

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

HSBC HOLDINGS PLC  
Form 6-K  
February 20, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer  
Pursuant to Rule 13a - 16 or 15d - 16 of  
the Securities Exchange Act of 1934

For the month of February, 2007

HSBC Holdings plc

42nd Floor, 8 Canada  
Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes  No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .....

HSBC BANK CANADA  
FOURTH QUARTER 2006 RESULTS^ - HIGHLIGHTS

- Net income attributable to common shares was C\$497 million for the year ended 31 December 2006, an increase of 8.8 per cent over the year ended 31 December 2005.
- Net income attributable to common shares was C\$128 million for the quarter ended 31 December 2006, a decrease of 3 per cent over the same period in 2005.
- Return on average common equity was 21.1 per cent for the year ended 31 December 2006 and 20.6 per cent for the quarter ended 31 December 2006 compared with 21.3 per cent and 23.8 per cent, respectively, for the same periods in 2005.

## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

- The cost efficiency ratio was 51.3 per cent for the year ended 31 December 2006 and 51.4 per cent for the quarter ended 31 December 2006 compared with 52.2 per cent and 50.0 per cent, respectively, for the same periods in 2005.
- Total assets were C\$56.8 billion at 31 December 2006, an increase of C\$7.6 billion, or 15.4 per cent, from C\$49.2 billion at 31 December 2005.
- Total funds under management were C\$31.9 billion at 31 December 2006, an increase of C\$3.9 billion, or 13.9 per cent, from C\$28.0 billion at 31 December 2005.

^ Results are prepared in accordance with Canadian generally accepted accounting principles.

### Financial Commentary

#### Overview

HSBC Bank Canada recorded net income attributable to common shares of C\$497 million for the year ended 31 December 2006, an increase of C\$40 million, or 8.8 per cent, from C\$457 million for 2005. Net income attributable to common shares for the quarter ended 31 December 2006 was C\$128 million, a decrease of C\$4 million, or 3 per cent, compared with C\$132 million for the same period in 2005. The fourth quarter of 2005 included a recovery of C\$14 million in our general allowance for credit losses and a one time reduction of C\$14 million in deposit guarantee fees following a transfer pricing settlement with the Canada Revenue Agency. Excluding the impact of these items and the related income tax effects, net income attributable to common shares for the fourth quarter of 2006 was 19.6 per cent higher than the same quarter in 2005.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "Results for the fourth quarter and for the year were good, reflecting strong growth in our commercial banking business and good momentum in our wealth management businesses. Net interest income was higher from strong loan growth, despite a competitive pricing environment. Non-interest revenues were higher on increased investment administration fees, higher credit fees and higher investment gains. Total non-interest expenses for the year increased as we continued to invest in our businesses, while our efficiency ratio also improved.

"Our focus for 2007 will be to continue this momentum and build for sustained growth by continuing to reinvest in key businesses and leveraging the Group's global distribution network and systems platforms. Business transformation initiatives will be undertaken to further improve efficiency, while continuing to deliver excellent service to our customers. We will also continue our marketing efforts to build on the significant progress made on the awareness of the HSBC brand within Canada."

#### Net interest income

Net interest income for the fourth quarter of 2006 was C\$291 million, an increase of C\$22 million, or 8.2 per cent, from the same quarter in 2005, driven primarily by growth in the balance sheet across all our customers groups. Average interest earning assets were C\$50.1 billion, compared with C\$45.2

## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

billion for the fourth quarter of 2005. Net interest margin, as a percentage of average interest earning assets decreased modestly to 2.30 per cent from 2.36 per cent.

Net interest income for the fourth quarter of 2006 was C\$9 million higher than the previous quarter, primarily due to growth in deposits and loans. Average interest earning assets were C\$1.7 billion higher than the previous quarter. Average deposits were C\$2.3 billion higher than the previous quarter and average loans were C\$0.8 billion higher.

