

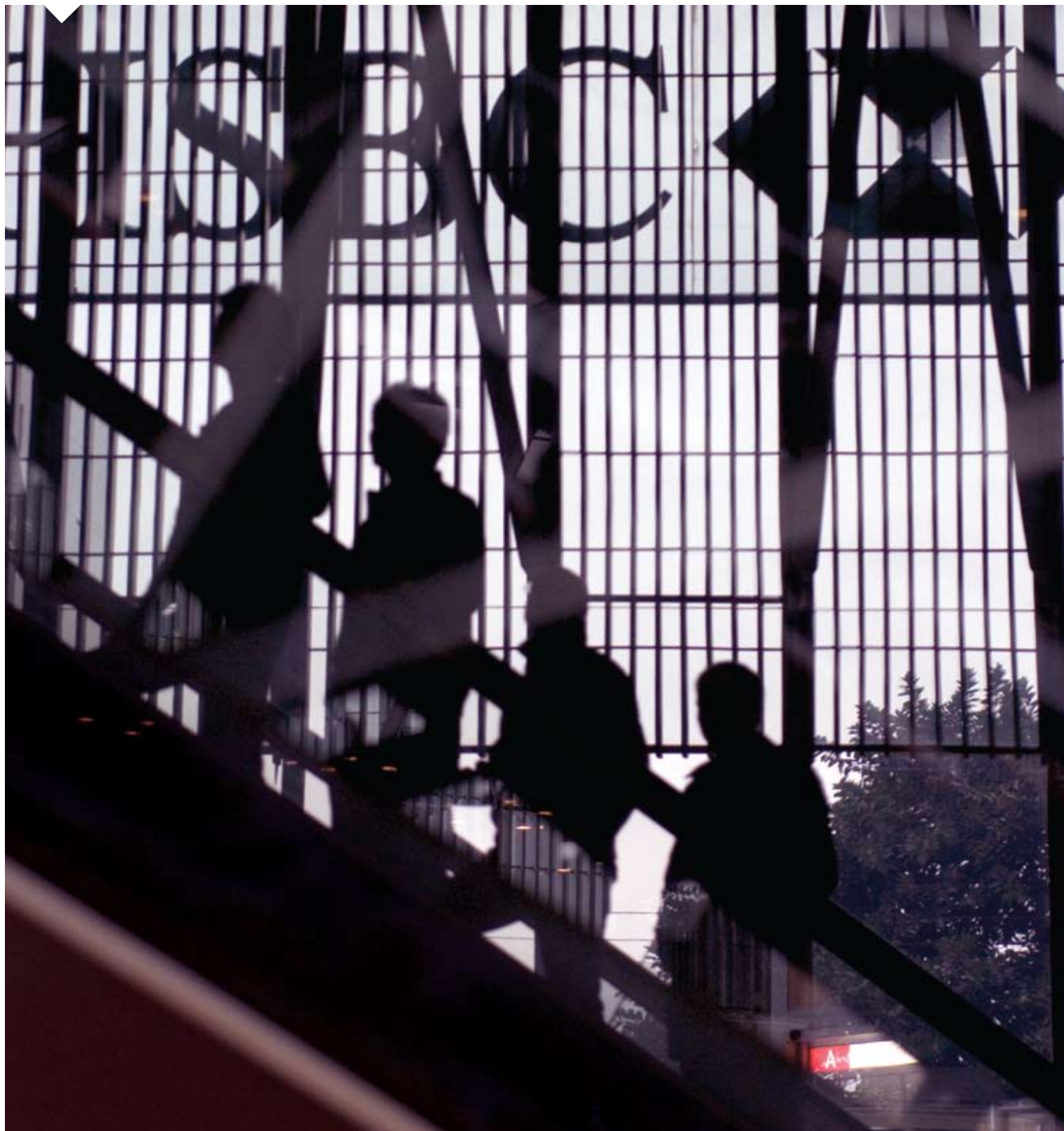
2008

HSBC Holdings plc Annual Review

HSBC 

The world's local bank

Strength, diversity and resilience





Cover photography:
Strength, diversity and resilience
 Customers are silhouetted against typhoon shutters as they travel up an escalator to the banking hall of the HSBC Main Building in Central district, Hong Kong. The building overlooks Hong Kong harbour and protective shutters are lowered when a typhoon is expected.

HSBC serves more than 100 million individual and business customers across the world, providing them with a range of products and services to help them meet their financial needs. We have around 9,500 offices in 86 countries and territories and employ 325,000 people.

The diverse and international nature of our business is reflected in our listing on the London, Hong Kong, Paris, New York and Bermuda stock exchanges and through our 210,000 shareholders in 120 countries and territories.

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2008*. The *Annual Report and Accounts 2008* may be viewed on our web site: www.hsbc.com.

It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full *Annual Report and Accounts 2008*.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2008* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited,

1 Queen's Road Central, Hong Kong; Internal Communications. HSBC-North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France.

A Chinese translation of the *Annual Report and Accounts 2008* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts 2008* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on the inside back cover.

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Highlights of 2008

// We believe in the profound importance of culture and ethics in business. HSBC's longstanding traditions of financial strength, long-term customer relationships and conservative management are as important today as ever. //

Stephen Green

Group Chairman

Highlights



Diversified business model delivers profits in extremely challenging environment

Higher deposits have further strengthened advances-to-deposits ratio

Consumer lending business in the US undergoing restructuring

Proposed Rights Issue will further enhance our financial strength

Financial highlights



Profit before tax

US\$9,307m (62%)

£5,072m
HK\$72,474m for 2008

Profit before tax

Decrease on 2007
2007: US\$24,212m

Assets

US\$2,527b

£1,734b
HK\$19,588b at 31 December 2008

Market capitalisation

US\$114b

£79b
HK\$886b at 31 December 2008

Dividends per share

US\$0.64

£0.38
HK\$4.97 in respect of 2008 (estimated)

Capital strength

11.4%

Total capital ratio at 31 December 2008

// We saw the downturn coming early, so we were able to position ourselves for it early. This has offered us some protection in the current turmoil, as have HSBC's trademark strengths of diversification, financial strength and self-funding. //

Michael Geoghegan

Group Chief Executive

Group at a Glance

A recent survey named HSBC as the world's number one banking brand. We are one of the world's largest banking and financial services organisations with a well-diversified business by geography and by customer type. Our unique combination of local knowledge and international expertise makes us 'the world's local bank'.

Customers

HSBC offers a comprehensive range of financial services to individuals, companies and institutions. We organise our business into two customer groups, Personal Financial Services and Commercial Banking; and two global businesses, Global Banking and Markets, and Private Banking. In total, we serve over 100 million personal customers and almost three million commercial customers.

Geography

HSBC serves its customers through some 9,500 offices in 86 countries and territories. We have a strong presence in both developed and emerging markets in Europe, the Asia-Pacific region, the Americas and the Middle East.

Total operating income 2008

(US\$m)

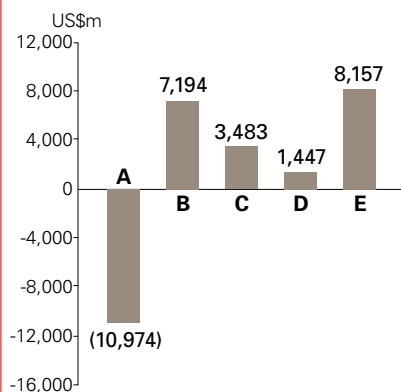
Personal Financial Services	47,963
Commercial Banking	15,652
Global Banking and Markets	13,597
Private Banking	3,631
Other	12,296

Total operating income 2008

(US\$m)

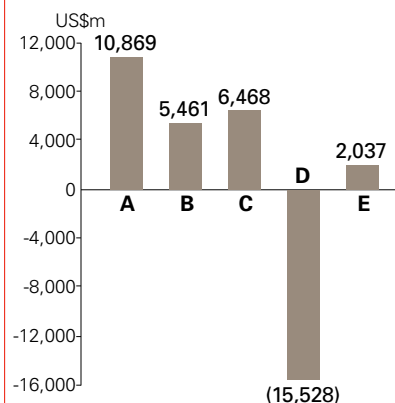
Europe	34,046
Hong Kong	12,076
Rest of Asia-Pacific	11,621
North America	21,417
Latin America	11,903

2008 Pre-tax profit by customer group and global business



- A (117.9)%** Personal Financial Services
- B 77.3%** Commercial Banking
- C 37.4%** Global Banking and Markets
- D 15.6%** Private Banking
- E 87.6%** Other

2008 Pre-tax profit by geographical region



- A 116.7%** Europe
- B 58.7%** Hong Kong
- C 69.5%** Rest of Asia-Pacific
- D (166.8)%** North America
- E 21.9%** Latin America

Customer groups and global businesses

Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking
Loss before tax (US\$10,974m)	Profit before tax US\$7,194m	Profit before tax US\$3,483m	Profit before tax US\$1,447m
<p>Products We offer financial products and wealth management services to individuals around the world. These include current and savings accounts, credit cards, loans, mortgages, pensions and investment services, and insurance. We also offer HSBC Premier, a service tailored to the needs of internationally mobile customers.</p>	<p>Products We aim to be the world's leading international business bank. We also focus on becoming the best bank for small businesses in target markets. We provide banking and financial services to all types of businesses, small and large. These products include financing, payments and cash management, international trade products, treasury and capital markets products, commercial cards, insurance, wealth management and investment banking.</p>	<p>Products Global Banking and Markets is an emerging markets-led and financing-focused business that provides financial solutions to major government, corporate and institutional clients worldwide. These services include investment banking, global asset management, a range of markets services including foreign exchange, and a broad range of research services. We offer clients geographical reach and deep local knowledge.</p>	<p>Products Our Private Banking business offers a highly personalised service to high net worth individuals in all the major wealth-creating regions of the world. We offer both traditional and innovative ways to manage and preserve wealth. Our services include a full range of banking products, advisory and discretionary investment management services, and an extensive range of services which can help protect existing wealth and preserve it for future generations, including inheritance planning, trusts, insurance and philanthropy.</p>
<p>Customers Our Personal Financial Services businesses serve more than 100 million retail customers, including 2.6 million Premier customers, every year. We are a major global credit card issuer, with over 100 million cards in issue.</p>	<p>Customers We serve nearly three million business customers, including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies.</p>	<p>Customers Global Banking and Markets offers a long-term relationship management approach to its clients, which include more than 4,000 governments, corporates and institutions across the world.</p>	<p>Customers HSBC Private Bank serves wealthy individuals around the world including business owners, senior executives, families, and individuals working in the media and sport.</p>
<p>Locations Our Personal Financial Services business operates in a total of 62 countries and territories. The business has 8,500 retail outlets and 16,500 ATMs across the world. HSBC Premier is available in 41 countries.</p>	<p>Locations Our Commercial Banking business operates in 63 countries and territories.</p>	<p>Locations Global Banking and Markets operates in 66 countries and territories.</p>	<p>Locations HSBC Private Bank has over 90 offices worldwide. These include three new offices that opened in 2008 in Guangzhou, Shanghai and Beijing, China.</p>
Review starts on page 15	Review starts on page 14	Review starts on page 17	Review starts on page 18

Group Chairman's Statement

2008 was the most extraordinary year for the global economy and financial services in well over half a century. It marked the first crisis of the era of globalised securitisation. And it also marked the first crisis of the just-in-time global economy as the impact of the financial crisis fed rapidly straight into the performance of the real economy.

Causes of the crisis

The causes of the crisis are complex and interrelated. But we can clearly see that a number of different factors contributed.

- First, the global financial imbalances that arose from the accelerating global economic shift towards emerging markets. The rapid growth of emerging economies created a macro-economic triangle, made up of: the major consumer markets, in particular the US but also a number of other Western economies; major producer nations – notably a number of fast-growing emerging markets which have been manufacturing a vast range of goods for consumption in the West; and resource providers whose wealth of hydrocarbons and other commodities have helped power the producer economies and have thus commanded such high

prices until recently. This macro-economic triangle delivered high rates of growth, but also created major financial imbalances as producer nations and resource providers accumulated massive reserves whilst the US and other consumer markets ran significant and growing deficits.

- Second, cheap credit. A large proportion of the accumulated savings of the producers and resource providers was invested in the world's reserve currency, the US dollar, keeping rates low. This cheap money fuelled a consumer boom and rising house prices. It encouraged increased borrowing by banks and by their customers, fuelling asset price bubbles particularly in housing markets. Loose monetary conditions in the US and in much of the emerging world gave added strength to this already potent cocktail.
- Third, securitisation based on overly complex product structures. The complexity and opacity of certain financial instruments reached a point where even senior and experienced bankers and professional investors had trouble understanding them. This meant that people were selling and buying

assets whose risks they had not properly assessed.

- And finally, excessive gearing. Many banks became overgeared and too dependent on wholesale funding, which they assumed, incorrectly, would never dry up. Assets were created on the back of ever higher leverage, both direct and indirect. And when the securitisation market began to collapse, banks found themselves with assets that they could neither sell nor fund, so forcing large losses on the asset side and a funding challenge on the liability side for which they were entirely unprepared.

The result has been unprecedented stress in the financial system, and it has led to a major breakdown in trust. In many countries, huge support from taxpayers has been required in order to stabilise the system.

Failings in the banking industry

The industry has done many things wrong. It is important to remember that many ordinary bankers have always sought to provide good service to their customers; but we must also recognise that there have been too many who have profoundly damaged the industry's reputation.

Our strategy

// We at HSBC were not immune from the crisis. But we have built our business on very strong foundations and are able to report results which demonstrate our ability to withstand the storm.

Our strategy has been tested and remains intact. We will continue to build our business by focusing on faster growing markets around the world and on businesses where international connectivity is important – all from a position of financial strength. //



Inappropriate products were sold inappropriately by many. Compensation practices ran out of control and perverse incentives led to dangerous outcomes. There is genuine and widespread anger that the contributors to the crisis were, in some cases, amongst the biggest beneficiaries of the system.

Underlying all these events is a question about the culture and ethics of the industry. It is as if, too often, people had given up asking whether something was the right thing to do, and focused only on whether it was legal and complied with the rules. The industry needs to recover a sense of what is right and suitable as a key impulse for doing business.

HSBC strategy intact

We at HSBC were not immune from the crisis. But we have built our business on very strong foundations and are able to report results which demonstrate our ability to withstand the storm.

Our strategy has been tested and remains intact. We will continue to build our business by focusing on faster growing markets around the world and on businesses where international connectivity is important – all from a position of financial strength.

No.1

banking brand (Brand Finance survey)

If anything, the current crisis validates our renewed focus over the last few years on fast growing economies, since it will accelerate the shift in the world's centre of economic gravity from west to east.

Our robust balance sheet and liquidity means that we have continued to lend. In 2008, we grew our lending to commercial customers by 10 per cent on an underlying basis. Lending to personal customers increased in all regions except North America. And our brand strength continues to underpin our performance. It was noticeable that, at times of stress in many markets, HSBC was a beneficiary of funds flowing in. Recently, the HSBC brand was recognised as the number one brand in banking by Brand Finance.

Profitable from a broad-based earnings platform

Excluding the goodwill impairment on our North American Personal Financial Services business, HSBC reported a pre-tax profit for 2008 of US\$19.9 billion,

a decline of 18 per cent. On a reported basis, pre-tax profit was US\$9.3 billion, down 62 per cent. Within this were some strong regional and business line performances which are covered in the 'Group Chief Executive's Business Review'. However, there is one area on which I would like to comment.

For North America, we reported a loss of US\$15.5 billion, including the goodwill impairment charge of US\$10.6 billion in Personal Financial Services.

The significant deterioration in US employment and economic outlook in the fourth quarter of 2008 were the primary factors in causing us to write off all the remaining goodwill carried on our balance sheet in respect of our Personal Financial Services business in North America.

The management team has worked tirelessly to address this problem acquisition in the US and we have considered all viable options. We saw the disruption in sub-prime lending as early as 2006 and sharply scaled back in 2007 while others continued to grow. We also devoted considerable resources to helping our customers. Virtually no one then foresaw the subsequent scale of the deterioration in the US economy and financial markets. It is now clear that models of direct personal lending that depend on wholesale markets for funding are

no longer viable. In light of this, we have taken the difficult decision that, with the exception of credit cards, we will write no further consumer finance business through the HFC and Beneficial brands in the US and close the majority of the network. Thus, in terms of new business, we are drawing a line and we will run off our existing business, providing all necessary support to HSBC Finance to enable it to do so in a measured way and meet all its commitments.

HSBC has a reputation for telling it as it is. With the benefit of hindsight, this is an acquisition we wish we had not undertaken.

The US remains the world's largest economy and HSBC remains committed to the US, which we see as a core market for HSBC. HSBC Bank in the US is not affected by the restructure. In the immediate future, we will focus

84%

advances-to-deposits ratio

on those businesses and customers for whom our global connectivity gives us advantage – primarily in corporate and commercial business, and in Private and Premier banking.

Performance overview and strategic activity

In this difficult environment, we missed our profitability targets. We hit our capital target with our tier 1 ratio at 8.3 per cent. We maintained a very conservative advances-to-deposits ratio of 84 per cent. We grew lending in each region outside North America on an underlying basis. And we constrained costs, with the cost efficiency ratio improving to 47.2 per cent, excluding the goodwill impairment mentioned above. We also continued implementation of 'One HSBC', our programme to enhance customer experience and improve cost efficiency through standardising products, processes and technology around the world.

