

# **HSBC Bank Canada**

## **Investor Presentation**

26-27 March 2007

**Sean O'Sullivan**

Chief Operating Officer

**Graham McIsaac**

Chief Financial Officer



## *Caution regarding forward-looking statements*

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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 levels and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on our net interest margin may arise from actions taken by individual banks or other financial institutions 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.

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# Agenda

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- ▶ **HSBC Bank Canada Profile**
- ▶ Strategic Goals
- ▶ Financial Performance

# HSBC Bank Canada – Background

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- ▶ Established in 1981
- ▶ Only international bank with full service & branches
- ▶ Canada's 7<sup>th</sup> largest bank
  - Largest Schedule II bank
- ▶ 127 branches, 177 offices and 5,700 employees (FTE)
- ▶ Over 1 million customers
- ▶ Multi-channel (Branch, ABM, Internet, Telephone)
- ▶ Strong market shares in trade finance, mid-market commercial and British Columbia

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# HSBC Group Results by Key Country

Pretax profits as a % of Group profits		
Rank	2006	2005
1	Hong Kong (23.5%)	USA (23.5%)
2	UK (21.7%)	Hong Kong (21.5%)
3	USA (16.4%)	UK (20.4%)
4	Mexico (4.6%)	Mexico (4.4%)
5	<b>Canada (4.1%)<sup>(1)</sup></b>	France (4.0%)
6	France (3.9%)	<b>Canada (3.4%)<sup>(1)(2)</sup></b>

(1) Include results from HSBC Financial Canada

(2) 2005 Canada reported was 4.1% of Group pretax profits; however, excluding CAD 91 million of collective impairment reversal and a refund of Group Deposit Guarantee of CAD 58 million, Canada would be 3.4%

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# Broad Spectrum of Financial Services

## ▶ Personal Financial Services (PFS)

- Personal banking
- Credit cards
- Wealth management
- Insurance

## ▶ Commercial Banking (CMB)

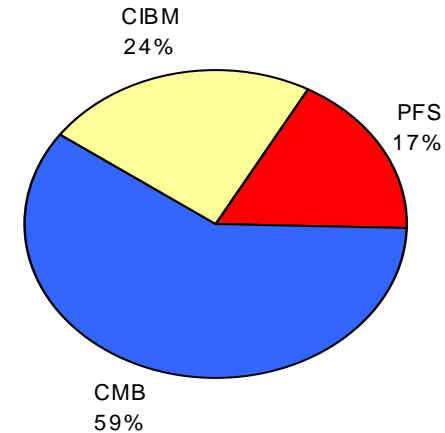
- Payments and cash management
- Business banking
- Private equity
- Leasing

## ▶ Corporate, Investment Banking and Markets (CIBM)

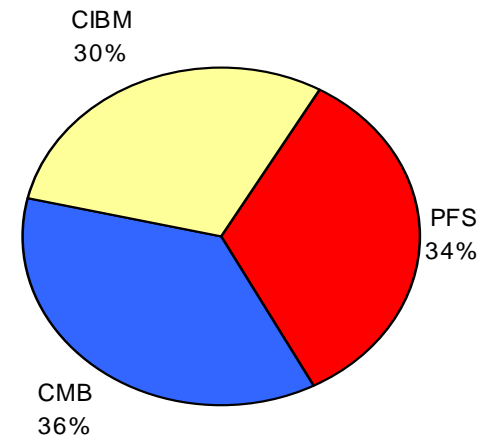
- Corporate and institutional banking
- Debt capital markets
- Equity capital markets
- Global investment banking

