

## HSBC BANK CANADA THIRD QUARTER 2003 REPORT TO SHAREHOLDERS

- Net income<sup>‡</sup> was C\$227 million for the nine months ended 30 September 2003, an increase of 16.4 per cent over the same period in 2002.
- Net income was C\$81 million for the quarter ended 30 September 2003, an increase of 3.8 per cent over the third quarter of 2002.
- Return on average common equity was 19.3 per cent for the nine months ended 30 September 2003 and 19.7 per cent for the quarter ended 30 September 2003.
- The cost:income ratio was 55.9 per cent for the nine months ended 30 September 2003 and 55.3 per cent for the quarter ended 30 September 2003.
- Total assets of C\$37.0 billion at 30 September 2003 compared with C\$35.8 billion at 30 September 2002.
- Total assets under administration were C\$17.5 billion at 30 September 2003, of which C\$13.5 billion were funds under management and C\$4.0 billion were custody and administration accounts.

<sup>‡</sup> *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 on which 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\$81 million for the quarter ended 30 September 2003, an increase of 3.8 per cent, compared with C\$78 million for the third quarter of 2002. Net income for the nine months ended 30 September 2003 was C\$227 million, an increase of C\$32 million, or 16.4 per cent, compared with C\$195 million for the nine months ended 30 September 2002.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, Designate, said: “The results for the quarter were satisfactory given the subdued economic conditions we experienced during the quarter. Net income benefited from lower credit losses and higher non-interest income compared with the same period in 2002. The continued improvement in equity markets encouraged retail clients to trade more frequently and increased retail sharedealing revenues.

“Historically low interest rates continued to provide stimulus for an active housing market. Strong growth in residential mortgages and consumer loans benefited net interest income. However, competitive pricing and increased funding costs reduced the net interest margin. Credit losses in the quarter decreased compared with the same period last year due to the improved credit environment.

“With recent negative events such as the SARS outbreak, ‘mad-cow’ disease, forest fires in British Columbia and the electricity blackout in Ontario largely behind us, we are hopeful that consumer confidence will strengthen and provide momentum for economic growth in Canada, although this is also dependent on the continuing economic recovery in the US. With our broad range of services and products to offer our clients in Canada, we are well positioned to take advantage of any growth opportunities.”

### Net interest income

Net interest income for the quarter ended 30 September 2003 was C\$213 million compared with C\$222 million for the third quarter of 2002. For the nine months ended 30 September 2003, net interest income was C\$653 million, an increase of C\$7 million, compared with C\$646 million for the same period in 2002. Net interest income continued to benefit from strong growth in residential mortgages driven by low interest rates.

The net interest margin, as a percentage of average interest earning assets, for the quarter ended 30 September 2003 was 2.58 per cent compared with 2.84 per cent for the same period in 2002. For the nine months ended 30 September 2003, the net interest margin was 2.71 per cent compared to 2.85 per cent for the nine months ended 30 September 2002. During 2003, the net interest margin was adversely affected by increased funding costs, as competitive pricing on consumer deposits resulted in a change in funding mix towards higher cost wholesale deposits, and competitive pricing on residential mortgages. In the third quarter of 2003, the Bank of Canada overnight lending rate decreased twice, each a 25 basis point drop, which partially resulted in a lower net interest margin.

## **Financial Commentary** *(continued)*

---

### **Other income**

Other income for the quarter ended 30 September 2003 was C\$127 million, an increase of 21.0 per cent compared with C\$105 million for the third quarter of 2002. Other income for the nine months ended 30 September 2003 was C\$343 million, an increase of 7.9 per cent compared with C\$318 million for the same period in 2002.

Capital market fees were higher for the quarter and nine months ended 30 September 2003 compared with the same periods in 2002. Retail trading commissions in MLHSBC were C\$6 million and C\$15 million, respectively, for the quarter and nine months ended 30 September 2003. Retail trading commissions increased as equity markets improved in the second and third quarters of 2003. However, the restructuring of the institutional equity business in the second quarter of 2002 impacted comparability as fees from corporate finance activities were lower in 2003 compared with the same periods in 2002. The recent improvement in the equity markets has not yet boosted retail investor activity in mutual funds. As a result, mutual fund and administration fees were lower for the quarter and nine months ended 30 September 2003 compared with the same periods in 2002. Securitization income was higher in the third quarter of 2003 due to a C\$11 million gain on the securitization of C\$300 million of personal loans.