We also acquired businesses in strategic areas – we acquired the assets, liabilities and operations of The Chinese Bank in Taiwan in March; IL&FS Investsmart, a retail brokerage in India in May; and, in October, the acquisition of Bank Ekonomi in Indonesia was announced. The first two are complete and being integrated, the last is expected to be completed in the second quarter. The most notable disposal was the sale of our regional branch network in France for a consideration of US\$3.2 billion.

Thank you to our people

This was an extraordinary year and made extraordinary demands on many of our people. I want to express my sincere thanks for all their efforts and achievements. Our industry has rightly been under considerable public scrutiny and banks have been indiscriminately bunched together. It is through our staff that HSBC's distinctive character stands out for our customers and it is they who ensure that not all banks are the same.

Dividend declaration and progressive dividend policy

The Directors have declared a fourth interim dividend for 2008 of US\$0.10 per ordinary share (in lieu of a final dividend) which, together with the first three interim dividends for 2008 of US\$0.18 already paid, will make a total distribution in respect of the year of US\$0.64 per ordinary share. The payments in total represent a decrease of 29 per cent in US dollar terms compared with 2007 and of 15 per cent in sterling terms. The dividend will be payable on 6 May 2009 to shareholders on the register at the close of business on 20 March 2009.

After 15 years of double-digit dividend growth, we did not make the decision to lower the dividend lightly. Very careful consideration was given to the current operating environment and the increased uncertainty over both the supply of capital required in an increasingly volatile financial world and a pro-cyclical regulatory capital framework.

For 2009, HSBC has rebased the envisaged dividend per share for the first three interim dividends

47.2%

cost efficiency ratio

(excluding goodwill impairment)

to US\$0.08 to reflect the impact of the enlarged ordinary share capital following the Rights Issue we announced on 2 March, prevailing business conditions and capital requirements. The dividend payments remain substantial and reflect management's long-term confidence in the business. HSBC will continue to aim to pay progressive dividends in line with the long-term growth of the business.

Maintaining HSBC's financial strength

The logic of maintaining HSBC's distinctive financial strength, which we have applied to our dividend, also applies to our capital position. The Rights Issue we have announced will strengthen further our capital ratios. We propose to raise, on a fully underwritten basis, approximately US\$17.7 billion of equity which will increase our capital ratios by 150 basis points, strengthening the core equity tier 1 ratio to 8.5 per cent and the tier 1 ratio to 9.8 per cent, both on a pro forma basis as at 31 December 2008.

Over the past 12 months, many of our competitors have received significant government capital injections – something we said we could not envisage – or have raised capital from shareholders and other investors. Higher regulatory capital requirements, in part from the effect of the economic downturn on capital requirements under the Basel II regime, as well as changing market sentiment on appropriate levels of leverage, have also raised expectations regarding capital levels. We are determined that HSBC should maintain its signature financial strength and we are now raising the top of our target range for our tier 1 ratio so that the range will be from 7.5 per cent to 10 per cent.

Planned internal capital generation remains strong and this capital raising will enhance our ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events. Importantly, it will also give us options with respect to opportunities which we believe will present themselves to those with superior financial strength. These may involve organic investment in the continued taking of market share from more capital-constrained competitors. There may also be opportunities to grow through targeted acquisitions by taking advantage of attractive valuations where the opportunities in question align with our strategy and the risks are understood.

Culture and compensation

We believe in the profound importance of culture and ethics in business. HSBC's longstanding traditions of financial strength, long-term customer relationships, and conservative management are as important today as ever. They have not always been fashionable and we have not always been perfect. One of the consequences of the crisis – and rightly – is that we are going to see a fundamental re-evaluation of the rules and regulations that govern our business. But we should remember that no amount of rules and regulation will be sufficient if the culture does not encourage people to do the right thing. It is the responsibility of boards to supervise and management to embed a sustainable culture into the very fibre of the organisation. For HSBC, there is nothing more important.

We also intend to play our part in rebuilding public trust in our industry. This means we must be willing to take part in and shape the debate on how our industry should evolve in the coming years, based on the lessons which must be learnt from this crisis. In particular, we strongly believe that the industry must respond to the requirement for a more sober and reasonable approach to compensation. At HSBC, we are committed to the principle of sensible market-related pay, structured to align executive actions with long-term shareholder interests. A small number of individuals

in a market system will inevitably receive compensation that is high in absolute terms, but this must be genuinely linked to long-term shareholder interests. It is clear that the banking industry got it wrong in the go-go years: we will play our part in helping the industry respond appropriately to the new realities.

It is right, therefore, that in HSBC's case, I outline our present position. As Chairman, I elected in 2007 to no longer receive any cash bonus award; any variable compensation would be delivered through performance share awards – which would only vest if performance hurdles are met. No performance share awards will be made in the Group in respect of 2008. Mike Geoghegan, Group Chief Executive, Stuart Gulliver, Chief Executive of Global Banking and Markets and HSBC Global Asset Management, and Douglas Flint, Group Finance Director have asked the Remuneration

US\$17.7b

equity to be raised in Rights Issue

Committee not to consider them for any bonus award for 2008. No cash bonus award will be made to any executive Director for 2008. Full details on Directors' remuneration can be found in the *Annual Report*.

Learning the lessons

We are living through a genuinely global crisis; it cannot be solved by one nation alone. Governments need to work together with our industry to tackle the root causes of the crisis, while maintaining the open, globalised markets that have helped spread prosperity in the last two decades. Protectionism, both in trade and in capital flows, is a threat and in all its forms must be resisted.

We must also urgently improve governance and regulation to create a more stable financial framework. The globalisation of financial markets contrasts sharply with the domestic agenda of the regulatory regimes

that underpin it. We support intergovernmental efforts to enhance the co-ordination of regulatory oversight, since we believe that this is essential to the stable development of the international capital markets for the benefit of the common good.

Continued economic strain

The coming 12 months will be difficult. We expect parts of Asia, the Middle East and Latin America to continue to outperform Western economies, but to be constrained by the global downturn.

We see unemployment rising through 2009 into 2010 in both the US and the UK, together with continuing declines in housing markets. We should remember that the US is the driver of the global economy and global growth depends on the US recovery.

We remain confident that HSBC is well-placed in today's environment and that our strength leads to opportunity. Our strategy has served HSBC well and positions it for long-term growth with attractive returns. HSBC continues to combine its position as the world's leading emerging markets bank with an extensive international network across both developed and faster growing markets. At the same time, as the financial system exhibits stress, our competitive position is improving as the capacity and capabilities of financial institutions are constrained by lack of capital and funding; many of them are also focusing more on their domestic markets.

Further strengthening our capital base will enhance our ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events, as well as giving us options regarding opportunities which will undoubtedly present themselves to those with superior financial strength.



Stephen Green

Group Chairman

2 March 2009

Operating Environment and Strategy

Three global trends are shaping the world in the 21st century, and we are shaping HSBC's business to take advantage of the opportunities they present.

Our world view

GDP growth rates of HSBC's major markets

	2007 (%)	2008 (%)
Brazil	5.7	5.1
China, Mainland	11.9	9.0
Hong Kong SAR	6.4	2.5
India	9.3	7.7*
Mexico	3.2	1.3
UK	3.0	0.7
United Arab Emirates	5.2	7.0*
USA	2.0	1.1

Sources: National statistics agencies

* Forecast by HSBC's Economic Research Department

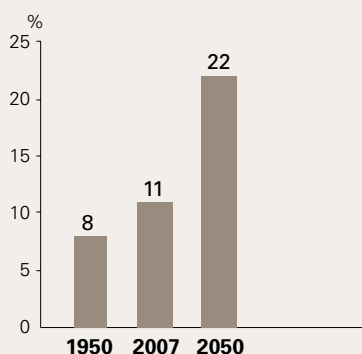
World growth driven by emerging markets

Over the past 15 years, emerging markets have grown significantly faster than developed markets. Despite today's economic turmoil, this is a trend we expect to continue over the longer term. Two-thirds of the world's growth in the next 20 years is forecast to come from emerging markets. As a result, we are seeing a fundamental rebalancing of the world economy towards the emerging markets, especially Asia.

World trade to grow faster than world GDP

Although in the short-term, trade is likely to slow as a consequence of the global economic downturn, we expect it to recover quickly when economies begin to grow again. Increasing trade has been the engine of economic prosperity over recent decades and a major source of business growth; we expect this to continue in the post-crisis world, although the direction of trade flows may change.

Proportion of world population 60 years or over: 1950-2050



Source: UN World Population Ageing survey 2007

Longevity increasing across the world

The number of people aged 60 and over has been increasing dramatically. That people are living longer is a good thing. Longevity also raises questions about how longer periods in retirement can and should be funded – by governments and by individuals. The current economic crisis is challenging existing attitudes to risk and savings, as assets intended to support retirement have fallen in value. Nevertheless, the need for retirement savings will remain.

Our strategy

Our heritage



Asian trade origins

Deep roots in many countries

International culture

Financial strength

Our strategy



Invest primarily in faster growing emerging markets

Focus businesses on international connectivity and scale advantages

Maintaining financial strength

Our execution



Joining up for our customers

Joining up for our people

Joining up through our technology

HSBC was founded 144 years ago to finance trade between Asia and the West. Within a year of our founding, we were operating in 12 countries, so we have been international from our very beginnings. This international culture has been one of our most distinctive features throughout our history. Another is our constant emphasis on financial strength, which has stood us in good stead through many crises.

We will build on our strengths – international connectivity and scale – to develop our business. Corporate clients, and commercial and individual customers all appreciate our ability to serve them across borders.

With over 325,000 employees speaking more than 100 languages and working in 9,500 offices, joining up the company for the benefit of our customers and shareholders will be key to success.

We are using technology to connect our operations so we can serve customers seamlessly across borders. We are investing in 'best in class' systems that we can roll out around the world, saving costs.

We are connecting colleagues to engage them in delivering our strategy.

Our strategy in action



Key

- Mature economies
USA, Canada, Japan, Australia, New Zealand,
EU15, Switzerland, Malta
- Faster growing economies

Key events of 2008

Mature economies

1. UK: HSBC announced £15 billion of new mortgages in 2009, building on the success of the RateMatcher promotion to attract quality customers facing interest rate resets.

2. France: we sold seven regional banks that were not core to our business, realising a profit of US\$2.4 billion.

3. Switzerland: HSBC Private Bank was ranked second overall in the global private bank category by *Euromoney*.

4. USA: we reduced our exposure to the sub-prime sector, followed by a decision in early 2009 to close the majority of the HFC and Beneficial branch network and to cease to write new consumer lending business.

Faster growing economies

5. China: we opened 29 new outlets, consolidating our position as the largest foreign bank in the country; HSBC also opened two rural bank branches; HSBC Private Bank opened offices in Guangzhou, Shanghai and Beijing.

6. Hong Kong SAR: HK\$4 billion in loans has been committed to small and medium-sized businesses from HSBC's new US\$5 billion global working capital fund. Initiatives have also been launched in the UK, France and Malta.

7. Taiwan: we acquired the business of The Chinese Bank, adding over one million customers to our network.

8. India: HSBC acquired IL&FS Investsmart Limited, a leading retail brokerage, giving us access to a market of 20 million retail investors.

9. Vietnam: HSBC was the first foreign bank to take a 20% stake in a local bank, Techcombank, having gained special approval to go beyond the foreign ownership cap of 15%; and we also obtained approval to establish a wholly foreign-owned bank.

10. Indonesia: we agreed to acquire a controlling stake in Bank Ekonomi for US\$608 million, subject to regulatory approval.

11. Middle East: HSBC Amanah, the Group's Islamic banking arm, marked its 10th anniversary. It now serves 700,000 customers in more than 20 countries and continues to extend the products available with the launch of a *shariah*-compliant savings account.

12. Mexico: we opened a Latin American regional office in Mexico City to align our regional strategy and business processes more closely with our customers' needs.

13. Poland: we entered the retail banking market with the launch of HSBC Premier, a service extended to five other countries, taking the total to 41.



4. USA

12. Mexico

Group Chief Executive's Business Review

The world today faces exceptionally challenging economic circumstances. 2008 was a very difficult year for the financial sector, and 2009 will be no less so, as the global downturn intensifies.

We have always talked openly about the challenges of the environment we operate in, rather than how we would like it to be. Today those challenges are many. We saw the downturn coming early, so we were able to position ourselves for it early. This has offered us some protection in the current turmoil, as have HSBC's trademark strengths of diversification, financial strength and self-funding. No one market accounts for more than a quarter of our total revenues.

All business lines except Personal Financial Services, and all regions except North America, were profitable in 2008. Many of our businesses have delivered strong results, despite very tough market conditions, and these offset the ongoing difficulties in the US business which the Group Chairman has mentioned.

Profits in Europe were US\$10.9 billion, up 26 per cent. The results included a number of acquisition gains, and fair value gains on own debt, which were offset by write-downs in Global Banking and Markets. There was underlying growth in Personal Financial Services and Private Banking.

Asia produced pre-tax profits of some US\$11.9 billion, 11 per cent down on a reported basis from the record performance of 2007, which had benefited from very strong equity market-based revenues and dilution gains from our mainland China and other associates.

Profits in Hong Kong declined by 26 per cent to US\$5.5 billion from 2007's record levels, mainly reflecting lower wealth management and insurance income in the deteriorating economic climate, in addition to impairment charges on some investments arising from sharp falls in equity market prices.

Outside Hong Kong, the rest of Asia-Pacific (including the Middle East), grew pre-tax profits by 27 per cent to US\$6.5 billion on an underlying basis. Many individual markets performed strongly, with profits in India some 26 per cent stronger at US\$666 million, and our mainland China operations grew 64 per cent to US\$319 million (excluding income from associates and dilution gains). Our operations in the Middle East increased pre-tax profits by US\$439 million, or 34 per cent, to US\$1.7 billion.

Pre-tax profits in Latin America were US\$2 billion, down by 6 per cent, as a result of higher impairment charges. We also reported a gain of US\$6.6 billion on the fair value on own debt. As this will be reversed in later years, we consider it a special item and it is not attributed to any business line.

Protecting our business and supporting our customers in challenging times

Although we were prepared for a significant global slowdown, it became clear last year that some markets were facing financial meltdown, driven by a lack of confidence in financial institutions not seen before. What began as a financial crisis has turned into a broader economic crisis that will affect virtually every economy in the world.

In this environment, we have taken measures to protect the business. Early on, we introduced more conservative lending criteria, for example, tightening loan-to-value ratios in the UK and reducing unsecured lending. In 2008, we continued to focus our attention on the core banking principles that are fundamental to HSBC. Maintaining our capital strength and our conservative advances-to-deposits ratio of 84 per cent enables us to be self-funding. We are working hard to reduce non-core wholesale Global Banking and Markets assets and US-based sub-prime consumer



assets. We are increasing liquidity and managing our risk-weighted assets carefully to protect our capital position. In many of our businesses, we saw a flight to quality from banks badly affected by the crisis and, in many markets, we have helped provide liquidity to the interbank market.

I would like to emphasise that HSBC remains very much open for business. Our strong and diversified deposit base means we can continue to lend when our competitors are withdrawing. With the exception of North America, HSBC grew its lending in support of customers strongly in all regions in 2008. In our key markets of the UK and Hong Kong, we grew personal and commercial lending by 12 per cent and 11 per cent respectively, on an underlying basis. In the UK, where we called the top of the market and reduced our lending in 2006, we came back into the market to assist customers and almost doubled our gross mortgage lending in 2008 to £17 billion. In the Hong Kong SAR, savings and deposit balances grew strongly, as did customer lending, particularly in mortgages, cards and commercial lending. We are focusing all our lending growth carefully, to maintain high asset quality and to support our customers across the world.

// In 2008, we continued to focus our attention on the core banking principles that are fundamental to HSBC. Maintaining our capital strength and our conservative advances-to-deposits ratio of 84 per cent enables us to be self-funding... In many of our businesses, we saw a flight to quality from banks badly affected by the crisis and, in many markets, we have helped provide liquidity to the interbank market. //

Commercial Banking

Pre-tax profit

US\$7,194m

Contribution to Group

77.3%

Maintained profitability despite difficult economic climate

Commercial Banking continues to be the jewel in the crown for HSBC. We have the broadest and best commercial banking franchise in the world, and our strengths as an international bank remain a compelling proposition for our customers.

In 2008, Commercial Banking profit before tax was modestly up on 2007 at US\$7.2 billion, as strong revenue growth of 10 per cent more than offset the rise in loan impairments. To maintain our profitability in such a difficult year is a significant achievement.

Our international connectivity is driving increasing revenues. We grew international revenues – trade and supply chain, and foreign exchange services – by a third. Our Global Links cross-border referral system helped us conclude over 5,600 transactions – almost double the volume in 2007 – with an aggregate transaction value of over US\$11 billion.

We are also supporting customers and expanding lending responsibly, growing deposits and lending, by 15 and 10 per cent respectively on an underlying basis. To provide extra support to smaller companies at a time when credit is scarce, we have established a US\$5 billion global small and medium-sized enterprise fund to support this important customer segment.



US\$5 billion backing for SMEs

Many small and medium-sized enterprises are finding sources of funds hard to come by in this economic downturn, as many banks are reining in lending.

We have shown our commitment to this important segment by increasing lending by our commercial banking business, and by launching a US\$5 billion fund in 2008 to provide support to these companies.

