

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

HSBC HOLDINGS PLC  
Form 6-K  
July 30, 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 July, 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  
SECOND QUARTER 2007 RESULTS^ - HIGHLIGHTS

- Net income attributable to common shares was C\$135 million for the quarter ended 30 June 2007, an increase of 17.4 per cent over the quarter ended 30 June 2006.
- Net income attributable to common shares was C\$274 million for the half-year ended 30 June 2007, an increase of 18.6 per cent over the same period in 2006.
- Return on average common equity was 20.7 per cent for the quarter ended 30 June 2007 and 21.4 per cent for the half-year ended 30 June 2007 compared with 19.9 per cent and 20.3 per cent respectively for the same periods in 2006.
- The cost efficiency ratio was 51.2 per cent for the quarter ended 30 June 2007 and 51.7 per cent for the half-year ended 30 June 2007 compared

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

with 52.6 per cent and 52.8 per cent respectively for the same periods in 2006.

- Total assets were C\$61.2 billion at 30 June 2007 compared with C\$53.1 billion at 30 June 2006.
- Total funds under management were C\$25.8 billion at 30 June 2007 compared with C\$21.7 billion at 30 June 2006.
- ^ 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\$135 million for the quarter ended 30 June 2007, an increase of C\$20 million, or 17.4 per cent, from C\$115 million for the second quarter of 2006. Net income attributable to common shares for the first half of 2007 was C\$274 million compared with C\$231 million for the same period in 2006, an increase of C\$43 million, or 18.6 per cent.

Net income attributable to common shares in the first and second quarters of 2007 benefited from gains of C\$14 million and C\$7 million respectively, after related income taxes, on the sale of the bank's shares in the Montreal Exchange. Excluding these gains, net income attributable to common shares for the second quarter of 2007 increased by 11.3 per cent compared to the equivalent quarter in 2006 and net income attributable to common shares for the first half of 2007 increased by 9.5 per cent from the same period last year.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada has achieved satisfactory results for the quarter with good year-on-year revenue and net income growth. All of our business lines reported growth in net income in the first half of 2007 compared with the same period last year. Our Commercial Banking business continues to achieve strong results spurred by robust asset growth arising from the continuing strength of the Canadian economy, while maintaining a high level of credit quality. Our Personal Financial Services business has been adversely affected by slower residential mortgage growth and by competitive pressures on interest margins. Our Corporate, Investment Banking and Markets business has benefited from growth in fee income from a number of advisory and underwriting mandates.

"Our focus for the remainder of 2007 will be on leveraging initiatives to enhance sales and improve efficiencies in our operations, while continuing to further develop our direct banking capabilities. The launch in 2006 of our in-branch High Rate savings account was a success and we have followed this up with the recent launch of our internet only Direct Savings account with an introductory rate of 5.0 per cent. The Commercial Banking business will continue to expand distribution and product offerings in the Payments and Cash Management business, leveraging the capabilities of HSBC Group platforms, including systems and software."

#### Net interest income

Net interest income was C\$307 million for the quarter ended 30 June 2007 compared with C\$276 million for the same quarter in 2006, an increase of C\$31 million, or 11.2 per cent. The increase was driven by growth in assets in all businesses. Average interest-earning assets were C\$6.5 billion or 14.0 per cent higher compared with the same period in 2006. Competitive pressures and a challenging interest rate environment impacted the net interest margin which

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

decreased to 2.29 per cent for the quarter compared with 2.35 per cent for the same period in 2006.

Net interest income in the second quarter of 2007 was C\$13 million higher compared with the first quarter of 2007, due partly to one extra day in the quarter and to an annualised growth in interest-earning assets of 12.3 per cent. The net interest margin, as a percentage of average interest-earning assets, was the same as the previous quarter.

On a year-to-date basis, net interest income was C\$601 million compared with C\$542 million for the same period last year, an increase of C\$59 million, or 10.9 per cent. Year-to-date net interest income in 2007 benefited from continued growth in assets across all businesses, partially offset by a decrease in net interest margins to 2.29 per cent compared with 2.35 per cent in 2006.

### Non-interest revenue

Non-interest revenue was C\$177 million for the second quarter of 2007 compared with C\$167 million in the same quarter of 2006, an increase of C\$10 million, or 6.0 per cent. Deposit and payment service charges increased as a result of increased customer activity, particularly in the Payments and Cash Management business. Capital market fees were higher as a result of increased underwriting and advisory mandates in the Global Investment Banking business. Investment administration fees were higher as the bank's funds under management in the wealth management business continued to record strong growth. Investment securities gains decreased as gains on sales of the bank's remaining shares in the Montreal Exchange during the quarter were lower than the C\$10 million increase in the fair value of the bank's investments in private equity funds during the same period in 2006.