### **Non-interest expenses**

Non-interest expenses for the quarter ended 30 September 2003 were C\$188 million compared with C\$165 million for the third quarter of 2002. Non-interest expenses for the nine months ended 30 September 2003 were C\$557 million compared with C\$539 million for the same period in 2002. The second quarter of 2002 included a C\$28 million restructuring charge related to the withdrawal from institutional equity trading, sales and research activities. Non-interest expenses for the quarter and nine months ended 30 September 2003 included C\$6 million and C\$18 million, respectively, from MLHSBC.

Salaries and benefits were higher in the quarter and nine months ended 30 September 2003 compared with the same periods in 2002. Included in salary costs were C\$2 million and C\$5 million, respectively, relating to MLHSBC. The bank implemented the fair value method of accounting for stock based compensation on a prospective basis and recorded C\$2 million in salaries and benefits in the third quarter of 2003. Variable compensation costs were higher for the quarter and nine months ended 30 September 2003 compared with the same periods in 2002 due, in part, to increased capital market fees and foreign exchange income. On a year to date basis, employee medical costs were higher in 2003 compared with the same period in 2002.

Premises and equipment and other non-interest expenses were higher for the quarter and nine months ended 30 September 2003 compared with the same periods in 2002 largely from MLHSBC costs of C\$4 million and C\$13 million, respectively. Computer costs related to improving delivery channels and the infrastructure of the bank's networks increased in the quarter and nine months ended 30 September 2003. These increases were partially offset by lower operating losses for the nine months ended 30 September 2003 compared with the same period in 2002.

### **Provision for income taxes**

The effective tax rate for the quarter ended 30 September 2003 was 39.6 per cent compared with 37.1 per cent for the third quarter of 2002. For the nine months ended 30 September 2003, the effective tax rate was 39.3 per cent compared with 37.3 per cent for the same period in 2002. The higher effective tax rate in 2003 reflected lower levels of tax-exempt investment income compared to 2002.

## Financial Commentary *(continued)*

---

### Credit quality and provision for credit losses

The provision for credit losses for the quarter ended 30 September 2003 was C\$14 million compared with C\$34 million for the same period in 2002. For the nine months ended 30 September 2003, the provision for credit losses was C\$53 million compared with C\$102 million in the same period of 2002. The reductions are attributable to the improving credit environment in Canada. In addition, the higher provision level in 2002 related to an exposure in the telecommunications sector. While the ongoing performance of our loan portfolios is satisfactory, we remain cautious in the face of an uneven economic recovery, particularly in the United States.

Total impaired loans decreased C\$96 million, or 30.3 per cent, to C\$221 million at 30 September 2003 compared with C\$317 million at 30 September 2002. Impaired loans, after deducting specific allowances for credit losses, were C\$145 million at 30 September 2003 compared with C\$170 million at 30 September 2002.

The general allowance for credit losses was C\$254 million at 30 September 2003 compared to C\$226 million at the same time last year. The increase was in line with the growth in the total loan and bankers' acceptances portfolios over the same period.

### Balance sheet

Total assets at 30 September 2003 were C\$37.0 billion, up C\$1.8 billion from C\$35.2 billion at 31 December 2002. Continued historical low interest rates have benefited consumers resulting in residential mortgages and consumer loans growing a total of C\$1.1 billion from 31 December 2002. Commercial advances also benefited from lower rates as bankers' acceptances increased C\$0.6 billion over the same period.

Total deposits increased C\$0.7 billion from C\$28.4 billion at 31 December 2002 to C\$29.1 billion at 30 September 2003. Commercial deposits increased C\$1.1 billion while personal deposits decreased C\$0.4 billion over the same period, largely from the negative impact on US dollar based deposits resulting from the stronger Canadian dollar relative to the US dollar.

### Funds under management

Funds under management were C\$13.5 billion at 30 September 2003 compared with C\$12.4 billion at 30 June 2003 and C\$11.2 billion at 30 September 2002. The increase in the third quarter of 2003 benefited from improvement in equity markets during the period. On a year to date basis, improvements in the equity markets, tempered partially by strengthening of the Canadian dollar relative to the US dollar, in the second and third quarters had a positive effect on funds under management.

