

12 February 2002

**HSBC BANK CANADA
2001 RESULTS - HIGHLIGHTS**

- Net income attributable to common shares increased 21.9 per cent to C\$206 million for the year ended 31 December 2001 compared to C\$169 million in 2000.
- Income before taxes and non-controlling interest in income of subsidiaries was C\$377 million for the year ended 31 December 2001, an increase of 8.6 per cent over 2000.
- The cost:income ratio (excluding amortisation of goodwill and intangible assets) improved to 59.3 per cent from 65.2 per cent in 2000.
- Total assets of C\$33.3 billion at 31 December 2001 (C\$29.4 billion at 31 December 2000).
- Total capital ratio of 11.3 per cent and tier 1 capital ratio of 8.6 per cent at 31 December 2001 (11.5 per cent and 8.6 per cent respectively at 31 December 2000).
- Funds under management were C\$10.6 billion at 31 December 2001 compared to C\$10.2 billion at 31 December 2000.

HSBC Bank Canada reports 21.9 per cent increase in net income attributable to common shares

HSBC Bank Canada recorded net income attributable to common shares for the year ended 31 December 2001 of C\$206 million, 21.9 per cent higher than C\$169 million for 2000. Income before taxes and non-controlling interest in income of subsidiaries was C\$377 million for the year ended 31 December 2001, an increase of 8.6 per cent, compared to C\$347 million for 2000. Net income attributable to common shares was C\$49 million for the three months ended 31 December 2001, an increase of 28.9 per cent over the same period last year.

For the year ended 31 December 2001, the cost:income ratio, excluding amortisation of goodwill and intangible assets, was 59.3 per cent compared to 65.2 per cent for 2000. For the quarter ended 31 December 2001, the cost:income ratio was 63.3 per cent compared to 61.0 per cent for the comparable period in 2000.

Return on equity was 14.9 per cent for the year ended 31 December 2001, compared to 15.3 per cent for the same period in 2000 due primarily to a higher level of retained capital. Return on equity was 13.3 per cent for the three months ended 31 December 2001, compared to 12.1 per cent for the same period in 2000.

Martin Glynn, president and chief executive officer of HSBC Bank Canada said: "We are pleased with the results for 2001, as the underlying business of the bank performed strongly. There was improved profitability from all of our business lines despite the challenging economic environment. We are also proud of the increasing recognition in independent market surveys of the high quality of our customer service.

"Higher net interest income was achieved from a combination of growth in the loan and customer deposit portfolios and higher spreads due to improved pricing and lower funding costs. Equity markets performed poorly, resulting in lower capital market and trading revenues. However, this was more than offset by cost containment measures and reduced performance-related expenses as a result of the poor markets.

"Although the credit quality of our loan portfolio remains sound, we felt it prudent to increase provisions compared to the third quarter of 2001 to cover a small number of deteriorating commercial facilities and to maintain general allowances at an appropriate level.

"In 2002 we will build upon the achievements of 2001, in an environment of continuing risk and uncertainty. We will aim to do this by providing the highest levels of customer service in Canada and using HSBC's international presence and expertise."

Net interest income

Net interest income for the fourth quarter of 2001 was C\$197 million, an increase of C\$18 million, or 10.1 per cent, over the fourth quarter of 2000 and in line with the third quarter of 2001. For the year ended 31 December 2001 net interest income was C\$754 million, an increase of 13.2 per cent over 2000. These increases were due to a combination of continuing growth in the loan and core customer deposit portfolios, primarily commercial loans and residential mortgages, together with higher spreads due to improved pricing and market conditions.

Net interest margin, as a percentage of average interest earning assets, for the fourth quarter of 2001 was 2.66 per cent, 7 basis points lower than the same period in 2000 and for the year was 2.70 per cent, 2 basis points higher than in 2000. During the fourth quarter, the larger than anticipated prime and base rate reductions resulted in a squeeze in margins as earning assets repriced ahead of the fall in funding costs.