Non-interest revenue was C\$8 million lower in the second quarter of 2007 compared with the previous quarter mainly due to a reduction in investment securities gains on sale of shares in the Montreal Exchange and lower gains on the bank's investments in the private equity funds. However, there was an increase in deposit and payment service charges, and significant growth in investment administration fees. Other income was also higher as activity in the bank's investor immigration programme increased while capital market fees decreased due to lower global investment banking revenues.

On a year-to-date basis, non-interest revenue was C\$362 million, C\$39 million, or 12.1 per cent, higher compared with C\$323 million for the same period last year. This was mainly due to higher investment securities gains arising from the sale of the bank's Montreal Exchange shares, which were partially offset by a lower increase in fair value of the private equity funds than that recorded in 2006. Investment administration fees from higher funds under management, and deposit and payment service charges were also higher than the same period in 2006. These were partially offset by lower trading income, which was negatively affected by reductions in the fair values of derivatives related to balance sheet hedging activities.

### Non-interest expenses and operating efficiency

Non-interest expenses were C\$248 million for the second quarter of 2007 compared with C\$233 million in the same quarter of 2006, an increase of C\$15 million, or 6.4 per cent. Salaries and employee benefits expenses were higher in 2007 due to an increase in variable compensation driven by higher revenues, and an increased employee base from continued investments in the business. These increases resulted from strategic growth initiatives in new branches in Alberta and the Greater Toronto Area, increases in the Direct Bank, Private Banking and Wealth Management as well as the Payments and Cash Management businesses. Pension plan costs also increased. This was partially offset by a reduction in stock-based compensation, as 2006 was impacted by a charge of C\$9 million arising from the

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

waiver of certain conditions in respect of previous awards granted under the HSBC Group's Share Option Plan. Other non-interest expenses were higher due to increased premises and equipment expenses arising from new branches and their related operating expenses as well as increases in investments in systems, together with the impact of higher transaction costs arising from increased customer activity. The cost efficiency ratio improved to 51.2 per cent compared with 52.6 per cent for the same period in 2006.

Non-interest expenses for the second quarter of 2007 were little changed compared with the first quarter of 2007.

On a year-to-date basis, non-interest expenses were C\$498 million compared with C\$457 million for the same period last year, an increase of C\$41 million, or 9.0 per cent. Salaries and benefits expenses were higher due to an increased employee base, increased variable compensation, and increased pension costs. Other non-interest expenses were higher due to continued investments in the business, as well as higher costs arising from increased customer transactions. The cost efficiency ratio improved to 51.7 per cent compared with 52.8 per cent for the same period in 2006.

### Credit quality and provision for credit losses

The provision for credit losses was C\$12 million for the second quarter of 2007, compared with C\$6 million in the second quarter of 2006, and C\$10 million for the first quarter of 2007. Overall credit quality remains sound, reflecting prudent lending standards and strong economic conditions in Canada. The increased charges in 2007 compared to the same period last year is reflective of an unusually low loan loss experience in 2006.

Gross impaired credit exposures were C\$195 million, C\$42 million higher compared with C\$153 million at 31 March 2007, and C\$36 million higher compared with C\$159 million at 30 June 2006. Total impaired exposures, net of specific allowances for credit losses, were C\$141 million at 30 June 2007 compared with C\$95 million at 31 March 2007 and C\$109 million at 30 June 2006. Although total impaired credit exposures at 30 June 2007 have increased compared to previous quarters, the increase arises from a single commercial exposure.

The general allowance for credit losses of C\$269 million remained unchanged from 31 March 2007 and 30 June 2006. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, decreased to 0.74 per cent at 30 June 2007 compared with 0.77 per cent at 31 March 2007 and 0.84 per cent at 30 June 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 second quarter of 2007 was 35.5 per cent compared with 39.4 per cent in the same quarter of 2006 and 32.9 per cent in the first quarter of 2007. On a year-to-date basis in 2007, the effective tax rate was 34.2 per cent compared with 37.3 per cent for the same period last year.

The higher effective income tax rate in the second quarter of 2007 compared to the prior quarter was due to lower gains from the sale of the shares in the Montreal Exchange, which are taxed at a lower rate. The second quarter of 2007 also included a C\$2 million charge for the write-down of future income tax assets resulting from the recent enactment of future federal corporate tax rate reductions announced in the fall of 2006.

When compared to the second quarter of 2006, the effective income tax rate for the second quarter of 2007 reflects lower tax rates applicable on sale of shares in the Montreal Exchange and a charge of C\$6 million in the second quarter of

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

2006 relating to the write-down of federal corporate future tax assets arising from previously announced tax rate decreases. The effective tax rate in 2006 was further impacted by the expense related to stock options, which was not deductible for income tax purposes.

The year-to-date tax rate for the first half of 2007 was lower than the same period in 2006 due to a higher level of gains subject to a lower tax rate and higher non-deductible expenses in 2006.