Net interest income for the year ended 31 December 2006 was C\$1,115 million, an increase of C\$105 million, or 10.4 per cent, from C\$1,010 million for 2005 driven by growth in the balance sheet, partially offset by lower net interest margins due to the competitive pricing environment. Average interest earning assets were C\$47.9 billion for 2006 compared with C\$42.6 billion for 2005. Although prime rates increased during the year, net interest margins as a percentage of average interest earning assets decreased from 2.37 per cent in 2005 to 2.33 per cent in 2006. This was primarily as a result of competitive pricing, particularly in personal products such as residential mortgages and deposits.

### Non-interest revenue

Non-interest revenue for the fourth quarter of 2006 was C\$168 million, C\$27 million or 19.2 per cent higher, compared with the fourth quarter of 2005. Growth in non-interest revenue benefited from higher investment administration fees as a result of growth in our wealth management businesses as well as an appreciation in equity markets. Higher securitization income, increases in the value of our investments in private equity funds and higher capital markets fees in our Global Investment Banking business also benefited non-interest revenue.

Non-interest revenue for the fourth quarter of 2006 was C\$8 million higher than the previous quarter due to higher capital markets fees and increases in the value of our investments in private equity funds as well as higher securitization income.

For the year ended 31 December 2006, non-interest revenue was C\$651 million, C\$81 million or 14.2 per cent higher, compared with the same period in 2005. Non-interest revenue in 2006 benefited from higher investment administration fees, higher securitization income, higher credit fees as a result of higher volumes in Acceptances, higher Global Investment Banking revenues and increases in the value of our investments in private equity funds. These were partially offset by lower immigrant investor program fees, which are dependant on the number of approvals from government agencies.

### Non-interest expenses and operating efficiency

Non-interest expenses for the fourth quarter of 2006 were C\$236 million, an increase of C\$31 million or 15.1 per cent compared with the fourth quarter of 2005. Excluding the C\$14 million reduction of deposit guarantee fees made in the fourth quarter of 2005, non-interest expenses increased by 7.8 per cent in the fourth quarter of 2006 compared with the fourth quarter of 2005. Salaries and benefits in the fourth quarter of 2006 increased by C\$13 million from the same period in 2005 due to an expanding workforce to meet growth initiatives, particularly in our wealth management businesses. Also, higher incentive compensation reflected higher revenues.

Non-interest expenses in the fourth quarter of 2006 were C\$23 million higher than the previous quarter primarily due to higher premises costs, arising from the change in estimate of the useful life of improvements made to leased properties, and higher marketing expenditure on the HSBC brand.

## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

For the year ended 31 December 2006, non-interest expenses were C\$906 million, an increase of C\$82 million, or 10.0 per cent, compared with C\$824 million for 2005. Salaries and benefits expenses were C\$61 million higher due to a larger work force and higher stock based compensation resulting from a C\$9 million charge in the second quarter 2006, arising from the waiver of the total shareholders return-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan. Incentive compensation was also higher due to higher revenues. Other expenses were C\$12 million higher due to increased marketing spend on further developing the HSBC brand and a higher business tax expense due to a recovery in 2005 on the successful resolution of certain commodity tax issues. These were partially offset by a lower deposit guarantee fee expense due to the discontinuation of the HSBC Group's guarantee on new deposits subsequent to June 2005.

### Income taxes

The effective income tax rate for the fourth quarter of 2006 was 33.2 per cent, compared with 30.0 per cent, for the fourth quarter in 2005. The tax rate in the fourth quarter of 2005 was lower due to a year-to-date tax expense reduction recorded on the resolution of the deductibility of the deposit guarantee fee expense for the years 2002 to 2005.

The effective income tax rate for the fourth quarter of 2006 decreased by 1.7 per cent from the previous quarter due to a decrease in certain non-deductible expenses.