Other income

Other income was C\$111 million in the fourth quarter of 2001 compared to C\$113 million in the fourth quarter of 2000 and C\$102 million in the third quarter of 2001. For the year ended 31 December 2001, other income was C\$419 million compared to C\$462 million in 2000. The weakness in the global equity markets, experienced throughout 2001 resulted in lower capital market fees and trading revenue. Capital market fees for the fourth quarter and year ended 31 December 2001 were C\$29 million and C\$98 million, respectively. This compared with C\$36 million and C\$162 million for the similar periods in 2000, which included C\$4 million and C\$30 million, respectively, of capital market fees from HSBC InvestDirect (Canada) Inc. ('InvestDirect'). InvestDirect was transferred to the Merrill Lynch HSBC joint venture ('Merrill Lynch HSBC') in the fourth quarter of 2000. However, the increase for the fourth quarter of 2001 compared to the third quarter of 2001 reflected a slight recovery in equity markets and a higher level of corporate finance activities.

Excluding capital market fees and trading revenue, other income from the other lines of business, primarily personal financial services and commercial financial services, increased by 12.4 per cent compared to 2000. Revenues from deposit and payment services increased by 15.2 per cent mainly due to increased use of our international payments services and an increased customer base. Revenue from credit services, principally income from bankers' acceptances, letters of credit and guarantees increased by 29.4 per cent. Despite the drop in global equity markets, mutual fund management fees increased by 6.9 per cent mainly due to increases in sales of HSBC Mutual Funds.

Non-interest expenses

Non-interest expenses were C\$197 million in the quarter ended 31 December 2001 compared to C\$180 million in the fourth quarter of 2000 and C\$171 million in the third quarter of 2001. For the year ended 31 December 2001, non-interest expenses were C\$704 million compared to C\$742 million for 2000. Salaries and employee benefits and other expenses were lower in 2001 due primarily to lower performance-based compensation and volume-driven transaction expenses resulting from the lower capital market fees in 2001. Non-interest expenses in the fourth quarter of 2001 included C\$9 million for costs associated with headcount reductions. The increase in other expenses was mainly due to a number of one-off operating expenses, including increased charges for commodity and capital taxes. The year ended 31 December 2000 included C\$15 million of non-interest expenses from InvestDirect.

Provision for income taxes

The provision for income taxes was C\$26 million for the fourth quarter of 2001 compared to C\$61 million for the same quarter in 2000 and C\$42 million in the third quarter of 2001. For the year, the provision for income taxes was C\$147 million in 2001 compared to C\$155 million in 2000. The lower tax rate in the fourth quarter of 2001 was partly due to a foreign tax credit of C\$4 million, whereas in the third quarter there were additional charges totalling C\$5 million to reflect the reduced value of future income tax assets following the fall in certain provincial corporate income tax rates. In the fourth quarter of 2000, there was a charge of C\$12 million to reflect the reduced value of future income tax assets following the announcement of federal corporate income tax rates.

Credit quality and provision for credit losses

During 2001, the bank's overall credit quality remained sound. The provision for credit losses was C\$30 million in the fourth quarter of 2001 compared to C\$7 million in the same quarter of 2000 and C\$24 million for the third quarter of 2001. For the year, the provision for credit losses was C\$92 million compared to C\$39 million for 2000. The higher level of provisions for the year resulted from the deterioration in a small number of commercial facilities and the maintenance of a level of general provisions consistent with the underlying risk portfolio of the loan book and stage of the credit cycle. The allowance for credit losses was in excess of impaired loans by C\$33 million at 31 December 2001.

Balance sheet

Despite the challenging economic environment, the bank achieved broadly based growth during 2001. Total assets at 31 December 2001 were C\$33.3 billion, up C\$3.8 billion (12.9 per cent) from 31 December 2000. Loans and acceptances increased by C\$2.6 billion due primarily to the continued growth of the commercial loan portfolio, including acceptances, residential mortgages and personal loans during 2001.