## ▶ Private Banking

2006 Net Income by Segment



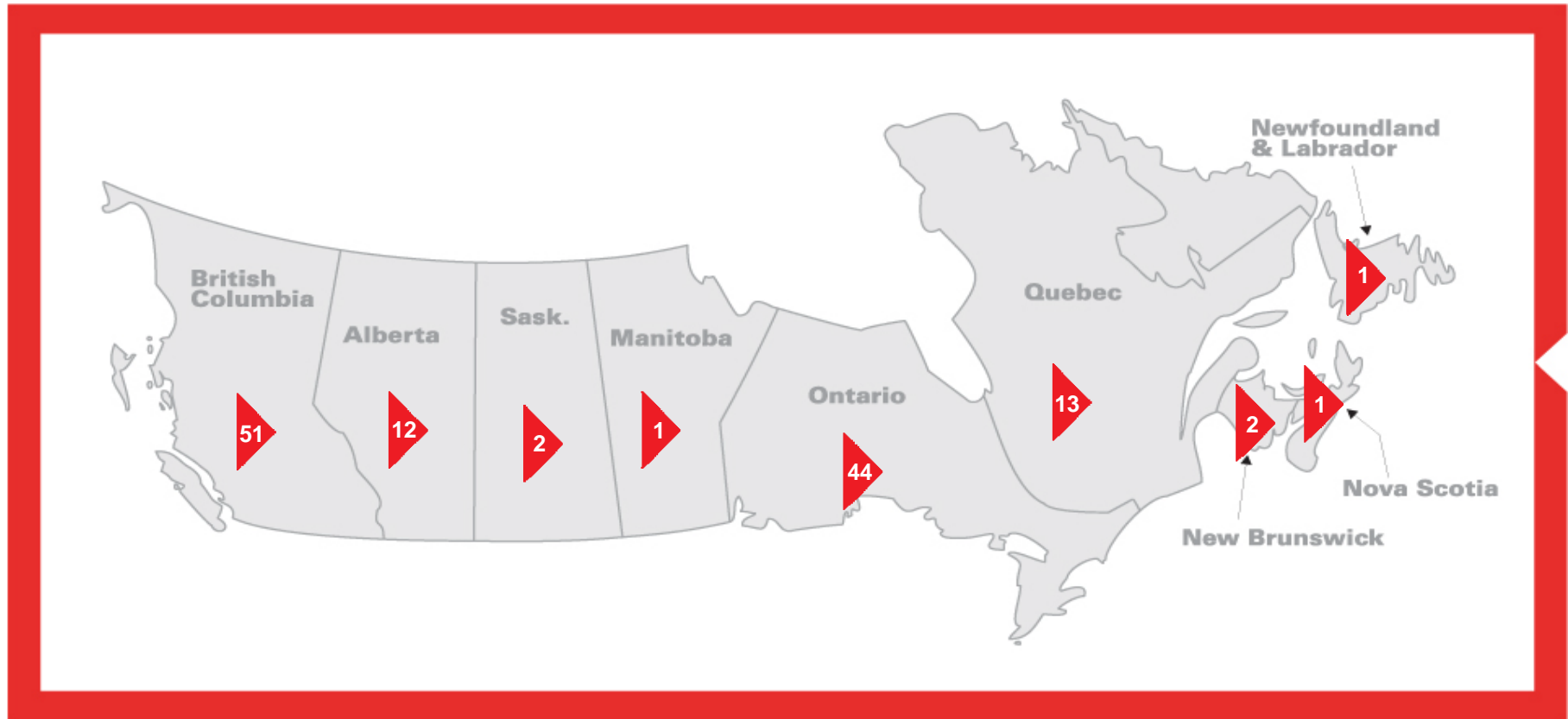
2006 Average Assets by Segment



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# Coast-to-Coast Branch Distribution



▶ 127 branches nationally<sup>(1)</sup>

(1) As at March 5, 2007

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HSBC   
The world's local bank

# The Global Pillars

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<b>Our Customers</b>	<b>Service Excellence</b>
<b>Our Brand</b>	<b>The World's Local Bank</b>
<b>Our Culture</b>	<b>The Best Place to Work</b>
<b>Our Global Distribution</b>	<b>Our Global Advantage</b>
<b>Our Businesses</b>	<b>Building for Sustained Growth</b>
<b>Our Technology and Process</b>	<b>Joining Up the Company</b>
<b>Our Organisation</b>	<b>Guidance with Wisdom Delegation with Confidence</b>

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# Building Our Brand

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- ▶ Our Brand – The World’s Local Bank
  - Differentiated positioning as a “positive challenger Brand”
  - Build on global master Brand
- ▶ Focus on key markets & segments
  - British Columbia, Alberta, and the GTA
  - Private banking, *Premier*, emerging affluent/newly retiring, immigrants
  - Small business owners
  - Direct channel users
- ▶ Ranked 28th of the 2006 Best Global Brands<sup>(1)</sup> and one of the best companies to work for in Canada<sup>(2)</sup>



Operationalize & Live the Brand

(1) *BusinessWeek/Interbrand Annual Ranking of the 2006 Best Global Brands*

(2) *Financial Post's 10 Best Companies to Work For (2007)*

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# Personal Financial Services

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- ▶ Broaden customer acquisition through leads management and cross business initiatives with HSBC Financial Canada
- ▶ Strategic alliance providing 3<sup>rd</sup> largest ABM network in Canada
- ▶ Accelerate investment in new branches in BC, Alberta & GTA
- ▶ Implement Direct Bank strategy including significant upgrade of sales capabilities to acquire clients & drive volume
- ▶ Build Wealth Management business, including IA recruitment and Private Banking, leveraging Group capabilities
- ▶ Simplify sales processes of anchor products and improve process efficiencies
- ▶ Rollout of HSBC *Premier* International Services

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# Commercial Banking

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- ▶ Implement Small Business strategy
- ▶ Continued investment in Payments & Cash Management, including rollout of new products
- ▶ Increased specialization in mid-market segment
- ▶ Advance “Dominating International Business” and “Joining Up” Group initiatives
  - Expand use of Global Links to ensure the cross border opportunities are maximized and recorded
  - Establish closer ties between CMB Relationship Managers of Canada’s largest trading partner countries (USA, Japan, UK, France and Mexico)

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# Corporate, Investment Banking and Markets

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- ▶ Continue to take advantage of the changes in Canadian foreign content laws, delivering the Group's global capabilities to Canadian clients
- ▶ Implement Group platforms for FX options, Interest Rate Swaps and Credit Risk methodology
- ▶ Leverage the recently upgraded eFX platform including any straight through processing capabilities
- ▶ Sector focused client coverage by Corporate Banking (CB) relationship managers
- ▶ Continue to leverage excellent CMB franchise delivering the full CIBM product range

