

20 July 2005

HSBC BANK CANADA 2005 INTERIM RESULTS - HIGHLIGHTS

- Net income attributable to common shares was C\$212 million for the half-year ended 30 June 2005, an increase of 19.8 per cent over the same period in 2004.
- Net income attributable to common shares was C\$104 million for the quarter ended 30 June 2005, an increase of 19.5 per cent over the quarter ended 30 June 2004.
- Return on average common equity was 20.3 per cent for the half-year ended 30 June 2005 and 19.7 per cent for the quarter ended 30 June 2005 compared with 20.5 per cent and 19.7 per cent respectively for the same periods in 2004.
- The cost:income ratio was 53.8 per cent for the half-year ended 30 June 2005 and 54.6 per cent for the quarter ended 30 June 2005 compared with 55.0 per cent and 54.1 per cent respectively for the same periods in 2004.
- Total assets were C\$47.4 billion at 30 June 2005 compared with C\$40.8 billion at 30 June 2004.
- Total funds under management were C\$18.8 billion at 30 June 2005 compared with C\$15.8 billion at 30 June 2004.

Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$212 million for the half-year ended 30 June 2005, an increase of C\$35 million, or 19.8 per cent compared to the same period in 2004. Net income attributable to common shares for the quarter ended 30 June 2005 was C\$104 million, an increase of C\$17 million, or 19.5 per cent compared to the same period in 2004.

Net income for the half-year ended 30 June 2005 benefited from higher net interest income due to growth in the balance sheet, growth in non-interest income and a strong credit environment resulting in a significant reduction in the provision for credit losses compared to the same period in the previous year.

The half-year ended 30 June 2005 included income of C\$5 million before tax arising from the adoption of a new accounting standard for valuation of investment company assets. The first half of 2004 benefited from a C\$4 million gain on sale of a subsidiary included in discontinued operations and income of C\$9 million relating to a change in accounting for mortgage loan prepayment fees, both items on a net of tax basis.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “Results for 2005 continue to be good. Our business initiatives and the strong economy have contributed to our growth. Our robust risk management process, together with the impact of the good economy and the low interest rate environment, have also resulted in record low provisions for credit losses.

“Our focus will be to continue to build on the excellent relationships with our customers by continuing to improve convenience and service. For example, all our customers now have the convenience of surcharge-free access to the third largest ATM network in Canada through our agreements with the Exchange Network and Bank of Montreal.”

Net interest income

Net interest income for the half-year ended 30 June 2005 was C\$480 million up C\$43 million or 9.8 per cent over the same period in 2004. For the quarter ended 30 June 2005, net interest income was C\$243 million up C\$22 million or 10.0 per cent over the same period in 2004. Our business initiatives and the acquisition of Intesa Bank Canada (“Intesa”) together with a strong economy supported by increasing business investment, consumer spending and housing demand resulted in strong growth in business and consumer loans and residential mortgages.

The net interest margin, as a percentage of average interest earning assets, was 2.38 per cent for the half-year ended 30 June 2005 compared with 2.55 per cent for the same period in 2004. For the quarter ended 30 June 2005 the net interest margin was 2.34 per cent compared with 2.52 per cent for the same period in 2004. Consistent with the trend experienced by the industry for the last two years, net interest margins continue to be impacted by very competitive pricing in all customer groups, but particularly in personal financial services, and the low interest rate environment.

Non-interest revenue

Non-interest revenue was C\$284 million for the half-year ended 30 June 2005 an increase of C\$27 million, or 10.5 per cent compared with the same period in 2004. For the quarter ended 30 June 2005, non-interest revenue was C\$140 million an increase of C\$10 million or 7.7 per cent compared with the same quarter in 2004.

Commercial credit fees were higher in 2005 due to continuing strong lending activity supported by the low interest rate environment and the continued strength of the economy. Investment administration fees were higher due primarily to continued growth in assets in our Portfolio Advantage and Private Investment Management services. Our Chinese Equity, Monthly Income and Mortgage Pooled Funds launched last year also contributed to the growth in funds under management. Other non-interest revenue increased due to higher income from investments in our private equity funds, stronger fee income from our Canadian Immigrant Investor Program and the benefit of C\$5 million of income resulting from the adoption of a new accounting standard for the valuation of investment company assets which are now required to be held at fair value, compared with historical cost and accumulated income.