Total deposits increased C\$3.2 billion (13.6 per cent) during 2001. Personal deposits grew C\$1.3 billion (10.5 per cent) to C\$13.4 billion compared to C\$12.1 billion at 31 December 2000. Commercial deposits increased by C\$0.9 billion (8.4 per cent) to C\$11.6 billion over the same period.

Funds under management

Funds under management were C\$10.6 billion at 31 December 2001 compared to C\$10.2 billion at 31 December 2000 and C\$9.5 billion at 30 September 2001. The increase in funds under management reflected strong growth in mutual funds which more than offset the decline in market values due to the weak global equity markets over the year.

Capital

The bank's tier 1 capital ratio was 8.6 per cent and the total capital ratio was 11.3 per cent at 31 December 2001. This compares with 8.6 per cent and 11.5 per cent, respectively, at 31 December 2000 and 8.3 per cent and 10.9 per cent, respectively, at 30 September 2001.

Dividends

At its meeting on 8 February 2002, the Board of Directors declared a regular dividend of 39.0625 cents per share (totalling C\$2 million) on the Class 1 Preferred Shares – Series A. The dividend will be payable in cash on 1 April 2002, the first business day after 31 March 2002 for shareholders of record on 15 March 2002.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>			<i>Year ended</i>	
	<i>31 December 2001</i>	<i>30 September 2001</i>	<i>31 December 2000</i>	<i>31 December 2001</i>	<i>31 December 2000</i>
Earnings					
Net interest income	197	196	179	754	666
Income before taxes and non-controlling interest in subsidiaries	81	103	105	377	347
Net income	51	57	40	214	184
Net income attributable to common shares	49	55	38	206	169
Basic earnings per share	0.11	0.12	0.09	0.45	0.52
Financial ratios (%)					
Return on average common equity	13.3	15.5	12.1	14.9	15.3
Return on average assets	0.58	0.68	0.50	0.65	0.60
Net interest margin	2.66	2.76	2.73	2.70	2.68
Cost:income ratio*	63.3	56.7	61.0	59.3	65.2
Provision for credit losses:average loans and acceptances	0.48	0.40	0.12	0.39	0.18
Other income:total income ratio	36.0	34.2	38.7	35.7	41.0

*Excluding amortisation of goodwill and intangible assets

<i>Figures in C\$ millions</i>	<i>At 31 December 2001</i>	<i>At 31 December 2000</i>
Financial position		
Total assets	33,260	29,438
Total loans	21,870	19,753
Total deposits	26,707	23,511
Shareholders' equity	1,612	1,406
Total assets under administration		
Funds under management	10,559	10,198
Custodial assets under administration	2,110	2,500
Capital ratios (%)		
Total capital	11.3	11.5
Tier 1	8.6	8.6