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# Private Banking

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- ▶ Segment existing *Premier* and Private Banking client base
- ▶ Broaden range of investment capabilities leveraging Group Private Banking platform

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## Highlights for 2006 (in C\$, Canadian GAAP basis)

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- ▶ Total revenue: \$1,766 million (↑ 11.8%)
- ▶ Income before taxes: \$826 million (↑ 13.3%)
- ▶ Cost efficiency ratio<sup>(1)</sup>: 51.3% (↓ 0.9%)
- ▶ Total assets: \$56,770 million (↑ 15.4%)
- ▶ Total assets under administration: \$31,914 million (↑ 13.9%)
- ▶ Net loan growth<sup>(2)</sup>: \$35,236 million (↑ 10.7%)
- ▶ Personal deposit growth: \$17,039 million (↑ 11.4%)
- ▶ Improved Credit ratings<sup>(3)</sup>:
  - DBRS: R-1 (high) / AA
  - S&P: A-1+ / positive / AA

(1) Cost efficiency ratio improved from 52.2% to 51.3%

(2) Gross loans less allowance for credit losses

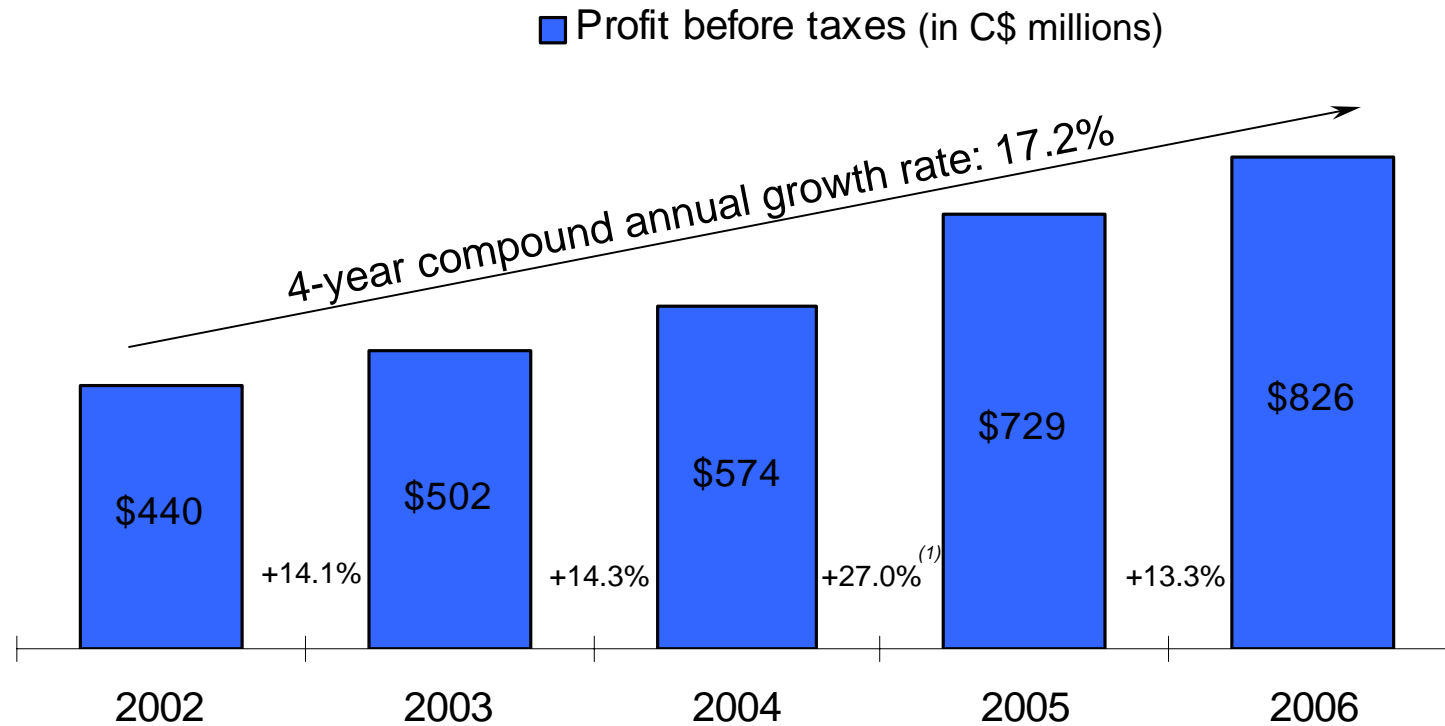
(3) See p.25 and p.26 for details

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# Profit Before Taxes – Solid Growth Trend



