



15 April 2002

**HSBC BANK CANADA  
FIRST QUARTER 2002 RESULTS - HIGHLIGHTS**

- Net income attributable to common shares was C\$74 million for the quarter ended 31 March 2002, an increase of 39.6 per cent over the comparative quarter in 2001.
- Return on average common equity was 19.7 per cent for the quarter ended 31 March 2002 compared with 16.3 per cent for the quarter ended 31 March 2001.
- The cost:income ratio (excluding amortisation of goodwill and intangible assets) improved to 52.0 per cent from 58.5 per cent in 2001.
- Total assets of C\$33.9 billion at 31 March 2002 (C\$31.1 billion at 31 March 2001).
- Funds under management were C\$11.1 billion at 31 March 2002 compared to C\$9.6 billion at 31 March 2001.

**HSBC Bank Canada reports 39.6 per cent increase in net income attributable to common shares**

HSBC Bank Canada recorded net income attributable to common shares for the quarter ended 31 March 2002 of C\$74 million, 39.6 per cent higher than the first quarter of 2001 and 51.0 per cent higher than the fourth quarter of 2001. Income before taxes and non-controlling interest in income of subsidiaries was C\$127 million for the quarter ended 31 March 2002 compared to C\$100 million for the first quarter of 2001 and C\$81 million for the fourth quarter of 2001.

For the quarter ended 31 March 2002, the cost:income ratio, excluding amortisation of goodwill and intangible assets, was 52.0 per cent compared to 58.5 per cent in the first quarter of 2001 and 63.3 per cent in the fourth quarter of 2001.

Return on equity was 19.7 per cent for the quarter ended 31 March 2002, compared to 16.3 per cent for the same period in 2001 and 13.3 per cent for the fourth quarter of 2001.

Martin Glynn, president and chief executive officer of HSBC Bank Canada, said: "We are pleased with the results for the first quarter of 2002, which were achieved against a background of economic uncertainty. We continued to benefit from our diversified business portfolio with improved income, excluding capital market and trading revenues, across all lines of business.

"We achieved higher net interest income from a combination of increased loan growth and wider spreads. The lower levels of capital market fees and trading income reflected the relative uncertainties that exist in the equity markets. Revenues from other businesses in the bank combined with our continued efforts at controlling costs had a positive impact on net income for the quarter.

"We are excited by the potential of the North American alignment with HSBC Bank USA. This much closer working relationship will take advantage of the strengths of HSBC's operations in both Canada and the US. This will allow us to expand our services to offer customers better access to finance, competitively priced products and improved access to their money and financial information across borders. The alignment will allow management to better generate increased profitability through improved brand awareness, cost efficiencies, revenue generation, distribution and risk management. HSBC is well positioned to be known as North America's premier cross-border bank."

**Net interest income**

Net interest income for the first quarter of 2002 was C\$211 million compared to C\$175 million in the first quarter of 2001 and C\$197 million in the fourth quarter of 2001. Net interest income increased in the first quarter of 2002 due to lower funding costs and continued growth in residential mortgages as housing market activity across Canada was spurred on by the low interest rate environment.

Net interest margin, as a percentage of average interest earning assets, for the first quarter of 2002 was 2.91 per cent compared with 2.64 per cent in the first quarter of 2001 and 2.66 per cent in the fourth quarter of 2001. The net interest margin benefited in the first quarter of 2002 from lower funding costs, partly due to the prime lending rate in Canada dropping early in the quarter.

**Other income**

Other income was C\$110 million in the first quarter of 2002 compared to C\$102 million in the first quarter of 2001 and C\$111 million in the fourth quarter of 2001. The increase of C\$9 million in securitisation income reflected the recognition of gains on sale of C\$200 million of personal loans. Since 1 July 2001 gains, previously deferred and amortised to other income over the life of the assets securitised, are recognised in other income immediately when the relevant assets are securitised. The uncertainty in the global equity markets continued to have a negative effect on capital market fees as revenues in the first quarter of 2002 were lower than the first and fourth quarters of 2001.

Excluding capital market fees, trading revenues and securitisation income, other income increased by 4.1 per cent over the first quarter of 2001 and was comparable to income levels in the fourth quarter of 2001. Revenues from credit fees increased by 25.0 per cent over the first quarter of 2001 and 7.1 per cent over the fourth quarter of 2001 due to increased volumes in bankers' acceptances, letters of credit and guarantees. Mutual fund management and other administration fees increased by 25.0 per cent from the fourth quarter of 2001 due to increased net sales and increased market values of HSBC mutual funds in the first quarter of 2002.

**Non-interest expenses**

Non-interest expenses were C\$169 million in the quarter ended 31 March 2002 compared to C\$164 million in the first quarter of 2001 and C\$197 million in the fourth quarter of 2001. Salaries and employee benefits in the fourth quarter of 2001 included C\$9 million for costs associated with restructuring, and increased performance-related compensation relating to higher levels of corporate finance fees.