During the second quarter of 2005, we recognized C\$2 million in gains on a \$119 million residential mortgage securitisation compared to gains of C\$8 million on residential mortgage securitisations of \$317 million in the same period in 2004.

Non-interest expenses

Non-interest expenses were C\$411 million for the half-year ended 30 June 2005 compared with C\$382 million for the same period in 2004. For the quarter ended 30 June 2005 non-interest expenses were C\$209 million compared with C\$190 million for the same quarter in 2004.

Salaries and benefits in the first half of 2005 were higher than in the first half of 2004 due largely to an increased employee base resulting from the acquisition of Intesa, from investments in our branch network, wealth management businesses, and other delivery channels and increased compliance and regulatory costs. Other non-interest expenses in 2005 included a net credit arising from successful resolution of certain commodity tax issues from previous years. This was offset by higher administrative and information technology service fees from increased business activity.

Credit quality and provision for credit losses

The provision for credit losses was C\$14 million for the half-year ended 30 June 2005 compared with C\$34 million in the same period in 2004. For the quarter ended 30 June 2005 the provision for credit losses was C\$6 million compared with C\$20 million in the same period last year. The significant decrease in the year-to-date provision reflects the Bank's strong risk management process, together with the good performance of the credit portfolio arising from continued low corporate default rates and good economic conditions in Canada and the United States.

Gross impaired loans at 30 June 2005 were C\$125 million, C\$57 million, or 31.3 per cent lower compared to 31 December 2004, and C\$107 million, or 46.1 per cent, lower compared to 30 June 2004. Total impaired loans, net of specific allowance for credit losses, were C\$70 million at 30 June 2005 compared with C\$112 million at 31 December 2004 and C\$138 million at 30 June 2004. The general allowance for credit losses was C\$283 million compared with C\$279 million at 31 December 2004 and C\$265 million at 30 June 2004. The total allowance for credit losses, as a percentage of loans outstanding, was 1.09 per cent at 30 June 2005 compared with 1.22 per cent at 31 December 2004 and 1.30 per cent at 30 June 2004.

Income taxes

The effective tax rate in the quarter and half-year ended 30 June 2005 was 33.7 per cent and 33.9 per cent respectively compared with 38.0 per cent and 37.8 per cent respectively for the same periods in 2004. The reductions reflect adjustments in both the first and second quarters of 2005 to the net realizable values of certain future income tax assets. Excluding these adjustments, the effective income tax rate would have been 36.8 per cent and 37.0 per cent for the quarter and half-year ended 30 June 2005 respectively.

Balance sheet

Total assets at 30 June 2005 were C\$47.4 billion, an increase of C\$4.1 billion or 9.5 per cent from 31 December 2004, and C\$6.6 billion, or 16.2 per cent from 30 June 2004. The growth in assets was driven by growth in all asset categories and across all customer groups.

Total deposits increased C\$3.6 billion to C\$37.4 billion at 30 June 2005 compared to C\$33.8 billion at 31 December 2004 and were C\$5.3 billion higher compared with 30 June 2004. The increase in the first half of 2005 was driven primarily from increased activity in the commercial customer group.

Total assets under administration

Funds under management were C\$18.8 billion at 30 June 2005 compared with C\$17.7 billion at 31 December 2004 and C\$15.8 billion at 30 June 2004. Including custody and administration balances, total assets under administration were C\$24.7 billion compared with C\$22.8 billion at 31 December 2004 and C\$20.5 billion at 30 June 2004. Although there were challenging equity market conditions in the first part of the year, the recent increase in equity markets and the impact of earlier recruitment of additional investment advisors, has contributed to the increase in funds under management experienced during 2005. Assets managed in our Portfolio Advantage and Private Investment Management products showed continued strong growth.

Capital ratios

The tier 1 capital ratio was 9.0 per cent and the total capital ratio was 11.2 per cent at 30 June 2005. This compares with 8.6 per cent and 11.0 per cent, respectively, at 31 December 2004 and 8.7 per cent and 11.2 per cent, respectively, at 30 June 2004. The increase in the tier 1 capital ratio is due to the issue of \$175 million of Class 1 Preferred Shares Series C and \$200 million of HSBC Canada Asset Trust Securities Series 2015. Both of these issues were completed during the second quarter of 2005.