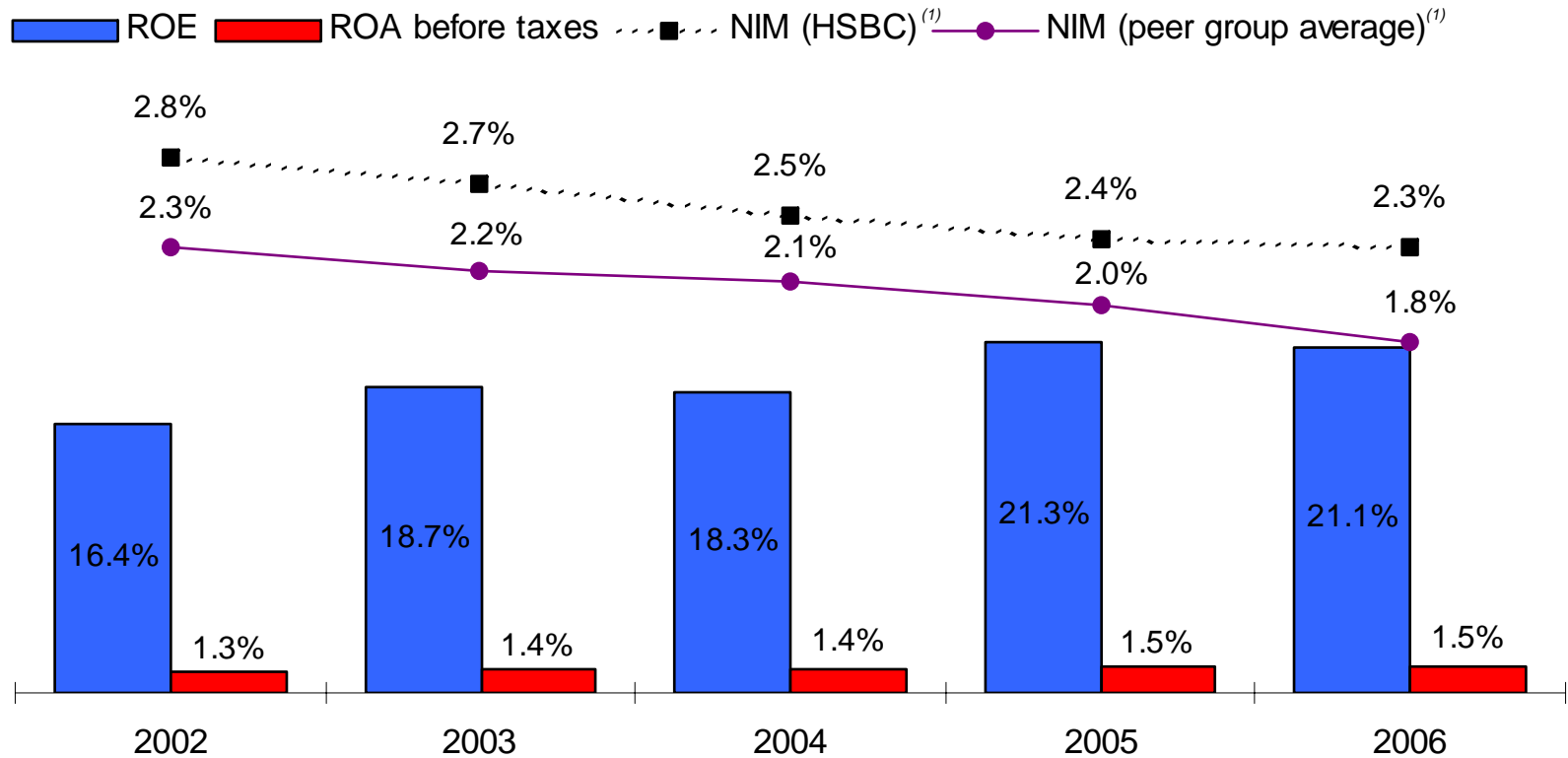
- ▶ Strong organic growth
- ▶ No major acquisitions from 2002 to 2006

(1) Net income in the fourth quarter of 2005 benefited from a C\$14 million reversal from the general allowance for credit losses and a C\$14 million adjustment to other expenses, both before income taxes

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# Profitability Ratios Trend