### Balance sheet

Total assets at 30 June 2007 were C\$61.2 billion, an increase of C\$4.4 billion from 31 December 2006 and C\$8.1 billion from 30 June 2006. The loan portfolio continues to be a major driver of balance sheet growth. Commercial loans and bankers' acceptances grew C\$1.9 billion since 31 December 2006 on the continued strong economy, primarily in Western Canada. Residential mortgages increased C\$0.4 billion, before securitisation during the period, although the rate of increase has slowed. Balance sheet management activity in the Treasury and Markets business has increased the securities portfolio by C\$3.2 billion although this was offset by decreases in balances under reverse repurchase agreements of C\$2.0 billion.

Total deposits increased C\$2.0 billion to C\$46.2 billion at 30 June 2007 from C\$44.2 billion at 31 December 2006 and C\$41.0 billion at 30 June 2006. Growth in deposits resulted from higher interest rates and other initiatives, which highlighted term savings products as well as the recently launched High Rate and Direct Savings accounts. Commercial deposits were higher due to growth in term products, driven by improved product offerings in the Payments and Cash Management business and growth in commercial banking relationships. Other liabilities increased largely from an increase in short positions in securities resulting from an increase in activities in the Treasury and Markets business.

Compared with the balance at 30 June 2006, total assets were C\$8.1 billion higher largely due to growth in loans and markets activities. Deposit growth benefited from increased cash management balances from corporate customers as well as personal deposit growth from the High Rate and Direct Savings accounts.

### Total assets under administration

Funds under management were C\$25.8 billion at 30 June 2007 compared with C\$25.1 billion at 31 March 2007 and C\$21.7 billion at 30 June 2006. Including custody and administration balances, total assets under administration were C\$34.8 billion compared with C\$34.0 billion at 31 March 2007 and C\$30.2 billion at 30 June 2006.

Growth in funds under management in 2007 benefited from strong acquisitions of new clients, strong investment sales and the success of Private Client products.

### Capital management

The tier 1 capital ratio was 8.8 per cent and the total capital ratio was 11.5 per cent at 30 June 2007. These compare with 8.9 per cent and 11.0 per cent, respectively, at 31 March 2007 and 9.0 per cent and 11.2 per cent, respectively, at 30 June 2006.

In addition to net income, regulatory capital increased from an issuance of C\$400 million in subordinated debentures in the second quarter of 2007. This was partially offset by dividends declared on preferred and common shares and the redemption of C\$100 million in subordinated debentures in the second quarter of 2007.

### Accounting policies adopted in 2007

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

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 second quarter arising from the adoption of these new standards, more detailed information on the impact of adopting these standards was included in HSBC Bank Canada's first quarter 2007 report to shareholders.

### Dividends

During the second quarter of 2007, C\$65 million in dividends were declared and paid on the bank's 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 September 2007, to shareholders of record on 14 September 2007.

### 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.

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

### Summary

Figures in C\$ millions (except per share amounts)	Quarter ended			Half-year ended	
	30Jun07	31Mar07	30Jun06	30Jun07	30Jun06

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

### Earnings

Net income attributable to common shares	135	139	115	274	231
Basic earnings per share (C\$)	0.28	0.28	0.24	0.56	0.47
Performance ratios (%)					
Return on average common equity	20.7	22.0	19.9	21.4	20.3
Return on average assets	0.86	0.93	0.88	0.89	0.90
Net interest margin <sup>^</sup>	2.29	2.29	2.35	2.29	2.35
Cost efficiency ratio <sup>^^</sup>	51.2	52.2	52.6	51.7	52.8
Non-interest revenue:total revenue ratio	36.6	38.6	37.7	37.6	37.3
Credit information					
Gross impaired credit exposures	195	153	159		
Allowance for credit losses	323	327	319		
- As a percentage of gross impaired credit exposures	166%	214%	201%		
- As a percentage of gross loans and acceptances	0.74%	0.77%	0.84%		
Average balances					
Assets	63,286	60,656	52,573	61,979	51,784
Loans	37,067	35,994	33,262	36,534	32,760
Deposits	46,691	45,855	40,847	46,275	40,437
Common equity	2,618	2,558	2,316	2,588	2,296
Capital ratios (%)					
Tier 1	8.8	8.9	9.0		
Total capital	11.5	11.0	11.2		
Total assets under administration					
Funds under management	25,795	25,083	21,659		
Custody accounts	9,012	8,868	8,494		
Total assets under administration	34,807	33,951	30,153		

<sup>^</sup> Net interest margin is net interest income divided by average interest-earning assets for the period.