The Board of Directors has approved, subject to regulatory consent, the redemption for cash of C\$25.00 of all the Bank's issued and outstanding Class 1 Preferred Shares Series A at 30 September 2005. Formal notice of redemption is expected to be sent to shareholders in August 2005.

We declared and paid a C\$60 million dividend on our common shares in both the first and second quarters of 2005.

Preferred share dividends

Regular dividends have been declared on the Class 1 Preferred Shares – Series A of 39.0625 cents per share and on the Class 1 Preferred Shares – Series C of 31.875 cents per share. The dividends will be payable in cash on 30 September 2005, for shareholders of record on 15 September 2005.

About HSBC Bank Canada

HSBC Bank Canada (HSB.PR.A - TSX), a subsidiary of HSBC Holdings plc, has more than 170 offices. With over 9,800 offices in 77 countries and territories and assets of US\$1,280 billion at 31 December 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.

Media enquiries to:	Ernest Yee	604-641-2973
	Sharon Wilks	416-868-3878

Copies of HSBC Bank Canada's Interim Report will be sent to shareholders during August 2005.

Forward-looking financial information

This document contains 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 levels 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 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.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June</i>	<i>31 March</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Earnings					
Net income attributable to common shares	104	108	87	212	177
Basic earnings per share	0.21	0.22	0.18	0.43	0.37
Performance ratios (%)					
Return on average common equity	19.7	20.9	19.7	20.3	20.5
Return on average assets	0.90	0.99	0.88	0.94	0.92
Net interest margin	2.34	2.44	2.52	2.38	2.55
Cost:income ratio	54.6	53.0	54.1	53.8	55.0
Non-interest revenue:total revenue ratio	36.6	37.8	37.0	37.2	37.0
Credit information					
Impaired loans	125	146	232		
Allowance for credit losses					
– Balance at end of period	338	343	359		
– As a percentage of impaired loans	270 %	235 %	155 %		
– As a percentage of loans outstanding	1.09 %	1.15 %	1.30 %		
Average balances					
Assets	46,523	44,180	39,650	45,358	38,859
Loans	29,901	28,841	26,280	29,374	25,851
Deposits	37,028	34,704	30,668	35,867	29,897
Common equity	2,411	2,098	1,772	2,119	1,742
Capital ratios (%)					
Tier 1	9.0	8.5	8.7		
Total capital	11.2	10.8	11.2		
Total assets under administration					
Funds under management	18,820	18,084	15,761		
Custody accounts	5,875	5,797	4,721		
Total assets under administration	24,695	23,881	20,482		

Note:

Financial Information on pages 6-9 prepared in accordance with Canadian Generally Accepted Accounting Principles.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June 2005</i>	<i>31 March 2005</i>	<i>30 June 2004</i>	<i>30 June 2005</i>	<i>30 June 2004</i>
Interest and dividend income					
Loans	396	374	338	770	678
Securities	25	24	19	49	40
Deposits with regulated financial institutions	39	30	12	69	26
	<u>460</u>	<u>428</u>	<u>369</u>	<u>888</u>	<u>744</u>
Interest expense					
Deposits	211	184	140	395	290
Debentures	6	7	8	13	17
	<u>217</u>	<u>191</u>	<u>148</u>	<u>408</u>	<u>307</u>
Net interest income	243	237	221	480	437
Provision for credit losses	6	8	20	14	34
Net interest income after provision for credit losses	<u>237</u>	<u>229</u>	<u>201</u>	<u>466</u>	<u>403</u>
Non-interest revenue					
Deposit and payment service charges	22	20	21	42	41
Credit fees	24	22	21	46	39
Capital market fees	24	32	25	56	57
Investment administration fees	17	17	15	34	29
Foreign exchange	19	17	17	36	34
Trade finance	7	7	8	14	14
Trading revenue	2	5	4	7	6
Securitisation income	5	8	9	13	15
Other	20	16	10	36	22
	<u>140</u>	<u>144</u>	<u>130</u>	<u>284</u>	<u>257</u>
Net interest and non-interest revenue	377	373	331	750	660
Non-interest expenses					
Salaries and employee benefits	110	109	103	219	203
Premises and equipment	27	27	26	54	53
Other	72	66	61	138	126
	<u>209</u>	<u>202</u>	<u>190</u>	<u>411</u>	<u>382</u>
Income before the undernoted	168	171	141	339	278
Effect of accounting change	-	-	-	-	14
Income before provision for income taxes and non-controlling interest in income of trust	168	171	141	339	292
Provision for income taxes	55	57	52	112	108
Non-controlling interest in income of trust	5	4	4	9	8
Income from continuing operations	108	110	85	218	176
Income from discontinued operations [†]	-	-	4	-	5
Net income	<u>108</u>	<u>110</u>	<u>89</u>	<u>218</u>	<u>181</u>
Preferred share dividends	4	2	2	6	4
Net income attributable to common shares	<u>104</u>	<u>108</u>	<u>87</u>	<u>212</u>	<u>177</u>
Average common shares outstanding (000)	488,668	488,668	475,591	488,668	473,380
Basic earnings per share (C\$)	0.21	0.22	0.18	0.43	0.37

