

HSBC BANK CANADA FIRST QUARTER 2003 REPORT TO SHAREHOLDERS

- Net income[†] was C\$73 million for the quarter ended 31 March 2003, a decrease of 3.9 per cent from C\$76 million in the same period of 2002. Compared to the fourth quarter of 2002, net income was C\$8 million, or 12.3 per cent, higher.
- Return on average common equity was 19.0 per cent for the quarter ended 31 March 2003 compared to 19.7 per cent for the same period in 2002 and 15.9 per cent for the fourth quarter of 2002.
- The cost:income ratio was 55.4 per cent for the quarter ended 31 March 2003 compared with 52.6 per cent for the quarter ended 31 March 2002 and 57.7 per cent for the fourth quarter of 2002.
- Total assets were C\$35.4 billion at 31 March 2003 compared to C\$33.9 billion at 31 March 2002 and C\$35.2 billion at 31 December 2002.
- Total assets under administration were C\$14.8 billion at 31 March 2003, of which C\$11.5 billion were funds under management and C\$3.3 billion were custody and administration accounts.

[†] *HSBC Bank Canada acquired Merrill Lynch HSBC Canada Inc. ('MLHSBC') on 31 October 2002. For financial reporting, the income and expenses of MLHSBC were accounted for effective 1 July 2002, the date the HSBC Group acquired full ownership of MLHSBC, and were recorded in the results for the fourth quarter of 2002.*

Financial Commentary

HSBC Bank Canada recorded net income of C\$73 million for the quarter ended 31 March 2003, a decrease of C\$3 million, or 3.9 per cent, from C\$76 million for the same quarter of 2002 and C\$8 million, or 12.3 per cent, higher than the quarter ended 31 December 2002. Excluding one-off gains and expenses, net income in the quarter was C\$6 million higher compared to the same period in 2002 and C\$13 million higher compared to the fourth quarter of 2002.

Higher net interest income and lower provisions for credit losses in the quarter were offset by lower other income and higher non-interest expenses compared to the same period in 2002. Compared to the fourth quarter of 2002, higher net interest income, lower provisions for credit losses and lower non-interest expenses were partially offset by lower other income.

Martin Glynn, President and Chief Executive Officer, said: "Results for the quarter were satisfactory, given the continued uncertainty in global equity markets, and difficult economic conditions in Canada and internationally. Solid growth in personal and commercial business volumes continued to drive our performance as evidenced by higher net interest income. This growth also benefited non-interest revenues as other income, excluding capital market sensitive revenues and securitisation income, increased compared to the same period last year.

"A focus for 2003 is to grow our core business by capitalising on North American alignment with HSBC businesses in the USA and Mexico and by continuing to invest in improving our delivery channels and services. Business Internet Banking was launched in the first quarter and enables commercial clients to access banking and certain trade finance services around the clock, all year round. A key factor in the successful introduction was our ability to access the knowledge and experience of our counterparts at other HSBC companies to ensure that critical dates and milestones were met.

"HSBC Holdings plc completed the acquisition of Household International, Inc. on 28 March 2003. We are excited about the prospects of working more closely with our new colleagues in Household International as this will provide us with the opportunity to offer a wider range of financial services to an expanded base of retail and commercial customers in Canada. In addition, there are potential cost synergies for HSBC Bank Canada by capitalising on Household's strong credit management and technological capabilities."

Net interest income

Net interest income for the quarter was C\$218 million, an increase of C\$7 million and C\$8 million from the first and fourth quarters, respectively, of 2002. Growth in net interest income continued to benefit from increased lending volumes, primarily in consumer loans and residential mortgages.

The net interest margin, as a percentage of average interest earning assets, was 2.79 per cent for the quarter ended 31 March 2003 compared to 2.91 per cent for the same period in 2002 and 2.63 per cent for the fourth quarter of 2002.