The effective income tax rate for the year ended 31 December 2006 was 35.6 per cent, compared with 33.5 percent in 2005. The effective rate was lower in 2005 due to benefits from changes in the net realizable value of certain future income tax assets and the resolution of the amount of the deductibility of the deposit guarantee fee expense for certain years. Also, lower corporate income tax rates enacted by the federal government budget in 2006 resulted in a write down of our future income tax asset and the expense related to the 2003 option awards for stock based compensation recognized in 2006 is not deductible for tax, thereby increasing the 2006 effective income tax rate.

### Credit quality and provision for credit losses

The credit environment remained stable in the fourth quarter of 2006 with a low level of corporate default rates. The provision for credit losses in the fourth quarter of 2006 was C\$17 million compared with C\$6 million for the same period in 2005, which benefited from a reversal of C\$14 million of our general allowance for credit losses due to favourable economic conditions.

The provision for credit losses for the fourth quarter of 2006 increased by C\$12 million from the previous quarter, largely due to provisions in two specific commercial exposures.

For the year ended 31 December 2006, the provision for credit losses was C\$34 million, compared with C\$27 million for 2005. Gross impaired loans increased to C\$164 million at 31 December 2006 compared with C\$130 million at 31 December 2005. Total impaired loans, net of specific allowances for credit losses, were C\$106 million at 31 December 2006 compared with C\$73 million at 31 December 2005. The total allowance for credit losses, as a percentage of loans outstanding was 0.92 per cent at 31 December 2006 compared with 1.01 per cent at 31 December 2005.

### Balance sheet

Total assets at 31 December 2006 were C\$56.8 billion, an increase of C\$7.6 billion from C\$49.2 billion at 31 December 2005. Strong economic conditions helped drive growth in commercial loans and deposits. Commercial loans and

## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

bankers' acceptances increased C\$3.3 billion in total to C\$22.9 billion at 31 December 2006 compared with C\$19.6 billion at 31 December 2005. Continued strength in the housing market across Canada and the strong economy helped residential mortgages and consumer loans to increase C\$1.1 billion to C\$17.7 billion in total at 31 December 2006 compared with C\$16.6 billion at 31 December 2005. Increased trading and balance sheet management activity increased assets purchased under reverse repurchase agreements by C\$3.0 billion at 31 December 2006 compared with 31 December 2005 while cash resources decreased by C\$1.2 billion.

Total deposits at 31 December 2006 were C\$44.2 billion, an increase of C\$5.6 billion from C\$38.6 billion at 31 December 2005. Launch of our High Rate Savings Account and growth of our wealth management businesses helped increase deposits from individuals to C\$17.0 billion at 31 December 2006 from C\$15.3 billion at the same time last year. Investments in our payments and cash management services contributed to a C\$4.4 billion increase in commercial deposits to C\$25.7 billion at 31 December 2006. As a result of the growth in core customer deposits, less reliance was placed on deposits from other banks, which decreased to C\$1.5 billion at 31 December 2006 from C\$2.0 billion at 31 December 2005.

Total assets under administration

Funds under management were C\$23.3 billion at 31 December 2006 compared with C\$20.5 billion at 31 December 2005. Including custody and administration balances, total assets under administration were C\$31.9 billion at 31 December 2006 compared with C\$28.0 billion at 31 December 2005.

Growth in funds under management during 2006 resulted from continued investment in our brokerage operations during the year and from success in our Private Client products. Additionally, Canadian equity markets, which were aided by higher natural resource prices, performed strongly in 2006.

Capital management and Dividends

The tier 1 capital ratio was 9.0 per cent and the total capital ratio was 11.1 per cent at 31 December 2006. This is little changed from 9.0 per cent and 11.2 per cent, respectively, at 31 December 2005.

In addition to net income, regulatory capital increased in 2006 as subordinated debentures increased C\$140 million as a redemption of a C\$60 million issue was offset by a new C\$200 million issue.

During the fourth quarter of 2006, we declared and paid C\$60 million in dividends on our common shares. Dividends declared on our common shares totalled C\$240 million in 2006.