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

<i>Figures in C\$ millions</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>	<i>At 30 June 2004</i>
Assets			
Cash and deposits with Bank of Canada	347	328	343
Deposits with regulated financial institutions	4,997	4,094	4,041
	<u>5,344</u>	<u>4,422</u>	<u>4,384</u>
Investment securities	2,489	1,967	1,986
Trading securities	1,421	1,055	715
	<u>3,910</u>	<u>3,022</u>	<u>2,701</u>
Assets purchased under reverse repurchase agreements	<u>2,475</u>	<u>2,264</u>	<u>2,050</u>
Loans			
– Businesses and government	14,768	13,450	13,029
– Residential mortgage	12,427	11,966	11,487
– Consumer	3,714	3,252	3,100
– Allowance for credit losses	(338)	(349)	(359)
	<u>30,571</u>	<u>28,319</u>	<u>27,257</u>
Customers' liability under acceptances	3,722	3,754	3,309
Land, buildings and equipment	97	101	96
Other assets	1,312	1,381	977
	<u>5,131</u>	<u>5,236</u>	<u>4,382</u>
Total assets	<u>47,431</u>	<u>43,263</u>	<u>40,774</u>
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	1,199	635	720
– Individuals	15,343	14,818	14,895
– Businesses and governments	20,845	18,395	16,495
	<u>37,387</u>	<u>33,848</u>	<u>32,110</u>
Acceptances	3,722	3,754	3,309
Assets sold under repurchase agreements	101	23	176
Other liabilities	2,898	2,785	2,366
Non-controlling interest in trust and subsidiary	430	230	230
	<u>7,151</u>	<u>6,792</u>	<u>6,081</u>
Subordinated debentures	<u>428</u>	<u>426</u>	<u>508</u>
Shareholders' equity			
– Preferred shares	300	125	125
– Common shares	1,125	1,125	1,125
– Contributed surplus	182	177	173
– Retained earnings	858	770	652
	<u>2,465</u>	<u>2,197</u>	<u>2,075</u>
Total liabilities and shareholders' equity	<u>47,431</u>	<u>43,263</u>	<u>40,774</u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Half-year ended</i>	
	<i>30 June</i>	<i>31 March</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
Cash flows (used in)/ provided by:					
– operating activities	(293)	405	(42)	112	384
– financing activities	2,154	1,662	1,390	3,816	1,982
– investing activities	(1,623)	(1,591)	(1,297)	(3,214)	(2,131)
Increase in cash and cash equivalents	238	476	51	714	235
Cash and cash equivalents, beginning of period	4,483	4,007	3,633	4,007	3,449
Cash and cash equivalents, end of period	4,721	4,483	3,684	4,721	3,684
Represented by:					
– Cash resources per balance sheet	5,344	5,135	4,384		
– less non-operating deposits [†]	(623)	(652)	(700)		
– Cash and cash equivalents, end of period	4,721	4,483	3,684		

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