Figures in C\$ millions (except per share amounts)	Quarter ended			Year ended	
	31 December	30 September	31 December	31 December	31 December
	2001	2001	2000	2001	2000
Interest and dividend income					
Loans	329	368	397	1,448	1,444
Securities	30	36	47	153	174
Deposits with regulated financial institutions	22	27	40	123	146
Total interest income	<u>381</u>	<u>431</u>	<u>484</u>	<u>1,724</u>	<u>1,764</u>
Interest expense					
Deposits	(176)	(227)	(297)	(938)	(1,068)
Debentures	(8)	(8)	(8)	(32)	(30)
Total interest expense	<u>(184)</u>	<u>(235)</u>	<u>(305)</u>	<u>(970)</u>	<u>(1,098)</u>
Net interest income	197	196	179	754	666
Provision for credit losses	(30)	(24)	(7)	(92)	(39)
Net interest income after Provision for credit losses	<u>167</u>	<u>172</u>	<u>172</u>	<u>662</u>	<u>627</u>
Other income					
Deposit and payment service charges	17	17	16	67	58
Credit fees	14	14	13	53	41
Capital market fees	29	19	36	98	162
Mutual fund and administration fees	11	14	11	51	48
Foreign exchange	12	13	12	49	47
Trade finance	6	7	5	24	22
Trading revenue	2	3	6	13	26
Securitization income	5	3	3	15	11
Other	15	12	11	49	47
	<u>111</u>	<u>102</u>	<u>113</u>	<u>419</u>	<u>462</u>
Net interest and other income	278	274	285	1,081	1,089
Non-interest expenses					
Salaries and employee benefits	(98)	(90)	(92)	(359)	(385)
Premises and equipment	(31)	(25)	(25)	(115)	(108)
Other	(68)	(56)	(63)	(230)	(249)
Total non-interest expenses	<u>(197)</u>	<u>(171)</u>	<u>(180)</u>	<u>(704)</u>	<u>(742)</u>
Income before taxes and non-controlling interest in income of subsidiaries	81	103	105	377	347
Provision for income taxes	(26)	(42)	(61)	(147)	(155)
Non-controlling interest in income of subsidiaries	(4)	(4)	(4)	(16)	(8)
Net income	<u>51</u>	<u>57</u>	<u>40</u>	<u>214</u>	<u>184</u>
Preferred share dividends	(2)	(2)	(2)	(8)	(15)
Net income attributable to Common shares	<u>49</u>	<u>55</u>	<u>38</u>	<u>206</u>	<u>169</u>
Average common shares outstanding (000's)	456,168	456,168	417,342	456,168	325,305
Basic earnings per share	0.11	0.12	0.09	0.45	0.52

<i>Figures in C\$ millions</i>	<i>At 31 December 2001</i>	<i>At 31 December 2000</i>
Assets		
Cash and deposits with Bank of Canada	466	375
Deposits with regulated financial institutions	<u>3,261</u>	<u>1,997</u>
	<u>3,727</u>	<u>2,372</u>
Investment securities	2,474	2,840
Trading securities	<u>1,153</u>	<u>955</u>
	<u>3,627</u>	<u>3,795</u>
Assets purchased under Reverse repurchase agreements	<u>428</u>	<u>436</u>
Loans		
Businesses and government	11,575	11,330
Residential mortgage	8,377	6,809
Consumer	2,233	1,899
Allowance for credit losses	<u>(315)</u>	<u>(285)</u>
	<u>21,870</u>	<u>19,753</u>
Customers' liability under acceptances	2,571	2,134
Land, buildings and equipment	124	118
Other assets	<u>913</u>	<u>830</u>
	<u>3,608</u>	<u>3,082</u>
Total assets	<u><u>33,260</u></u>	<u><u>29,438</u></u>
Liabilities and shareholders' equity		
Deposits		
Regulated financial institutions	1,747	707
Individuals	13,390	12,116
Businesses and governments	<u>11,570</u>	<u>10,688</u>
	<u>26,707</u>	<u>23,511</u>
Subordinated debentures	<u>447</u>	<u>422</u>
Acceptances	2,571	2,134
Assets sold under repurchase agreements	7	15
Other liabilities	1,686	1,720
Non-controlling interest in subsidiaries	<u>230</u>	<u>230</u>
	<u>4,494</u>	<u>4,099</u>
Shareholders' equity		
Preferred shares	125	125
Common shares	935	935
Contributed surplus	165	165
Retained earnings	<u>387</u>	<u>181</u>
	<u>1,612</u>	<u>1,406</u>
Total liabilities and shareholders' equity	<u><u>33,260</u></u>	<u><u>29,438</u></u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>			<i>Year ended</i>	
	<i>31 December 2001</i>	<i>30 September 2001</i>	<i>31 December 2000</i>	<i>31 December 2001</i>	<i>31 December 2000</i>
Cash flows provided by (used in):					
Operating activities	76	(365)	(311)	34	(226)
Financing activities	247	1,787	331	3,180	2,222
Investing activities	(30)	(955)	327	(2,414)	(1,750)
Increase (decrease) in cash and cash equivalents	293	467	347	800	246
Cash and cash equivalents, Beginning of period	2,845	2,378	1,991	2,338	2,092
Cash and cash equivalents, end of period	3,138	2,845	2,338	3,138	2,338