Photo: A valued customer of HSBC for 21 years, Tai Sang, a retailer and wholesaler of dried seafood in the Western District of Hong Kong, has taken advantage of the new SME fund.



Commercial Banking highlights

- ▶ Customer numbers grew to 2.9 million.
- ▶ HSBC remains open for business, growing both lending and customer accounts.
- ▶ International connectivity is a key strength: emerging markets contributed over half of pre-tax profits on an underlying basis.
- ▶ Cross-border referrals nearly doubled to 5,600.

Personal Financial Services highlights

- ▶ Nearly half a million customers joined HSBC Premier, our service for mass affluent clients.
- ▶ We attracted £5.4 billion of high quality mortgage business in the UK.
- ▶ We saw strong customer account growth of 13 per cent.
- ▶ Discontinuing US branch-based consumer lending originations, as weakness persists.

Personal Financial Services

Pre-tax loss

(US\$10,974m)

Contribution to Group

(117.9%)

North America drives loss before tax, reasonable performance in other markets

Overall, our Personal Financial Services business reported a loss before tax of US\$11 billion in 2008, driven by loan impairment charges and a goodwill impairment charge related to North America.

Excluding the North America business, Personal Financial Services remained profitable and we maintained revenue at 2007 levels despite pressure on interest margins and on fee income. Low interest rates are affecting savers, and the economics of running branch networks become more challenging in a low interest-rate environment.

We continued to focus on serving affluent customers who value the unique international banking and wealth management services HSBC can provide. We grew our HSBC Premier client base to 2.6 million customers, up 22 per cent on 2007. Eight out of 10 net new Premier clients were new to HSBC. We achieve average income of US\$2,000 per Premier customer and our proposition clearly meets the needs of affluent, internationally mobile customers. We launched Premier in six new markets, taking the total to 41.

In Europe, our Personal Financial Services business performance was resilient. Performance was solid in the UK, where we continued to strengthen our position in the mortgage market with the launch of a RateMatcher promotion to attract quality customers facing interest rate resets. This promotion resulted in new business totalling £5.4 billion, whose quality can be seen in the low loan-to-value ratios which averaged 59 per cent. We have established a £15 billion mortgage fund in the UK for 2009 to build on this success.

Fee income fell in most regions due to a lack of confidence in investments, which resulted in lower fees from retail securities and investments.

HSBC Finance Corporation

The satisfactory performance of our Personal Financial Services businesses outside the US was obscured by substantial losses in HSBC Finance in the US. Loan impairment charges and other credit risk provisions in the US were US\$15.9 billion, and we incurred a goodwill impairment charge of US\$10.6 billion, representing all of our remaining North America Personal Financial Services goodwill. In these tough times, we must be, and we are, prepared to take tough action to work through this troubled business.

£15 billion of new mortgages to support UK homeowners

Despite the credit crunch, HSBC remains open for business, with the willingness and the funds to lend to customers. We demonstrated this commitment in the UK by making available up to £15 billion of new residential mortgages in 2009.

This initiative builds on our successful RateMatcher campaign in 2008, which allowed homeowners to switch to HSBC while maintaining their existing mortgage rates. During 2008, we almost doubled our lending to mortgage customers in the UK, while maintaining high credit quality.



As the Chairman has said, the US economy deteriorated severely towards the end of 2008. Although it serves a large part of the population, it is clear that the sub-prime mortgage refinance model no longer operates effectively. Due to the lack of home equity, the deteriorating outlook for house price appreciation and very limited refinancing opportunities available to this customer segment in the near future, we will cease to write new consumer finance business through the HFC and Beneficial brands in the US, and will concentrate on running-off the outstanding real estate-secured and unsecured portfolio of US\$62 billion.

As a result, we will close the majority of the HFC and Beneficial-branded US branch network, regrettably with the loss of 6,100 jobs. This will result in a restructuring charge of US\$265 million in the first half of 2009, inclusive of closure costs and non-cash charges, and annualised cost savings of approximately US\$700 million.

With downside risks for unemployment and residential real estate in the US, we expect credit provisioning to remain elevated and operating losses to continue in 2009 and 2010.

With the future of sub-prime finance in the US uncertain, we no longer consider sub-prime finance in the US to be a core business to HSBC. We continue to make strenuous efforts to help customers in financial difficulty and avoid foreclosure. We modified almost 100,000 loans in 2008 and our foreclosure rate only increased slightly, despite the deterioration in the economy.

As the Chairman has said, we remain committed to the US. HSBC will continue to offer card finance, with the majority of assets held and funded through HSBC Bank USA. The personal finance operations of HSBC Bank USA, including its network of retail branches, are also unaffected by this decision.

Global Banking and Markets

Pre-tax profit

US\$3,483m

Contribution to Group

37.4%

Global Banking and Markets posted pre-tax profits of US\$3.5 billion. This performance reflects the success of our emerging markets-led and financing-focused strategy, introduced in 2006, which is creating a leading wholesale bank offering global connectivity and a sophisticated range of services.

Global Banking and Markets' revenues were affected by US\$6.1 billion in write-downs, of which US\$5.4 billion were in respect of credit trading,

leveraged and acquisition financing positions and monoline credit exposures, and US\$0.7 billion were impairments on available-for-sale asset-backed securities and holdings of debt and preferred shares of financial institutions.

Our focus on connecting emerging and developed markets has helped us grow profits from emerging markets, which now contribute two-thirds of Global Banking and Markets' profit before tax, up from a half in 2006.

Core businesses such as foreign exchange, Rates, Balance Sheet Management and Financing and Equity Capital Markets achieved record revenues. Foreign exchange revenues rose to a record US\$3.8 billion due to increased market volatility and higher levels of customer activity, with notably strong performance in Europe and the rest of Asia-Pacific.

Robust growth in Global Banking was driven by improved margins in the credit and lending business, as well as substantial gains on credit default swaps in certain portfolios.

Loan impairment charges and other credit risk provisions rose to US\$1.5 billion, reflecting the deteriorating credit environment as well as a number of bank failures in 2008.

Global Transaction Banking generated revenues of US\$9.1 billion across Commercial Banking and Global Banking and Markets, an increase of 7 per cent over 2007. Trade and Supply Chain, and Securities Services performed strongly, with growth of 29 per cent and 10 per cent respectively, notably in Asia-Pacific and the Middle East. Payments and Cash Management revenues remained robust, in spite of global interest rate cuts.

We recognised impairment losses of US\$279 million in relation to our portfolio of securities held available for sale during 2008, although the value of these securities declined by some US\$16.5 billion. The significant difference between these figures reflects illiquidity for all asset-backed securities, and the low level of impairment losses reflects the seniority of the tranches held by HSBC. Please see the *Annual Report and Accounts 2008* for more details.



Dealing in developing markets

Our Global Banking and Markets business is uniquely able to connect clients in developed and emerging markets.

HSBC's dealing room in India's commercial capital, Mumbai (left), provides clients with access to local and international financing. Our team have pioneered a number of transactions in the Indian markets, including the first Indian rupee supranational issuance for the Asian Development Bank; the first bond for an Indian bank in a developing market for the State Bank of India, and the first Islamic financing for an Indian company in international markets.

HSBC Private Bank opens doors for clients

HSBC Private Bank launched a new global advertising campaign in February 2009 under the strapline 'The world's private bank'.

HSBC Private Bank has a unique ability to connect high net worth clients internationally and offers a full range of sophisticated investment opportunities and services. The campaign, which features red doorways throughout, highlights the bank's ability to open doors for clients across borders.

Euromoney ranked HSBC Private Bank the number one private bank in Asia and the Middle East in 2008, and number two globally.



Private Banking

Pre-tax profit

US\$1,447m

Contribution to Group

15.6%

lower fee income, higher staff costs, and higher loan impairment charges and other credit risk provisions.

Client assets decreased by 16 per cent to US\$352 billion, despite strong net new money flow of US\$24 billion, of which US\$16.5 billion was in Europe. The decline in market values in all regions was the major reason for this decline. Although total client assets under management fell as a result of economic conditions, we attracted net new money of US\$30 billion. Intra-Group referrals resulted in US\$6.8 billion of net new money, compared with US\$5.7 billion in 2007.

A leading international private bank

In a world where the private banking industry saw major reductions in overall assets, HSBC Private Bank continued to perform strongly. Pre-tax profit held up well at just 4 per cent below 2007's record figure. Strong revenue growth in Europe, especially in Switzerland and the UK, was offset by reduced trading income in Asia,

We continued to build our Private Banking franchise, opening offices in Guangzhou, Shanghai and Beijing in mainland China, and expanding our domestic business in other emerging markets, especially India, Panama and Brazil.

Global Banking and Markets highlights

- ▶ Emerging markets contributed two-thirds of profits before tax.
- ▶ Record revenues achieved in foreign exchange, Rates, Balance Sheet Management, and Financing and Equity Capital Markets.
- ▶ Global Transaction Banking revenues in Global Banking and Markets, and Commercial Banking increased 7 per cent.
- ▶ Won key industry awards including 'Best Emerging Markets Bank' from *Euromoney*.

Private Banking highlights

- ▶ Named the world's second best private bank by *Euromoney*.
- ▶ Attracted strong net new money flows of US\$24 billion, although client assets fell as a result of the decline in market values.
- ▶ Opened three offices in mainland China.
- ▶ Plans to open in Russia in 2009.

Insurance – strong premium growth but profits affected by reduced investment income

We signalled our intention to grow Insurance to become a more significant contributor to the Group's profits. In 2008, pre-tax profits totalled US\$2.6 billion, a decline of 19 per cent, driven by lower investment returns and a reduced contribution from Ping An due to the Fortis impairment. Both Latin America and North America achieved higher profits than in 2007. Premiums grew by 20 per cent to US\$11 billion, proving the resilience of the bancassurance model in all regions. In Asia, we continued to build our insurance franchise, opening businesses in both India and Korea.

Joining up the Company

Our customers rightly expect a consistently high quality of service wherever they deal with us around the world, consistent with our ranking as the number 1 financial brand. Our programme to 'join up' HSBC aims to make the brand promise a reality. Now in its third year, the positive results of 'Joining up the Company' can be seen in many of our businesses – in Global Links referrals, Private Banking and Premier growth. We are also two years into a five-year plan to develop and deploy common systems throughout the Group under the 'One HSBC' banner. This programme is core to 'Joining up the Company'. It is delivering higher quality IT and operations at lower cost across the Group. It allows us to service individual

and corporate customer needs seamlessly across borders. It means we can deliver a consistently high-quality customer experience.

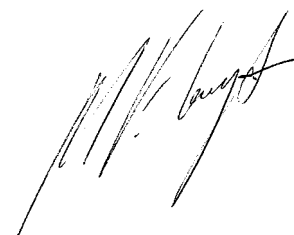
We cannot join up the Company without joining up our people – my colleagues who deliver on our brand promise to our customers every day. Throughout the year, the Group Chairman and I visit almost half of the markets in which we operate. We know from the many colleagues we meet how difficult 2008 has been for them, as they have tried to support our customers and our business through the turmoil. I would like to thank them for their commitment and hard work through these tough times. It is a measure of the strength of this company that employee engagement, as recorded in our annual employee survey, rose to a new high in 2008 and exceeds both global and sector norms. As 93 per cent of colleagues completed the survey, this is a tremendous accolade and we are privileged to have such talented and loyal employees.

Operating outlook for 2009

Banks are a leveraged play on the economies they serve and, thus, are a reflection of their customers' success. With most developed markets in recession, and emerging markets slowing sharply, we are seeing increased levels of stress in both consumer and commercial books. With the exception of North America, HSBC grew its lending in support of

customers strongly in 2008. However, the general lack of international lending is a cause for concern, and will put further pressure on the availability of credit, especially in emerging markets.

As the Chairman has outlined, the outcome for 2009 is extremely hard to predict. In these challenging times, we are focusing on staying close to our loyal customers. We will concentrate on the opportunities our scale, international connectivity and emerging market dominance provide to do profitable, responsible business, despite the downturn. I am pleased to report that our business performance in January 2009 has been strong, and ahead of our expectations.



Michael Geoghegan

Group Chief Executive
2 March 2009

Monitoring our Performance and Managing our Risk

Key performance indicators

HSBC uses financial and non-financial measures, known as key performance indicators, to track the Group's progress against its objectives. These are summarised below:

Financial key performance indicators

Revenue growth is an important guide to HSBC's success in generating income.

Revenue mix, the distribution of our revenues between net interest income, net fee income and other revenues, helps management make business investment decisions.

The **cost efficiency** ratio measures the quantity of financial resources used to generate revenue. Management uses this measure to assess the productivity of our systems and people.

Credit performance as measured by risk-adjusted margin is an important measure that assesses whether credit is correctly priced.

Return on average invested capital measures the return on the capital investment made in the business, allowing management to benchmark HSBC against competitors.

HSBC aims to deliver sustained **dividend per share growth** for its shareholders. The total dividend in respect of 2008 amounted to US\$0.64, a reduction of 29 per cent on 2007, reflecting the decline in profitability, prevailing business conditions and capital requirements.

Basic **earnings per share** shows the level of earnings generated per ordinary share, and is one of two key performance indicators used to reward employees.

Return on average total shareholders' equity measures the return on average shareholders' investment in the business and allows us to benchmark the Group's performance against competitors and internal targets.

Total shareholder return is a measure that calculates the overall return to shareholders on their investment in HSBC, taking into account the growth in share value and dividend income over one-, three- and five-year periods. This is the second key performance indicator used in rewarding employees.

Non-financial key performance indicators

The link between **employee engagement** and customer satisfaction is well established, which is why we track employee engagement. In 2008, we conducted our second Global People Survey, covering our entire permanent workforce. The participation rate of 93 per cent was 5 percentage points higher than in 2007, and employee engagement rose from 60 per cent to 67 per cent, above global and sector norms.

Customer satisfaction is an important driver of business growth, and HSBC uses a consistent measure of customer recommendation to improve its Personal Financial Services and Commercial Banking services. We regularly conduct customer satisfaction surveys, and the results are benchmarked against competitors.

In 2008, Commercial Banking met its target of a seven-point margin over its competitors, while Personal Financial Services missed its increased target by only a small margin.

HSBC was named the number one banking brand in 2008 by Brand Finance, and we track **brand perception** among customers in all our major markets. Surveys conducted in 2008 by independent organisations recorded scores of 9 and 6 ahead of the competitor average for Personal Financial Services and Commercial Banking, respectively. New benchmarks have been set for 2009 to reflect the changed market environment.

IT performance and systems reliability are key to our ability to meet customer needs. We track the number of transactions processed, and the reliability and resilience of our systems measured in terms of service availability targets. In 2008, although internet transactions unexpectedly decreased, self-service transactions increased to just under 2.5 billion. IT services met or exceeded availability targets at least 98 per cent of the time in 2008 across our various geographical regions.

Risk

All banking activities involve risk and our Risk Management Framework allows us to analyse, evaluate and manage the risks inherent in our business. Our principal risk categories are highlighted here.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, credit derivatives and debt securities. Our governance structures and control frameworks are designed for all stages of economic and financial cycles, including the current challenging environment.

Liquidity and funding risk

The objective of HSBC's liquidity and funding management framework is to ensure the Group can meet its funding commitments when they are due, and respond quickly to unforeseen liquidity requirements. HSBC maintains a diversified and stable funding base, augmented by wholesale funding and diversified portfolios of highly liquid assets.

Market risk

We use a range of tools to manage and control market risk exposures so that we optimise return on risk while maintaining a market profile consistent with HSBC's status as one of the world's largest banking and financial services organisations.

Operational risk

Operational risk is inherent in every business, and includes the risk of loss arising from fraud, unauthorised

activities, error, omission, inefficiency, systems failure or from external events. In each of our subsidiaries, managers are responsible for maintaining an acceptable level of internal control in line with the scale of their operations.

Reputational risk

Safeguarding HSBC's reputation is of paramount importance to our continued prosperity as it helps to attract clients to HSBC. Our good reputation depends upon the way we conduct our business and we regularly review policies and procedures to ensure they safeguard against reputational and operational risks.

Insurance risk

The principal insurance risk HSBC faces is that the cost of claims, along with the cost of acquiring and administering business, may exceed the aggregate amount of premiums received and investment income.

Pension risk

HSBC operates a number of pension schemes throughout the world. The primary risks are that investments deliver returns below that required to provide the projected benefits, that interest rates or inflation cause an increase in scheme liabilities, or that scheme members live longer than expected, causing a deficit in the plans.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which run counter to the needs of sustainable development, in effect when the environmental and social effects outweigh economic benefits.

Sustainability

HSBC believes that our long-term success depends on having a sustainable business model; and the importance of this has been highlighted by the financial crisis. That model has four interlinked elements.

The first is to achieve sustainable profits for our shareholders, underpinned by good governance. The second is to maintain enduring relationships with customers. The third is to ensure we have high quality, committed staff who deliver the corporate strategy. The final component to sustainability is our commitment to managing the social and environmental impact of our business. We believe that, by taking this approach, we can provide shared value both for our business and for society as a whole.

This *Annual Review* outlines how we are building our business to achieve returns for shareholders by serving our customers responsibly, with integrity and fairness. It also underlines how our employees play a key part in our success in achieving these goals.

This chapter briefly covers how we are meeting the fourth element of our commitment to sustainability through the work we do to manage our social and environmental impact.

Climate change and the shift to a lower carbon economy

During 2008, we continued to develop our response to the challenges and opportunities of climate change.

