

24 April 2007

### **HSBC Bank Canada First Quarter 2007 Results<sup>†</sup> - Highlights**

- Net income attributable to common shares was C\$139 million for the quarter ended 31 March 2007, an increase of 19.8 per cent over the same period in 2006.
- Return on average common equity was 22.0 per cent for the quarter ended 31 March 2007 compared with 20.7 per cent for the same period in 2006.
- The cost efficiency ratio was 52.2 per cent for the quarter ended 31 March 2007 compared with 53.1 per cent for the same period in 2006.
- Total assets were C\$60.9 billion at 31 March 2007 compared with C\$52.3 billion at 31 March 2006.
- Total funds under management were C\$25.1 billion at 31 March 2007 compared with C\$21.8 billion at 31 March 2006.

<sup>†</sup> *Results are prepared in accordance with Canadian generally accepted accounting principles.*

## Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$139 million for the quarter ended 31 March 2007, an increase of C\$23 million, or 19.8 per cent, from C\$116 million for the first quarter of 2006. Compared to the fourth quarter of 2006, net income attributable to common shares was C\$11 million, or 8.6 per cent, higher in the first quarter of 2007. Results for the quarter ended 31 March 2007 benefited from a C\$14 million gain, after related income taxes, on the sale of some of the bank's shares in the Montreal Exchange.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada is off to a satisfactory start in fiscal 2007 and underlying business performance reflected good year-on-year revenue and net income growth. The Commercial Banking business achieved strong asset growth while maintaining a high level of credit quality. The Corporate, Investment Banking and Markets business also recorded good growth, benefiting from higher advisory and underwriting fees, participating in a number of significant transactions. The Personal Financial Services business achieved good growth in High Rate and Direct Savings Accounts through a continued focus on direct banking capabilities.

"The bank's focus for the rest of this year is to continue to achieve sustainable revenue growth by deepening existing customer relationships and acquiring new customers. The bank will continue to build on direct banking capabilities and the branch network, and focus on further improving efficiency and customer service through business transformation initiatives. The bank will also continue marketing initiatives to build on progress made in increasing the awareness of the HSBC brand within Canada."

## Net interest income

Net interest income was C\$294 million for the quarter ended 31 March 2007 compared with C\$266 million in the same quarter of 2006, an increase of C\$28 million, or 10.5 per cent. The increase was driven by growth in assets in all businesses. Average interest earning assets for the quarter were C\$6.4 billion, or 13.9 per cent, higher than the same period in 2006. Continuing competitive pressures and a challenging interest rate environment impacted the net interest margin, which decreased to 2.29 per cent for the quarter ended 31 March 2007 from 2.36 per cent for the same period in 2006.

Net interest income in the first quarter of 2007 was C\$3 million higher compared with C\$291 million in the fourth quarter of 2006 despite there being two fewer days in the first quarter. Average interest earning assets increased by C\$2.0 billion while the net interest margin was in line with the fourth quarter of 2006.

## Non-interest revenue

Non-interest revenue was C\$185 million for the first quarter of 2007 compared with C\$156 million in the same quarter of 2006, an increase of C\$29 million, or 18.6 per cent. Investment securities gains were C\$20 million higher due to gains on the sale of some of the bank's shares in the Montreal Exchange and sale of investments within Private Equity Funds. Investment administration fees were higher as funds managed in the wealth management businesses continued to grow. These increases were partially offset by lower trading income.

The increase in non-interest revenue from the fourth quarter of 2006 was C\$17 million, or 10.1 per cent, primarily as a result of higher investment securities gains and higher investment administration fees. Capital market fees were also higher due to higher underwriting fees earned by the Global Investment Banking business. Securitization income was lower, impacted by the timing of certain securitizations, and trading revenues were also lower.

### **Non-interest expenses**

Non-interest expenses were C\$250 million for the first quarter of 2007 compared with C\$224 million in the same quarter of 2006, an increase of C\$26 million, or 11.6 per cent. Salaries and employee benefits expenses were higher by C\$20 million in 2007 due largely to increased variable compensation costs driven by higher revenues, and a higher employee base. The cost efficiency ratio of 52.2 per cent for the first quarter of 2007 improved from 53.1 per cent for the same period in 2006, favourably impacted by the gain on the sale of shares in the Montreal Exchange.