Regular dividends of 31.875 cents per share have been declared on our Class 1 Preferred Shares - Series C and 31.25 cents per share on our Class 1 Preferred Shares - Series D. The dividends will be payable in cash on 31 March 2007, for shareholders of record on 15 March 2007. Dividends declared on our preferred shares totalled C\$18 million in 2006.

Credit ratings

On 19 June 2006, Standard & Poor's Ratings Services ("S&P") raised our short and long-term counterparty credit ratings concurrent with an upgrade of its ratings of our parent, HSBC Holdings plc.

On 25 October 2006, S&P raised its ratings of our long-term counterparty credit, preferred shares, senior debt and subordinated debt. These ratings upgrades followed S&P's revision of our group status to a 'core' holding within the HSBC Group based on our growing integration with and increasing contribution to the

## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

HSBC Group.

On 6 October 2006, Dominion Bond Rating Service ("DBRS") upgraded its ratings of our deposits, debt instruments and preferred shares, as a result of implementation of a new support assessment methodology for banks.

Our current ratings are as follows:

	S&P	DBRS
Short-term instruments	A-1+	R-1 (high)
Deposits and senior debt	AA	AA
Subordinated debt	AA-	AA (low)
Preferred shares	P-1	Pfd-1
HSBC Canada Asset Trust Securities	P-1	A (high)

### About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 170 offices. With over 9,500 offices in 76 countries and territories and assets of US\$1,738 billion at 30 June 2006, the HSBC Group is one of the world's largest banking and financial services organisations. For more information about HSBC Bank Canada and our products and services, visit our website at [hsbc.ca](http://hsbc.ca).

Copies of our 2006 Annual Report will be sent to shareholders in March 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 our 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 our 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 our results and financial condition.

### Summary

Figures in C\$  
millions

(except per share  
amounts)

	Quarter ended		Year ended	
	31Dec06	30Sep06	31Dec05	31Dec06

Earnings

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Net income attributable to common shares	128	138	132	497	457
Basic earnings per share	0.26	0.28	0.27	1.02	0.94
Performance ratios (per cent)					
Return on average common equity	20.6	23.0	23.8	21.1	21.3
Return on average assets	0.87	1.01	1.06	0.91	0.97
Net interest margin ^	2.30	2.31	2.36	2.33	2.37
Cost efficiency ratio ^^	51.4	48.2	50.0	51.3	52.2
Non-interest revenue: total revenue ratio	36.6	36.2	34.4	36.9	36.1
Credit information					
Impaired loans	164	166	130		
Allowance for credit losses					
- Balance at end of period	327	318	326		
- As a percentage of impaired loans	199%	192%	251%		
- As a percentage of loans outstanding	0.92%	0.80%	1.01%		
Average balances					
Assets	58,883	53,945	49,605	54,118	47,282
Loans	34,943	34,144	32,387	33,659	30,678
Deposits	44,491	42,206	39,006	41,904	37,340
Common equity	2,464	2,387	2,204	2,360	2,150
Capital ratios (per cent)					
Tier 1	9.0	8.9	9.0		
Total capital	11.1	11.1	11.2		
Total assets under administration					
Funds under management	23,340	22,372	20,453		
Custodial accounts	8,574	8,973	7,594		
Total assets under administration	31,914	31,345	28,047		

^ 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.

Consolidated Statement of Income (Unaudited)

Figures in C\$ millions (except per share amounts)	Quarter ended			Year ended	
	31Dec06	30Sep06	31Dec05 ^	31Dec06	31Dec05 ^
Interest and dividend income					
Loans	593	566	444	2,144	1,631