We adopted the Climate Principles, the first voluntary global framework for the financial services sector on climate change. The Principles align with, and

US\$100m

Five-year commitment to the HSBC Climate Partnership

build on, existing initiatives to develop a consistent and effective approach to addressing climate change across the full range of financial products and services.

Within our business, we established a Climate Team which brings together representatives from different parts of HSBC to maximise the opportunities presented by a move to a low carbon economy. That expertise on climate change has been reinforced by the work of the HSBC Climate Change Centre of Excellence in London and Bangalore, India. The centre researches the latest economic, regulatory and political developments in the field and so helps HSBC respond to these developments and seize any opportunities they present.

We also continue to develop products that help customers take account of climate change in their investments. These include the HSBC Climate Change Benchmark Index, which is an investable index that tracks the performance of companies generating at least 10 per cent of their revenue from products and services that address climate change.

Managing the direct impacts of our operations

HSBC has been a carbon neutral bank since 2005 and, during 2008, set new five-year improvement targets to reduce energy and water usage, and

the production of carbon dioxide and waste. These targets are linked to the performance objectives of the Group Management Board and we report on progress annually.

We also invested in new technologies to reduce our carbon footprint. These included new tele- and video-conferencing facilities to minimise the need for business travel. In a one-month trial undertaken at our headquarters in London, this technology was estimated to save 1,682,430 kilometres of travel – around 185 tonnes of carbon dioxide – at a cost saving of over US\$1.2 million.

// We adopted the Climate Principles, the first voluntary global framework for the financial services sector on climate change. //

Reducing the indirect impact of our business

We continue to work to reduce the indirect environmental and social impact of our lending and investment. We apply the Equator Principles – a voluntary code that requires the assessment of social and environmental risks in large projects – and also have a range of specific policies to guide our approach to working in sensitive areas. These policies now cover forest land and forest products, freshwater infrastructure, mining and metals, chemicals and energy. If customer activity does not meet the minimum standards of these policies, we review our involvement and, if we are unable to resolve the issues through dialogue, we will withdraw from the relationship.

During 2008, 377 transactions were reviewed at Group level, 73 of which were defined as 'high risk' and four were declined as they did not comply with the standards required by our policies.

Microfinance

HSBC continued its work with microfinance institutions, which offer small-scale loans to people who do not have access to conventional financial services in such countries as India and Mexico.

// HSBC has been a carbon neutral bank since 2005 and, during 2008, set new five-year improvement targets to reduce energy and water usage, and the production of carbon dioxide and waste. //

Investing in the community

HSBC focuses its investment in the community on education and the environment. Fifty per cent of the Group's community investment is allocated to HSBC's global education programme, with a focus on developing financial literacy, supporting disadvantaged children and providing environmental education. Our global initiatives include JA More than Money, Future First and HSBC Eco Schools although the majority of our donations are made at a local level and are driven by specific local needs.

The HSBC Climate Partnership is the main global environmental programme. This is a five-year, US\$100 million commitment, launched in 2007, which supports projects with the Climate Group, Earthwatch, Smithsonian

// HSBC continued its work with microfinance institutions, which offer small-scale loans to people who do not have access to conventional financial services in such countries as India and Mexico. //

Tropical Research Institute and WWF. So far, this work has included consumer campaigns to reduce individual carbon footprints; reforestation over 100 hectares in the Panama Canal Watershed; reducing pollution and safeguarding species in the Yangtze River; and the establishment of three Climate Centres for research purposes. The partnership also provides practical opportunities for HSBC's employees to play their part in this work.

In May 2009, HSBC will publish its annual *Sustainability Report* which will cover our work on sustainability in more detail.

Our Board: Promoting Your Interests

Board of Directors



Stephen Green
Group Chairman

Age 60. An executive Director since 1998; Group Chief Executive from 2003 to 2006. Joined HSBC in 1982. Chairman of HSBC Bank plc and HSBC Private Banking Holdings (Suisse) SA. A Director of HSBC France, HSBC North America Holdings Inc. and The Hongkong and Shanghai Banking Corporation Limited. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003. Chairman of The British Bankers' Association.

Mr Green is a career banker having joined The Hongkong and Shanghai Banking Corporation Limited in 1982 with responsibility for corporate planning activities. In 1992 he became Group Treasurer of HSBC Holdings plc, with responsibility for the HSBC Group's treasury and capital markets businesses globally. He has worked in Hong Kong, New York, the Middle East and London and has immense international experience and knowledge of the HSBC Group.



Michael Geoghegan, CBE
Group Chief Executive

Age 55. An executive Director since 2004. Joined HSBC in 1973. Chairman of the Group Management Board. Chairman of HSBC Bank USA, N.A., HSBC Bank Canada, HSBC Latin America Holdings (UK) Limited and HSBC USA Inc. Deputy Chairman of HSBC Bank plc. A Director of The Hongkong and Shanghai Banking Corporation Limited, and HSBC North America Holdings Inc. Chief Executive of HSBC Bank plc from 2004 to 2006. Responsible for all of HSBC's business throughout South America from 2000 to 2003. President of HSBC Bank Brasil S.A. - Banco Multiplô from 1997 to 2003.

Mr Geoghegan is a career banker with over 35 years' international experience with HSBC. He has worked in the Americas, Asia, the Middle East and Europe. He established the Group's operations in Brazil in 1997 following the creation of Banco HSBC Bamerindus S.A and in 2003 he was honoured with a CBE in recognition of his contribution to British business interests in Brazil.



Safra Catz*

Age 47. President and Chief Financial Officer of Oracle Corporation. A non-executive Director since 1 May 2008. Managing Director of Donaldson, Lufkin & Jenrette from 1997 to 1999. Joined Oracle in 1999 and appointed to the Board of Directors in 2001. Ms Catz brings to the Board a background in international business leadership, having helped transform Oracle into the second biggest producer of management software and the world's leading supplier of software for information management.



Vincent Cheng, GBS, OBE

Age 60. Chairman of The Hongkong and Shanghai Banking Corporation Limited. An executive Director since 1 February 2008. Joined HSBC in 1978. Appointed a Group General Manager in 1995 and a Group Managing Director in 2005. Chairman of HSBC Bank (China) Company Limited and HSBC Global Asset Management (Hong Kong) Limited and a non-executive Director of HSBC Bank Australia Limited and HSBC Bank (Vietnam) Limited. A Director of Great Eagle Holdings Limited and a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. Vice Chairman of the China Banking Association. Appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference ('CPPCC'), and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. A Director of Swire Pacific Limited from 2005 to January 2008. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2005.

Mr Cheng is a career banker with extensive international business experience, particularly in Asia. Mr Cheng was Chairman of the Process Review Panel for the Securities and Futures Commission and is Chairman of the Standing Committee on Directorate Salaries and Conditions of Service of the Hong Kong Government. He is also Vice President of the Hong Kong Institute of Bankers. From 1989 to 1991, he was seconded to the Hong Kong Government's Central Policy Unit and served as an adviser to the Governor of Hong Kong.



Marvin Cheung†, GBS, OBE

Age 61. A non-executive Director since 1 February 2009. A non-executive Director of Hang Seng Bank Limited, HKR International Limited, Hong Kong Exchanges and Clearing Limited and Sun Hung Kai Properties Limited. A non-official member of the Executive Council of the Hong Kong Special Administrative Region, Chairman of the Airport Authority Hong Kong, Chairman of the Council of the Hong Kong University of Science and Technology and a Council Member of the Open University of Hong Kong. A Director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Hong Kong International Film Festival Society Limited. Chairman and Chief Executive Officer of KPMG Hong Kong from 1996 to 2003. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2008. Dr Cheung brings to the Board a wealth of experience in international business and financial accounting, particularly in Greater China and the wider Asian economy. He retired from KPMG Hong Kong in 2003 after more than 30 years' distinguished service with the firm. He is a Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales.



John Coombe*

Age 63. Non-executive Chairman of Hogg Robinson Group plc. A non-executive Director since 2005. A member of the Group Audit Committee and of the Remuneration Committee. A non-executive Director of Home Retail Group plc. A trustee of the Royal Academy Trust. Former appointments include: executive Director and Chief Financial Officer of GlaxoSmithKline plc; member of the Supervisory Board of Siemens AG; Chairman of The Hundred Group of Finance Directors and a member of the Accounting Standards Board. Mr Coombe brings to the Board a wealth of experience in international business, financial accounting and the pharmaceutical industry. As Chief Financial Officer of GlaxoSmithKline he had responsibility for the Group's financial operations globally. He is a Chartered Accountant and is a Fellow of the Institute of Chartered Accountants in England and Wales.



José Luis Durán†

Age 44. A non-executive Director of France Telecom. A non-executive Director since 1 January 2008. Chief Executive of Carrefour SA until 31 December 2008. Former appointments at Carrefour SA include: Chairman of its Management Board of Directors; Chief Financial Officer and Managing Director, Organisation and Systems. Mr Durán brings to the Board a background in international finance, retail and consulting in developed and emerging markets. He joined Carrefour SA in 1991 and held a number of positions within Carrefour's businesses in Spain, southern Europe and the Americas.



Rona Fairhead†

Age 47. Chairman, Chief Executive Officer and Director of Financial Times Group Limited. A non-executive Director since 2004. Chairman of the Group Audit Committee and a member of the Nomination Committee. A Director of Pearson plc and Chairman of Interactive Data Corporation. A non-executive Director of The Economist Newspaper Limited. Former appointments include: Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc; and Finance Director of Pearson plc.

Mrs Fairhead brings to the Board a wealth of experience in international industry, publishing, finance and general management. As the former Finance Director of Pearson plc she oversaw the day to day running of the finance function and was directly responsible for global financial reporting and control, tax and treasury. She has a Master's in Business Administration from the Harvard Business School.



Douglas Flint, CBE

Group Finance Director

Age 53. Joined HSBC as an executive Director in 1995. Chairman of HSBC Finance Corporation and a Director of HSBC North America Holdings Inc. A non-executive Director of BP p.l.c. and a member of the Consultative Committee of the Large Business Advisory Board of HM Revenue & Customs and the Business Government Forum on Tax and Globalisation. Co-Chairman of the Counterparty Risk Management Policy Group III. Chaired the Financial Reporting Council's review of the Turnbull Guidance on Internal Control. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. A former partner in KPMG.

Mr Flint has extensive financial experience particularly in banking, multinational financial reporting, treasury and securities trading operations. In 2006 he was honoured with a CBE in recognition of his services to the finance industry. He is a member of the Institute of Chartered Accountants of Scotland and the Association of Corporate Treasurers and he is a Fellow of The Chartered Institute of Management Accountants.



Sandy Flockhart, CBE

Age 57. Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited and Global Head of Commercial Banking. An executive Director since 1 May 2008. Joined HSBC in 1974. Appointed a Group Managing Director in 2006. Appointed Vice Chairman and a Director of HSBC Bank (Vietnam) Limited on 24 November 2008. A Director of Hang Seng Bank Limited, HSBC Bank Australia Limited, HSBC Bank (China) Company Limited and Chairman of HSBC Bank Malaysia Berhad. President and Group Managing Director Latin America and the Caribbean from 2006 to July 2007. Chief Executive Officer, Mexico from 2002 to 2006. Senior Executive Vice-President, Commercial Banking, HSBC Bank USA, N.A. from 1999 to 2002. Managing Director of The Saudi British Bank from 1997 to 1999.

Mr Flockhart is a career banker, being an emerging markets specialist with over 30 years' experience with HSBC across Latin America, the Middle East and Asia. In 2007 he was honoured with a CBE in recognition of his services to British business and charitable services and institutions in Mexico.



William Fung*, SBS, OBE

Age 60. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. Chairman of the Corporate Sustainability Committee. Non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited. A non-executive Director of Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and an independent non-executive Director of Shui On Land Limited and VTech Holdings Limited. Former appointments include: non-executive Director of Bank of Communications; Chairman of the Hong Kong General Chamber of Commerce; the Hong Kong Exporters' Association; and the Hong Kong Committee for the Pacific Economic Cooperation Council. Awarded the Silver Bauhinia Star by the Hong Kong Government in 2008.

Mr Fung brings to the Board 30 years' experience in running a major international conglomerate specialising in supply chain management through the borderless manufacturing of global consumer products. During his leadership the family business of Li & Fung has become one of the largest trading companies in Hong Kong with over 80 offices worldwide.



Stuart Gulliver

Age 49. Chief Executive of Global Banking and Markets and HSBC Global Asset Management. An executive Director since 1 May 2008. Joined HSBC in 1980. Appointed a Group Managing Director in 2004. Chairman of HSBC France. A Director of HSBC Bank plc, HSBC North America Holdings Inc., HSBC Private Banking Holdings (Suisse) SA and The Hongkong and Shanghai Banking Corporation Limited. Deputy Chairman and member of the Supervisory Board of HSBC Trinkaus & Burkhardt AG.

Co-Head of Global Banking and Markets from 2003 to 2006. Head of Global Markets from 2002 to 2003. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002.

Mr Gulliver is a career banker with over 28 years' international experience with HSBC. He has held a number of key roles in the Group's operations worldwide, including in London, Hong Kong, Tokyo, Kuala Lumpur and the United Arab Emirates. Global Banking and Markets is the wholesale banking division of the Group with operations in more than 60 countries and territories.



James Hughes-Hallett*, SBS

Age 59. Chairman of John Swire & Sons Limited. A non-executive Director since 2005. A member of the Group Audit Committee and of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A non-executive Director and former Chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A director of China Festival 2008. A trustee of the Dulwich Picture Gallery and the Esmée Fairbairn Foundation. A member of The Hong Kong Association, the Governing Body of the School of Oriental and African Studies, University of London and of the Governing Board of the Courtauld Institute of Art. Awarded the Silver Bauhinia Star by the Hong Kong Government in 2008.

Mr Hughes-Hallett brings to the Board a background in financial accounting and the management of a broad range of businesses in a number of international industries, including aviation, property, manufacturing and trading, in the United Kingdom, Far East and Australia. He is a Fellow of the Institute of Chartered Accountants in England and Wales.



Sam Laidlaw†

Age 53. Chief Executive Officer of Centrica plc. A non-executive Director since 1 January 2008. A member of the Remuneration Committee. Former appointments include: Executive Vice President of Chevron Corporation; independent non-executive Director of Hanson PLC; Chief Executive Officer of Enterprise Oil plc; and President and Chief Operating Officer of Amerada Hess Corporation. Mr Laidlaw brings to the Board significant international experience, particularly in the energy sector, having had responsibility for businesses in four continents.



Rachel Lomax†

Age 63. Former Deputy Governor, Monetary Stability, at the Bank of England and member of the Monetary Policy Committee. A non-executive Director since 1 December 2008. A member of the Group Audit Committee since 1 March 2009. A non-executive director of The Scottish American Investment Company PLC. Former appointments include: Director of the Bank of England from 2003 to 30 June 2008; Serving as Permanent Secretary at the UK Government Departments for Transport and Work and Pensions and at the Welsh Office; and Vice President and Chief of Staff to the President of the World Bank from 1995 to 1996. Ms Lomax brings to the Board business experience in both the public and private sectors and a deep knowledge of the operation of the UK government and the financial system.

* Non-executive Director

† Independent non-executive Director

Board of Directors (continued)

**Sir Mark Moody-Stuart†, KCMG**

Age 68. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Sustainability Committee. A non-executive Director of Accenture Limited and Saudi Aramco. Chairman of the Global Business Coalition on HIV/AIDS and the Global Compact Foundation. Former appointments include: Director and Chairman of The 'Shell' Transport and Trading Company, plc; Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies; and a Governor of Nuffield Hospitals. Sir Mark brings to the Board many years' experience of leading global organisations and of having worked during his career in nine countries. He works with many non-governmental organisations to improve companies' commitment to socially responsible activities. He is a member of the steering committee responsible for driving the global governance initiative of the World Economic Forum, an independent foundation committed to developing a world-class corporate governance system.

**Gwyn Morgan†**

Age 63. Non-executive chairman of SNC-Lavalin Group Inc. A non-executive Director since 2006. A member of the Remuneration Committee. A member of the Board of Trustees of The Fraser Institute and the Manning Centre for Building Democracy. A non-executive Director of HSBC Bank Canada from 1996 to 2006. Former appointments include: Founding President, Chief Executive Officer and Vice Chairman of EnCana Corporation; Director of Alcan Inc. and Lafarge North America, Inc.

Mr Morgan brings to the Board a background in technical, operational, financial and management positions and has led large international companies in the energy and engineering sectors. He has been recognised as Canada's most respected Chief Executive Officer in a national poll of Chief Executives. He is currently a business columnist for Canada's largest national newspaper.

**Narayana Murthy†, CBE**

Age 62. Chairman and Chief Mentor and former Chief Executive Officer of Infosys Technologies Limited. A non-executive Director since 1 May 2008. A member of the Corporate Sustainability Committee. An independent non-executive Director of Unilever plc and New Delhi Television Limited and a Director of the United Nations Foundation. A former independent non-executive Director of DBS Group Holdings Limited and DBS Bank Limited. Mr Murthy brings to the Board experience in information technology, corporate governance and education, particularly in India. He founded Infosys Technologies Limited in India in 1981 and was its Chief Executive Officer for 21 years. Under his leadership, Infosys established a global footprint and was listed on NASDAQ in 1999. During his career he has worked in France and India.

