



24 October 2002

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

- Net income was C\$195 million for the nine months ended 30 September 2002, an increase of 19.6 per cent from C\$163 million in the same period of 2001.
- Net income was C\$78 million for the quarter ended 30 September 2002, an increase of 36.8 per cent from C\$57 million in the third quarter of 2001.
- Return on average common equity was 16.5 per cent for the nine months ended 30 September 2002 and 20.1 per cent for the quarter ended 30 September 2002.
- The cost:income ratio (excluding amortisation of goodwill and intangible assets) was 55.3 per cent for the nine months ended 30 September 2002 and 49.8 per cent for the quarter ended 30 September 2002, compared with 57.9 per cent and 56.7 per cent for the respective periods in 2001.
- Total assets of C\$35.8 billion at 30 September 2002 compared to C\$32.6 billion at 30 September 2001.
- Total assets under administration were C\$14.1 billion at 30 September 2002, of which C\$10.0 billion were funds under management and C\$4.1 billion were custody and administration accounts.

HSBC Bank Canada recorded net income of C\$195 million for the nine months ended 30 September 2002, an increase of C\$32 million, or 19.6 per cent, from C\$163 million for the nine months ended 30 September 2001. Net income for the quarter ended 30 September 2002 was C\$78 million compared to C\$57 million for the third quarter of 2001, an increase of 36.8 per cent. The increase was primarily attributed to higher net interest income and a lower effective tax rate, partially offset by a larger credit loss provision.

Martin Glynn, President and Chief Executive Officer, said: “Net interest income continues to be strong and benefited from continued growth in our residential mortgage portfolio and higher net interest margins during the quarter. We are encouraged that revenue from our non-market sensitive lines of business has continued to grow. However, weakness in the equity markets has continued to dampen our capital market revenues relative to the prior year comparative periods.

“Provisions for credit losses were higher in the third quarter of 2002 compared to the third quarter of last year but were lower than the second quarter of 2002. Overall, underlying credit quality remains strong and we remain adequately provisioned.

“From a customer perspective, there have already been many success stories where HSBC clients, from both sides of the border, have benefited as a result of our North American alignment. We are striving to provide our customers with seamless cross-border service and products they should expect from a truly North American bank. This will clearly differentiate us from our competitors and strengthen the reputation of HSBC as ‘The world’s local bank’.

“I would like to take this opportunity to thank our staff for their high quality work and continued efforts to maintain our excellent customer service and good results during uncertain international economic conditions.”

Net interest income

Net interest income for the third quarter of 2002 was C\$222 million, an increase of C\$26 million, or 13.3 per cent, from C\$196 million in the third quarter of 2001. For the nine months ended 30 September 2002 net interest income was C\$646 million, an increase of 16.0 per cent from C\$557 million in the comparative period of 2001.

HSBC Bank Canada continues to benefit from lower funding costs, due in part to the lower interest rate environment in 2002. In addition, the residential mortgage portfolio continued to show strong growth as the housing market in Canada remained robust. The net interest margin widened to 2.84 per cent for the quarter ended 30 September 2002 compared with 2.76 per cent for the same period in 2001.

Other income

Other income was C\$105 million in the third quarter of 2002 compared to C\$102 million in the third quarter of 2001. For the nine months ended 30 September 2002, other income was C\$318 million compared to C\$308 million for the same period in 2001. Other income for the third quarter benefited from higher fees generated in our merchant banking business. This was partially offset by the negative impact on capital market fees, resulting from the continuing uncertainty in global equity markets and the restructuring of the institutional equity business announced in the second quarter of this year.

Excluding capital market fees, trading revenue and securitisation income, other income from the bank's other lines of business increased 7.7 per cent for the quarter ended 30 September 2002 compared to the same period in 2001.

Non-interest expenses

Non-interest expenses were C\$165 million in the quarter ended 30 September 2002 compared to C\$171 million in the third quarter of 2001. For the nine months ended 30 September 2002, non-interest expenses were C\$539 million compared to C\$507 million for the same period in 2001. As a result of the prior restructuring, salaries and benefits were lower in the third quarter of 2002 compared to the same quarter in 2001. Variable compensation was higher in the third quarter of 2002 compared to the second quarter of 2002, partially due to the increased merchant banking fees this quarter.