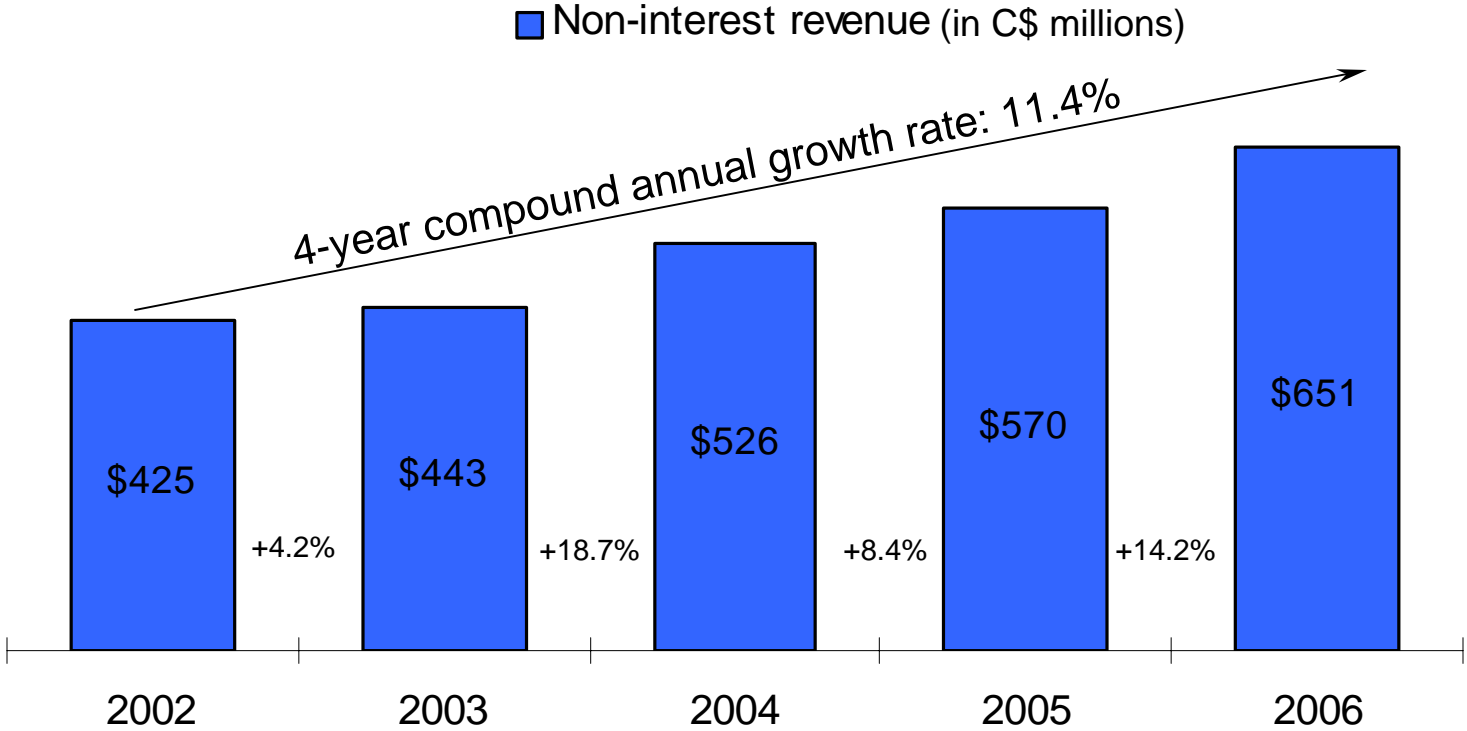
- ▶ With declining net interest margin, managed to maintain return on average assets

(1) NIM = Net interest margin as a percentage of average earning assets over the year

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# Non-Interest Revenue Growth