**Provision for income taxes**

The provision for income taxes was C\$47 million compared with C\$41 million in the first quarter of 2001 and C\$26 million for the fourth quarter of 2001. The lower effective tax rate for the first quarter of 2002 reflects the lower tax rates enacted in Canada when compared to the same quarter last year. The lower effective tax rate in the fourth quarter of 2001 was partly due to a foreign tax credit.

**Credit quality and provision for credit losses**

Overall credit quality remained sound during the first quarter of 2002 reflecting a consistent approach to credit granting and proactive loan management. Provisions have been maintained at a level consistent with the underlying risk portfolio and stage in the credit cycle.

The provision for credit losses was C\$25 million for the first quarter of 2002 compared with C\$13 million in the first quarter of 2001 and C\$30 million in the fourth quarter of 2001. The allowance for credit losses was in excess of impaired loans by C\$49 million at 31 March 2002 compared with C\$33 million at 31 December 2001.

**Balance sheet**

Total assets at 31 March 2002 were C\$33.9 billion compared with C\$31.1 billion at 31 March 2001 and C\$33.3 billion at 31 December 2001. The growth in total assets during the first quarter of 2002 was primarily due to the continued growth in loans, particularly residential mortgages as a result of lower financing costs and increased housing market activity across Canada.

Total deposits at 31 March 2002 were C\$27.0 billion compared with C\$24.8 billion at 31 March 2001 and C\$26.7 billion at 31 December 2001.

**Funds under management**

Funds under management were C\$11.1 billion at 31 March 2002 compared with C\$9.6 billion at 31 March 2001 and C\$10.6 billion at 31 December 2001. The increase in funds under management reflected strong net sales of HSBC mutual funds as well as an increase in equity market values, which began in the fourth quarter of 2001 and continued into the first quarter of 2002.

**Capital**

The bank's tier 1 capital ratio was 8.7 per cent and the total capital ratio was 11.4 per cent at 31 March 2002. This compares with 8.5 per cent and 11.3 per cent, respectively, at 31 March 2001 and 8.6 per cent and 11.3 per cent, respectively, at 31 December 2001.

**Dividends**

A regular 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 2 July 2002, the first business day after 30 June 2002, for shareholders of record on 14 June 2002.

**About HSBC Bank Canada**

HSBC Bank Canada (TSE:HSB.PR.A), a subsidiary of HSBC Holdings plc, has more than 160 offices. With over 7,000 offices in 81 countries and territories and assets of US\$696 billion at 31 December 2001, 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 web site at [hsbc.ca](http://hsbc.ca).

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Copies of HSBC Bank Canada's first quarter 2002 report will be sent to shareholders during May 2002.

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>31 March 2002</i>	<i>31 December 2001</i>	<i>31 March 2001</i>
<b>Earnings</b>			
Net interest income	211	197	175
Income before taxes and non-controlling Interest in subsidiaries	127	81	100
Net income	76	51	55
Net income attributable to common shares	74	49	53
Basic earnings per share	0.16	0.11	0.12
<b>Financial ratios (%)</b>			
Return on average common equity	19.7	13.3	16.3
Return on average assets	0.89	0.58	0.70
Net interest margin	2.91	2.66	2.64
Cost:income ratio <sup>†</sup>	52.0	63.3	58.5
Provision for credit losses:average loans and acceptances	0.41	0.48	0.24
Other income:total income ratio	34.3	36.0	36.8

<sup>†</sup> Excluding amortisation of goodwill and intangible assets.

<i>Figures in C\$ millions</i>	<i>At 31 March 2002</i>	<i>At 31 December 2001</i>	<i>At 31 March 2001</i>
	<b>Financial position</b>		
Total assets	33,850	33,260	31,089
Total loans	22,575	21,870	20,751
Total deposits	26,961	26,707	24,841
Shareholders' equity	1,699	1,612	1,459
<b>Total assets under administration</b>			
Funds under management	11,118	10,559	9,634
Custodial assets under administration	2,302	2,110	2,433
<b>Capital ratios (%)</b>			
Total capital	11.4	11.3	11.3
Tier 1 capital	8.7	8.6	8.5