Continued cost containment measures have resulted in a significant decrease in the cost:income ratio. The cost:income ratio, excluding amortisation of goodwill and intangible assets, for the third quarter of 2002 was 49.8 per cent compared to 56.7 per cent for the same period in 2001.

Provision for income taxes

The provision for income taxes was C\$46 million for the third quarter of 2002 compared to C\$42 million for the same quarter in 2001. On a year-to-date basis, the provision for income taxes was C\$116 million in 2002 compared to C\$121 million in 2001. The lower effective tax rate in 2002 reflects lower tax rates in Canada compared to the prior year.

Credit quality and provision for credit losses

The provision for credit losses was C\$34 million in the third quarter of 2002 compared to C\$24 million in the third quarter of 2001. For the nine months ended 30 September 2002, the provision for credit losses was C\$102 million compared to C\$62 million for the same period in 2001. The higher provision levels in 2002 reflect an exposure to the telecommunications sector. While the provision was higher compared to the same period in 2001, it was lower compared to the C\$43 million in the second quarter of 2002.

Balance sheet

Total assets at 30 September 2002 were C\$35.8 billion, up C\$2.5 billion from C\$33.3 billion at 31 December 2001. Loans increased by C\$2.0 billion to C\$23.8 billion due primarily to a C\$1.2 billion increase in residential mortgages, net of securitisations, and C\$0.8 billion in loans to businesses and governments.

Total deposits increased C\$1.6 billion from C\$26.7 billion at 31 December 2001 to C\$28.3 billion at 30 September 2002. Deposits from individuals grew C\$0.7 billion to C\$14.1 billion and businesses and government deposits increased by C\$0.8 billion to C\$12.4 billion over the same period.

Total assets under administration

Funds under management were C\$10.0 billion at 30 September 2002 compared to C\$10.5 billion at 30 June 2002 and C\$9.0 billion at 30 September 2001. Including custody and administration balances, total assets under administration were C\$14.1 billion compared with C\$14.7 billion at 30 June 2002.

Capital ratios

The bank's tier 1 capital ratio was 8.3 per cent and the total capital ratio was 11.3 per cent at 30 September 2002. This compares with 8.3 per cent and 10.9 per cent, respectively, at 30 September 2001 and 8.1 per cent and 11.1 per cent, respectively, at 30 June 2002.

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 31 December 2002, for shareholders of record on 13 December 2002.

About HSBC Bank Canada

HSBC Bank Canada (HSB.PR.A - TSX), a subsidiary of HSBC Holdings plc, has more than 160 offices. With some 7,000 offices in 81 countries and territories and assets of US\$746 billion at 30 June 2002, 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: Ernest Yee 604-641-2973

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

| Figures in C\$ millions (except per share amounts) | Quarter ended | | | Nine months ended | |
|--|---------------|---------|--------------|-------------------|--------------|
| | 30 September | 30 June | 30 September | 30 September | 30 September |
| | 2002 | 2002 | 2001 | 2002 | 2001 |
| Earnings | | | | | |
| Net income | 78 | 41 | 57 | 195 | 163 |
| Basic earnings per share | 0.17 | 0.09 | 0.12 | 0.41 | 0.34 |
| Performance ratios (%) | | | | | |
| Return on average common equity | 20.1 | 10.1 | 15.5 | 16.5 | 15.5 |
| Return on average assets | 0.86 | 0.45 | 0.68 | 0.73 | 0.67 |
| Net interest margin | 2.84 | 2.82 | 2.76 | 2.85 | 2.70 |
| Cost:income ratio [†] | 49.8 | 64.2 | 56.7 | 55.3 | 57.9 |
| Other income:total income ratio | 32.1 | 32.6 | 34.2 | 33.0 | 35.6 |
| [†] Excluding amortisation of goodwill and intangible assets. | | | | | |
| Credit information | | | | | |
| Impaired loans | 317 | 347 | 266 | | |
| Allowance for credit losses | | | | | |
| - Balance at end of period | 373 | 359 | 318 | | |
| - As a percentage of impaired loans | 118 % | 103 % | 120 % | | |
| - As a percentage of loans outstanding | 1.54 % | 1.53 % | 1.40 % | | |
| Average balances | | | | | |
| Assets | 35,196 | 34,598 | 31,976 | 34,517 | 31,244 |
| Loans | 23,293 | 22,885 | 22,383 | 22,768 | 20,928 |
| Deposits | 28,291 | 27,738 | 25,854 | 27,589 | 25,200 |
| Common equity | 1,502 | 1,563 | 1,410 | 1,532 | 1,360 |
| Capital ratios (%) | | | | | |
| Tier 1 | 8.3 | 8.1 | 8.3 | | |
| Total capital | 11.3 | 11.1 | 10.9 | | |
| Total assets under administration ^{††} | | | | | |
| Funds under management | 10,034 | 10,495 | 9,005 | | |
| Custodial accounts | 4,080 | 4,210 | 2,172 | | |
| Total assets under administration | 14,114 | 14,705 | 11,177 | | |