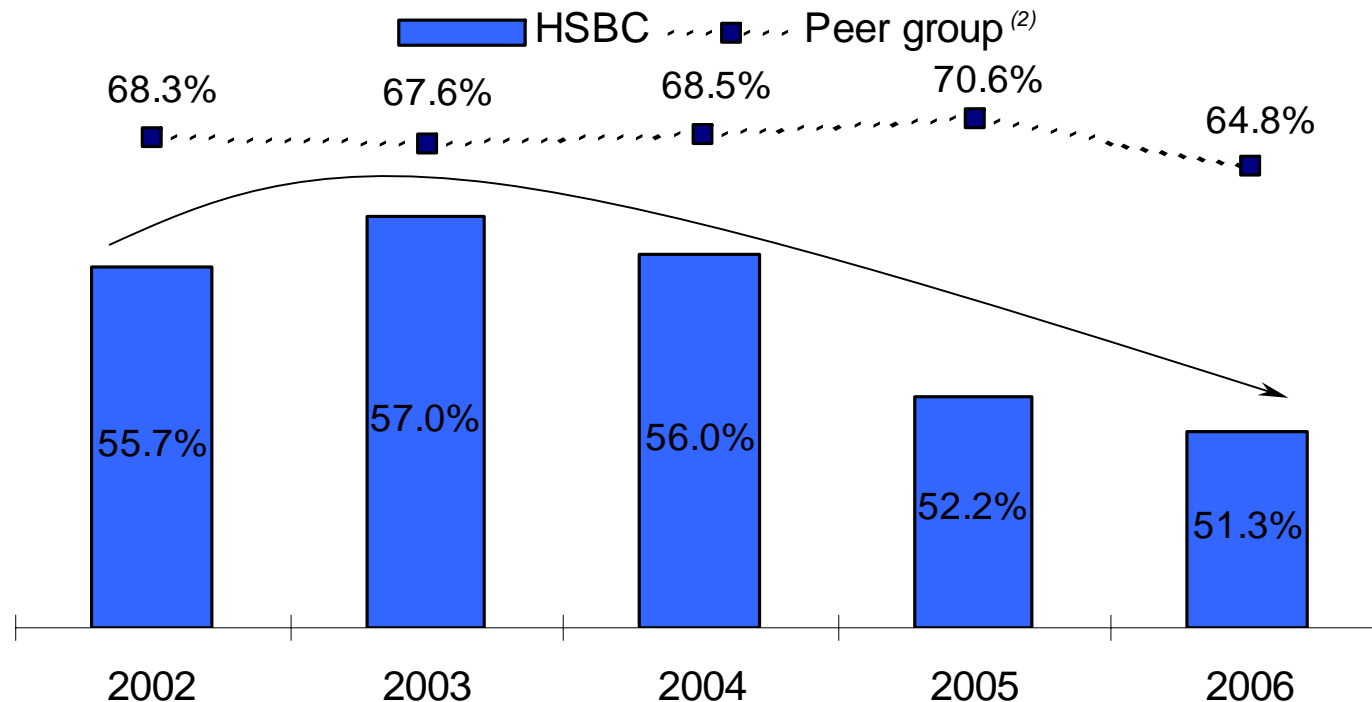


- ▶ Steady increase resulting from continued investments in our business

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# Cost Efficiency Ratio<sup>(1)</sup>



- ▶ Demonstrated ability to control costs while continuing to invest in our business

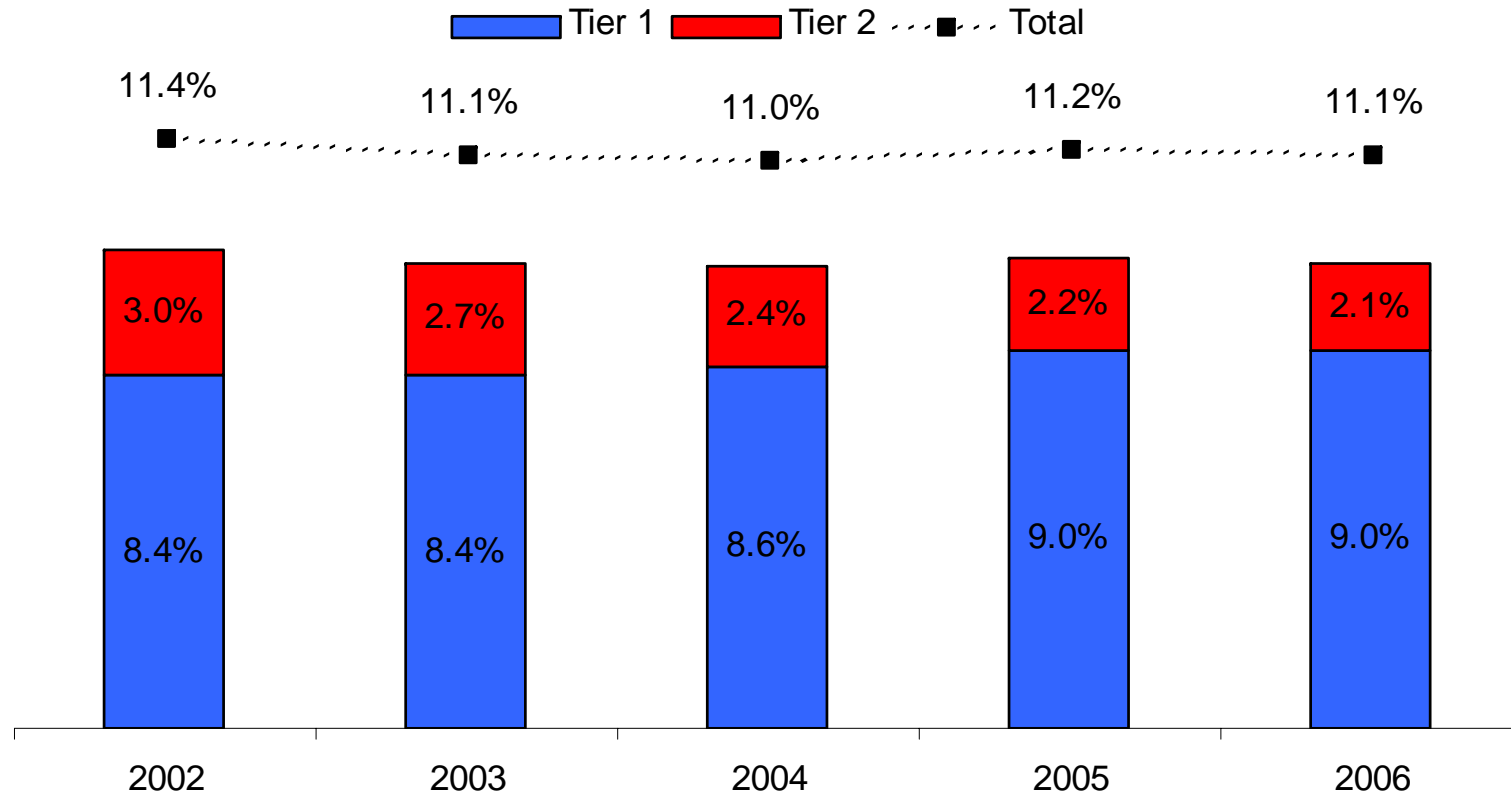
(1) Cost efficiency ratio = Non-interest expense / total revenue