### Capital ratios

The tier 1 capital ratio was 8.3 per cent and the total capital ratio was 11.0 per cent at 30 September 2003. This compares with 8.3 per cent and 11.3 per cent, respectively, at 30 September 2002 and 8.0 per cent and 10.9 per cent, respectively, at 30 June 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 31 December 2003, for shareholders of record on 15 December 2003.

## Review of Business Line Results

---

### Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the three months ended 30 September 2003 was C\$39 million, compared with C\$45 million for the same period in 2002. For the nine months ended 30 September 2003, income, before taxes and non-controlling interest in income of trust, was C\$113 million compared with C\$109 million for the same period in 2002.

Growth in residential mortgages and other consumer loans increased average balances. However, margins were negatively impacted by competitive pricing on residential mortgages and on consumer deposits. This was compounded by the decreases in the Bank of Canada overnight lending rate in the third quarter of 2003. On a year to date basis, funding costs were higher resulting from a higher mix of wholesale deposits and competitive pricing on retail deposits. Other income for the quarter and nine months ended 30 September 2003 was higher than the same periods in 2002 due to increased capital market fees, partly from MLHSBC, and higher securitization income. Non-interest expenses for the quarter and nine months ended 30 September 2003 were higher than the same periods in 2002 due largely to MLHSBC and higher variable compensation costs, offset by lower operating losses in 2003.

### Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the three months ended 30 September 2003 was C\$68 million, compared with C\$76 million for the same period in 2002. For the nine months ended 30 September 2003, income, before taxes and non-controlling interest in income of trust, was C\$178 million compared with C\$203 million for the same period in 2002.

Net interest income was similar for the quarter and nine months ended 30 September 2003 compared with the same periods in 2002. Provisions for credit losses were lower in the quarter and nine months ended 30 September 2003 compared with the same periods in 2002 due to the improving credit environment in Canada. Other income for the quarter and nine months ended 30 September 2003 was lower than the comparative periods primarily from larger fees in our merchant banking business in the third quarter of 2002. Non-interest expenses for the quarter and nine months ended 30 September 2003 were higher than the same periods in 2002 due to higher salaries costs and higher operating losses.

### Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the three months ended 30 September 2003 was C\$45 million, compared with C\$20 million for the same period in 2002. For the nine months ended 30 September 2003, income, before taxes and non-controlling interest in income of trust, was C\$136 million compared with C\$48 million for the same period in 2002.

Net interest income for the quarter ended 30 September 2003 was impacted by the decreases in the Bank of Canada overnight lending rate. On a year to date basis, net interest income was higher than the same period in 2002 due to the higher average interest rates. Provisions for credit losses in 2003 were lower due to the improving credit environment and from an exposure to the telecommunications industry in 2002. Other income for the quarter ended 30 September 2003 was higher than the same quarter in 2002 as capital market fees and trading revenue increased from the improving markets in the quarter. Non-interest expenses were lower in the nine months ended 30 September 2003 due to lower salaries and restructuring charges arising from the institutional business restructuring in 2002.

## Summary

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<b>30 September 2003</b>	<i>30 June 2003</i>	<i>30 September 2002</i>	<b>30 September 2003</b>	<i>30 September 2002</i>
<b>Earnings</b>					
Net income	<b>81</b>	73	78	<b>227</b>	195
Basic earnings per share	<b>0.17</b>	0.15	0.17	<b>0.47</b>	0.41
<b>Performance ratios (%)</b>					
Return on average common equity	<b>19.7</b>	19.1	20.1	<b>19.3</b>	16.5
Return on average assets	<b>0.85</b>	0.79	0.86	<b>0.82</b>	0.73
Net interest margin	<b>2.58</b>	2.76	2.84	<b>2.71</b>	2.85
Cost:income ratio	<b>55.3</b>	57.1	50.5	<b>55.9</b>	55.9
Other income:total income ratio	<b>37.4</b>	33.3	32.1	<b>34.4</b>	33.0
<b>Credit information</b>					
Impaired loans	<b>221</b>	246	317		
Allowance for credit losses					
- Balance at end of period	<b>330</b>	338	373		
- As a percentage of impaired loans	<b>149 %</b>	137 %	118 %		
- As a percentage of loans outstanding	<b>1.31 %</b>	1.36 %	1.54 %		
<b>Average balances</b>					
Assets	<b>36,874</b>	36,275	35,196	<b>36,253</b>	34,517
Loans	<b>24,764</b>	24,322	23,293	<b>24,352</b>	22,768
Deposits	<b>29,251</b>	28,732	28,291	<b>28,819</b>	27,589
Common equity	<b>1,582</b>	1,505	1,502	<b>1,532</b>	1,532
<b>Capital ratios (%)</b>					
Tier 1	<b>8.3</b>	8.0	8.3		
Total capital	<b>11.0</b>	10.9	11.3		
<b>Total assets under administration</b> *					
Funds under management	<b>13,455</b>	12,447	11,193		
Custodial accounts	<b>4,055</b>	3,388	3,142		
Total assets under administration	<b>17,510</b>	15,835	14,335		