Financial Commentary *(continued)*

Other income

Other income was C\$105 million for the quarter ended 31 March 2003 compared to C\$110 million for the same period in 2002 and C\$123 million for the quarter ended 31 December 2002. Other income in the first quarter of 2002 included a one-off C\$9 million securitisation gain. In the fourth quarter of 2002, other income included a one-off gain of C\$17 million realised on the sale of the bank's shareholding in the Toronto Stock Exchange and capital market fees of C\$8 million, arising as a result of the acquisition of MLHSBC.

Capital market fees in the first quarter of 2003 were lower than the same period in 2002 and the fourth quarter of 2002 as a result of the challenging capital markets and the restructuring of the institutional equity business in the second quarter of 2002. Excluding the contribution from MLHSBC, capital market fees were C\$13 million in the quarter ended 31 March 2003 compared with C\$20 million for the first quarter of 2002 and C\$11 million for the fourth quarter of 2002.

Excluding capital market fees, trading revenue, securitisation income, and the one-off gain, other income increased 6.6 per cent compared to the same period in 2002, reflecting increased business volumes in the personal and commercial banking lines of business. Other income was comparable to the fourth quarter of 2002, as increased fees from credit services were partially offset by lower sundry other revenue.

Non-interest expenses

Non-interest expenses were C\$179 million compared to C\$169 million for the quarter ended 31 March 2002 and C\$191 million for the quarter ended 31 December 2002. Excluding the impact of MLHSBC, non-interest expenses were C\$174 million in the quarter, C\$169 million for the first quarter of 2002 and C\$182 million for the fourth quarter of 2002.

Salaries and benefits in the first quarter of 2003 were higher than the first and fourth quarters of 2002 primarily from higher medical benefit costs. Other non-interest expenses in the first quarter of 2003 were higher than the same period in 2002 due to a one-off operating expense and increased business volumes in the bank. Compared to the fourth quarter of 2002, other non-interest expenses were lower due to a one-off charge for rationalisation of leased office space and additional restructuring costs in 2002. In addition, marketing costs were lower in the first quarter of 2003 following a major campaign in the fourth quarter of 2002.

The cost:income ratio for the first quarter of 2003 was 55.4 per cent compared to 52.6 per cent for the same period in 2002 and 57.7 per cent in the fourth quarter of 2002.

Provision for income taxes

The effective tax rate was 39.2 per cent for the quarter ended 31 March 2003 compared to 38.2 per cent for the same period in 2002 and 42.5 per cent for the fourth quarter of 2002. The effective tax rate for the fourth quarter of 2002 reflected a number of one-off items.

Financial Commentary *(continued)*

Credit quality and provision for credit losses

The provision for credit losses was C\$20 million for the quarter ended 31 March 2003 compared to C\$25 million in each of the first and fourth quarters of 2002. The lower provision level in 2003 is in line with expectations at this stage of the economic cycle.

Total impaired loans decreased C\$39 million, or 13.8 per cent, to C\$243 million at 31 March 2003 compared to C\$282 million at 31 March 2002 and increased by C\$18 million, or 8.0 per cent, from the fourth quarter of 2002. The allowance for credit losses was in excess of impaired loans by C\$83 million compared to C\$49 million at the same time last year and C\$86 million at the end of 2002. As at 31 March 2003 a higher portion of loans were comprised of lower risk residential mortgages. As a result, the allowance for credit losses, as a percentage of loans outstanding, was 1.33 per cent compared to 1.45 at the same time last year and 1.29 per cent at the end of 2002.

Balance sheet

Total assets at 31 March 2003 were C\$35.4 billion, up C\$1.5 billion from C\$33.9 billion at 31 March 2002 and up C\$0.2 billion from C\$35.2 billion at 31 December 2002. The increase in assets continues to be spurred by growth in personal lending. Residential mortgages, net of securitisations, and consumer loans increased by C\$1.5 billion and C\$0.2 billion compared to the first and fourth quarters of 2002, respectively. Increased volumes in corporate lending have also contributed to higher balances as acceptances and loans to businesses were C\$0.4 billion higher compared to 31 March 2002 and C\$0.5 billion higher compared to 31 December 2002.