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2002</i>	<i>31 December 2001</i>	<i>31 March 2001</i>
<b>Interest and dividend income</b>			
Loans	299	329	378
Securities	27	30	46
Deposits with regulated financial institutions	18	22	42
Total interest income	<u>344</u>	<u>381</u>	<u>466</u>
<b>Interest expense</b>			
Deposits	(125)	(176)	(283)
Debentures	(8)	(8)	(8)
Total interest expense	<u>(133)</u>	<u>(184)</u>	<u>(291)</u>
<b>Net interest income</b>	211	197	175
Provision for credit losses	<u>(25)</u>	<u>(30)</u>	<u>(13)</u>
<b>Net interest income after provision for credit losses</b>	<u>186</u>	<u>167</u>	<u>162</u>
<b>Other income</b>			
Deposit and payment service charges	17	17	16
Credit fees	15	14	12
Capital market fees	20	28	22
Mutual fund and administration fees	15	12	15
Foreign exchange	12	12	12
Trade finance	6	6	6
Trading revenue	2	2	4
Securitization income	12	5	3
Other	11	15	12
	<u>110</u>	<u>111</u>	<u>102</u>
<b>Net interest and other income</b>	296	278	264
<b>Non-interest expenses</b>			
Salaries and employee benefits	(85)	(98)	(84)
Premises and equipment	(28)	(31)	(29)
Other	(56)	(68)	(51)
<b>Total non-interest expenses</b>	<u>(169)</u>	<u>(197)</u>	<u>(164)</u>
<b>Income before taxes and non-controlling interest in income of subsidiaries</b>	127	81	100
Provision for income taxes	(47)	(26)	(41)
Non-controlling interest in income of subsidiaries	(4)	(4)	(4)
<b>Net income</b>	<u>76</u>	<u>51</u>	<u>55</u>
Preferred share dividends	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
<b>Net income attributable to common shares</b>	<u>74</u>	<u>49</u>	<u>53</u>
Average common shares outstanding (000's)	456,168	456,168	456,168
Basic earnings per share	0.16	0.11	0.12

<i>Figures in C\$ millions</i>	<i>At 31 March 2002</i>	<i>At 31 December 2001</i>	<i>At 31 March 2001</i>
<b>Assets</b>			
Cash and deposits with Bank of Canada	352	466	411
Deposits with regulated financial institutions	<u>3,206</u>	<u>3,261</u>	<u>2,456</u>
	<u>3,558</u>	<u>3,727</u>	<u>2,867</u>
Investment securities	2,375	2,474	2,958
Trading securities	<u>1,031</u>	<u>1,153</u>	<u>732</u>
	<u>3,406</u>	<u>3,627</u>	<u>3,690</u>
Assets purchased under Reverse repurchase agreements	<u>351</u>	<u>428</u>	<u>472</u>
<b>Loans</b>			
Businesses and government	11,959	11,575	12,000
Residential mortgage	8,766	8,377	7,043
Consumer	2,181	2,233	2,003
Allowance for credit losses	<u>(331)</u>	<u>(315)</u>	<u>(295)</u>
	<u>22,575</u>	<u>21,870</u>	<u>20,751</u>
Customers' liability under acceptances	2,560	2,571	1,979
Land, buildings and equipment	118	124	116
Other assets	<u>1,282</u>	<u>913</u>	<u>1,214</u>
	<u>3,960</u>	<u>3,608</u>	<u>3,309</u>
Total assets	<u><u>33,850</u></u>	<u><u>33,260</u></u>	<u><u>31,089</u></u>
<b>Liabilities and shareholders' equity</b>			
<b>Deposits</b>			
Regulated financial institutions	1,748	1,747	608
Individuals	13,530	13,390	12,620
Businesses and governments	<u>11,683</u>	<u>11,570</u>	<u>11,613</u>
	<u>26,961</u>	<u>26,707</u>	<u>24,841</u>
Subordinated debentures	<u>447</u>	<u>447</u>	<u>446</u>
Acceptances	2,560	2,571	1,979
Assets sold under repurchase agreements	46	7	91
Other liabilities	1,907	1,686	2,043
Non-controlling interest in subsidiaries	<u>230</u>	<u>230</u>	<u>230</u>
	<u>4,743</u>	<u>4,494</u>	<u>4,343</u>
<b>Shareholders' equity</b>			
Preferred shares	125	125	125
Common shares	935	935	935
Contributed surplus	165	165	165
Retained earnings	<u>474</u>	<u>387</u>	<u>234</u>
	<u>1,699</u>	<u>1,612</u>	<u>1,459</u>
Total liabilities and shareholders' equity	<u><u>33,850</u></u>	<u><u>33,260</u></u>	<u><u>31,089</u></u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>		
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2002</i>	<i>2001</i>	<i>2001</i>
Cash flows provided by (used in):			
Operating activities	95	76	241
Financing activities	291	247	1,404
Investing activities	(929)	(30)	(1,143)
(Decrease) increase in cash and cash equivalents	(543)	293	502
Cash and cash equivalents, beginning of period	3,138	2,845	2,338
Cash and cash equivalents, end of period	2,595	3,138	2,840
Represented by:			
Cash resources per balance sheet less non-operating deposits †	3,558	3,727	2,867
	(963)	(589)	(27)
Cash and cash equivalents, end of period	2,595	3,138	2,840

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