\* Balances as at 30 September 2002 are 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>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>2003</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
<b>Interest and dividend income</b>					
Loans	347	352	322	1,032	939
Securities	22	30	26	80	81
Deposits with regulated Financial institutions	14	14	26	41	58
Total interest income	<u>383</u>	<u>396</u>	<u>374</u>	<u>1,153</u>	<u>1,078</u>
<b>Interest expense</b>					
Deposits	161	165	142	473	406
Debentures	9	9	10	27	26
Total interest expense	<u>170</u>	<u>174</u>	<u>152</u>	<u>500</u>	<u>432</u>
<b>Net interest income</b>	<b>213</b>	<b>222</b>	<b>222</b>	<b>653</b>	<b>646</b>
Provision for credit losses	<u>14</u>	<u>19</u>	<u>34</u>	<u>53</u>	<u>102</u>
<b>Net interest income after Provision for credit losses</b>	<b><u>199</u></b>	<b><u>203</u></b>	<b><u>188</u></b>	<b><u>600</u></b>	<b><u>544</u></b>
<b>Other income</b>					
Deposit and payment service charges	20	20	20	60	55
Credit fees	18	17	15	51	46
Capital market fees	26	22	15	64	50
Mutual fund and administration fees	13	13	15	39	45
Foreign exchange	15	15	15	44	40
Trade finance	7	7	7	20	20
Trading revenue	3	2	3	8	10
Securitization income	16	3	3	24	17
Other	9	12	12	33	35
Total other income	<u>127</u>	<u>111</u>	<u>105</u>	<u>343</u>	<u>318</u>
<b>Net interest and other income</b>	<b>326</b>	<b>314</b>	<b>293</b>	<b>943</b>	<b>862</b>
<b>Non-interest expenses</b>					
Salaries and employee benefits	97	95	86	279	254
Premises and equipment	27	28	23	84	78
Other	64	67	56	194	179
Restructuring costs	-	-	-	-	28
Total non-interest expenses	<u>188</u>	<u>190</u>	<u>165</u>	<u>557</u>	<u>539</u>
<b>Income before taxes and non- Controlling interest in income of trust</b>	<b>138</b>	<b>124</b>	<b>128</b>	<b>386</b>	<b>323</b>
Provision for income taxes	53	47	46	147	116
Non-controlling interest in income Of trust	4	4	4	12	12
<b>Net income</b>	<b><u>81</u></b>	<b><u>73</u></b>	<b><u>78</u></b>	<b><u>227</u></b>	<b><u>195</u></b>
Preferred share dividends	<u>2</u>	<u>2</u>	<u>2</u>	<u>6</u>	<u>6</u>
<b>Net income attributable to Common shares</b>	<b><u>79</u></b>	<b><u>71</u></b>	<b><u>76</u></b>	<b><u>221</u></b>	<b><u>189</u></b>
Average common shares					
Outstanding (000)	471,168	471,168	456,168	471,168	456,168
Basic earnings per share (C\$)	0.17	0.15	0.17	0.47	0.41