(2) Peer Group consists of the top 6 Canadian banks

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# Capital Ratios



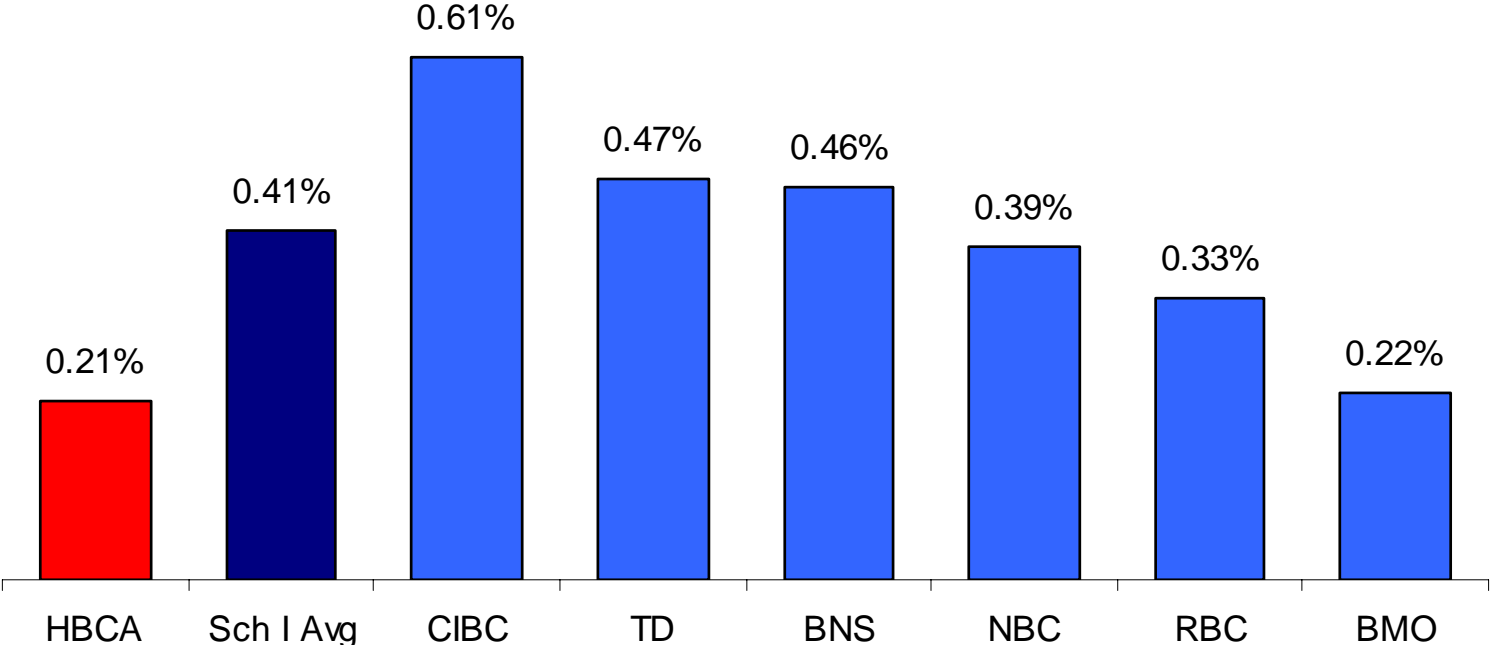
- ▶ Capital ratios consistently maintained
- ▶ Acquisition capital held at Group level

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# Provision for Credit Losses<sup>(1)</sup>