**Simon Robertson†**
Senior independent non-executive Director

Age 67. Non-executive Chairman of Rolls-Royce Group plc and the founder member of Simon Robertson Associates LLP. A non-executive Director since 2006 and senior independent non-executive Director since May 2007. A member of the Nomination Committee. A non-executive Director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and Royal Opera House, Covent Garden Limited. A trustee of the Eden Project Trust and of the Royal Opera House Endowment Fund. Former appointments include: Managing Director of Goldman Sachs International and Chairman of Dresdner Kleinwort Benson.

Mr Robertson brings to the Board a background in international corporate advisory, with a wealth of experience in mergers and acquisitions, merchant banking, investment banking and financial markets. During his career, he has worked in France, Germany, the UK and the USA.

**John Thornton†**

Age 55. A non-executive Director since 1 December 2008. Non-executive Chairman and Director of HSBC North America Holdings Inc since 1 December 2008. Professor and Director of the Global Leadership Program at the Tsinghua University School of Economics and Management. Chairman of the Brookings Institution Board of Trustees. Director of Ford Motor Company, Intel Corporation, Inc., News Corporation, Inc, National Committee on United States-China Relations and China Unicom (Hong Kong) Limited. Trustee of Asia Society, China Institute and The China Foreign Affairs University. Member of the Council on Foreign Relations, the China Securities Regulatory Commission International Advisory Committee and China Reform Forum International Advisory Committee. Former appointments include: Director of Industrial and Commercial Bank of China Limited from 2005 until 20 November 2008; and President, Co-Chief Operating Officer of the Goldman Sachs Group, Inc from 1999 until 2003.

Mr Thornton brings to the Board experience that bridges developed and developing economies and the public and private sectors. He has a deep knowledge of financial services and education systems, particularly in Asia. During his 23 year career with Goldman Sachs, he played a key role in the firm's global development and was Chairman of Goldman Sachs Asia.

**Sir Brian Williamson†, CBE**

Age 64. Chairman of Electra Private Equity plc. A non-executive Director since 2002. Chairman of the Nomination Committee. A Director of NYSE Euronext and Climate Exchange plc. A senior adviser to Fleming Family and Partners. Former appointments include: Chairman of London International Financial Futures and Options Exchange; Gerrard Group plc; Resolution Life Group Limited; and non-executive Director of Resolution plc, the Financial Services Authority and the Court of The Bank of Ireland.

Sir Brian brings to the Board extensive experience in futures, options and commodities trading internationally. He established the London International Financial Futures and Options Exchange in the 1980s and led the Exchange's development of its electronic trading platform in the mid-1990s. He is a member of the Guild for International Bankers.

Secretary

**Ralph Barber**

Age 58. Group Company Secretary. Appointed a Group General Manager in 2006. Joined HSBC in 1980. Company Secretary of HSBC Holdings plc since 1990. Chairman of the Disclosure Committee. A member of the Listing Authority Advisory Committee of the Financial Services Authority and of the Primary Markets Group of the London Stock Exchange. Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992 and Company Secretary of HSBC Bank plc from 1994 to 1996.

Adviser to the Board

**David Shaw**

Age 62. An Adviser to the Board since 1998. Solicitor. A former partner in Norton Rose. A Director of The Bank of Bermuda Limited and HSBC Private Banking Holdings (Suisse) SA. A non-executive Director of Kowloon Development Company Limited and Shui On Land Limited.

† Independent non-executive Director

Summary Directors' Report

Results for 2008

HSBC reported pre-tax profit of US\$9,307 million. Profit attributable to shareholders of HSBC Holdings transferred to retained earnings was US\$5,728 million, a 4.7 per cent return on average total shareholders' equity.

Principal activities and business review

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 10,000 properties in 86 countries and territories in five geographical regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients.

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 4 to 23 and form part of this Summary Financial Statement.

Corporate governance report

The information set out on pages 24 to 37 and information incorporated by reference, is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 281 to 329 of the *Annual Report and Accounts 2008*.

Board of Directors

The objective of the management structures within HSBC, headed by the Board of Directors of HSBC Holdings and led by the Group Chairman, is to deliver sustainable value to shareholders. Implementation of the strategy set by the Board is delegated to the Group Management Board under the leadership of the Group Chief Executive.

The Board sets the strategy for the Group and approves the operating plans presented by management for the achievement of the strategic objectives. The operating plans ensure the efficient disposition of HSBC's resources for the achievement of these objectives. The Board delegates the management and day-to-day running of HSBC to the Group Management Board but retains to itself approval of certain matters including operating plans and performance targets, procedures for monitoring and control of operations, the authority or the delegation of authority to approve credit, market risk limits, acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, specified senior appointments, and any substantial change in balance sheet management policy.

The Directors who served during the year were, Lord Butler, S A Catz, V H C Cheng, J D Coombe, Baroness Dunn, J L Durán, R A Fairhead, D J Flint, A A Flockhart, W K L Fung, M F Geoghegan, S K Green, S T Gulliver, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, Sir Brian Moffat, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, S W Newton, S M Robertson, J L Thornton and Sir Brian Williamson.

Eight Board meetings were held during 2008. The table below gives details of each Director's attendance at meetings of the Board, Group Audit Committee, Nomination Committee and Remuneration Committee held whilst he or she was a Director or member during 2008.

Group Chairman and Group Chief Executive

The roles of Group Chairman and Group Chief Executive are separated and held by experienced full-time Directors.

There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for running HSBC's business. The Group Chairman's responsibilities include the long-term strategic development of HSBC, the development of relationships with governments and

Attendance record

	Board meetings (8)	Group Audit Committee meetings (8)	Nomination Committee meetings (5)	Remuneration Committee meetings (7)
	Attended	Attended	Attended	Attended
Lord Butler ¹	4	–	–	–
S A Catz ²	4	2 ³	–	–
V H C Cheng ⁴	7	–	–	–
J D Coombe	8	8	–	7
Baroness Dunn ⁵	4	–	2	–
J L Durán	7	–	–	–
R A Fairhead	6	8	2 ⁶	–
D J Flint	8	8 ³	–	–
A A Flockhart ²	4	1 ³	–	–
W K L Fung	8	–	–	–
M F Geoghegan	8	4 ³	–	1 ³
S K Green	8	1 ³	5 ³	1 ³
S T Gulliver ²	4	2 ³	–	–
J W J Hughes-Hallett	7	6	4	–
W S H Laidlaw	7	2 ³	–	3 ⁶
J R Lomax ⁷	–	–	–	–
Sir Brian Moffat ⁵	5	1 ³	2	–
Sir Mark Moody-Stuart	8	2 ³	–	7
G Morgan	8	1 ³	–	7
N R N Murthy ²	4	1 ³	–	–
S W Newton ⁸	7	6	–	–
S M Robertson	7	1 ³	4	–
J L Thornton ⁷	–	–	–	–
Sir Brian Williamson	8	1 ³	5	–

Notes

- Retired 30 May 2008 – eligible to attend 5 Board meetings.
- Appointed 1 May 2008 – eligible to attend 4 Board meetings.
- Attended by invitation, for all or part of meeting.
- Appointed 1 February 2008 – eligible to attend 7 Board meetings.
- Retired 30 May 2008 – eligible to attend 5 Board meetings and 2 Committee meetings.
- Appointed a member on 30 May 2008 – eligible to attend 3 Committee meetings.
- Appointed 1 December 2008 – not eligible to attend any Board meetings.
- Retired 10 October 2008 – eligible to attend 7 Board meetings and 6 Committee meetings.

other significant external parties and performance management of the Group Chief Executive. The Group Chairman also monitors the performance of the Group Finance Director and, subject to the Group Chief Executive's recommendation, approves risk, capital allocation and capital investment decisions within authorities delegated by the Board. The Group Chief Executive has responsibility for developing business plans and delivering performance against these.

S K Green became Group Chairman at the conclusion of the Annual General Meeting in 2006 and M F Geoghegan succeeded S K Green as Group Chief Executive. The appointments were made after consulting with representatives of major institutional investors and explaining the succession planning and independent external search process undertaken. S K Green and M F Geoghegan stood for re-election at the 2006 Annual General Meeting and were both re-elected ahead of taking up their new roles from the conclusion of that Meeting.

Board balance and independence of Directors

The Board includes a strong presence of both executive and non-executive Directors such that no individual or small group can dominate the Board's decision making. Following the 2009 Annual General Meeting, the Board will comprise 21 Directors, 14 of whom are independent non-executive Directors. The size of the Board is appropriate given the complexity and geographical spread of HSBC's business and the significant time demands placed on the non-executive Directors, particularly those who serve as members of Board committees.

The Board has appointed S M Robertson as the senior independent non-executive Director. The principal role of the senior independent non-executive Director is to support the Group Chairman in his role, to lead the non-executive Directors in the oversight of the Group Chairman and to ensure there is a clear division of responsibility between the Group Chairman and Group Chief Executive. The senior independent non-executive Director is also available to shareholders to express concerns which the normal channels have failed to resolve or would be inappropriate.

The Board considers all of the non-executive Directors to be independent in character and judgement. W K L Fung has served on the Board for more than nine years, however, and in that respect only, does not meet the usual criteria for independence set out in the UK Combined Code on corporate governance. The Board has therefore determined S A Catz, M K T Cheung (appointed a Director with effect from 1 February 2009), J D Coombe, J L Durán, R A Fairhead, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, S M Robertson, J L Thornton and Sir Brian Williamson to be independent. In reaching its determination of each non-executive Director's independence the Board has concluded that there are no relationships or circumstances which are likely to affect a Director's judgement and any relationships or circumstances which could appear to do so were considered not to be material.

When determining independence the Board considers that calculation of the length of service of a non-executive Director begins on the date of his or her first election by shareholders as a Director of HSBC Holdings. Given the complexity and geographical spread of HSBC's business, the experience of previous service on a subsidiary company Board can be a considerable benefit to HSBC and does not detract from a Director's independence.

Induction and ongoing development

Full, formal and tailored induction programmes, with particular emphasis on internal controls, are arranged for newly appointed Directors. The programmes consist of a series of meetings with other Directors and senior executives to enable new Directors to receive information and familiarise themselves with HSBC's strategy, operations and internal controls. Prior to their appointment, each Director receives comprehensive guidance on the duties and liabilities of a Director of HSBC Holdings. Opportunities to update and develop skills and knowledge, through externally run seminars and through briefings by senior executives, are provided to all Directors.

Appointment, retirement and re-election of Directors

J L Durán and W S H Laidlaw were appointed non-executive Directors on 1 January 2008. V H C Cheng was appointed an executive Director on 1 February 2008. On 1 May 2008 A A Flockhart and S T Gulliver were appointed executive Directors and S A Catz and N R N Murthy were appointed non-executive Directors. Lord Butler, Baroness Dunn and Sir Brian Moffat retired as Directors at the conclusion of the Annual General Meeting held on 30 May 2008. S W Newton retired as a Director on 10 October 2008. J R Lomax and J L Thornton were appointed non-executive Directors on 1 December 2008. M K T Cheung was appointed a non-executive Director on 1 February 2009.

All of the Directors will retire at the forthcoming Annual General Meeting and offer themselves for re-election. None of the non-executive Directors seeking re-election has a service contract. All of the executive Directors seeking re-election are employed on rolling contracts which require 12 months' notice to be given by either party.

Following the performance evaluation of the Board, the Group Chairman has confirmed that all of the non-executive Directors continue to perform effectively and to demonstrate commitment to their roles.

Brief biographical particulars of all Directors are given on pages 24 to 26.

Corporate Governance Codes

HSBC is committed to high standards of corporate governance. HSBC Holdings has complied throughout the year with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council and the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board of HSBC Holdings has adopted a code of conduct for transactions in HSBC Group securities by Directors that complies with The Model Code in the Listing Rules of the Financial Services Authority and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code, primarily to take into account accepted practices in the UK, particularly in respect of employee share plans. Following a specific enquiry, each Director has confirmed he or she has complied with the code of conduct for transactions in HSBC Group securities throughout the year.

Board committees

The Board has appointed a number of Committees.

The **Group Management Board** meets frequently and operates as a general management committee under the direct authority of the Board. The objective of the Group Management Board is to maintain a reporting and control structure whereby all of the line operations of HSBC are accountable to individual members of the Group Management Board who report to the Group Chief Executive who in turn reports to the Group Chairman. The Board has set objectives and measures for the Group Management Board. These will align senior executives' objectives and measures with the strategy and operating plans throughout HSBC. The members of the Group Management Board are M F Geoghegan (Chairman), V H C Cheng, D J Flint, A A Flockhart and S T Gulliver who are executive Directors, and A Almeida, E Alonso, C C R Bannister, K M Harvey, A C Hungate, D D J John, B P McDonagh, Y A Nasr, B Robertson and P A Thurston, all of whom are Group Managing Directors.

The Group Management Board exercises the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of HSBC Holdings in accordance with such policies and directions as the Board may from time to time determine.

The **Group Audit Committee** meets regularly with HSBC's senior financial, credit and risk, internal audit, legal and compliance management and the external auditor to consider HSBC Holdings' financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control, compliance and risk management. The members of the Group Audit Committee throughout 2008 were, R A Fairhead (Chairman), J D Coombe and J W J Hughes-Hallett. J R Lomax was appointed a member of the Committee on 1 March 2009. S W Newton retired as a Director of HSBC Holdings and ceased to be a member of the Committee on 10 October 2008. All members of the Committee are independent non-executive Directors.

The Board has determined that R A Fairhead, J D Coombe and J W J Hughes-Hallett are independent according to SEC criteria, may be regarded as audit committee financial experts for the purposes of section 407 of the Sarbanes-Oxley Act and have recent and relevant financial experience.

An analysis of the remuneration paid in respect of audit and non-audit services provided by KPMG for each of the last three years is disclosed in Note 9 on page 375 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts 2008*.

Further information about the Group Audit Committee is given on pages 296 to 298 of the *Annual Report and Accounts 2008*.

The role of the **Remuneration Committee** and its membership are set out in the Summary Directors' Remuneration Report on page 30.

The **Nomination Committee** is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board. Before recommending an appointment to the Board, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this, identifies the role and capabilities required for a particular appointment. Candidates are considered on merit against these criteria. Care is taken to ensure that appointees have enough time to devote to HSBC. Prospective Directors are asked to identify any significant other commitments and confirm they have sufficient time to discharge what is expected of them. In accordance with the Articles of Association all Directors are subject to election by shareholders at the Annual General Meeting following their appointment by the Board and to re-election at least every three years. The members of the Nomination Committee throughout 2008 were Sir Brian Williamson (Chairman), S M Robertson and J W J Hughes-Hallett. R A Fairhead was appointed a member of the Committee on 30 May 2008. Baroness Dunn and Sir Brian Moffat retired as Directors of HSBC Holdings and ceased to be members of the Committee on 30 May 2008. All current members of the Committee are independent non-executive Directors.

The appointments of S A Catz, M K T Cheung, J R Lomax, N R N Murthy and J L Thornton as non-executive Directors and V H C Cheng, A A Flockhart and S T Gulliver as executive Directors were made on the advice and recommendation of the Nomination Committee. An external consultancy was used in connection with the appointments of S A Catz, M K T Cheung, J R Lomax, N R N Murthy and J L Thornton.

Further information about the Nomination Committee is given on page 298 of the *Annual Report and Accounts 2008*.

The **Corporate Sustainability Committee** is responsible for advising the HSBC board, committees of the board and executive management on corporate sustainability policies, including environmental, social and ethical issues. At an operational level, these issues are managed on a day-to-day basis primarily by Group Human Resources, Group Risk and Group Corporate Sustainability.

The members of the Committee throughout 2008 were W K L Fung (appointed Chairman on 30 May 2008) and Sir Mark Moody-Stuart, each of whom is a non-executive Director, G V I Davis and Lord May, who are non-director members of the Committee. Lord Butler retired as a Director of HSBC Holdings and ceased to be a member of the Committee on 30 May 2008. N R N Murthy was appointed a member of the Committee on 21 November 2008.

Social and Community Investment

HSBC focuses its community investment activity on education and the environment because HSBC believes these are fundamental to building and developing communities and are prerequisites for economic growth. In 2008, HSBC made charitable donations totalling US\$102 million (2007: US\$101million). Around half of the annual donation is channelled to education programmes and 25 per cent to environmental projects. The remainder is spent on country specific projects, disaster relief and matching staff contributions. No political donations were made during the year.

Dividends

First, second and third interim dividends for 2008, each of US\$0.18 per ordinary share, were paid on 9 July 2008, 8 October 2008 and 14 January 2009 respectively. On 2 March 2009, the Directors declared a fourth interim dividend for 2008 of US\$0.10 per ordinary share in lieu of a final dividend, which will be payable on 6 May 2009 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 27 April 2009, with a scrip dividend alternative. As the fourth interim dividend for 2008 was declared after the balance sheet date it has not been included as a creditor at 31 December 2008. The reserves available for distribution at 31 December 2008 are US\$18,838 million.

A quarterly dividend of US\$15.50 per 6.20 per cent non-cumulative US dollar preference share, Series A ('Series A dollar preference share'), equivalent to a dividend of US\$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A dollar preference share, was paid on 17 March, 16 June, 15 September and 15 December 2008.

Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank, HSBC Financial Products (France) and The Hongkong and Shanghai Banking Corporation, which are members of a European Economic Area exchange, neither HSBC Holdings nor any subsidiary has bought, sold or redeemed any securities of HSBC Holdings during the year ended 31 December 2008.