See notes to consolidated financial statements

## Condensed Consolidated Balance Sheet (Unaudited)

<i>Figures in C\$ millions</i>	<i>At 30 September 2003</i>	<i>At 31 December 2002</i>	<i>At 30 September 2002</i>
<b>Assets</b>			
Cash and deposits with Bank of Canada	353	417	353
Deposits with regulated financial institutions	3,718	3,317	3,340
	<u>4,071</u>	<u>3,734</u>	<u>3,693</u>
Investment securities	2,326	2,875	2,286
Trading securities	768	870	1,142
	<u>3,094</u>	<u>3,745</u>	<u>3,428</u>
Assets purchased under Reverse repurchase agreements	<u>1,020</u>	<u>416</u>	<u>939</u>
<b>Loans</b>			
Businesses and government	11,954	11,949	12,342
Residential mortgage	10,708	9,809	9,554
Consumer	2,588	2,422	2,320
Allowance for credit losses	(330)	(311)	(373)
	<u>24,920</u>	<u>23,869</u>	<u>23,843</u>
Customers' liability under acceptances	2,926	2,374	2,563
Land, buildings and equipment	102	111	104
Other assets	898	940	1,193
	<u>3,926</u>	<u>3,425</u>	<u>3,860</u>
Total assets	<u>37,031</u>	<u>35,189</u>	<u>35,763</u>
<b>Liabilities and shareholders' equity</b>			
<b>Deposits</b>			
Regulated financial institutions	749	758	1,866
Individuals	13,993	14,432	14,052
Businesses and governments	14,338	13,182	12,391
	<u>29,080</u>	<u>28,372</u>	<u>28,309</u>
Subordinated debentures	<u>509</u>	<u>528</u>	<u>548</u>
Acceptances	2,926	2,374	2,563
Assets sold under repurchase agreements	120	28	87
Other liabilities	2,420	1,984	2,362
Non-controlling interest in trust and subsidiary	230	230	230
	<u>5,696</u>	<u>4,616</u>	<u>5,242</u>
<b>Shareholders' equity</b>			
Preferred shares	125	125	125
Common shares	950	950	935
Contributed surplus	167	165	165
Retained earnings	504	433	439
	<u>1,746</u>	<u>1,673</u>	<u>1,664</u>
Total liabilities and shareholders' equity	<u>37,031</u>	<u>35,189</u>	<u>35,763</u>

*See notes to consolidated financial statements*

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

<i>Figures in C\$ millions</i>	<i>Nine months ended</i>	
	<u><i>30 September</i></u> <u><i>2003</i></u>	<u><i>30 September</i></u> <u><i>2002</i></u>
<b>Preferred shares</b>		
Balance at beginning and end of period	<u>125</u>	<u>125</u>
<b>Common shares</b>		
Balance at beginning and end of period	<u>950</u>	<u>935</u>
<b>Contributed surplus</b>		
Balance at beginning of period	165	165
Stock-based compensation expense (note 1)	<u>2</u>	<u>-</u>
Balance at end of period	<u>167</u>	<u>165</u>
<b>Retained earnings</b>		
Balance at beginning of period	433	400
Net income for the period	227	195
Preferred share dividends	(6)	(6)
Common share dividends	<u>(150)</u>	<u>(150)</u>
Balance at end of period	<u>504</u>	<u>439</u>
<b>Total shareholders' equity</b>	<u><b>1,746</b></u>	<u><b>1,664</b></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>Nine months ended</i>	
	<i>30 September 2003</i>	<i>30 June 2003</i>	<i>30 September 2002</i>	<i>30 September 2003</i>	<i>30 September 2002</i>
<b>Cash flows (used in)/provided by operating activities</b>					
Net income	81	73	78	227	195
Trading securities	(172)	46	(55)	102	11
Other, net	(111)	568	379	531	537
	<u>(202)</u>	<u>687</u>	<u>402</u>	<u>860</u>	<u>743</u>
<b>Cash flows provided by/(used in) financing activities</b>					
Deposits	815	(111)	213	708	1,602
Securities sold under repurchase agreements	95	(55)	(202)	92	80
Proceeds from subordinated debentures issued	-	-	-	-	100
Dividends paid	(2)	(2)	(2)	(156)	(156)
	<u>908</u>	<u>(168)</u>	<u>9</u>	<u>644</u>	<u>1,626</u>
<b>Cash flows (used in)/ provided by investing activities</b>					
Loans, excluding securitisations	(885)	(387)	(851)	(1,702)	(2,507)
Proceeds from loans securitised	429	97	52	601	427
Investment securities	165	116	(75)	549	188
Securities purchased under reverse repurchase agreements	(424)	(19)	(117)	(604)	(511)
Non-operating deposits with regulated financial institutions	297	(390)	55	(157)	70
Land, buildings and equipment	(4)	-	(2)	(11)	-
	<u>(422)</u>	<u>(583)</u>	<u>(938)</u>	<u>(1,324)</u>	<u>(2,333)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>					
	284	(64)	(527)	180	36
<b>Cash and cash equivalents, beginning of period</b>	<u>3,533</u>	<u>3,597</u>	<u>3,701</u>	<u>3,637</u>	<u>3,138</u>
<b>Cash and cash equivalents, end of period</b>	<u><u>3,817</u></u>	<u><u>3,533</u></u>	<u><u>3,174</u></u>	<u><u>3,817</u></u>	<u><u>3,174</u></u>
Represented by:					
Cash resources per balance sheet	4,071	4,084	3,693		
less non-operating deposits <sup>†</sup>	(254)	(551)	(519)		
Cash and cash equivalents, end of period	<u>3,817</u>	<u>3,533</u>	<u>3,174</u>		

