

25 October 2005

**HSBC BANK CANADA
THIRD QUARTER 2005 RESULTS - HIGHLIGHTS**

- Net income attributable to common shares was C\$325 million for the nine months ended 30 September 2005, an increase of 25.5 per cent over the same period in 2004.
- Net income attributable to common shares was C\$113 million for the quarter ended 30 September 2005, an increase of 37.8 per cent over the third quarter of 2004.
- Return on average common equity was 20.4 per cent for the nine months ended 30 September 2005 and 20.9 per cent for the quarter ended 30 September 2005 compared with 19.0 per cent and 16.4 per cent, respectively, for the same periods in 2004.
- The cost:income ratio was 52.9 per cent for the nine months ended 30 September 2005 and 51.2 per cent for the quarter ended 30 September 2005 compared with 56.1 per cent and 58.1 per cent, respectively, for the same periods in 2004.
- Total assets were C\$49.4 billion at 30 September 2005 compared with C\$42.3 billion at 30 September 2004.
- Total funds under management were C\$19.9 billion at 30 September 2005 compared with C\$16.2 billion at 30 September 2004.

Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$325 million for the nine months ended 30 September 2005, an increase of C\$66 million, or 25.5 per cent, from C\$259 million for the same period in 2004. Net income attributable to common shares for the quarter ended 30 September 2005 was C\$113 million, an increase of C\$31 million, or 37.8 per cent, from C\$82 million for the quarter ended 30 September 2004.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: “Results for the quarter continue to be robust. The stable interest rates in Canada and strong economy continue to provide stimulus for growth. Net income in 2005 benefited from strong performance across all customer groups, which helped increase both net interest income and non-interest revenue. A stable credit environment in Canada and a strong economy has helped keep provision for credit losses lower in 2005 compared with 2004. In Personal Financial Services, growth in residential mortgages, consumer loans, and funds under management all contributed to improved performance. In Commercial Banking, growth in lending volumes contributed to strong revenue growth. Revenue in Corporate, Investment Banking and Markets was impacted by the flatter yield curve in 2005.

“We are excited about the launch of two new initiatives in the quarter which will help us to deepen our existing client relationships and attract new customers. Our LifeMap™ investment solution of bundled underlying mutual funds will help simplify investing as well as align investors’ changing needs throughout all stages of their life. Our MasterCard product was upgraded to include two new HSBC Rewards programs: HSBC Travel & Merchandise Rewards, or HSBC Cash Back Rewards.

“With our positive results for this quarter and year-to-date, we have good momentum leading into the final quarter of 2005. We will ensure that our focus remains on executing core business strategies to achieve our growth objectives.”

Net interest income

Net interest income for the nine months ended 30 September 2005 was C\$741 million, up C\$74 million or 11.1 per cent, compared with C\$667 million for the same period in 2004. For the quarter ended 30 September 2005, net interest income was C\$261 million, C\$31 million or 13.5 per cent higher, compared with C\$230 million for the same quarter in 2004. Growth in net interest income during 2005 has been aided by growth in assets from each of our customer groups. Despite tightening of interest rates in the US over the course of 2005, and the one increase in Canada in September of this year, economic sentiment remains positive. Average assets were C\$46.5 billion for the nine months ended 30 September 2005 compared with C\$39.6 billion for the same period in 2004 and C\$48.8 billion for the quarter ended 30 September 2005 compared with C\$40.9 billion for the same quarter last year.

Net interest margins were negatively impacted by lower average interest rates in 2005 compared with 2004. The net interest margin, as a percentage of average interest earning assets, was 2.38 per cent for the nine months ended 30 September 2005 compared with 2.53 per cent for the same period in 2004. For the quarter ended 30 September 2005 the net interest margin was 2.36 per cent compared with 2.51 per cent for the same period in 2004. Net interest margins have been impacted in 2005 by continued competitive product pricing, particularly in personal financial services. Additionally, a flatter yield curve in 2005 has impacted net interest margins in our treasury and markets groups.

Non-interest revenue

Non-interest revenue was C\$429 million for the nine months ended 30 September 2005, C\$46 million or 12.0 per cent higher, compared with C\$383 million for the same period in 2004. For the quarter ended 30 September 2005, non-interest revenue was C\$145 million, up C\$19 million or 15.1 per cent, compared with C\$126 million for the same quarter in 2004.