Non-interest expenses were C\$14 million higher than the fourth quarter of 2006. Salaries and benefits were C\$19 million higher primarily due to higher pension and other benefits costs, which are usually higher in the first quarter of each year.

### **Credit quality and provision for credit losses**

The provision for credit losses was C\$10 million for the first quarter of 2007, compared with C\$6 million in the first quarter of 2006, and C\$17 million for the fourth quarter of 2006. Overall credit quality remains good, reflecting strong economic conditions in Canada.

Gross impaired loans were C\$145 million, C\$19 million, or 11.6 per cent, lower compared with C\$164 million at 31 December 2006, and C\$8 million, or 5.2 per cent, lower compared with C\$153 million at 31 March 2006. Total impaired loans, net of specific allowances for credit losses, were C\$87 million at 31 March 2007 compared with C\$106 million at 31 December 2006 and C\$97 million at 31 March 2006. The general allowance for credit losses remained unchanged at C\$269 million compared with 31 December 2006 and 31 March 2006. The total allowance for credit losses, as a percentage of loans outstanding, decreased to 0.88 per cent at 31 March 2007 compared with 0.92 per cent at 31 December 2006 and 0.99 per cent at 31 March 2006 as the bank's loan portfolios grew. The bank considers the total allowance for credit losses to be appropriate given the credit quality of its portfolios and the current credit environment.

### **Income taxes**

The effective tax rate in the first quarter of 2007 was 32.9 per cent compared with 35.1 per cent in the first quarter of 2006 and 33.2 per cent in the fourth quarter of 2006. The lower tax rate in the quarter ended 31 March 2007 was a result of lower taxes applicable on the sale of certain investments.

**Balance sheet**

Total assets at 31 March 2007 were C\$60.9 billion, an increase of C\$4.1 billion from 31 December 2006, and C\$8.6 billion from 31 March 2006. Commercial loans and bankers' acceptances increased by C\$1.4 billion since the end of 2006, as commercial activity was strong, spurred by the strength of the Canadian economy. Residential mortgages increased by C\$0.2 billion, although the rate of growth slowed in the first quarter, and consumer loans increased by C\$0.1 billion. The securities portfolio increased by C\$3.0 billion in the quarter, primarily in Government of Canada securities.

Total deposits increased by C\$1.8 billion to C\$46.0 billion at 31 March 2007 from C\$44.2 billion at 31 December 2006 and were C\$5.6 billion higher compared with C\$40.4 billion at 31 March 2006. Commercial deposits grew by C\$1.6 billion, of which C\$0.4 billion was from Commercial Banking relationships. Personal deposits grew by C\$0.2 billion driven by growth in High Rate and Direct Savings Accounts.

**Total assets under administration**

Funds under management were C\$25.1 billion at 31 March 2007 compared with C\$23.3 billion at 31 December 2006 and C\$21.8 billion at 31 March 2006. Funds under management in the first quarter of 2007 benefited from strong investment sales and buoyant equity markets, particularly in Canada. Including custody and administration balances, total assets under administration were C\$34.0 billion compared with C\$31.9 billion at 31 December 2006 and C\$30.4 billion at 31 March 2006.

**Capital management**

The tier 1 capital ratio was 8.9 per cent and the total capital ratio was 11.0 per cent at 31 March 2007. These compare with 9.0 per cent and 11.1 per cent, respectively, at 31 December 2006 and 9.0 per cent and 11.3 per cent, respectively, at 31 March 2006.

Subsequent to the quarter end, on 9 April 2007, the bank issued C\$400 million of subordinated debentures maturing in 2022. Interest at an annual rate of 4.8 per cent is payable half-yearly until 10 April 2017. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.0 per cent, payable quarterly until maturity. Proceeds from the offering will be used for general corporate purposes and to further strengthen the bank's tier 2 capital base.

On 16 April 2007, HSBC Bank Canada gave notice that on 14 June 2007, subject to regulatory approval, the bank will redeem its C\$100 million 5.6 per cent Debenture due 14 June 2012 at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest due at the redemption date.

**Dividends**

During the first quarter of 2007, the bank declared and paid C\$65 million in dividends on HSBC Bank Canada common shares.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C and 31.25 cents per share on Class 1 Preferred Shares – Series D. The dividends will be payable on 30 June 2007, for shareholders of record on 15 June 2007.