<sup>†</sup> 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

- a) These consolidated interim financial statements should be read in conjunction with the bank's consolidated financial statements for the year ended 31 December 2002. These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of application as the bank's consolidated financial statements for the year ended 31 December 2002, except as discussed below. Certain comparative amounts have been reclassified to conform with the current period presentation.
- b) As of 1 January 2003, the bank adopted certain new provisions for the existing accounting standard on stock-based compensation. As permitted under the standard, the bank adopted the fair value method of accounting for stock-based compensation on a prospective basis. Prior to 1 January 2003, the bank applied the exemptions available under the standard to not require accounting for certain stock-based compensation using the fair value method. Accordingly, only pro-forma compensation expense related to stock-based compensation was disclosed.

Compensation expense of C\$2 million was recorded in the Consolidated Statements of Income in the third quarter of 2003. No compensation expense was recorded for stock options awarded and outstanding prior to 1 January 2003. The fair value of options granted was estimated at the date of grant using an option pricing model, that produces similar results to the Black-Scholes valuation model, with the following assumptions:

	<i>Group Share Option Plan</i>	<i>Savings- Related Share Option Schemes - 3 Year</i>	<i>Savings- Related Share Option Schemes - 5 Year</i>
Risk-free interest rate (%)	4.64	4.01	4.24
Expected life (years)	10	3.7	5.7
Expected volatility (%)	30	30	30
Options granted in 2003	2,624,950	1,270,468	498,519
Fair value of options granted in 2003	GBP1.88	GBP2.00	GBP2.05

- c) As of 1 January 2003, the bank prospectively adopted the new accounting guideline on disclosure of guarantees. The guideline stipulates the financial statement disclosures to be made by a guarantor about its obligations under certain guarantees, as detailed in Note 5.

### 2. Restructuring costs

As at 30 September 2003, the total unutilized balance of restructuring costs of C\$6 million shown below was included in other liabilities in the consolidated balance sheet.

	Salaries and employee benefits	Premises and equipment	Total
Balance at beginning of quarter	5	3	8
Amount utilized during the quarter	1	1	2
Balance at end of quarter	4	2	6

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

### 3. Issued and outstanding shares

	<i>At 30 September 2003</i>		<i>At 31 December 2002</i>		<i>At 30 September 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. Lines of business

The bank reports and manages its operations according to the lines of business definitions used by the HSBC Group. The bank has, therefore, combined "Wholesale Banking" and "Treasury and Markets" into one line of business, "Corporate, Investment Banking and Markets". For 2003, the results of this combined line of business will be tracked separately. The comparative information reflects this new structure. Also consistent with the HSBC Group's lines of business, "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 lines of business.

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<i>30 September 2003</i>	<i>30 June 2003</i>	<i>30 September 2002</i>	<i>30 September 2003</i>	<i>30 September 2002</i>
<b>Personal Financial Services</b>					
Net interest income	75	82	83	240	241
Provision for credit losses	(5)	(1)	(2)	(11)	(13)
Other income	72	56	49	183	150
Non-interest expenses	(103)	(103)	(85)	(299)	(269)
Income before taxes and non-controlling interest in income of trust	39	34	45	113	109
Provision for income taxes	(15)	(13)	(16)	(43)	(39)
Non-controlling interest in income of trust	(1)	(1)	(2)	(4)	(4)
Net income	23	20	27	66	66
Average assets	13,583	13,245	11,948	13,354	11,444
<b>Commercial Banking</b>					
Net interest income	105	102	104	306	309
Provision for credit losses	(8)	(17)	(12)	(38)	(46)
Other income	30	32	39	93	102
Non-interest expenses	(59)	(62)	(55)	(183)	(162)
Income before taxes and non-controlling interest in income of trust	68	55	76	178	203
Provision for income taxes	(25)	(21)	(27)	(67)	(73)
Non-controlling interest in income of trust	(2)	(2)	(2)	(6)	(6)
Net income	41	32	47	105	124
Average assets	12,979	12,692	12,531	12,761	12,859