Credit fees were higher in 2005 due to increased activity in commercial banking, particularly in shorter term facilities such as bankers' acceptances, financial guarantees and letters of credit. Capital market fees improved slightly in the third quarter of 2005 as customers increased their retail trading activity on the back of improved equity markets in Canada, driven by higher natural resource prices. Investment administration fees increased in 2005 due to higher funds under management, driven partly by increases in our Private Client products. Foreign exchange revenues in 2005 have benefited from the significant volatility of the exchange rate between the Canadian and US dollars. Other non-interest revenue is higher in 2005 from stronger fee income from our Canadian Immigrant Investor Program ("CIIP") and due to upward fair value adjustments to our investment company assets, resulting from new accounting requirements in 2005.

Non-interest expenses

Non-interest expenses were C\$619 million for the nine months ended 30 September 2005, C\$30 million or 5.1 per cent higher, compared with C\$589 million for the same period in 2004. For the quarter ended 30 September 2005 non-interest expenses were C\$208 million compared with C\$207 million for the same quarter in 2004.

Salaries and benefits for the nine months ended 30 September 2005 were higher than the same period in 2004 due to an increased employee base resulting from the acquisition of Intesa Bank Canada in 2004, investments in our branch network, and higher variable-based compensation. In the third quarter of 2005, employee benefits were lower as a result of adjustments to our pension plan expenses. Other non-interest expenses were higher for the nine months to 30 September 2005 compared with 2004 due to higher transactions costs associated with increased volumes in our brokerage subsidiary and administration fees associated with the CIIP. In addition, increased activity in banking operations resulted in higher administrative and technical services fees. Non-interest expenses in 2005 included a net credit arising from successful resolution of certain commodity tax issues from previous years.

Credit quality and provision for credit losses

Provision for credit losses was C\$21 million for the nine months ended 30 September 2005 compared with C\$44 million in the same period of 2004. For the quarter ended 30 September 2005 the provision for credit losses was C\$7 million compared with C\$10 million in the same period last year. Credit quality remains stable, as has been the case for most of 2005, and reflects the strong economic conditions in Canada and the United States. This has resulted in lower default rates, primarily in loans to businesses, and related allowances for credit losses.

at 30 September 2005 compared with C\$153 million at 30 September 2004. Gross impaired consumer loans were C\$28 million at 30 September 2005 compared with C\$37 million at the same time last year. Total impaired loans, net of specific allowances, were C\$78 million at 30 September 2005 compared with C\$108 million at 30 September 2004. The general allowance for credit losses was C\$283 million compared with C\$273 million at 30 September 2004. The total allowance for credit losses, as a percentage of loans outstanding, was 1.04 per cent per cent at 30 September 2005 compared with 1.25 per cent at 30 September 2004.

Balance sheet

Total assets at 30 September 2005 were C\$49.4 billion, an increase of C\$6.1 billion, or 14.1 per cent, from C\$43.3 billion at 31 December 2004 and an increase of C\$7.1 billion, or 16.8 per cent, from C\$42.3 billion at 30 September 2004. Loan growth during 2005 was strong across all customer groups and was supported by strong economic conditions and stable interest rates in Canada. Commercial loans increased by \$1.7 billion in 2005 to C\$15.1 billion at 30 September 2005. Residential mortgages and consumer loans grew by C\$2.2 billion to C\$17.4 billion in total at 30 September 2005.

Total deposits at 30 September 2005 were C\$38.6 billion, an increase of C\$4.8 billion from C\$33.8 billion at 31 December 2004 and an increase of C\$5.6 billion from C\$33.0 billion at 30 September 2004. Commercial deposits and deposits from banks increased during 2005 by C\$4.3 billion to C\$23.3 billion in total as at 30 September 2005. This increase was used to fund the increase in loans over the period. During 2005, personal deposits increased C\$0.4 billion to C\$15.3 billion as at 30 September 2005. At constant exchange rates, this increase would have been C\$0.6 billion.

Total assets under administration

Funds under management were C\$19.9 billion at 30 September 2005 compared with C\$16.2 billion at the same time last year and C\$18.8 billion at 30 June 2005. Including custody and administration balances, total assets under administration were C\$26.5 billion compared with C\$24.7 billion at 30 June 2005 and C\$21.4 billion at 30 September 2004.