Total deposits increased C\$1.4 billion to C\$28.4 billion at 31 March 2003 from C\$27.0 billion at 31 March 2002. Deposits from individuals grew C\$0.8 billion to C\$14.3 billion and business and government deposits increased by C\$1.5 billion to C\$13.2 billion over the same period.

Total assets under administration

Funds under management were C\$11.5 billion at 31 March 2003 compared to C\$10.1 billion at 31 March 2002 and C\$11.9 billion at 31 December 2002. Net movement in the quarter was impacted by the continued weakness in the equity markets and the weakening of the US dollar relative to the Canadian dollar. The acquisition of MLHSBC added C\$1.9 billion in funds under management as at 31 December 2002. Including custody and administration balances, total assets under administration were C\$14.8 billion compared with C\$13.0 billion at 31 March 2002 and C\$15.1 billion at 31 December 2002.

Capital ratios

The bank's tier 1 capital ratio was 7.9 per cent and the total capital ratio was 10.8 per cent at 31 March 2003. This compares with 8.7 per cent and 11.4 per cent, respectively, at 31 March 2002 and 8.4 per cent and 11.4 per cent, respectively, at 31 December 2002. Ratios remained strong and afforded a C\$150 million dividend on common shares paid in the first quarter of 2003.

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 30 June 2003, for shareholders of record on 13 June 2003.

Review of Business Line Results

Personal Financial Services *provides services to individuals by offering a comprehensive range of financial products and services which include retail banking; asset management; full service and on-line brokerage; direct sale home, automobile and travel insurance; and trust and advisory services.*

Income, before taxes and non-controlling interest in income of trust, for the three months ended 31 March 2003 was C\$40 million, compared with C\$39 million for the same period in 2002 and C\$44 million for the fourth quarter of 2002.

Net interest income continues to benefit from growth in residential mortgages and consumer loans. The housing market has remained fairly active but the rate of growth has slowed somewhat compared to 2002. In the fourth quarter of 2002 there was a net release of provisions for credit losses arising from a realignment of general allowances for credit losses. Other income for the quarter was comparable to the same period in 2002 as lower securitization income and equity market sensitive revenues were offset by higher personal banking revenues resulting from increased volumes. Non-interest expenses in the quarter were higher compared to the same period last year due to higher salaries and employee benefits costs.

Commercial Banking *(previously known as Commercial Financial Services) meets the needs of Canadian commercial and corporate clients by offering the following services and products: commercial and corporate banking; asset management; merger and acquisition advisory; merchant banking; treasury; and trade finance.*

Income, before taxes and non-controlling interest in income of trust, for the three months ended 31 March 2003 was C\$55 million, compared with C\$62 million for the same period in 2002 and C\$63 million for the fourth quarter of 2002.

The provision for credit losses in the first quarter of 2003 was higher compared to the fourth quarter of 2002 arising from a realignment of general allowances for credit losses in 2002. Other income in the quarter ended 31 March 2003 was in line with the comparative quarters. The continued uncertain equity markets impacted market sensitive revenues but were largely offset by higher fees generated in the banking operation due to increased volumes in guarantees, letters of credit and bankers acceptances. Non-interest expenses were higher compared to the same period last year and the fourth quarter of 2002 due to higher salaries and employee benefits and a one-off operating expense in the first quarter of 2003.

Corporate, Investment Banking and Markets *provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. HSBC Bank Canada's focus is on entities that have a need for global value added products through merger and acquisition advisory, structured lending and trade services by offering the following: corporate banking; asset management; merger and acquisition advisory; treasury; trade finance. Other activities are principally comprised of client trading and facilitation, proprietary trading and balance sheet management.*

Income, before taxes and non-controlling interest in income of trust, for the three months ended 31 March 2003 was C\$43 million, compared with C\$38 million for the same period in 2002 and C\$25 million for the fourth quarter of 2002.