Auditor's report

The auditor's report on the full accounts for the year ended 31 December 2008 was unqualified and did not include a statement under sections 237(2) (inadequate accounting records or returns or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985. The statement under section 235(3) (whether directors' report is consistent with accounts) was unqualified.

Summary Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the Committee is responsible for approving the remuneration policy of HSBC including the terms of bonus plans, share plans and other long-term incentive plans and for agreeing the individual remuneration packages of executive Directors and other senior Group employees taking into account the pay and conditions across the Group. No Directors are involved in deciding their own remuneration.

The members of the Remuneration Committee throughout 2008 were Sir Mark Moody-Stuart (Chairman), J D Coombe and G Morgan. At the conclusion of the Annual General Meeting on 30 May 2008 W S H Laidlaw became a member of the Committee.

Overall principles

A global reward strategy for the Group was approved by the Remuneration Committee in 2007. This strategy provided a framework for the Remuneration Committee in carrying out its responsibilities during the year and includes the following key elements:

- An assessment of reward with reference to clear and relevant objectives set within a balanced scorecard framework. Whilst the achievement of financial objectives is very important, the other objectives relating to efficiency and risk mitigation, customer development and the productivity of the Group's human capital are also key to financial performance and the development and sustainability of the Group over the short and medium term;
- A focus on total compensation (salary, bonus and the value of long term incentives) with variable pay (namely bonus and the value of long term incentives) differentiated by performance;
- The use of considered discretion to assess the extent to which performance has been achieved rather than applying a formulaic approach which, by its nature, may encourage inappropriate risk taking and cannot cover all scenarios;
- A significant proportion of variable pay being deferred into HSBC Holdings Restricted Shares to tie recipients to the future performance of the Group and to retain key talent; and
- A total remuneration package (salary, bonus, long-term incentive awards and other benefits) which is competitive in relation to comparable organisations in each of the markets in which HSBC operates.

The Committee also takes into account environmental, social and governance aspects when determining executive Directors' remuneration and oversees senior management incentive structures to ensure that such structures take account of possible inadvertent consequences from these aspects.

Application to executive Directors

A number of specific changes to remuneration policy for executive Directors and other senior executives were made in 2007 and communicated to shareholders in the 2008 Directors' Remuneration Report. These changes, which are described in this report, were made to ensure closer alignment with HSBC's business strategy. They take into account competitive market practice and follow through the Group's global reward strategy for this senior executive population.

In order to ensure that executive Directors' remuneration packages are competitive, having regard to the market in which the Company competes for executive talent, the Remuneration Committee determined to consider market data from a defined remuneration comparator group. This initial group comprised nine global financial services companies, namely Banco Santander, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, Royal Bank of Scotland, Standard Chartered and UBS. These companies were selected on the basis of their broadly similar business coverage, size and international scope, and are subject to annual review for continuing relevance.

Executive Director salaries are targeted at the median of the remuneration comparator group, with an opportunity for top quartile total compensation through variable pay for higher levels of performance. The actual positioning of total compensation will depend on the performance of the Group and individual performance assessed against a combination of financial and non-financial objectives within an annual balanced scorecard. The performance-related aspects of the remuneration package consist of a bonus of up to 400 per cent of salary and Performance Share awards with a face value of up to 700 per cent of salary. Taking into account the expected value of awards, the performance-related elements of pay make up around 80 per cent of the total remuneration package. Annual bonus payments and Performance Share awards are not pensionable.

A significant proportion of total compensation will be delivered in HSBC Holdings shares. Share ownership guidelines were increased for executive Directors and other senior executives to achieve further alignment with shareholder interests.

The above approach applies to all executive Directors with the exception of the Group Chairman, S K Green, whose variable compensation since 2007 has, at his request, been delivered exclusively through awards of Performance Shares and is thus no longer eligible to receive annual bonus payments; and S T Gulliver, whose variable compensation arrangements take into account wholesale banking market practice.

The approach will be carefully and regularly reviewed during 2009 to take account of the volatile and challenging market conditions (see following section on *HSBC Performance and Market Context*) and, where appropriate, shareholders will be consulted on any proposed changes in policy. Any changes will also be described in future Directors' Remuneration Reports.

The application of this policy to each component of executive Directors' remuneration for 2008 is outlined in more detail below.

HSBC performance and market context

The last year was one of unprecedented volatility and turbulence in the global financial services sector which has continued into 2009. In determining remuneration levels for 2008 and considering approaches to remuneration for 2009, the Committee was mindful of this global market context. In this volatile market environment it is difficult to appropriately apply measures such as total shareholder return and earnings per share, and it is particularly important to take account of risk from a short and medium term perspective.

Within this market context, HSBC's overall financial and non-financial performance was relatively strong in comparison to its peers.

The key achievements of the Group during 2008, with reference to its objectives set under the relevant balanced scorecard categories, are summarised below.

The financial objectives included a cost efficiency target ratio which, excluding the writing off of goodwill in the US, was met and improved on compared to 2007. Profit growth, as measured by earnings per share ('EPS'), and return on capital, as measured by return on average total shareholder equity ('ROE'), did not meet the targets set and were lower than the prior year, although the Group's performance in these aspects relative to its peers remained strong.

Process objectives focused on efficiency and qualitative measures which, in themselves, impact financial performance and mitigate risk. Although the Group did not meet its target to reduce operational losses as a percentage of revenue, the overall management of risk mitigation was judged to be strong, taking into account sound relationships with global regulatory bodies and the global investment community.

The Group improved its customer development score compared to the prior year, as measured by customer recommendation and brand health in its Personal Financial Services businesses and met its overall 2008 target relating to brand health. Both were assisted by a significant increase in intra-group referrals.

Regarding the Group's human capital, HSBC exceeded its 2008 employee engagement target as measured in a global staff survey. All regions and businesses improved their engagement scores compared to 2007 and the Group's 2008 score also exceeded the sector and global norms despite the challenging market environment. Some 316,000 (93 per cent) of staff worldwide participated in the 2008 survey, a 5 per cent increase on the prior year. This high and improving level of participation evidences alignment of employees to the Group.

Management of risk

Since 2008 the Group's Risk function has been involved in the approval of relevant incentive plans. Within the Group's wholesale businesses, where appropriate, specific conditionality will be applied to the release of HSBC Restricted Shares issued by way of deferred bonuses. From 2009, the concept of imputing the cost of capital in the determination of bonus funding will be expanded progressively across the Group, starting with the Group's wholesale businesses. Further information relating to the Group's approach to risk management is set out on pages 191 to 192 of the *Annual Report and Accounts 2008*.

Executive Director remuneration

Salary

The Committee reviews salary levels for executive Directors each year.

Given the relative positioning of current salaries against the remuneration comparator group, no increases in salaries were made in 2008 other than to reflect promotions to the Board.

For 2009, there will be no increase to salaries for executive Directors. A similar approach has been adopted for other executives across the Group other than in exceptional circumstances.

The table below shows salaries in 2008 and with effect from 1 March 2009.

	Salary	
	2009 £000	2008 £000
D J Flint	700	700
M F Geoghegan	1,070	1,070
S K Green	1,250	1,250
S T Gulliver ¹	800	800
	HK\$000	HK\$000
V H C Cheng ¹	9,300	9,300
A A Flockhart ¹	8,000	8,000

¹ V H C Cheng joined the Board on 1 February 2008 and A A Flockhart and S T Gulliver on 1 May 2008. The salaries shown above represent the full year equivalent salary for these individuals.

Annual bonus

In determining annual bonus awards, the Committee took into account the extent to which the Group's annual objectives had been met under the balanced scorecard approach, the Group's absolute and relative performance compared to its peers, and competitive market practice where discernable. The consequence of this is a material fall in bonus awards across the Group in 2008.

Within the policy parameters described above in the section *Application to executive Directors*, the Committee has determined that no cash bonuses will be paid to executive Directors for 2008. Instead, any bonuses will be in the form of HSBC Holdings Restricted Shares with vesting deferred for three years.

As noted above the Group Chairman, S K Green, is, at his request, no longer eligible to receive an annual bonus payment. In line with this, no bonus award is being made to him in respect of 2008. In view of general conditions in the financial markets, the Group Chief Executive, M F Geoghegan, the Group Finance Director, D J Flint, and the Chief Executive of Global Banking and Markets and HSBC Global Asset Management, S T Gulliver, have requested that they not be considered for a bonus in respect of 2008. The Remuneration Committee has therefore decided, in spite of the performance of HSBC and the wholesale businesses in relation to its comparators, not to award these individuals a deferred bonus.

Other executive Directors have been awarded bonuses in deferred form in line with performance under the balanced scorecard framework and the overall performance of the Group, as set out above, as well as their own part of the business.

For executive Directors with responsibility for Asia, performance against financial objectives was mixed. Whilst the target for return on equity was met, overall 2008 profitability did not meet its target. Performance against Process, Customer and People objectives was stronger and this included high customer recommendation and employee engagement scores.

For Global Banking and Markets, although the financial targets for 2008 were not met, the business remained profitable and relative performance against its peers was strong. Performance against Process, Customer and People objectives was strong and included high employee engagement scores and improved positions within global markets league tables.

The bonus awards, which are shown in the table below, have been fully deferred into HSBC Holdings Restricted Shares, issued under the HSBC Share Plan, with a vesting date three years from the date of the award. Bonus awards made in 2008, in respect of performance in 2007 are shown for reference.

	Cash bonus	
	2009 £000	2008 £000
D J Flint ¹	-	800
M F Geoghegan ¹	-	2,140
S K Green ²	-	1,750
S T Gulliver ¹	-	5,592
	HK\$000	HK\$000
V H C Cheng	-	23,864
	US\$000	US\$000
A A Flockhart	-	2,598
	Restricted Share Awards	
	2009 £000	2008 £000
D J Flint ¹	-	-
M F Geoghegan ¹	-	-
S K Green ²	-	-
S T Gulliver ¹	-	3,600
	HK\$000	HK\$000
V H C Cheng	18,533	9,832
A A Flockhart ³	18,705	-
	US\$000	US\$000
A A Flockhart ³	-	1,184

¹ M F Geoghegan, D J Flint and S T Gulliver requested that they not be considered for a bonus in respect of 2008.

² At the Chairman's request, he is no longer eligible to receive an annual bonus payment.

³ The change in currency for A A Flockhart reflects a change of expatriate terms. The 2008 figure is on a gross equivalent basis.

Long-term incentive plan

Under the HSBC Share Plan, executive Directors, as with other participants in the Plan, are eligible to receive awards of Performance Shares with a face value at grant of up to a maximum of seven times salary. The performance conditions associated with these awards are detailed in the next section, 'Arrangements from 2008'.

No awards of Performance Shares have been made to date in 2009. Awards may be granted later in 2009, taking into account performance and the market context at the time.

The face and expected values of individual awards made in 2008, in respect of the prior 2007 performance year, are shown for reference.

	2008	
	Face value £000	Expected value ¹ £000
D J Flint	3,182	1,305
M F Geoghegan	7,477	3,066
S K Green	8,750	3,587
S T Gulliver	473	194
	HK\$000	HK\$000
V H C Cheng	17,231	7,065
	US\$000	US\$000
A A Flockhart	2,172	890

1 41 per cent of the face value for the 2008 award.

Arrangements from 2008

The performance measures for the long-term incentive awards of Performance Shares under the HSBC Share Plan were amended last year following approval by shareholders at the 2008 Annual General Meeting.

From 2008, the vesting of awards is based on three independent performance measures and an overriding 'sustained improvement' judgement by the Committee. The three Group measures are relative total shareholder return (40 per cent of the award); economic profit (40 per cent of the award); and growth in earnings per share ('EPS') (20 per cent of the award).

These measures provide a basis on which to measure HSBC's absolute and relative performance over the long-term taking into account an external measure of value creation, a measure of the extent to which the return on capital invested in HSBC is in excess of a benchmark return and a direct measure of the profits generated for shareholders.

Awards will not vest unless the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the award date. In determining whether HSBC Holdings has achieved such sustained improvement the Remuneration Committee will take account of all relevant factors, in particular, comparisons against the TSR comparator group in areas such as revenue growth and mix, cost efficiency, credit performance, cash return on cash invested, dividend performance and TSR.

The performance conditions are measured over a three year performance period and awards forfeited to the extent that they have not been met.

The performance measures and the targets described below apply for awards made in 2008. The Remuneration Committee will review annually whether the performance targets remain appropriate and challenging, or should be recalibrated, for awards made thereafter, taking into account factors such as economic expectations, the industry's outlook and shareholders' interests. The Committee will consult in accordance with institutional shareholder guidelines on any further changes proposed to the nature of the performance measures and their percentage split referred to above.

TSR award

TSR is measured against a comparator group comprising the largest global banks in the world as well as other banks against which HSBC competes for business on a regional and/or local level. These companies are:

Banco Bradesco	HBOS
Banco Itau	ICBC
Banco Santander	JP Morgan Chase
Bank of America	Lloyds Banking Group
Bank of China	National Australia Bank
Barclays	Royal Bank of Canada
BBVA	Royal Bank of Scotland
BNP Paribas	Société Générale
Citigroup	Standard Chartered
Credit Suisse Group	UBS
DBS Group	UniCredito Italiano
Deutsche Bank	Wells Fargo
Fortis	Wachovia

To reflect the fact that the range of market capitalisations within the comparator group is very wide, a free float market capitalisation ('FFMC') weighted method is used to calculate TSR performance. Under this approach, HSBC's out-performance of the comparator group will be calculated by dividing the total FFMC of all of the companies that HSBC has outperformed in terms of TSR by the total FFMC of all of the companies in the comparator group.

The extent to which the TSR award will vest will be determined as follows:

If HSBC's TSR outperforms companies comprising	Proportion of TSR Award vesting ¹
75 per cent of the total FFMC	100%
50 per cent of the total FFMC	20%
< 50 per cent of the total FFMC	nil

1 Vesting will occur in a straight line between 20 per cent and 100 per cent where HSBC's performance falls between these incremental steps.

Economic profit award

Economic Profit ('EP') is calculated as the average annual difference between return on invested capital and the Group's benchmark cost of capital and is expressed as a percentage. EP is a key measure of shareholder value creation as it rewards management progressively to the extent that the return on the capital invested in HSBC by its shareholders is in excess of a threshold return, which itself exceeds the Group's benchmark cost of capital.

For the awards made in 2008 the benchmark cost of capital is 10 per cent. Return on invested capital is based on the profit attributable to shareholders as defined in the Annual Report and Accounts.

The extent to which the EP award will vest will be determined as follows:

Average annual EP over three years	Proportion of EP Award vesting ¹
8 per cent or above	100%
< 3 per cent	nil

1 Vesting will occur in a straight line between 0 per cent and 100 per cent where HSBC's performance falls between these incremental steps.

If events occur which cause the Remuneration Committee to consider that a performance condition has become unfair or impractical in either direction, the right is reserved to the Remuneration Committee, if it considers it appropriate to do so, to amend, relax or waive the condition.

Earnings per share award

Growth in Earnings per Share (EPS) is measured on a point to point basis, by comparing EPS in the third financial year of the performance period with EPS in the financial year preceding that in which the award is made. This approach is aimed at simplifying the use of EPS as a performance measure and takes into account feedback received during consultation with institutional shareholders.

EPS growth in Year 3 over the base EPS	Proportion of EPS Award vesting ¹
28 per cent or above	100%
16 per cent	20%
< 16 per cent	nil

¹ Vesting will occur in a straight line between 20% and 100% where HSBC's performance falls between these incremental steps.

Awards will vest in full, immediately in cases of death. In the event of redundancy, retirement on grounds of injury or ill health and where a participant ceases to be employed by HSBC due to a company ceasing to be part of HSBC, awards will normally vest at the end of the vesting period on a time-apportioned basis to the extent that the performance conditions have been satisfied. In the event of a change of control, awards will normally vest immediately and on a time-apportioned basis to the extent that the performance conditions have been satisfied. Awards will normally be forfeited if the participant is dismissed for cause or resigns from HSBC. In all circumstances the Committee retains discretion to ensure fair and reasonable treatment.

Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 2008 were as follows:

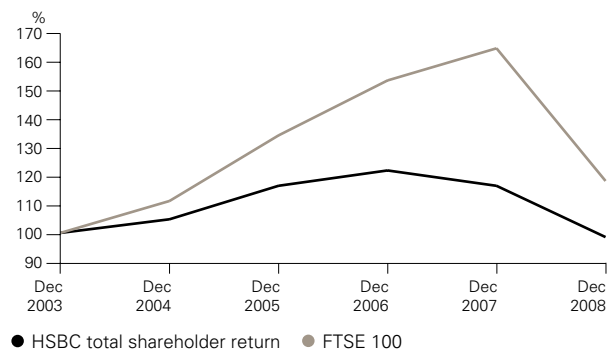
	Fees £000	Salary £000	Allowance ¹ £000	Benefits in kind ² £000	Bonuses ³ £000	Total 2008 £000	Total 2007 £000
Executive Directors							
V H C Cheng ⁴	-	534	67	545	-	1,146	-
D J Flint	-	700	385	22	-	1,107	1,878
A A Flockhart ⁵	-	229	-	355	-	584	-
M F Geoghegan	-	1,070	535	62	-	1,667	3,536
S K Green	-	1,250	-	15	-	1,265	3,012
S T Gulliver ⁵	-	533	-	14	-	547	-
Non-executive Directors							
Lord Butler ⁶	40	-	-	-	-	40	103
S A Catz ⁵	43	-	-	-	-	43	-
J D Coombe	105	-	-	-	-	105	105
Baroness Dunn ⁶	35	-	-	-	-	35	85
J L Durán ⁷	65	-	-	-	-	65	-
R A Fairhead	127	-	-	-	-	127	103
W K L Fung ⁸	122	-	-	-	-	122	122
J W J Hughes-Hallett	105	-	-	-	-	105	97
W S H Laidlaw ⁷	77	-	-	-	-	77	-
J R Lomax ⁹	5	-	-	-	-	5	-
Sir Brian Moffat ⁶	35	-	-	-	-	35	110
Sir Mark Moody-Stuart	125	-	-	-	-	125	125
G Morgan	85	-	-	-	-	85	77
N R N Murthy ⁵	45	-	-	-	-	45	-
S W Newton ¹⁰	66	-	-	-	-	66	77
S M Robertson	115	-	-	-	-	115	94
J L Thornton ^{9,11}	89	-	-	-	-	89	-
Sir Brian Williamson	95	-	-	-	-	95	91
Total ¹²	1,379	4,316	987	1,013	-	7,695	9,738
Total (US\$000) ¹²	2,529	7,916	1,810	1,858	-	14,113	19,493

Notes

- Executive allowance paid to fund personal pension arrangements.
- Benefits in kind for executive Directors include provision of company car, medical insurance, other insurance cover, accountancy advice and travel assistance. V H C Cheng and A A Flockhart receive housing and other benefits in kind that are normal within the location in which they are employed.
- These discretionary bonuses are in respect of 2008. See page 31 for comparison with 2007.
- Appointed a Director on 1 February 2008.
- Appointed a Director on 1 May 2008.
- Retired as a Director on 30 May 2008.
- Appointed a Director on 1 January 2008.
- Includes fees as a non-executive Director of The Hongkong and Shanghai Banking Corporation.
- Appointed a Director on 1 December 2008.
- Retired as a Director on 10 October 2008.
- Includes fees as non-executive Chairman of HSBC North America Holdings Inc.
- Total emoluments for 2007 include the emoluments of Directors who retired in that year.

Total shareholder return

Pursuant to the Directors' Remuneration Report Regulations 2002, the graph below shows HSBC's TSR performance against the FTSE 100 Index, for the five-year period ended 31 December 2008. The FTSE 100 Index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.



Pensions

The normal retirement age for executive Directors is 65 with the exception of V H C Cheng, where no retirement age is specified in keeping with local legislation.

Non-executive Directors

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at Annual General Meetings. Non-executive Directors have no service contract and are not eligible to participate in HSBC's share plans.

Fees

Non-executive Directors' fees are regularly reviewed and compared with other large international companies. The current fee, which was approved by shareholders in 2006, is £65,000 per annum.

A fee of £30,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors receive the following fees for service on Board Committees:

Fees – non-executive Directors

Chairman, Audit Committee	£50,000 p.a.
Member, Audit Committee	£20,000 p.a.
During 2008, 8 meetings of the Group Audit Committee were held.	

Chairman, Remuneration Committee	£40,000 p.a.
Member, Remuneration Committee	£20,000 p.a.
During 2008, 7 meetings of the Remuneration Committee were held.	

Chairman, Nomination Committee	£30,000 p.a.
Member, Nomination Committee	£20,000 p.a.
During 2008, 5 meetings of the Nomination Committee were held.	

Chairman, Corporate Sustainability Committee	£30,000 p.a.
Member, Corporate Sustainability Committee	£20,000 p.a.
During 2008, 4 meetings of the Corporate Sustainability Committee were held.	

Pensions

V H C Cheng ceased membership of, and accrual of benefits under, the HSBC Group Hong Kong Local Staff Retirement Benefit Scheme – Defined Benefit Section on 31 July 2008. The rules of the Scheme provide for a lump sum payment of benefit (rather than an annual pension) and Mr Cheng received a cash retirement benefit payment of HKD46,614,583 on 3 September 2008 in respect of reaching the age of 60, the normal retirement age under the Scheme.

Mr Cheng's accrued benefit and its transfer value under the Scheme at 31 December 2007 was HKD32,906,250 and the increase of the accrued benefit and transfer value during 2008 (less personal contributions) was HKD13,708,333. As Mr Cheng has ceased membership of the Scheme, no accrued benefit or transfer value remained in the Scheme at 31 December 2008. The employer contribution to Mr Cheng's retirement benefits Scheme for the period 1 January 2008 to 31 July 2008 was HKD626,250.

With effect from 1 August 2008 Mr Cheng has been a member of the Hong Kong Special Administrative Region Mandatory Provident Fund ('MPF') and receives an executive allowance of 25 per cent of annual basic salary, less the mandatory contributions to the

MPF by both the employer and employee, to fund personal pension arrangements. The mandatory employer contribution to the MPF in respect of Mr Cheng for the period 1 August 2008 to 31 December 2008 was HKD5,000.

D J Flint receives an executive allowance of 55 per cent of annual basic salary to fund personal pension arrangements.

A A Flockhart left the International Staff Retirement Benefits Scheme on 30 November 2008. With effect from 2 December 2008 employer contributions equivalent to 40 per cent of annual basic salary are now made to a personal pension plan in respect of Mr Flockhart. During 2008, employer contributions of HKD258,000 were paid into this plan.

Mr Geoghegan receives an executive allowance of 50 per cent of annual basic salary to fund personal pension arrangements. In 2008, an employer contribution was made to the HSBC Asia Holdings Pension Plan of £225,000 from a bonus sacrifice in respect of 2007 (in 2007, an employer contribution of £215,000 was made arising entirely from a bonus sacrifice in respect of 2006). There were no other employer contributions made to this plan.

S K Green ceased membership of the HSBC Bank (UK) Pension Scheme on 5 April 2006. Since 6 April 2006, Mr Green has been entitled to receive benefits from an Employer Funded Retirement Benefits Scheme which together with entitlements from the HSBC Bank (UK) Pension Scheme will provide benefits to Mr Green that would be broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service.

S T Gulliver left the International Staff Retirement Benefits Scheme on 31 March 2006. Employer contributions equivalent to 30 per cent of annual basic salary are now made to a personal pension plan in respect of Mr Gulliver. During 2008, employer contributions of £225,000 were paid into this plan.

The unfunded pension payments tabulated below, in respect of which provision has been made, were made during 2008 to five former Directors of HSBC Holdings.

The payments in respect of R Delbridge and Sir Brian Pearse were made by HSBC Bank plc as former Directors of that bank. The payment in respect of C F W de Croisset was made by HSBC France as a former Director of that bank.

	2008 £	2007 £
B H Asher	97,752	93,812
C F W de Croisset	221,100	194,077
R Delbridge	140,601	134,934
Sir Brian Pearse	58,632	56,269
Sir William Purves	103,481	99,310
	621,566	578,402

	Accrued annual pension at 31 December 2008 £000	Increase in accrued pension during 2008 £000	Increase in accrued pension during 2008, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2007 ¹ £000	Transfer value of accrued pension at 31 December 2008 ¹ £000	Increase of transfer value of accrued pension (less personal contributions) in 2008 ¹ £000	Transfer value (less personal contributions) at 31 December 2008 relating to increase in accrued pensions during 2008, excluding any increase for inflation ¹ £000
A A Flockhart ²	254	25	15	4,467	4,644	161	238
S K Green	669	42	10	12,780	17,716 ³	4,936 ³	272
S T Gulliver ⁴	138	11	5	2,716	2,749	33	95

- The transfer value represents a liability of HSBC's pension funds and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.
- A A Flockhart left the International Staff Retirement Benefits Scheme ('ISRBS') on 30 November 2008. The ISRBS retains a liability for a contingent spouse's pension equal to £126,000 per annum as at 31 December 2008. Mr Flockhart made personal contributions to the ISRBS amounting to £16,000 during the year.
- During 2008, the Trustee of the HSBC Bank (UK) Pension Scheme decided to change the basis used to calculate transfer values from the Scheme for all Scheme members, in order to allow for lower expectations of future investment returns and improved longevity. The impact of this is reflected in the increase in the transfer value of accrued pension. If the Trustee had not changed the transfer value basis, the change in transfer value during 2008 would have been £2.48 million (£1.698 million during 2007).
- S T Gulliver left the ISRBS on 31 March 2006. The ISRBS retains a liability for a contingent spouse's pension equal to £61,000 per annum as at 31 December 2008.

Share plans

At 31 December 2008, the undernamed Directors held Performance Share awards, Restricted Share awards and options to acquire the number of HSBC Holdings ordinary shares set against their respective names.

HSBC Holdings savings-related share option plans

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Exercise price (£)	Exercisable from ¹	Exercisable until	Options held at 1 January 2008 or date appointed if later	Options awarded during year	Options exercised during year	Options held at 31 December 2008
V H C Cheng ²	23 Apr 2003	5.3496	1 Aug 2008	31 Jan 2009	3,070 ³	–	3,070 ³	–
D J Flint	25 Apr 2007	7.0872	1 Aug 2012	31 Jan 2013	2,310	–	–	2,310
A A Flockhart ⁴	25 Apr 2007	7.0872	1 Aug 2010	31 Jan 2011	1,332	–	–	1,332
S K Green	23 Apr 2003	5.3496	1 Aug 2008	31 Jan 2009	3,070	–	3,070 ⁵	–

The HSBC Holdings savings-related share option plans are all-employee share plans under which eligible HSBC employees may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. The plans help align the interests of employees with the creation of shareholder value and, as such, exercise of the options is not subject to any performance conditions. The options were awarded for nil consideration and are exercisable at a 20 per cent discount to the average market value of the ordinary shares on the five business days immediately preceding the invitation date. No options lapsed during the year. There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. The market value of the ordinary shares at 31 December 2008 was £6.62. The highest and lowest market values during the year were £9.2775 and £6.1225. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

- May be advanced to an earlier date in certain circumstances, e.g. retirement.
- Appointed a Director on 1 February 2008.
- At the date of exercise, 8 August 2008, the market value per share was £8.5850.
- Appointed a Director on 1 May 2008.
- At the date of exercise, 22 December 2008, the market value per share was £6.1225.

Awards of Performance Shares

HSBC Holdings Restricted Share Plan 2000

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which award may vest	Awards held at 1 January 2008 or date appointed if later	Awards held at 31 December 2008 ¹
V H C Cheng ²	5 Mar 2003	2008	55,028	–
D J Flint	5 Mar 2003	2008	136,192	–
M F Geoghegan	5 Mar 2003	2008	63,558	–
S K Green	5 Mar 2003	2008	136,192	–

Vesting of these awards was subject to the achievement of corporate performance conditions. Under the Securities and Futures Ordinance of Hong Kong, interests held through the HSBC Holdings Restricted Share Plan 2000 were categorised as the interests of a beneficiary of a trust.

- The corporate performance conditions were not met and, under the rules of the Plan, the awards (including additional shares arising from scrip dividends) held by: V H C Cheng, 55,028 shares; D J Flint, 137,568 shares; M F Geoghegan, 64,200 shares; and S K Green, 137,568 shares, were forfeited on 4 April 2008. The awards held by A A Flockhart, 27,514 shares; and S T Gulliver, 55,028 shares, who were appointed as Directors on 1 May 2008, were also forfeited on 4 April 2008. As a consequence, the fourth interim dividend for 2007 did not accrue on these forfeited share awards.
- Appointed a Director on 1 February 2008.

Awards of Performance Shares**HSBC Share Plan**

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards held at 1 January 2008 or date appointed if later	Awards made during year or since date appointed if later ¹		Awards vested during year or since date appointed if later ²		Awards held at 31 December 2008 ³
				Number	Monetary value £000	Number	Monetary value £000	
V H C Cheng ⁴	27 May 2005	2008	91,824	–	–	47,002	405	– ⁵
	6 Mar 2006	2009	88,534	–	–	–	–	92,689
	5 Mar 2007	2010	172,636	–	–	–	–	180,739
	3 Jun 2008	2011	–	129,325	1,103	–	–	130,852
D J Flint	27 May 2005	2008	194,796	–	–	100,721	868	– ⁵
	6 Mar 2006	2009	175,296	–	–	–	–	185,378
	5 Mar 2007	2010	256,029	–	–	–	–	270,755
	3 Jun 2008	2011	–	372,940	3,182	–	–	377,343
A A Flockhart ⁶	27 May 2005	2008	779	–	–	779	7	– ⁵
	6 Mar 2006	2009	66,401	–	–	–	–	69,518
	5 Mar 2007	2010	114,998	–	–	–	–	120,395
	3 Jun 2008	2011	–	127,174	1,085	–	–	128,675
M F Geoghegan	27 May 2005	2008	259,728	–	–	134,295	1,157	– ⁵
	6 Mar 2006	2009	219,121	–	–	–	–	231,724
	5 Mar 2007	2010	581,884	–	–	–	–	615,351
	3 Jun 2008	2011	–	876,408	7,477	–	–	886,755
S K Green	27 May 2005	2008	324,659	–	–	167,868	1,446	– ⁵
	6 Mar 2006	2009	273,900	–	–	–	–	289,653
	5 Mar 2007	2010	436,413	–	–	–	–	461,513
	3 Jun 2008	2011	–	1,025,584	8,750	–	–	1,037,692
S T Gulliver ⁶	27 May 2005	2008	1,559	–	–	1,559	14	– ⁵
	6 Mar 2006	2009	110,667	–	–	–	–	115,861
	5 Mar 2007	2010	127,730	–	–	–	–	133,725
	3 Jun 2008	2011	–	55,409	473	–	–	56,063

Vesting of the Performance Share awards granted in 2008 is subject to the achievement of the corporate performance conditions set out on pages 32 to 33. Vesting of the Performance Share awards granted in 2005 to 2007 is subject to the achievement of two independent measures, relative TSR and growth in EPS, each accounting for 50 per cent of the award. The comparator group for the TSR element is comprised of 28 global banks. 30 per cent of this portion of the award vests for median ranked performance with full vesting for upper quartile performance or above. For the EPS element of the award, 30 per cent will vest if the incremental EPS over the performance period is 24 per cent or more of EPS in the base year with 100 per cent vesting if HSBC's incremental EPS over the performance period is 52 per cent or more of EPS in the base year. The performance conditions for these awards is described in full on pages 320 to 322 of Annual Report and Accounts 2008. Under the Securities and Futures Ordinance of Hong Kong, interests held through the HSBC Share Plan are categorised as the interests of a beneficiary of a trust.

1 At the date of the award, 3 June 2008, the market value per share was £8.56. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.53173.

2 The Earnings Per Share element of the performance conditions was met and that element of the Performance Share Awards vested on 1 April 2008, when the market value per share was £8.61, as follows: V H C Cheng, 45,911 shares; D J Flint, 98,382 shares; M F Geoghegan, 131,176 shares; and S K Green, 163,970 shares. The awards held by A A Flockhart (32,794) shares, and S T Gulliver (65,587) shares, who were appointed as Directors on 1 May 2008, also vested on 1 April 2008. Awards representing the fourth interim dividend for 2007 vested on 7 May 2008, when the market value per share was £8.875, as follows: V H C Cheng, 1,091 shares; D J Flint, 2,339 shares; A A Flockhart, 779 shares; M F Geoghegan, 3,119 shares; S K Green, 3,898 shares; and S T Gulliver, 1,559 shares. The market value per share on the date of the award, 27 May 2005, was £8.68.

3 Includes additional shares arising from scrip dividends.

4 Appointed a Director on 1 February 2008.

5 The Total Shareholder Return element of the performance conditions was not met and, under the terms of the Plan, that element of the Performance Share awards held by: V H C Cheng, 45,913 shares; D J Flint, 98,383 shares; M F Geoghegan, 131,177 shares; and S K Green, 163,971 shares was forfeited on 2 April 2008. The awards held by A A Flockhart, 32,795 shares; and S T Gulliver, 65,589 shares, who were appointed as Directors on 1 May 2008, were also forfeited on 2 April 2008. As a consequence, the fourth interim dividend for 2007 did not accrue on the forfeited shares.

6 Appointed a Director on 1 May 2008.

Awards of Restricted Shares**HSBC Share Plan**

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards held on date appointed	Awards made during year or since date appointed if later		Awards vested during year or since date appointed if later		Awards held at 31 December 2008 ²
				Number	Monetary value £000	Number	Monetary value £000	
V H C Cheng ³	3 Mar 2008	2011	–	82,295 ¹	646	–	–	86,158
A A Flockhart ⁴	31 Oct 2007	2010	51,167	–	–	–	–	53,568
	3 Mar 2008	2011	11,929	–	–	–	–	12,488
S T Gulliver ⁴	6 Mar 2006	2009 ⁵	143,677	–	–	–	–	150,421
	5 Mar 2007	2009-2010 ⁵	305,591	–	–	–	–	319,934
	3 Mar 2008	2009-2011 ⁵	458,708	–	–	–	–	480,237

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The vesting date may be advanced to an earlier date in certain circumstances, e.g. death or retirement. Under the Securities and Futures Ordinance of Hong Kong, interests held through the HSBC Share Plan are categorised as the interests of a beneficiary of a trust.

- 1 At the date of the award, 3 March 2008, the market value per share was £7.90. The shares acquired by the Trustee of the Plan were purchased at an average price of £7.848143.
- 2 Includes additional shares arising from scrip dividends.
- 3 Appointed a Director on 1 February 2008.
- 4 Appointed a Director on 1 May 2008.
- 5 33 per cent of the award vests on each of the first and second anniversaries of the date of the award, with the balance vesting on the third anniversary of the date of the award.