**Accounting policies adopted in 2007**

Effective 1 January 2007, the bank adopted new Canadian Institute of Chartered Accountants (CICA) Handbook Standards relating to the recognition, measurement and disclosure of financial instruments including hedges and comprehensive income. Although these standards were adopted prospectively without restatement of prior year comparatives, the impact on initial adoption as well as the effects of certain transitional adjustments have been recorded as adjustments to opening retained earnings or opening accumulated other comprehensive income. Although there was no material impact on the results for the first quarter arising from the adoption of these new standards, more detailed information on the impact of adopting these standards will be included in HSBC Bank Canada's first quarter 2007 report to shareholders.

**About HSBC Bank Canada**

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With around 10,000 offices in 82 countries and territories and assets of US\$1,861 billion at 31 December 2006, the HSBC Group is one of the world's largest banking and financial services organisations. Visit the bank's website at [hsbc.ca](http://hsbc.ca) for more information about HSBC Bank Canada and its products and services.

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Copies of HSBC Bank Canada's first quarter 2007 report will be sent to shareholders in May 2007.

**Caution regarding forward-looking financial statements**

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, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation level and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on interest rates and the bank's net interest margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2007</i>	<i>31 December 2006</i>	<i>31 March 2006</i>
<b>Earnings</b>			
Net income attributable to common shares	139	128	116
Basic earnings per share (C\$)	0.28	0.26	0.24
<b>Performance ratios (%)</b>			
Return on average common equity	22.0	20.6	20.7
Return on average assets	0.93	0.87	0.92
Net interest margin †	2.29	2.30	2.36
Cost efficiency ratio ††	52.2	51.4	53.1
Non-interest revenue:total revenue ratio	38.6	36.6	37.0
<b>Credit information</b>			
Gross impaired loans	145	164	153
Allowance for credit losses			
– Balance at end of period	327	327	325
– As a percentage of gross impaired loans	226 %	199 %	212 %
– As a percentage of loans outstanding	0.88 %	0.92 %	0.99 %
<b>Average balances</b>			
Assets	60,656	58,883	50,986
Loans	35,994	34,943	32,252
Deposits	45,855	44,491	40,022
Common equity	2,558	2,464	2,276
<b>Capital ratios (%)</b>			
Tier 1	8.9	9.0	9.0
Total capital	11.0	11.1	11.3
<b>Total assets under administration</b>			
Funds under management	25,083	23,340	21,796
Custodial accounts	8,868	8,574	8,564
Total assets under administration	33,951	31,914	30,360

† Net interest margin is net interest income divided by average interest earning assets for the period.

†† The cost efficiency ratio is defined as non-interest expenses divided by total revenue.

<i>Figures in C\$ millions (except per share amounts)</i>	<i>Quarter ended</i>		
	<i>31 March 2007</i>	<i>31 December 2006</i>	<i>31 March 2006</i>
<b>Interest and dividend income</b>			
Loans	597	593	462
Securities	58	49	43
Deposits with regulated financial institutions	59	62	58
	<u>714</u>	<u>704</u>	<u>563</u>
<b>Interest expense</b>			
Deposits	413	406	291
Debentures	7	7	6
	<u>420</u>	<u>413</u>	<u>297</u>
<b>Net interest income</b>	<u>294</u>	<u>291</u>	<u>266</u>
<b>Non-interest revenue</b>			
Deposit and payment service charges	23	23	21
Credit fees	27	26	25
Capital market fees	32	30	32
Investment administration fees	30	28	24
Foreign exchange	9	9	7
Trade finance	6	6	6
Trading revenue	14	17	17
Investment securities gains	25	7	5
Securitization income	10	13	8
Other	9	9	11
	<u>185</u>	<u>168</u>	<u>156</u>
<b>Total revenue</b>	<u>479</u>	<u>459</u>	<u>422</u>
<b>Non-interest expenses</b>			
Salaries and employee benefits	143	124	123
Premises and equipment	31	34	29
Other	76	78	72
	<u>250</u>	<u>236</u>	<u>224</u>
<b>Net operating income before provision for credit losses</b>	<u>229</u>	<u>223</u>	<u>198</u>
<b>Provision for credit losses</b>	<u>10</u>	<u>17</u>	<u>6</u>
<b>Income before taxes and non-controlling interest in income of trust</b>	<u>219</u>	<u>206</u>	<u>192</u>
Provision for income taxes	70	66	65
Non-controlling interest in income of trust	6	7	7
<b>Net income</b>	<u>143</u>	<u>133</u>	<u>120</u>
Preferred share dividends	4	5	4
<b>Net income attributable to common shares</b>	<u>139</u>	<u>128</u>	<u>116</u>
Average common shares outstanding (000)	488,668	488,668	488,668
Basic earnings per share (C\$)	0.28	0.26	0.24