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

### 4. Lines of business line (continued)

	<i>Quarter ended</i>			<i>Nine months ended</i>	
	<u>30 September</u> <u>2003</u>	<u>30 June</u> <u>2003</u>	<u>30 September</u> <u>2002</u>	<u>30 September</u> <u>2003</u>	<u>30 September</u> <u>2002</u>
<b>Corporate, Investment Banking and Markets</b>					
Net interest income	33	38	35	107	96
Provision for credit losses	(1)	(1)	(20)	(4)	(43)
Other income	25	23	17	67	66
Non-interest expenses	<u>(12)</u>	<u>(12)</u>	<u>(12)</u>	<u>(34)</u>	<u>(71)</u>
Income before taxes and non-controlling interest in income of trust	45	48	20	136	48
Provision for income taxes	(18)	(18)	(8)	(53)	(18)
Non-controlling interest in income of trust	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>
Net income	<u>26</u>	<u>29</u>	<u>12</u>	<u>81</u>	<u>28</u>
Average assets	<u>10,312</u>	<u>10,338</u>	<u>10,717</u>	<u>10,138</u>	<u>10,214</u>
<b>Other</b>					
Non-interest expenses	<u>(14)</u>	<u>(13)</u>	<u>(13)</u>	<u>(41)</u>	<u>(37)</u>
(Loss) before income taxes	(14)	(13)	(13)	(41)	(37)
Provision for income taxes	<u>5</u>	<u>5</u>	<u>5</u>	<u>16</u>	<u>14</u>
Net (loss)	<u>(9)</u>	<u>(8)</u>	<u>(8)</u>	<u>(25)</u>	<u>(23)</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> <i>30 September</i> <u>2002</u>	<i>Nine months end</i> <i>30 September</i> <u>2002</u>
(Decrease)/increase		
<b>Personal Financial Services</b>		
Net interest income	(30)	(77)
Net income	(18)	(48)
<b>Commercial Banking</b>		
Net interest income	11	32
Net income	8	21
<b>Corporate, Investment Banking and Markets</b>		
Net interest income	19	45
Net income	10	27

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

---

### 5. 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 30 September 2003</u>	<u>At 31 December 2002</u>	<u>At 30 September 2002</u>
Guarantees and financial standby letters of credit	1,093	916	1,015
Performance standby letters of credit	237	328	450
Total guarantees and standby letters of credit	<u>1,330</u>	<u>1,244</u>	<u>1,465</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 30 September 2003, total recourse against the bank under securitization transactions was C\$18 million (31 December 2002 - C\$14 million, 30 September 2002 – C\$19 million).

## Shareholder Information

---

### CORPORATE HEADQUARTERS

HSBC Bank Canada  
885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Tel: (604) 685-1000

### WEBSITE

hsbc.ca

### MEDIA ENQUIRIES

Ernest Yee (604) 641-2973  
Sharon Wilks (416) 868-3878

### STOCK EXCHANGE LISTINGS

Toronto Stock Exchange

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

HSBC Canada Asset Trust  
Securities – Series 2010 (HSBC HaTS™)  
(HBH.M-TSX)

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.  
Shareholder Service Department  
100 University Avenue  
Toronto, Ontario  
Canada M5J 2Y1  
Tel: (416) 981-9633  
Tel: 1 (800) 663-9092  
Fax: (416) 981-9507

### 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:

HSBC Bank Canada  
Shareholder Relations  
885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Email: Shareholder\_relations@hsbc.ca

Chris Young (604) 641-1976  
Graham McIsaac (604) 641-1915  
Stewart Woo (604) 641-2535

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 160 offices. With over 9,500 offices in 79 countries and territories and assets of US\$983 billion at 30 June 2003, the HSBC Group is one of the world's largest banking and financial services organisations.

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.

© Copyright HSBC Bank Canada 2003  
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Canada.

Published by HSBC Bank Canada, Vancouver  
Printed by Western Printers, Burnaby

**HSBC Bank Canada**

885 West Georgia Street

Vancouver, B.C.

Canada V6C 3E9

Telephone: (604) 685-1000

Web: [hsbc.ca](http://hsbc.ca)