On behalf of the Board

Sir Mark Moody-Stuart

Chairman of Remuneration Committee

2 March 2009

Summary Consolidated Income Statement

2007 US\$m	Year ended 31 December 2008	2008 US\$m	2008 £m	2008 HK\$m
92,359	Interest income	91,301	49,759	710,961
(54,564)	Interest expense	(48,738)	(26,562)	(379,523)
37,795	Net interest income	42,563	23,197	331,438
26,337	Fee income	24,764	13,496	192,837
(4,335)	Fee expense	(4,740)	(2,583)	(36,910)
22,002	Net fee income	20,024	10,913	155,927
4,458	Trading income excluding net interest income	847	462	6,594
5,376	Net interest income on trading activities	5,713	3,113	44,489
9,834	Net trading income	6,560	3,575	51,083
2,812	Changes in fair value of long-term debt issued and related derivatives	6,679	3,640	52,009
1,271	Net income/(expense) from other financial instruments designated at fair value	(2,827)	(1,541)	(22,013)
4,083	Net income from financial instruments designated at fair value	3,852	2,099	29,996
1,956	Gains less losses from financial investments	197	107	1,534
1,092	Gains arising from dilution of interests in associates	–	–	–
324	Dividend income	272	148	2,118
9,076	Net earned insurance premiums	10,850	5,913	84,489
–	Gains on disposal of French regional banks	2,445	1,333	19,039
1,439	Other operating income	1,808	986	14,078
87,601	Total operating income	88,571	48,271	689,702
(8,608)	Net insurance claims incurred and movement in liabilities to policyholders	(6,889)	(3,754)	(53,644)
78,993	Net operating income before loan impairment charges and other credit risk provisions	81,682	44,517	636,058
(17,242)	Loan impairment charges and other credit risk provisions	(24,937)	(13,591)	(194,185)
61,751	Net operating income	56,745	30,926	441,873
(21,334)	Employee compensation and benefits	(20,792)	(11,332)	(161,907)
(15,294)	General and administrative expenses	(15,260)	(8,316)	(118,829)
(1,714)	Depreciation and impairment of property, plant and equipment	(1,750)	(954)	(13,625)
(700)	Amortisation and impairment of intangible assets	(733)	(399)	(5,708)
–	Goodwill impairment	(10,564)	(5,758)	(82,265)
(39,042)	Total operating expenses	(49,099)	(26,759)	(382,334)
22,709	Operating profit	7,646	4,167	59,539
1,503	Share of profit in associates and joint ventures	1,661	905	12,935
24,212	Profit before tax	9,307	5,072	72,474
(3,757)	Tax expense	(2,809)	(1,531)	(21,874)
20,455	Profit for the year	6,498	3,541	50,600
19,133	Profit attributable to shareholders of the parent company	5,728	3,122	44,604
1,322	Profit attributable to minority interests	770	419	5,996
US\$		US\$	£	HK\$
1.65	Basic earnings per ordinary share	0.47	0.26	3.66
1.63	Diluted earnings per ordinary share	0.47	0.26	3.66
0.87	Dividends per ordinary share	0.93	0.51	7.24

Summary Consolidated Balance Sheet

2007 US\$m		2008 US\$m	2008 £m	2008 HK\$m
Assets				
21,765	Cash and balances at central banks	52,396	35,944	406,069
9,777	Items in the course of collection from other banks	6,003	4,118	46,523
13,893	Hong Kong Government certificates of indebtedness	15,358	10,536	119,024
445,968	Trading assets	427,329	293,148	3,311,800
41,564	Financial assets designated at fair value	28,533	19,574	221,131
187,854	Derivatives	494,876	339,485	3,835,289
237,366	Loans and advances to banks	153,766	105,483	1,191,687
981,548	Loans and advances to customers	932,868	639,947	7,229,727
283,000	Financial investments	300,235	205,961	2,326,821
10,384	Interests in associates and joint ventures	11,537	7,914	89,412
39,689	Goodwill and intangible assets	27,357	18,767	212,017
15,694	Property, plant and equipment	14,025	9,621	108,694
39,493	Other assets	37,822	25,945	293,120
896	Current tax asset	2,552	1,751	19,778
5,284	Deferred tax asset	7,011	4,810	54,335
20,091	Prepayments and accrued income	15,797	10,837	122,427
2,354,266	Total assets	2,527,465	1,733,841	19,587,854
Liabilities and Equity				
Liabilities				
13,893	Hong Kong currency notes in circulation	15,358	10,536	119,024
132,181	Deposits by banks	130,084	89,238	1,008,151
1,096,140	Customer accounts	1,115,327	765,114	8,643,784
8,672	Items in the course of transmission to other banks	7,232	4,961	56,048
314,580	Trading liabilities	247,652	169,889	1,919,303
89,939	Financial liabilities designated at fair value	74,587	51,167	578,050
183,393	Derivatives	487,060	334,123	3,774,715
246,579	Debt securities in issue	179,693	123,269	1,392,621
2,893	Retirement benefit liabilities	3,888	2,667	30,132
35,013	Other liabilities	72,384	49,655	560,975
2,559	Current tax liabilities	1,822	1,250	14,121
42,606	Liabilities under insurance contracts	43,683	29,967	338,543
21,766	Accruals and deferred income	15,448	10,597	119,722
1,958	Provisions	1,730	1,187	13,408
1,859	Deferred tax liabilities	1,855	1,273	14,376
24,819	Subordinated liabilities	29,433	20,191	228,106
2,218,850	Total liabilities	2,427,236	1,665,084	18,811,079
Equity				
5,915	Called up share capital	6,053	4,152	46,911
8,134	Share premium account	8,463	5,806	65,588
-	Other equity instruments	2,133	1,463	16,531
33,014	Other reserves	(3,747)	(2,570)	(29,039)
81,097	Retained earnings	80,689	55,352	625,339
128,160	Total shareholders' equity	93,591	64,203	725,330
7,256	Minority interests	6,638	4,554	51,445
135,416	Total equity	100,229	68,757	776,775
2,354,266	Total equity and liabilities	2,527,465	1,733,841	19,587,854

S K Green
Group Chairman

Notes on the Summary Financial Statement

1. Basis of preparation

Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2008, there were no unendorsed standards effective for the year ended 31 December 2008 affecting these consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC's financial statements for the year ended 31 December 2008 are prepared in accordance with IFRSs as issued by the IASB.

2. Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings, computed in accordance with Part I of Schedule 6 of the Companies Act 1985, were:

	2008 US\$000	2007 US\$000	2006 US\$000
Fees	2,529	2,626	2,660
Salaries and other emoluments	11,584	7,929	7,774
Bonuses	-	8,938	10,705
	14,113	19,493	21,139
Gains on the exercise of share options	23	13	3
Vesting of Long-Term Incentive awards	7,147	4,563	18,975

In addition, there were payments under retirement benefit agreements with former Directors of US\$1,139,968 (2007: US\$1,183,960). The provision at 31 December 2008 in respect of unfunded pension obligations to former Directors amounted to US\$15,164,791 (2007: US\$18,491,117).

During the year, aggregate contributions to pension schemes in respect of Directors were US\$664,174 (2007: US\$545,854 which included US\$460,564 arising from a Director's waiver of bonus).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee. Details of Directors' remuneration, share options and conditional awards under the Restricted Share Plan 2000 and the HSBC Share Plan are included in the 'Summary Directors' Remuneration Report' on pages 33 to 37.

3. Related party transactions

Transactions, arrangements and agreements involving related parties

Particulars of transactions, arrangements and agreements entered into by subsidiaries of HSBC Holdings with Directors, disclosed pursuant to section 232 of the Companies Act 1985, are shown below:

	2008		2007	
	Number of persons	Balance at 31 December US\$000	Number of persons ¹	Balance at 31 December US\$000
Directors	19		14	
Loans		1,758		649
Credit cards		293		204
Guarantees		-		-

1 Comparative figures have been restated to show Directors, excluding their connected persons following a change to section 232 and Part 2 of Schedule 6 of the Companies Act.

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The disclosure of the year-end balance and the highest amounts outstanding during the year in the table below is considered to be the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

	2008		2007	
	Balance at 31 December US\$000	Highest amounts outstanding during year US\$000	Balance at 31 December US\$000	Highest amounts outstanding during year US\$000
Key management personnel and their related parties				
Loans	216,983	474,115	325,648	804,845
Credit cards	400	933	323	1,077
Guarantees	25,249	42,178	27,044	30,317

Some of the transactions were connected transactions, as defined by the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited but were exempt from any disclosure requirements under the provisions of those Rules.

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

4. Called up share capital

Authorised

At 31 December 2008 and 2007, the authorised ordinary share capital of HSBC Holdings was US\$7,500 million divided into 15,000 million ordinary shares of US\$0.50 each.

At 31 December 2008 and 2007, the authorised preference share capital of HSBC Holdings was 10 million non-cumulative preference shares of £0.01 each, 10 million non-cumulative preference shares of US\$0.01 each, and 10 million non-cumulative preference shares of €0.01 each.

At 31 December 2008 and 2007, the authorised non-voting deferred share capital of HSBC Holdings was £301,500 divided into 301,500 non-voting deferred shares of £1 each.

Issued

HSBC Holdings ordinary shares	Number	US\$m
At 1 January 2008	11,829,052,317	5,915
Shares issued under HSBC Finance share plans	65,198	–
Shares issued under HSBC employee share plans	40,578,468	20
Shares issued in lieu of dividends	235,569,099	118
At 31 December 2008	12,105,265,082	6,053

HSBC Holdings non-cumulative preference shares of US\$0.01 each	Number	US\$m
At 1 January 2008 and 31 December 2008	1,450,000	–

The 301,500 non-voting deferred shares were in issue throughout 2007 and 2008 and are held by a subsidiary of HSBC Holdings. Holders of the non-voting deferred shares are not entitled to receive dividends on these shares. In addition, on winding-up or other return of capital, holders are entitled to receive the amount paid up on their shares after distribution to ordinary shareholders of £10 million in respect of each ordinary share held by them.

5. Events after the balance sheet date

A fourth interim dividend for 2008 of US\$0.10 per ordinary share (US\$1,214 million) (2007: US\$0.39 per ordinary share, US\$4,628 million) was declared by the Directors after 31 December 2008.

In late February 2009, it was decided to discontinue all originations by the branch-based consumer lending business of HSBC Finance. HSBC Finance will continue to service and collect the existing portfolio as it runs off. Closure costs of approximately US\$265 million are expected to be incurred, mainly relating to one-off termination and other employee benefit costs, and charges for impairment of fixed assets associated with the consumer lending branch network, a substantial portion of which will be recorded in the first half of 2009.

On 2 March 2009, HSBC Holdings plc announced its proposal to raise £12.5 billion (US\$17.7 billion) (net of expenses) by way of a fully underwritten rights issue of 5,060 million new ordinary shares at a price of 254 pence per share on the basis of 5 new ordinary shares for every 12 existing ordinary shares. The proposal is subject to authorisation by the shareholders at a general meeting on 19 March 2009.

6. Foreign exchange amounts

The sterling and Hong Kong dollar equivalent figures in the consolidated income statement and balance sheet are for information only. These are translated at the average rate for the period for the income statement and the closing rate for the balance sheet as follows:

		Year ended 31 December	
		2008	2007
Closing:	HK\$/US\$	7.750	7.798
	£/US\$	0.686	0.498
Average:	HK\$/US\$	7.787	7.801
	£/US\$	0.545	0.500

7. Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2008*. It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as would be provided by the full *Annual Report and Accounts 2008*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2008* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Internal Communications, HSBC-North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts 2008* may be obtained from Computershare Hong Kong Investor Services Limited, Hopewell Centre, Rooms 1806-1807, 18th Floor, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on the inside back cover.

The *Annual Report and Accounts 2008* may be viewed on the HSBC Group web site: www.hsbc.com.

8. Approval of the Summary Financial Statement

This Summary Financial Statement was approved by the Board of Directors and signed on its behalf by S K Green.

Independent Auditor's Statement to the Members of HSBC Holdings plc

Pursuant to section 251 of the Companies Act 1985

We have examined the Summary Financial Statement for the year ended 31 December 2008 set out on pages 27 to 41.

This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the *Annual Review* in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the *Annual Review* with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the *Annual Review* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom. Our unqualified report on the group's full annual financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2008 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (2 March 2009) and the date of this statement.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

2 March 2009

Shareholder Information

Fourth interim dividend for 2008

The Directors have declared a fourth interim dividend for 2008 of US\$0.10 per ordinary share. Information on the scrip dividend scheme and currencies in which shareholders may elect to have the cash dividend paid will be sent to shareholders on or about 31 March 2009. The timetable for the dividend is:

	2009
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	18 March
ADSs quoted ex-dividend in New York	18 March
Record date for dividend and closure of Hong Kong Overseas Branch Register of shareholders for one day	20 March
Mailing of <i>Annual Report and Accounts 2008</i> and/or <i>Annual Review 2008</i> , Notice of Annual General Meeting and dividend documentation	31 March
Final date for receipt by registrars of forms of election, Investor Centre electronic instructions and revocations of standing instructions for scrip dividends	23 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	27 April
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	6 May

Annual General Meeting

The 2009 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday 22 May 2009 at 11 am.

Interim Management Statements and interim results

Interim Management Statements are expected to be issued on 11 May 2009 and 6 November 2009 respectively. The interim results for the six months to 30 June 2009 are expected to be issued on 3 August 2009.

Interim dividends for 2009

The Board has adopted a policy of paying quarterly interim dividends on the ordinary shares. Under this policy it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2009 will be US\$0.08 per ordinary share. The proposed timetables for the dividends in respect of 2009 are:

Interim dividends for 2009	First	Second	Third	Fourth
Announcement	5 May 2009	3 August 2009	2 November 2009	1 March 2010
ADSs quoted ex-dividend in New York	20 May 2009	19 August 2009	18 November 2009	17 March 2010
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	20 May 2009	19 August 2009	18 November 2009	17 March 2010
Record date in Hong Kong	22 May 2009	21 August 2009	19 November 2009	18 March 2010
Record date in London, Paris and Bermuda	22 May 2009	21 August 2009	20 November 2009 ¹	19 March 2010 ¹
Closure of the Overseas Branch Register of shareholders in Hong Kong for one day	22 May 2009	21 August 2009	–	–
Payment date	8 July 2009	7 October 2009	13 January 2010	5 May 2010

¹ Removals to and from the Overseas Branch Register of Shareholders in Hong Kong will not be permitted on these dates.

Shareholder enquiries and communications

Any enquiries relating to your shareholding, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrars at the relevant address shown on the inside back cover.

If you have been nominated to receive general shareholder communications directly from HSBC Holdings it is important to remember that your main contact in terms of your investment remains as it was (so the registered shareholder, or perhaps custodian or broker, who administers the investment on your behalf). Therefore any changes or queries relating to your personal details and holding (including any administration thereof) must continue to be directed to your existing contact at your investment manager or custodian. HSBC Holdings cannot guarantee dealing with matters that are directed to it in error.

Investor relations

Enquiries relating to HSBC's strategy or operations may be directed to:

Manager Investor Relations HSBC Holdings plc 8 Canada Square London E14 5HQ UK Telephone: 44 020 7991 8041 Facsimile: 44 020 7991 4663 E-mail: investorrelations@hsbc.com	Investor Relations Officer HSBC North America Holdings Inc. 26525 N Riverwoods Boulevard Mettawa, Illinois 60045 USA 1 224 544 4400 1 224 552 4400 investor.relations.usa@us.hsbc.com	Head of Investor Relations (Asia) The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong 852 2822 4929 852 2845 0113 investorrelations@hsbc.com.hk
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Annual Review 2008

Further copies of this *Annual Review* may be obtained by writing to the following departments:

For those in Europe, Middle East and Africa: Group Communications HSBC Holdings plc 8 Canada Square London E14 5HQ UK	For those in Asia-Pacific: Group Communications (Asia) The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong	For those in the Americas: Internal Communications HSBC – North America 26525 N Riverwoods Boulevard Mettawa Illinois 60045 USA
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Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive a notification of its availability on HSBC's web site. To receive future notifications of the availability of a corporate communication on HSBC's web site by email, or revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/ecomms. If you provide an email address to receive electronic communications from HSBC we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's web site and would like to receive a printed copy of it, or if you would like to receive future corporate communications in printed form, please write or send an email to the appropriate Registrars at the address given on the inside back cover. Printed copies will be provided without charge.

Chinese translation

A Chinese translation of this *Annual Review* is available upon request after 31 March 2009 from the Registrars.

Please also contact the Registrars if you wish to receive Chinese translations of future documents or if you have received a Chinese translation of this document and do not wish to receive such translations in future.

《年度回顧》備有中文譯本，請於2009年3月31日之後，向股份登記處索閱。閣下如欲索取本文件的中譯本，或已收到譯本但不希望繼續收取，均請聯絡股份登記處。

French translation

A French translation of this *Annual Review* is available on request from:
La traduction française du Bilan d'activité est disponible sur demande :

Direction de la Communication
HSBC France
103 avenue des Champs Elysées
75419 Paris Cedex 08
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Contact

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Registered in England: number 617987

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Registrars

Principal Register

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United Kingdom
Telephone: 44 0870 702 0137

Hong Kong Overseas Branch Register

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Page 16 Residential street, London:
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Page 17 Mumbai dealing room:
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Page 19: HSBC Private Bank

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