Net interest income was higher in the first quarter of 2003 compared to the same period in 2002 due to the steepening of the yield curve over the latter part of 2002. Provision for credit losses in the fourth quarter of 2002 was higher compared with the first quarters of 2003 and 2002 due to a realignment of general allowances for credit losses. Other income for the quarter ended 31 March 2003 was lower than the same period last year and the fourth quarter of 2002 due to lower capital market fees and trading revenue as a result of the continued uncertain equity markets and the impact of the restructuring of the institutional business in the second quarter of 2002. In addition, the fourth quarter of 2002 included a one-time C\$17 million gain on sale of the bank's shareholding in the Toronto Stock Exchange.

Summary

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2003</i>	<i>31 December 2002</i>	<i>31 March 2002</i>
Earnings			
Net income	73	65	76
Basic earnings per share	0.15	0.14	0.16
Performance ratios (%)			
Return on average common equity	19.0	15.9	19.7
Return on average assets	0.81	0.70	0.89
Net interest margin	2.79	2.63	2.91
Cost:income ratio	55.4	57.7	52.6
Other income:total income ratio	32.5	36.9	34.3
Credit information			
Impaired loans	243	225	282
Allowance for credit losses			
- Balance at end of period	326	311	331
- As a percentage of impaired loans	134 %	138 %	117 %
- As a percentage of loans outstanding	1.33 %	1.29 %	1.45 %
Average balances			
Assets	35,587	35,750	33,741
Loans	23,960	23,658	22,047
Deposits	28,464	28,595	26,712
Common equity	1,510	1,553	1,532
Capital ratios (%)			
Tier 1	7.9	8.4	8.7
Total capital	10.8	11.4	11.4
Total assets under administration[†]			
Funds under management	11,528	11,888	10,090
Custodial accounts	3,285	3,208	2,916
Total assets under administration	14,813	15,096	13,006

[†]Amounts as at 31 March 2002 have been restated to eliminate inter-company holdings of assets.

Consolidated Statement of Income (Unaudited)

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2003</i>	<i>31 December 2002</i>	<i>31 March 2002</i>
Interest and dividend income			
Loans	333	331	299
Securities	28	29	27
Deposits with regulated financial institutions	13	17	18
Total interest income	374	377	344
Interest expense			
Deposits	147	158	125
Debentures	9	9	8
Total interest expense	156	167	133
Net interest income	218	210	211
Provision for credit losses	20	25	25
Net interest income after provision for credit losses	198	185	186
Other income			
Deposit and payment service charges	20	20	17
Credit fees	16	14	15
Capital market fees	16	19	20
Mutual fund and administration fees	13	13	15
Foreign exchange	14	13	12
Trade finance	6	7	6
Trading revenue	3	4	2
Securitization income	5	2	12
Other	12	31	11
Total other income	105	123	110
Net interest and other income	303	308	296
Non-interest expenses			
Salaries and employee benefits	87	85	85
Premises and equipment	29	29	28
Other	63	75	56
Restructuring costs	-	2	-
Total non-interest expenses	179	191	169
Income before taxes and non- controlling interest in income of trust	124	117	127
Provision for income taxes	47	48	47
Non-controlling interest in income of trust	4	4	4
Net income	73	65	76
Preferred share dividends	2	2	2
Net income attributable to common shares	71	63	74
Average common shares outstanding (000's)	471,168	466,114	456,168
Basic earnings per share (\$)	0.15	0.14	0.16

See notes to consolidated financial statements

Condensed Consolidated Balance Sheet (Unaudited)

