

ACCOUNTING FOR INSURANCE BUSINESS IN HSBC

June 2006

Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report.

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Scale of insurance business

- ▶ **Insurance manufacturing**
- ▶ **Insurance distribution**
- ▶ **Insurance broking**

Manufacture / distribution considerations:

- ▶ **Use of capital**
- ▶ **Quality of profit**
- ▶ **State of development of local market**

Scale of insurance business - Premium throughput

<u>GWP in 2005</u>	<u>Life</u> <u>US\$m</u>	<u>Non Life</u> <u>US\$m</u>	<u>Total</u> <u>US\$m</u>
Manufacturing			
Insurance	4,221	2,364	6,585
Investment	1,642	-	1,642
Agency Distribution	1,228	1,273	2,501
Broking	241	1,879	2,120
	7,332	5,516	12,848

▶ **Excludes Associates (ERISA / PING AN)**

Overall scale

- ▶ **Insurance manufacturing profit in 2005** **\$1.3bn**
- ▶ **Distribution commission earned by HSBC in 2005:**
 - **own manufacture** **\$660m**
 - **third party manufacture** **\$650m**
- ▶ **Intra-group arrangements on arms length basis**
- ▶ **Insurance operations owned by local banks**

Analysis of insurance result by type of business

<u>Manufacturing profit in 2005</u>	<u>Life</u> <u>US\$m</u>	<u>Non Life</u> <u>US\$m</u>	<u>Total</u> <u>US\$m</u>
Europe	221	68	289
Hong Kong	310	30	340
Other Asia Pacific	17	-	17
North America	274	165	439
South America	202	43	245
	1,024	306	1,330

Accounting issues

- ▶ **Classification under IFRS:**
 - Insurance as insurance
 - Investment with discretionary participation features as insurance (immaterial)
 - Investment as investment (e.g. unit linked)
- ▶ **Change from single line consolidation to multi-line**
- ▶ **Premiums and investment return offset in claims. Claims represent three distinct movements:**
 - a) Actual claims arising (primarily non life business)**
 - b) Creation of policyholder liability on inception (life business)**
 - c) Subsequent amendment of liability over life time of policy (investment return / unwind of discount)**

Majority of investments accounted for on fair value basis with movement offset by change in policyholder liabilities
- ▶ **Embedded value approach adopted but not a major impact on reported operating profit due to nature of business**

HSBC Consolidated Income Statement - 2005

<u>Extracts (1) Total operating income</u>	<u>Total US\$m</u>	<u>Insurance Manufacturing US\$m</u>
Net Interest Income	31,334	622
Net Fee Income	14,456	(920)
Net Trading Income	5,864	19
Net Income from financial instruments designated at Fair Value	1,034	504
Other Income	3,580	264
Net Earned Insurance Premium	5,436	5,436
Total Operating Income	61,704	5,925

HSBC Consolidated Income Statement – 2005 cont.

<u>Extracts (2) Profit for the year</u>	<u>Total US\$m</u>	<u>Insurance Manufacturing US\$m</u>
Net Insurance Claims Incurred	(4,067)	(4,067)
Loan Impairment Charges and Other Credit Risk Provisions	(7,801)	3
Net Operating Income	49,836	1,861
Total Operating expenses	(29,514)	(531)
Operating profit	20,322	1,330

Other insurance features

**Funds under Management
from Insurance Operations**

US\$36 billion