^{††} Amounts prior to 30 September 2002 have been restated to eliminate inter-company holdings of assets.

| <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>2002</i> | <i>2002</i> | <i>2001</i> | <i>2002</i> | <i>2001</i> |
| Interest and dividend income | | | | | |
| Loans | 322 | 318 | 368 | 939 | 1,119 |
| Securities | 26 | 28 | 36 | 81 | 123 |
| Deposits with regulated financial institutions | 26 | 14 | 27 | 58 | 101 |
| Total interest income | <u>374</u> | <u>360</u> | <u>431</u> | <u>1,078</u> | <u>1,343</u> |
| Interest expense | | | | | |
| Deposits | 142 | 139 | 227 | 406 | 762 |
| Debentures | 10 | 8 | 8 | 26 | 24 |
| Total interest expense | <u>152</u> | <u>147</u> | <u>235</u> | <u>432</u> | <u>786</u> |
| Net interest income | 222 | 213 | 196 | 646 | 557 |
| Provision for credit losses | <u>34</u> | <u>43</u> | <u>24</u> | <u>102</u> | <u>62</u> |
| Net interest income after provision for credit losses | <u>188</u> | <u>170</u> | <u>172</u> | <u>544</u> | <u>495</u> |
| Other income | | | | | |
| Deposit and payment service charges | 20 | 18 | 17 | 55 | 50 |
| Credit fees | 15 | 16 | 14 | 46 | 39 |
| Capital market fees | 15 | 15 | 18 | 50 | 64 |
| Mutual fund and administration fees | 15 | 15 | 15 | 45 | 45 |
| Foreign exchange | 15 | 13 | 13 | 40 | 37 |
| Trade finance | 7 | 7 | 7 | 20 | 18 |
| Trading revenue | 3 | 5 | 3 | 10 | 11 |
| Securitization income | 3 | 2 | 3 | 17 | 10 |
| Other | 12 | 12 | 12 | 35 | 34 |
| Total other income | <u>105</u> | <u>103</u> | <u>102</u> | <u>318</u> | <u>308</u> |
| Net interest and other income | 293 | 273 | 274 | 862 | 803 |
| Non-interest expenses | | | | | |
| Salaries and employee benefits | 86 | 83 | 90 | 254 | 261 |
| Premises and equipment | 23 | 27 | 25 | 78 | 84 |
| Other | 56 | 67 | 56 | 179 | 162 |
| Restructuring costs | - | 28 | - | 28 | - |
| Total non-interest expenses | <u>165</u> | <u>205</u> | <u>171</u> | <u>539</u> | <u>507</u> |
| Income before taxes and non- controlling interest in income of trust | 128 | 68 | 103 | 323 | 296 |
| Provision for income taxes | 46 | 23 | 42 | 116 | 121 |
| Non-controlling interest in income of trust | <u>4</u> | <u>4</u> | <u>4</u> | <u>12</u> | <u>12</u> |
| Net income | <u>78</u> | <u>41</u> | <u>57</u> | <u>195</u> | <u>163</u> |
| Preferred share dividends | <u>2</u> | <u>2</u> | <u>2</u> | <u>6</u> | <u>6</u> |
| Net income attributable to common shares | <u>76</u> | <u>39</u> | <u>55</u> | <u>189</u> | <u>157</u> |
| Average common shares outstanding (000's) | 456,168 | 456,168 | 456,168 | 456,168 | 456,168 |
| Basic earnings per share (\$) | 0.17 | 0.09 | 0.12 | 0.41 | 0.34 |

