9
Credit information					
Impaired loans	182	190	203		
Allowance for credit losses					
– Balance at end of period	349	355	313		
– As a percentage of impaired loans	192 %	187 %	154 %		
– As a percentage of loans outstanding	1.22 %	1.25 %	1.24 %		
Average balances					
Assets	43,008	40,925	37,717	40,421	36,635
Loans	28,235	27,727	25,113	26,922	24,543
Deposits	32,640	31,825	29,700	30,823	29,041
Common equity	2,070	1,991	1,658	1,886	1,563
Capital ratios (%)					
Tier 1	8.6	8.7	8.4		
Total capital	11.0	11.2	11.1		
Total assets under administration					
Funds under management	17,687	16,220	14,323		
Custodial accounts	5,077	5,190	4,409		
Total assets under administration	22,764	21,410	18,732		

Figures in C\$ millions (except per share amounts)	Quarter ended			Year ended	
	31 December	30 September	31 December	31 December	31 December
	2004	2004	2003	2004	2003
Interest and dividend income					
Loans	366	352	343	1,396	1,375
Securities	22	20	24	82	103
Deposits with regulated financial institutions	26	17	13	69	54
	<u>414</u>	<u>389</u>	<u>380</u>	<u>1,547</u>	<u>1,532</u>
Interest expense					
Deposits	177	150	159	617	632
Debentures	8	9	8	34	35
	<u>185</u>	<u>159</u>	<u>167</u>	<u>651</u>	<u>667</u>
Net interest income	229	230	213	896	865
Provision for credit losses	22	10	8	66	61
Net interest income after provision for credit losses	<u>207</u>	<u>220</u>	<u>205</u>	<u>830</u>	<u>804</u>
Non-interest revenue					
Deposit and payment service charges	20	20	19	81	79
Credit fees	21	21	18	81	69
Capital market fees	32	21	29	110	93
Investment administration fees	15	16	14	60	53
Foreign exchange	18	16	17	68	61
Trade finance	6	8	6	28	26
Trading revenue	2	4	1	12	9
Securitisation income	4	6	2	25	26
Other	25	14	9	61	27
	<u>143</u>	<u>126</u>	<u>115</u>	<u>526</u>	<u>443</u>
Net interest and non-interest revenue	350	346	320	1,356	1,247
Non-interest expenses					
Salaries and employee benefits	107	113	107	423	379
Premises and equipment	22	26	24	101	107
Other	78	68	71	272	259
	<u>207</u>	<u>207</u>	<u>202</u>	<u>796</u>	<u>745</u>
Income before the under-noted	143	139	118	560	502
Effect of accounting change	—	—	—	14	—
Income before provision and non- controlling interest in income of trust	143	139	118	574	502
Provision for income taxes	51	51	41	210	188
Non-controlling interest in income of trust	4	4	4	16	16
Income from continuing operations	88	84	73	348	298
Income from discontinued operations [†]	—	—	—	5	2
Net income	<u>88</u>	<u>84</u>	<u>73</u>	<u>353</u>	<u>300</u>
Preferred share dividends	2	2	2	8	8
Net income attributable to common shares	<u>86</u>	<u>82</u>	<u>71</u>	<u>345</u>	<u>292</u>
Average common shares outstanding (000)	488,668	488,668	471,168	481,066	471,168
Basic earnings per share (C\$)	0.18	0.17	0.15	0.72	0.62

[†] Reflects the sale of HSBC Canadian Direct Insurance Incorporated effective 30 April 2004.

<i>Figures in C\$ millions</i>	<u><i>At 31 December</i></u> <u><i>2004</i></u>	<u><i>At 31 December</i></u> <u><i>2003</i></u>
Assets		
Cash and deposits with Bank of Canada	328	256
Deposits with regulated financial institutions	<u>4,094</u>	<u>3,373</u>
	<u>4,422</u>	<u>3,629</u>
Investment securities	1,967	2,234
Trading securities	<u>1,055</u>	<u>642</u>
	<u>3,022</u>	<u>2,876</u>
Assets purchased under reverse repurchase agreements	<u>2,264</u>	<u>1,572</u>
Loans		
– Businesses and government	13,450	11,664
– Residential mortgage	11,966	10,880
– Consumer	3,252	2,702
– Allowance for credit losses	<u>(349)</u>	<u>(313)</u>
	<u>28,319</u>	<u>24,933</u>
Customers' liability under acceptances	3,754	3,247
Land, buildings and equipment	101	111
Other assets	<u>1,381</u>	<u>1,141</u>
	<u>5,236</u>	<u>4,499</u>
Total assets	<u><u>43,263</u></u>	<u><u>37,509</u></u>
Liabilities and shareholders' equity		
Deposits		
– Regulated financial institutions	635	641
– Individuals	14,818	13,924
– Businesses and governments	<u>18,395</u>	<u>14,774</u>
	<u>33,848</u>	<u>29,339</u>
Acceptances	3,754	3,247
Assets sold under repurchase agreements	23	30
Other liabilities	2,785	2,340
Non-controlling interest in trust and subsidiary	<u>230</u>	<u>230</u>
	<u>6,792</u>	<u>5,847</u>
Subordinated debentures	<u>426</u>	<u>504</u>
Shareholders' equity		
– Preferred shares	125	125
– Common shares	1,125	950
– Contributed surplus	177	169
– Retained earnings	<u>770</u>	<u>575</u>
	<u>2,197</u>	<u>1,819</u>
Total liabilities and shareholders' equity	<u><u>43,263</u></u>	<u><u>37,509</u></u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Year ended</i>	
	<i>31 December</i> 2004	<i>30 September</i> 2004	<i>31 December</i> 2003	<i>31 December</i> 2004	<i>31 December</i> 2003
Cash flows provided by/(used in):					
– Operating activities	60	(28)	(109)	416	751
– Financing activities	669	841	167	3,492	811
– Investing activities	(578)	(641)	(426)	(3,350)	(1,750)
Increase/(decrease) in cash and cash equivalents	151	172	(368)	558	(188)
Cash and cash equivalents, beginning of period	3,856	3,684	3,817	3,449	3,637
Cash and cash equivalents, end of period	4,007	3,856	3,449	4,007	3,449
Represented by:					
– Cash resources per balance sheet	4,422	4,420	3,629		
– less non-operating deposits [†]	(415)	(564)	(180)		
– Cash and cash equivalents, end of period	4,007	3,856	3,449		

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