<i>Figures in C\$ millions</i>	<i>At 31 March 2007</i>	<i>At 31 December 2006</i>	<i>At 31 March 2006</i>
<b>Assets</b>			
Cash and deposits with Bank of Canada	457	368	374
Deposits with regulated financial institutions	<u>4,380</u>	<u>4,346</u>	<u>4,808</u>
	<u>4,837</u>	<u>4,714</u>	<u>5,182</u>
Available for sale securities	5,572	–	–
Investment securities	–	3,604	4,254
Trading securities	2,211	1,162	1,762
Other securities	<u>25</u>	<u>–</u>	<u>–</u>
	<u>7,808</u>	<u>4,766</u>	<u>6,016</u>
Assets purchased under reverse repurchase agreements	<u>3,592</u>	<u>4,760</u>	<u>2,536</u>
<b>Loans</b>			
– Businesses and government	19,059	17,819	16,149
– Residential mortgage	14,170	14,016	13,185
– Consumer	3,870	3,728	3,427
– Allowance for credit losses	<u>(327)</u>	<u>(327)</u>	<u>(325)</u>
	<u>36,772</u>	<u>35,236</u>	<u>32,436</u>
Customers' liability under acceptances	5,314	5,130	4,483
Land, buildings and equipment	122	121	100
Other assets	<u>2,466</u>	<u>2,043</u>	<u>1,574</u>
	<u>7,902</u>	<u>7,294</u>	<u>6,157</u>
Total assets	<u><u>60,911</u></u>	<u><u>56,770</u></u>	<u><u>52,327</u></u>
<b>Liabilities and shareholders' equity</b>			
<b>Deposits</b>			
– Regulated financial institutions	2,162	1,469	1,994
– Individuals	17,248	17,039	15,809
– Businesses and governments	<u>26,551</u>	<u>25,665</u>	<u>22,625</u>
	<u>45,961</u>	<u>44,173</u>	<u>40,428</u>
Acceptances	5,314	5,130	4,483
Assets sold under repurchase agreements	467	162	165
Other liabilities	5,220	3,444	3,605
Non-controlling interest in trust and subsidiary	<u>430</u>	<u>430</u>	<u>430</u>
	<u>11,431</u>	<u>9,166</u>	<u>8,683</u>
Subordinated debentures	<u>560</u>	<u>563</u>	<u>563</u>
<b>Shareholders' equity</b>			
– Preferred shares	350	350	350
– Common shares	1,125	1,125	1,125
– Contributed surplus	203	202	188
– Retained earnings	1,266	1,191	990
– Accumulated other comprehensive income	<u>15</u>	<u>–</u>	<u>–</u>
	<u>2,959</u>	<u>2,868</u>	<u>2,653</u>
Total liabilities and shareholders' equity	<u><u>60,911</u></u>	<u><u>56,770</u></u>	<u><u>52,327</u></u>

<i>Figures in C\$ millions</i>	<i>Quarter ended</i>		
	<i>31 March 2007</i>	<i>31 December 2006</i>	<i>31 March 2006</i>
Cash flows provided by/(used in):			
– operating activities	466	361	253
– financing activities	2,024	1,165	1,699
– investing activities	(2,188)	(2,430)	(2,503)
Increase (decrease) in cash and cash equivalents	302	(904)	(551)
Cash and cash equivalents, beginning of period	4,038	4,942	5,200
Cash and cash equivalents, end of period	4,340	4,038	4,649
Represented by:			
– Cash resources per balance sheet	4,837	4,714	5,182
– less non-operating deposits <sup>†</sup>	(497)	(676)	(533)
– Cash and cash equivalents, end of period	4,340	4,038	4,649

<sup>†</sup> *Non-operating deposits are comprised primarily of cash that reprices after 90 days and cash restricted for recourse on securitization transactions.*