<i>Figures in C\$ millions</i>	<i>At 31 March 2003</i>	<i>At 31 December 2002</i>	<i>At 31 March 2002</i>
Assets			
Cash and deposits with Bank of Canada	273	417	352
Deposits with regulated financial institutions	<u>3,485</u>	<u>3,317</u>	<u>3,206</u>
	<u>3,758</u>	<u>3,734</u>	<u>3,558</u>
Investment securities	2,607	2,875	2,375
Trading securities	<u>642</u>	<u>870</u>	<u>1,031</u>
	<u>3,249</u>	<u>3,745</u>	<u>3,406</u>
Assets purchased under reverse repurchase agreements	<u>577</u>	<u>416</u>	<u>351</u>
Loans			
Businesses and government	12,091	11,949	11,959
Residential mortgage	9,946	9,809	8,766
Consumer	2,493	2,422	2,181
Allowance for credit losses	<u>(326)</u>	<u>(311)</u>	<u>(331)</u>
	<u>24,204</u>	<u>23,869</u>	<u>22,575</u>
Customers' liability under acceptances	2,779	2,374	2,560
Land, buildings and equipment	111	111	118
Other assets	<u>721</u>	<u>940</u>	<u>1,282</u>
	<u>3,611</u>	<u>3,425</u>	<u>3,960</u>
Total assets	<u>35,399</u>	<u>35,189</u>	<u>33,850</u>
Liabilities and shareholders' equity			
Deposits			
Regulated financial institutions	827	758	1,748
Individuals	14,318	14,432	13,530
Businesses and governments	<u>13,231</u>	<u>13,182</u>	<u>11,683</u>
	<u>28,376</u>	<u>28,372</u>	<u>26,961</u>
Subordinated debentures	<u>519</u>	<u>528</u>	<u>447</u>
Acceptances	2,779	2,374	2,560
Assets sold under repurchase agreements	80	28	46
Other liabilities	1,821	1,984	1,907
Non-controlling interest in trust and subsidiary	<u>230</u>	<u>230</u>	<u>230</u>
	<u>4,910</u>	<u>4,616</u>	<u>4,743</u>
Shareholders' equity			
Preferred shares	125	125	125
Common shares	950	950	935
Contributed surplus	165	165	165
Retained earnings	<u>354</u>	<u>433</u>	<u>474</u>
	<u>1,594</u>	<u>1,673</u>	<u>1,699</u>
Total liabilities and shareholders' equity	<u>35,399</u>	<u>35,189</u>	<u>33,850</u>

See notes to consolidated financial statements

Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>	
	<i>31 March 2003</i>	<i>31 March 2002</i>
Preferred shares		
Balance at beginning and end of period	<u>125</u>	<u>125</u>
Common shares		
Balance at beginning and end of period	<u>950</u>	<u>935</u>
Contributed surplus		
Balance at beginning and end of period	<u>165</u>	<u>165</u>
Retained earnings		
Balance at beginning of period	433	400
Net income for the period	73	76
Preferred share dividends	(2)	(2)
Common share dividends	<u>(150)</u>	<u>-</u>
Balance at end of period	<u>354</u>	<u>474</u>
Total shareholders' equity	<u>1,594</u>	<u>1,669</u>

See notes to consolidated financial statements

Condensed Consolidated Statement of Cash Flows (Unaudited)