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Securities	49	47	40	186	120
Deposits with regulated financial institutions	62	59	52	234	166
	704	672	536	2,564	1,917
Interest expense					
Deposits	406	383	261	1,422	882
Debentures	7	7	6	27	25
	413	390	267	1,449	907
Net interest income	291	282	269	1,115	1,010
Non-interest revenue					
Deposit and payment service charges	23	23	22	90	84
Credit fees	26	28	26	106	95
Capital market fees	30	27	25	115	106
Investment administration fees	28	26	22	103	80
Foreign exchange	9	8	8	32	27
Trade finance	6	6	6	24	27
Trading revenue	17	18	14	69	60
Investment securities gains	7	5	2	30	16
Securitisation income	13	10	6	42	24
Other	9	9	10	40	51
	168	160	141	651	570
Total revenue	459	442	410	1,766	1,580
Non-interest expenses					
Salaries and employee benefits	124	120	111	503	442
Premises and equipment	34	26	27	116	107
Other	78	67	67	287	275
	236	213	205	906	824
Net operating income before provision for credit losses	223	229	205	860	756
Provision for credit losses	17	5	6	34	27
Income before taxes and non-controlling interest in income of trust	206	224	199	826	729
Provision for income taxes	66	76	58	285	237
Non-controlling interest in income of trust	7	6	6	26	22
Net income	133	142	135	515	470
Preferred share dividends	5	4	3	18	13
Net income attributable to common shares	128	138	132	497	457
Average common shares outstanding (000)	488,668	488,668	488,668	488,668	488,668
Basic earnings per share (C\$)	0.26	0.28	0.27	1.02	0.94

^ Certain prior period amounts have been reclassified to conform with the current year presentation.



## Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

### Condensed Consolidated Balance Sheet (Unaudited)

Figures in C\$ millions	At 31Dec06	At 31Dec05
<b>Assets</b>		
Cash and deposits with Bank of Canada	368	409
Deposits with regulated financial institutions	4,346	5,549
	4,714	5,958
Investment securities	3,604	2,923
Trading securities	1,162	1,418
	4,766	4,341
Assets purchased under reverse repurchase agreements	4,760	1,752
<b>Loans</b>		
- Businesses and government	17,819	15,571
- Residential mortgage	14,016	12,865
- Consumer	3,728	3,734
- Allowance for credit losses	(327)	(326)
	35,236	31,844
Customers' liability under acceptances	5,130	4,002
Land, buildings and equipment	121	103
Other assets	2,043	1,210
	7,294	5,315
<b>Total assets</b>	<b>56,770</b>	<b>49,210</b>
<b>Liabilities and shareholders' equity</b>		
<b>Deposits</b>		
- Regulated financial institutions	1,469	1,975
- Individuals	17,039	15,300
- Businesses and governments	25,665	21,333
	44,173	38,608
Acceptances	5,130	4,002
Assets sold under repurchase agreements	162	302
Other liabilities	3,444	2,849
Non-controlling interest in trust and subsidiary	430	430
	9,166	7,583
Subordinated debentures	563	423
<b>Shareholders' equity</b>		
- Preferred shares	350	350
- Common shares	1,125	1,125
- Contributed surplus	202	187
- Retained earnings	1,191	934
	2,868	2,596
<b>Total liabilities and shareholders' equity</b>	<b>56,770</b>	<b>49,210</b>

### Condensed Consolidated Statement of Cash Flows (Unaudited)

Figures in C\$ millions	Quarter ended			Year ended	
	31Dec06	30Sep06	31Dec05	31Dec06	31Dec05

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Cash flows provided by (used in):					
- operating activities	361	128	(100)	673	384
- financing activities	1,165	1,677	141	5,247	5,171
- investing activities	(2,430)	(1,021)	335	(7,082)	(4,362)
(Decrease) increase in cash and cash equivalents					
	(904)	784	376	(1,162)	1,193
Cash and cash equivalents, beginning of period					
	4,942	4,158	4,824	5,200	4,007
Cash and cash equivalents, end of period					
	4,038	4,942	5,200	4,038	5,200
Represented by:					
- Cash resources per balance sheet	4,714	5,139	5,958		
- less non-operating deposits ^	(676)	(197)	(758)		
- Cash and cash equivalents, end of period	4,038	4,942	5,200		

^ Non-operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitisation transactions.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:  
 Name: P A Stafford  
 Title: Assistant Group Secretary  
 Date: 19 February 2007