| <i>Figures in C\$ millions</i> | <i>At 30 September 2002</i> | <i>At 31 December 2001</i> | <i>At 30 September 2001</i> |
|---|---------------------------------|--------------------------------|---------------------------------|
| Assets | | | |
| Cash and deposits with Bank of Canada | 353 | 466 | 335 |
| Deposits with regulated financial institutions | <u>3,340</u> | <u>3,261</u> | <u>2,772</u> |
| | <u>3,693</u> | <u>3,727</u> | <u>3,107</u> |
| Investment securities | 2,286 | 2,474 | 2,383 |
| Trading securities | <u>1,142</u> | <u>1,153</u> | <u>954</u> |
| | <u>3,428</u> | <u>3,627</u> | <u>3,337</u> |
| Assets purchased under reverse repurchase agreements | <u>939</u> | <u>428</u> | <u>364</u> |
| Loans | | | |
| Businesses and government | 12,342 | 11,575 | 12,554 |
| Residential mortgage | 9,554 | 8,377 | 7,977 |
| Consumer | 2,320 | 2,233 | 2,158 |
| Allowance for credit losses | <u>(373)</u> | <u>(315)</u> | <u>(318)</u> |
| | <u>23,843</u> | <u>21,870</u> | <u>22,371</u> |
| Customers' liability under acceptances | 2,563 | 2,571 | 2,113 |
| Land, buildings and equipment | 104 | 124 | 116 |
| Other assets | <u>1,193</u> | <u>913</u> | <u>1,220</u> |
| | <u>3,860</u> | <u>3,608</u> | <u>3,449</u> |
| Total assets | <u>35,763</u> | <u>33,260</u> | <u>32,628</u> |
| Liabilities and shareholders' equity | | | |
| Deposits | | | |
| Regulated financial institutions | 1,866 | 1,747 | 1,520 |
| Individuals | 14,052 | 13,390 | 13,110 |
| Businesses and governments | <u>12,391</u> | <u>11,570</u> | <u>11,835</u> |
| | <u>28,309</u> | <u>26,707</u> | <u>26,465</u> |
| Subordinated debentures | <u>548</u> | <u>447</u> | <u>446</u> |
| Acceptances | 2,563 | 2,571 | 2,113 |
| Assets sold under repurchase agreements | 87 | 7 | - |
| Other liabilities | 2,362 | 1,686 | 1,811 |
| Non-controlling interest in trust and subsidiary | <u>230</u> | <u>230</u> | <u>230</u> |
| | <u>5,242</u> | <u>4,494</u> | <u>4,154</u> |
| Shareholders' equity | | | |
| Preferred shares | 125 | 125 | 125 |
| Common shares | 935 | 935 | 935 |
| Contributed surplus | 165 | 165 | 165 |
| Retained earnings | <u>439</u> | <u>387</u> | <u>338</u> |
| | <u>1,664</u> | <u>1,612</u> | <u>1,563</u> |
| Total liabilities and shareholders' equity | <u>35,763</u> | <u>33,260</u> | <u>32,628</u> |

| <i>Figures in C\$ millions</i> | <i>Quarter ended</i> | | | <i>Nine months ended</i> | |
|---|------------------------------|-----------------|----------------------|------------------------------|----------------------|
| | 30 September 2002 | 30 June 2002 | 30 September 2001 | 30 September 2002 | 30 September 2001 |
| Cash flows provided by/(used in): | | | | | |
| Operating activities | 402 | 246 | (365) | 743 | (42) |
| Financing activities | 9 | 1,326 | 1,787 | 1,626 | 2,933 |
| Investing activities | (938) | (466) | (955) | (2,333) | (2,384) |
| (Decrease)/increase in cash and Cash equivalents | (527) | 1,106 | 467 | 36 | 507 |
| Cash and cash equivalents, Beginning of period | 3,701 | 2,595 | 2,378 | 3,138 | 2,338 |
| Cash and cash equivalents, end of period | 3,174 | 3,701 | 2,845 | 3,174 | 2,845 |
| Represented by: | | | | | |
| Cash resources per balance sheet | 3,693 | 4,275 | 3,107 | | |
| Less non-operating deposits [†] | (519) | (574) | (262) | | |
| Cash and cash equivalents, End of period | 3,174 | 3,701 | 2,845 | | |

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