5-year average loss provision as % of total net loans & BAs



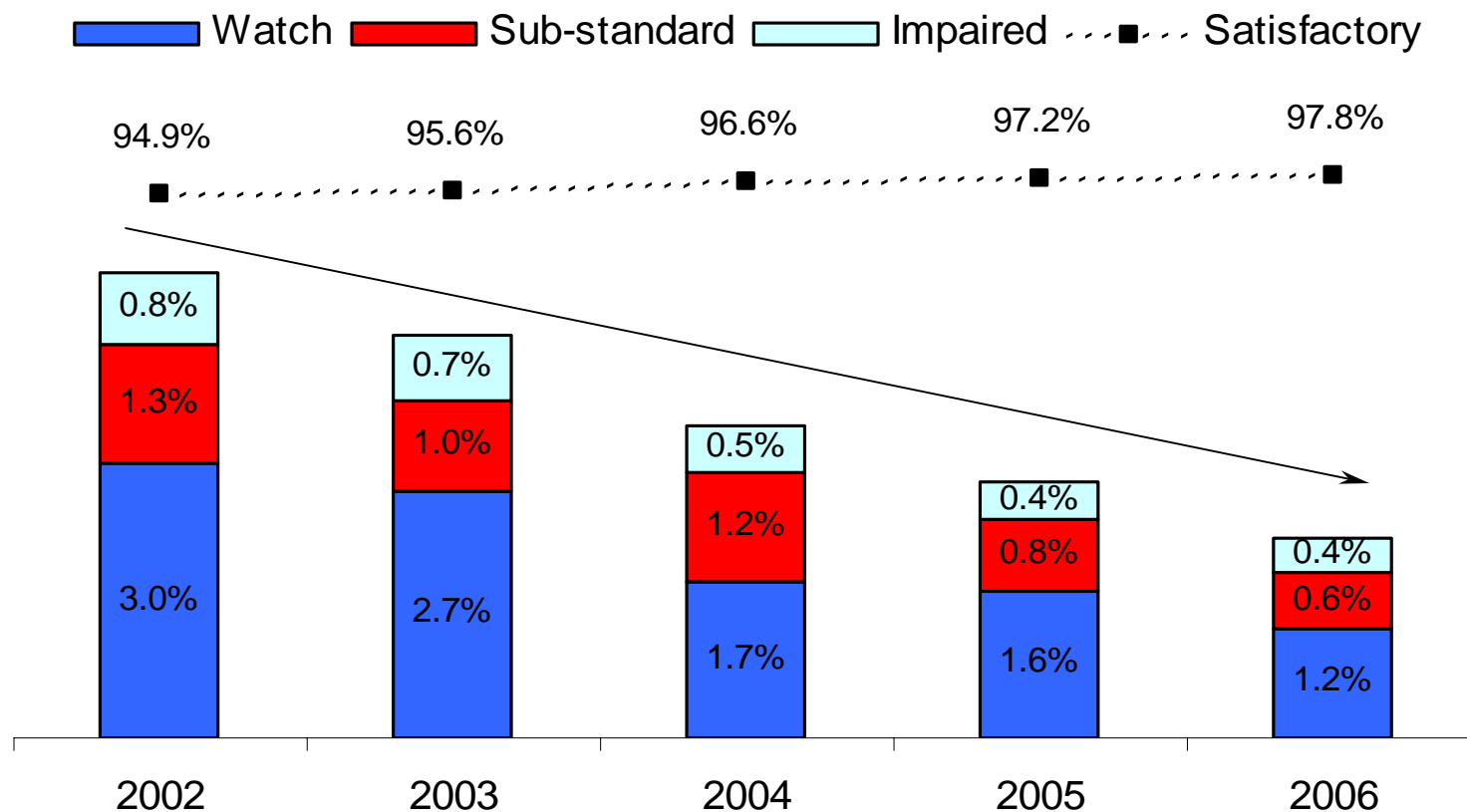
► Consistently low levels of provision for credit losses

(1) As a percentage of total net loans and BAs

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# Credit Quality of Loan Portfolio<sup>(1)</sup>



► Improving loan portfolio quality over the past 5 years

(1) As a percentage of total loans before impaired loans and acceptances

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# Peer Group Analysis

	HSBC Bank Canada			2006 Peer Group Average <sup>(1)</sup>
	2006 C\$ 000's/%	2006 Rank	2005 Rank	
Revenue Growth	11.8%	1	2	3.6%
Net Interest Margin	2.33%	1	1	1.83%
Revenue / Employee	\$310	2	3	278
Cost / Employee	\$159	2	2	181
Cost / Income Ratio	51.3%	1	1	64.8%
Net Income / Employee (before taxes)	\$141	1	1	87 <sup>(2)</sup>
ROA (before taxes)	1.48%	1	1	1.15% <sup>(2)</sup>
ROE <sup>(3)</sup>	23.5%	2	1	21.5% <sup>(2)</sup>

- ▶ Consistent strong performance relative to the peer group
- ▶ Ranked top two in all categories in 2006

(1) Peer Group consists of the top 6 Canadian banks and average based on 12 months ended October 31, 2006

(2) Excludes TD's Q1 one time gain on the TD Ameritrade transaction (\$1.67 billion after tax as reported ; \$1.64 billion before tax)

(3) HBCA 05 & 06 ROE is calculated as adjusted net income after tax (using average peer tax rate) over adjusted common equity (RWA YTD x average peer Tier 1 capital % x estimated common portion of Tier 1 capital). Adjusted net income is reported net income less earnings on additional capital

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# Credit Ratings – December 31, 2006

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	<u>S&amp;P</u>	<u>DBRS</u>
Short-term instruments	A-1+	R-1 (high)
Deposits and senior debt	AA	AA
Subordinated debt	AA-	AA (low)
Preferred shares	P-1 <sup>(1)</sup>	Pfd-1
HSBC HaTS™	P-1 <sup>(1)</sup>	A (high)
Outlook / Trends	Positive	Stable

▶ See next page for ratings upgrades

*(1) Based on S&P's Canadian national preferred share scale. Ratings are A+ on S&P global preferred share scale.*

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# Credit Ratings Upgrades in 2006

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- ▶ On June 19, 2006, S&P raised our short & long-term counterparty credit ratings concurrent with an upgrade of its ratings of our parent, HSBC Holdings
- ▶ On October 6, 2006, 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
- ▶ On October 25, 2006, S&P raised its ratings of our long-term counterparty credit, preferred shares, senior and subordinated debt ratings. These ratings upgrades followed S&P's revision of our status to a core holding within the HSBC Group based on our growing integration with and increasing contribution to the HSBC Group
- ▶ On December 20, 2006, S&P revised its outlook of the Bank to positive from stable concurrent with similar revisions of our parent and other core subsidiaries, reflecting the continuing benefits from the earnings diversification and unique global reach of the HSBC Group

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# Q&A

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