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>		
	<i>31 March 2003</i>	<i>31 December 2002</i>	<i>31 March 2002</i>
Cash flows provided by/(used in)			
operating activities			
Net income	73	65	76
Trading securities	228	396	122
Other, net	74	(216)	(103)
	<u>375</u>	<u>245</u>	<u>95</u>
Cash flows provided by/(used in)			
financing activities			
Deposits	4	454	254
Securities sold under repurchase agreements	52	(59)	39
Subordinated debenture redemptions and repayments	-	(71)	-
Dividends paid	(152)	(52)	(2)
	<u>(96)</u>	<u>272</u>	<u>291</u>
Cash flows (used in)/ provided by			
investing activities			
Loans, excluding securitisations	(430)	(461)	(1,016)
Proceeds from loans securitised	75	37	286
Investment securities	268	(589)	99
Securities purchased under reverse repurchase agreements	(161)	523	77
Business acquired:	-	-	-
Less cash and cash equivalents at date of acquisition	-	48	-
Proceeds from sale of net assets	-	22	-
Less cash and cash equivalents at date of sale	-	(47)	-
Non-operating deposits with regulated financial institutions	(64)	422	(374)
Land, buildings and equipment	(7)	(9)	(1)
	<u>(319)</u>	<u>(54)</u>	<u>(929)</u>
Increase/(decrease) in cash and cash equivalents	(40)	463	(543)
Cash and cash equivalents, beginning of period	3,637	3,174	3,138
Cash and cash equivalents, end of period	3,597	3,637	2,595
Represented by:			
Cash resources per balance sheet	3,758	3,734	3,558
less non-operating deposits [†]	(161)	(97)	(963)
Cash and cash equivalents, end of period	<u>3,597</u>	<u>3,637</u>	<u>2,595</u>

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

See notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C\$ millions)

1. Accounting policies

The policies adopted in preparing these interim consolidated financial statements are consistent with those described in the Consolidated Financial Statements for the year ended 31 December 2002. Certain additional disclosures are described in note 6.

Certain comparative amounts have been reclassified to conform with the current period presentation.

2. Restructuring costs

As at 31 March 2003, the total unutilized balance of restructuring costs of C\$11 million shown below was included in other liabilities in the consolidated balance sheet.

	Salaries and employee benefits	Premises and equipment	Other	Total
Balance at beginning of period	10	4	1	15
Amount utilized during the period	3	-	1	4
Balance at end of period	7	4	-	11

3. Issued and outstanding shares

	<i>At 31 March 2003</i>		<i>At 31 December 2002</i>		<i>At 31 March 2002</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Class 1 Preferred Shares - Series A	5,000,000	125	5,000,000	125	5,000,000	125
Common shares	471,168,000	950	471,168,000	950	456,168,000	935

4. Stock-based compensation

When stock-based compensation awards are granted to employees no compensation cost is recognized. Had compensation cost for certain of the bank's employee stock-based compensation arrangements been determined based upon the fair value method, the net income and earnings per share would not have been materially impacted in the current or comparative periods.

Notes to Consolidated Financial Statements (Unaudited) (continued)

5. Business line segmentation

The bank reports and manages its business segments substantially in line with the business groupings used by the HSBC Group. To be consistent with these groupings, the bank has combined “Wholesale Banking” and “Treasury and Markets” into one business line, “Corporate, Investment Banking and Markets”. For 2003, the results of this combined business line will be tracked separately. The comparative information reflects this new structure. Also consistent with HSBC Group business groupings, Commercial Financial Services has been renamed Commercial Banking.

Effective 1 January 2003, the bank implemented a funds transfer pricing system which shifts structural interest rate risk from the business units to the Treasury department. Refinements to the bank’s funding and cost allocations have also been implemented. All of these enhancements have been applied to the comparative results of the business lines.

	<i>Quarter ended</i>		
	<u>31 March</u> <u>2003</u>	<u>31 December</u> <u>2002</u>	<u>31 March</u> <u>2002</u>
Personal Financial Services			
Net interest income	83	82	76
Provision for credit losses	(5)	4	(6)
Other income	55	54	54
Non-interest expenses	<u>(93)</u>	<u>(96)</u>	<u>(85)</u>
Income before taxes and non-controlling interest in income of trust	40	44	39
Provision for income taxes	(14)	(18)	(14)
Non-controlling interest in income of trust	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>
Net income	<u>24</u>	<u>25</u>	<u>24</u>
Average assets	<u>13,041</u>	<u>12,690</u>	<u>10,935</u>
Commercial Banking			
Net interest income	99	90	103
Provision for credit losses	(13)	(2)	(18)
Other income	31	32	30
Non-interest expenses	<u>(62)</u>	<u>(57)</u>	<u>(53)</u>
Income before taxes and non-controlling interest in income of trust	55	63	62
Provision for income taxes	(22)	(27)	(22)
Non-controlling interest in income of trust	<u>(2)</u>	<u>(2)</u>	<u>(2)</u>
Net income	<u>38</u>	<u>34</u>	<u>38</u>
Average assets	<u>12,657</u>	<u>13,561</u>	<u>12,797</u>