Funds under management grew in the third quarter of 2005 due to increased activity in our securities brokerage firm, as Canadian equity markets improved supported by higher natural resource prices, and increases in funds in our Private Client products. Custodial assets under administration grew C\$0.7 billion in the third quarter due largely to higher institutional business volumes in our trust company.

Capital ratios

The tier 1 capital ratio was 8.7 per cent and the total capital ratio was 10.9 per cent at 30 September 2005. This compares with 8.7 per cent and 11.2 per cent, respectively, at 30 September 2004.

On 30 September 2005, all of the issued and outstanding Class 1 Preferred Shares – Series A, totalling C\$125 million, were redeemed for C\$25.00 per share.

Dividends

During the third quarter of 2005, we declared and paid a C\$75 million dividend on our common shares. For the fourth quarter of 2005, a C\$75 million dividend on our common shares was declared. A regular dividend of 31.875 cents per share has been declared on the Class 1 Preferred Shares – Series C. The preferred share dividends will be payable in cash on 31 December 2005, for shareholders of record on 15 December 2005.

HSBC Bank Canada

Financial Commentary
(continued)

About HSBC Bank Canada

Earnings

Net income attributable to common shares	113	104	82	325	259
Basic earnings per share	0.23	0.21	0.17	0.67	0.54

Performance ratios (%)

Return on average common equity	20.9	19.7	16.4	20.4	19.0
Return on average assets	0.92	0.90	0.80	0.93	0.87
Net interest margin	2.36	2.34	2.51	2.38	2.53
Cost:income ratio	51.2	54.6	58.1	52.9	56.1
Non-interest revenue:total revenue ratio	35.7	36.6	35.4	36.7	36.5

Credit information

Impaired loans	132	125	190		
Allowance for credit losses					
– Balance at end of period	337	338	355		
– As a percentage of impaired loans	255 %	270 %	187 %		
– As a percentage of loans outstanding	1.04 %	1.09 %	1.25 %		

Average balances

Assets	48,754	46,523	40,925	46,502	39,552
Loans	31,535	29,901	27,727	30,102	26,481
Deposits	38,572	37,028	31,825	36,779	30,544
Common equity	2,157	2,411	1,991	2,132	1,825

Capital ratios (%)

Tier 1	8.7	9.0	8.7		
Total capital	10.9	11.2	11.2		

Total assets under administration

Funds under management	19,872	18,820	16,220		
Custody accounts	6,585	5,875	5,190		
Total assets under administration	26,457	24,695	21,410		

HSBC Bank Canada**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 2005</i>	<i>30 June 2005</i>	<i>30 September 2004</i>	<i>30 September 2005</i>	<i>30 September 2004</i>

Interest and dividend income					
Loans	417	396	352	1,187	1,030
Securities	31	25	20	80	60
Deposits with regulated financial institutions	45	39	17	114	43
	<u>493</u>	<u>460</u>	<u>389</u>	<u>1,381</u>	<u>1,133</u>
Interest expense					
Deposits	226	211	150	621	440
Debentures	6	6	9	19	26
	<u>232</u>	<u>217</u>	<u>159</u>	<u>640</u>	<u>466</u>
Net interest income	261	243	230	741	667
Provision for credit losses	7	6	10	21	44
Net interest income after provision for credit losses	254	237	220	720	623
Non-interest revenue					
Deposit and payment service charges	20	22	20	62	61
Credit fees	23	24	21	69	60
Capital market fees	25	24	21	81	78
Investment administration fees	24	17	16	58	45
Foreign exchange	19	19	16	55	50
Trade finance	7	7	8	21	22
Trading revenue	5	2	4	12	10
Securitization income	5	5	6	18	21
Other	17	20	14	53	36
	<u>145</u>	<u>140</u>	<u>126</u>	<u>429</u>	<u>383</u>
Net interest and non-interest revenue	399	377	346	1,149	1,006
Non-interest expenses					
Salaries and employee benefits	112	110	113	331	316
Premises and equipment	26	27	26	80	79
Other	70	72	68	208	194
	<u>208</u>	<u>209</u>	<u>207</u>	<u>619</u>	<u>589</u>
Income before the undernoted	191	168	139	530	417
Effect of accounting change	–	–	–	–	14
Income before provision for income taxes and non-controlling interest in income of trust	191	168	139	530	431
Provision for income taxes	67	55	51	179	159
Non-controlling interest in income of trust	7	5	4	16	12
Income from continuing operations	117	108	84	335	260
Income from discontinued operations [†]	–	–	–	–	5
Net income	117	108	84	335	265
Preferred share dividends	4	4	2	10	6
Net income attributable to common shares	113	104	82	325	259
Average common shares outstanding (000)	488,668	488,668	488,668	488,668	478,513
Basic earnings per share (C\$)	0.23	0.21	0.17	0.67	0.54

[†] Reflects the sale of HSBC Canadian Direct Insurance Incorporated effective 30 April 2004.