<sup>^^</sup> 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			Half-year ended	
	30Jun07	31Mar07	30Jun06 <sup>^</sup>	30Jun07	30Jun06 <sup>^</sup>
Interest and dividend income					
Loans	616	597	523	1,213	985
Securities	71	58	46	129	89
Deposits with regulated financial institutions	62	59	55	121	113
	749	714	624	1,463	1,187

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Interest expense					
Deposits	431	413	341	844	632
Debentures	11	7	7	18	13
	442	420	348	862	645
Net interest income	307	294	276	601	542
Non-interest revenue					
Deposit and payment service charges	25	23	23	48	44
Credit fees	28	27	27	55	52
Capital market fees	29	32	26	61	58
Investment administration fees	33	30	25	63	49
Foreign exchange	9	9	8	18	15
Trade finance	6	6	6	12	12
Trading revenue	16	14	17	30	34
Investment securities gains	10	25	13	35	18
Securitisation income	9	10	11	19	19
Other	12	9	11	21	22
	177	185	167	362	323
Total revenue	484	479	443	963	865
Non-interest expenses					
Salaries and employee benefits	139	143	136	282	259
Premises and equipment	32	31	27	63	56
Other	77	76	70	153	142
	248	250	233	498	457
Net operating income before provision for credit losses	236	229	210	465	408
Provision for credit losses	12	10	6	22	12
Income before taxes and non-controlling interest in income of trust	224	219	204	443	396
Provision for income taxes	77	70	78	147	143
Non-controlling interest in income of trust	7	6	6	13	13
Net income	140	143	120	283	240
Preferred share dividends	5	4	5	9	9
Net income attributable to common shares	135	139	115	274	231
Average common shares outstanding (000)	488,668	488,668	488,668	488,668	488,668
Basic earnings per share (C\$)	0.28	0.28	0.24	0.56	0.47

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

Condensed Consolidated Balance Sheet (Unaudited)

Figures in C\$ millions	At 30Jun07	At 31Dec06	At 30Jun06
		^	^
Assets			



Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Cash and deposits with Bank of Canada	448	368	378
Deposits with regulated financial institutions	4,403	4,346	4,193
	4,851	4,714	4,571
Available for sale securities	6,024	-	-
Investment securities	-	3,604	3,576
Trading securities	1,891	1,162	2,120
Other securities	53	-	-
	7,968	4,766	5,696
Assets purchased under reverse repurchase agreements	2,794	4,760	3,473
Loans			
- Businesses and government	19,197	17,819	16,979
- Residential mortgage	14,367	14,016	13,130
- Consumer	4,236	3,728	3,638
- Allowance for credit losses	(323)	(327)	(319)
	37,477	35,236	33,428
Customers' liability under acceptances	5,644	5,130	4,454
Derivatives	535	308	233
Land, buildings and equipment	130	121	99
Other assets	1,766	1,735	1,178
	8,075	7,294	5,964
Total assets	61,165	56,770	53,132
Liabilities and shareholders' equity			
Deposits			
- Regulated financial institutions	2,087	1,469	1,709
- Individuals	17,010	17,039	16,108
- Businesses and governments	27,068	25,665	23,172
	46,165	44,173	40,989
Acceptances	5,644	5,130	4,454
Assets sold under repurchase agreements	95	162	375
Derivatives	675	316	242
Securities sold short	1,506	715	1,256
Other liabilities	2,811	2,413	2,108
Non-controlling interest in trust and subsidiary	430	430	430
	11,161	9,166	8,865
Subordinated debentures	836	563	559
Shareholders' equity			
- Preferred shares	350	350	350
- Common shares	1,125	1,125	1,125
- Contributed surplus	204	202	199
- Retained earnings	1,336	1,191	1,045
- Accumulated other comprehensive income	(12)	-	-
	3,003	2,868	2,719
Total liabilities and shareholders' equity	61,165	56,770	53,132

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

Condensed Consolidated Statement of Cash Flows (Unaudited)

Edgar Filing: HSBC HOLDINGS PLC - Form 6-K

Figures in C\$ millions	30Jun07	Quarter ended 31Mar07	30Jun06	Half-year ended 30Jun07	30Jun06
Cash flows provided by/ (used in):					
- operating activities	389	466	(69)	855	184
- financing activities	62	2,024	706	2,086	2,405
- investing activities	(771)	(2,188)	(1,128)	(2,959)	(3,631)
(Decrease) increase in cash and cash equivalents	(320)	302	(491)	(18)	(1,042)
Cash and cash equivalents, beginning of period	4,340	4,038	4,649	4,038	5,200
Cash and cash equivalents, end of period	4,020	4,340	4,158	4,020	4,158
Represented by:					
- Cash resources per balance sheet	4,851	4,837	4,571		
- less non-operating deposits <sup>^</sup>	(831)	(497)	(413)		
- Cash and cash equivalents, end of period	4,020	4,340	4,158		

<sup>^</sup> 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: 30 July, 2007