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

5. Business line segmentation *(continued)*

	<i>Quarter ended</i>		
	<u>31 March 2003</u>	<u>31 December 2002</u>	<u>31 March 2002</u>
Corporate, Investment Banking & Markets			
Net interest income	36	38	32
Provision for credit losses	(2)	(27)	(1)
Other income	19	37	26
Non-interest expenses	<u>(10)</u>	<u>(23)</u>	<u>(19)</u>
Income before taxes and non- controlling interest in income of trust	43	25	38
Provision for income taxes	(17)	(10)	(14)
Non-controlling interest in income of trust	<u>-</u>	<u>(1)</u>	<u>(1)</u>
Net income/(loss)	<u>26</u>	<u>14</u>	<u>23</u>
 Average assets	 <u>9,889</u>	 <u>9,499</u>	 <u>10,008</u>
Other			
Non-interest expenses	<u>(14)</u>	<u>(15)</u>	<u>(12)</u>
(Loss) before income taxes	(14)	(15)	(12)
Provision for income taxes	6	7	3
Net (loss)	<u>(8)</u>	<u>(8)</u>	<u>(9)</u>

The impact of the transfer pricing implementation on each business line's results for the comparative periods was as follows:

	<i>Quarter ended</i>	
	<u>31 December 2002</u>	<u>31 March 2002</u>
Increase/(decrease)		
Personal Financial Services		
Net interest income	(32)	(21)
Net income	(18)	(13)
Commercial Banking		
Net interest income	8	7
Net income	3	5
Corporate, Investment Banking & Markets		
Net interest income	24	14
Net income	15	8

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

6. Guarantees

Effective 1 January 2003, the bank adopted the new CICA Handbook Accounting Guideline AcG-14 “Disclosure of guarantees”. The guideline clarifies disclosure requirements of certain guarantees.

The Bank issues guarantees and standby letters of credit to meet credit requirements of certain customers. The contract amounts are not included in the consolidated balance sheets and are as follows:

	<u>At 31 March</u> <u>2003</u>	<u>At 31 December</u> <u>2002</u>	<u>At 31 March</u> <u>2002</u>
Guarantees and financial standby letters of credit	857	916	914
Performance standby letters of credit	295	328	385
Total guarantees and standby letters of credit	<u>1,152</u>	<u>1,244</u>	<u>1,299</u>

Guarantees and financial standby letters of credit represent the bank’s obligation to make payments to third parties on behalf of certain customers if these customers are unable to make required payments. Performance standby letters of credit represent the bank’s obligation to make payments to third parties on behalf of certain customers if these customers are unable to meet certain contractual requirements.

The contractual amount represents the maximum undiscounted potential amount the bank could be required to make under the guarantee before any amounts that could possibly be recovered under recourse or collateralization provisions. A large majority of these commitments expire without being drawn upon. In the event of a call on the above commitments, the bank has recourse against those customers who have requested the credit facilities.

The bank is also subject to limited recourse for potential credit losses and potential shortfall of yield on certain of the securitized assets. At 31 March 2003, total recourse against the bank under securitization transactions was C\$14 million (31 December 2002 - C\$14 million, 31 March 2002 – C\$23 million).

Shareholder Information

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HSBC Bank Canada
 Class 1 Preferred Shares Series A
 (HSB.PR.A-TSX)

HSBC Canada Asset Trust
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SHAREHOLDER CONTACT

For change of address, shareholders are requested to write directly to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address.

Other shareholder enquiries may be directed to our Shareholder Relations Department by writing to:

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