HSBC Bank Canada

Condensed Consolidated Balance Sheet (Unaudited)

Figures in C\$ millions

At 30 September 2005 At 31 December 2004 At 30 September 2004

Assets			
Cash and deposits with Bank of Canada	340	328	297
Deposits with regulated financial institutions	<u>5,191</u>	<u>4,094</u>	<u>4,123</u>
	<u>5,531</u>	<u>4,422</u>	<u>4,420</u>
Investment securities	2,912	1,967	2,023
Trading securities	<u>1,459</u>	<u>1,055</u>	<u>966</u>
	<u>4,371</u>	<u>3,022</u>	<u>2,989</u>
Assets purchased under reverse repurchase agreements	<u>1,821</u>	<u>2,264</u>	<u>2,002</u>
Loans			
– Businesses and government	15,122	13,450	13,230
– Residential mortgage	13,407	11,966	11,835
– Consumer	3,999	3,252	3,320
– Allowance for credit losses	<u>(337)</u>	<u>(349)</u>	<u>(355)</u>
	<u>32,191</u>	<u>28,319</u>	<u>28,030</u>
Customers' liability under acceptances	3,903	3,754	3,560
Land, buildings and equipment	95	101	95
Other assets	<u>1,490</u>	<u>1,381</u>	<u>1,209</u>
	<u>5,488</u>	<u>5,236</u>	<u>4,864</u>
Total assets	<u>49,402</u>	<u>43,263</u>	<u>42,305</u>
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	1,960	635	594
– Individuals	15,267	14,818	14,822
– Businesses and governments	<u>21,353</u>	<u>18,395</u>	<u>17,595</u>
	<u>38,580</u>	<u>33,848</u>	<u>33,011</u>
Acceptances	3,903	3,754	3,560
Assets sold under repurchase agreements	286	23	119
Other liabilities	3,400	2,785	2,725
Non-controlling interest in trust and subsidiary	<u>430</u>	<u>230</u>	<u>230</u>
	<u>8,019</u>	<u>6,792</u>	<u>6,634</u>
Subordinated debentures	<u>423</u>	<u>426</u>	<u>501</u>
Shareholders' equity			
– Preferred shares	175	125	125
– Common shares	1,125	1,125	1,125
– Contributed surplus	184	177	175
– Retained earnings	<u>896</u>	<u>770</u>	<u>734</u>
	<u>2,380</u>	<u>2,197</u>	<u>2,159</u>
Total liabilities and shareholders' equity	<u>49,402</u>	<u>43,263</u>	<u>42,305</u>

HSBC Bank Canada

Condensed Consolidated Statement of Cash Flows (Unaudited)

	<i>Quarter ended</i>			<i>Nine months ended</i>	
<i>Figures in C\$ millions</i>	30 September	30 June	30 September	30 September	30 September

	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash flows (used in)/provided by:					
– Operating activities	412	(293)	(28)	524	356
– Financing activities	1,174	2,154	841	4,990	2,823
– Investing activities	<u>(1,483)</u>	<u>(1,623)</u>	<u>(641)</u>	<u>(4,697)</u>	<u>(2,772)</u>
Increase in cash and Cash equivalents	103	238	172	817	407
Cash and cash equivalents, beginning of period	<u>4,721</u>	<u>4,483</u>	<u>3,684</u>	<u>4,007</u>	<u>3,449</u>
Cash and cash equivalents, end of period	<u>4,824</u>	<u>4,721</u>	<u>3,856</u>	<u>4,824</u>	<u>3,856</u>
Represented by:					
– Cash resources per balance sheet	5,531	5,344	4,420		
– less non-operating deposits [†]	<u>(707)</u>	<u>(623)</u>	<u>(564)</u>		
– Cash and cash equivalents, end of period	<u>4,824</u>	<u>4,721</u>	<u>3,856</u>		

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