HSBC HOLDINGS PLC

- 2004 ANNUAL RESULTS PRESENTATION

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SIR JOHN BOND

GROUP CHAIRMAN, HSBC HOLDINGS PLC

AND

DOUGLAS FLINT

GROUP FINANCE DIRECTOR

[Slide 1]

Good Morning Ladies and Gentlemen, and welcome to this briefing on the 2004 results of HSBC Holdings. I would also like to welcome those investors who are joining us via the internet.

My name is John Bond, Group Chairman of HSBC. Next to me is Douglas Flint, Group Finance Director. In the front row are Alan Jebson, Group Chief Operating Officer, Michael Geoghegan, Chief Executive HSBC Bank plc and a number of our other senior HSBC colleagues. We are also joined by five non-executive directors: Sir Brian Moffat, Sir John Kemp-Welch, Sharon Hintze, Sir Brian Williamson and Sir Mark Moody-Stuart, and by James Hughes-Hallett who is to join the Board on the first of March.

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Before we start the presentation, I would draw your attention to the cautionary words on forward-looking statements showing on the screen. This is to comply with the regulatory environment.

And, can I please ask that you turn off your mobile phones or your Blackberrys during the briefing.

Also can I remind you that at hsbc.com you can find the news release, the slide presentation and our annual report and accounts which includes the information which will be filed on form 20-F.

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Let me run through the headline figures. As we judge ourselves on cash return on cash invested, we focus internally on profitability excluding goodwill amortisation.

Operating profit before provisions was up 24 per cent to 24.7 billion US dollars.

Pre-tax profit was up 35 per cent to 19.4 billion US dollars.

Profit attributable to shareholders was up 32 per cent to 13.7 billion US dollars.

Earnings per share increased 26 per cent to 125 US cents.

The Board has declared a fourth interim dividend of 27 US cents in line with the programme announced with our 2003 results, bringing the total declared dividend to date to 66 US cents, an increase of 10 per cent against the dividend declared at the same stage last year.

Our capital ratios remained strong with the Tier 1 ratio at 8.9 per cent, the same level as at the end of 2003.

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This slide illustrates the movement in pre-tax profit over the year and highlights the contribution of underlying growth.

Pre-tax profit increased by just over 5 billion US dollars. Of this 530 million US dollars arose from foreign exchange translation; Household's additional first quarter contribution in 2004 added 1.1 billion US dollars, and the Bank of Bermuda and other acquisitions/disposals contributed 224 million US dollars. Our existing businesses added 3.2 billion US dollars, of which 1.3 billion US dollars arose from lower provision requirements.

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Our key achievements in 2004 can be summarised as follows:

A solid performance produced record earnings for the Group.

Our earnings growth was well-diversified across all our main geographical regions and customer groups, all of which achieved record results.

A broadly favourable economic environment required a lower level of provisions and allowed us to recover certain provisions made previously.

We completed the integration of a major consumer finance business in the US and a large commercial bank in Mexico, two of the most important and successful acquisitions in our history.

In addition, we have strengthened the foundations for our future development in mainland China.

2004 was also a year of substantial investment in our established businesses, and recognition of the HSBC brand continued to grow.

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This slide shows how the composition of the Group's profits has re-balanced significantly since 2000 towards the personal customer base, which now contributes 50 per cent of the Group total, up from 35 per cent in 2000.

[Slide 7]

In the first year of our Managing for Growth strategy, growth has been generated in all our businesses, as this slide shows.

[Slide 8]

This slide shows some examples of growth in individual product and service lines over the four-year period 2000 to 2004, in which the compound annual growth rate for earnings per share excluding goodwill amortisation was 12 per cent and for dividends per share 11 per cent.

Most notably, our cards in force grew at an annual compound rate of 69 per cent, helped by the acquisition of Household which, together with strong growth in Asia, has made us a global player in cards, where we are now ranked in the top 6. We are also ranked in the top three in storecards.

In our global markets business, foreign exchange dealing profits grew by 17 per cent CAGR.

The Group's insurance business has been a significant contributor to overall profit growth and has generated a growth in insurance premiums of 24 per cent CAGR.

In Hong Kong, part of the success in the growth of commission income in personal financial services reflects the strong growth in unit trust sales, which grew by 43 per cent CAGR over the period.

Our custody assets have grown by 19 per cent compound annual growth rate while assets under administration, transformed by the acquisition of Bank of Bermuda, has grown at over 55 per cent CAGR. Assets under administration now exceed 600 billion US dollars.

Now let me take you briefly through each line of business.

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In Personal Financial Services, pre-tax profit excluding goodwill amortisation increased by 34 per cent to 5.4 billion US dollars. In constant currency terms and excluding acquisitions, the increase was 27 per cent.

In the UK, our investment in the business in recent years has resulted in growth in market share in the key product areas of mortgages, cards and personal unsecured lending. Our productivity in the UK has also improved, with a reduction in the cost:income ratio from 64.2 per cent to 58.0 per cent.

In Hong Kong, we grew fee income by 27 per cent on the back of strong growth across a broad range of products and services.

Consistently low Hong Kong dollar interest rates and a flat yield curve contributed to an 8 per cent fall in net interest income compared with 2003, but improving trends in the second half saw net interest income rise 9 per cent compared with the first half. Encouragingly, this is the first half-on-half increase since the first half of 2001.

The success in the rest of Asia-Pacific continued through into the second half, with profits for the year more than double those of 2003.

In Mexico, targeted growth in low-cost deposits and in consumer loans contributed strongly to the growth in net interest income in North America.

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In Consumer Finance, pre-tax profit excluding goodwill amortisation, and with a full year's contribution from Household, was 3.7 billion US dollars, an increase of 65 per cent. On a constant currency basis and adjusting for the additional quarter from Household, the increase was 13 per cent.

We have now completed the integration of this business. We continued to grow our consumer finance business with a year-on-year growth in customer loans of 18 per cent, with an increased emphasis on the near-prime market.

Credit quality indicators improved during the year across all products.

The benefit of volume growth was mostly offset by pressure on margins. We will come back to this later.

There was also the one-off adjustment to profit caused by different account management practices as we transferred the private label card portfolio from Household to HSBC Bank in the US. This resulted in a one-off charge of 154 million US dollars, which was in line with our estimate when we announced the acquisition of Household in 2003.

Leveraging the consumer finance expertise in the Group has enabled us to use the scale of the global cards technology platform to accelerate growth in emerging markets, to acquire Marks and Spencer’s Financial Services business in the UK, and to grow our consumer finance business in Mexico and Brazil.

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Turning to Commercial Banking, pre-tax profit excluding goodwill amortisation was 4.2 billion US dollars, an increase of 32 per cent. In constant currency terms and excluding acquisitions, the increase was 24 per cent.

The results benefited from good revenue growth underpinned by a strong increase of 26 per cent in customer lending, a 24 per cent increase in customer deposits, together with improved productivity and lower credit costs.

During the year we launched our global relationship management proposition, catering for customers with international operations within the commercial customer base. Revenue growth was generated by improved segmentation of the customer base, the launch of new packaged products, and the refocusing and expansion of commercial centres.

The Group's new e-banking platform for middle market and corporate clients, HSBC*net*, has been rolled out to customers in 30 countries.

The strength of our internet banking proposition was reflected in the 43 per cent increase in customers using the service.

The bad debt charge was lower than in 2003, with net releases in bad debt provisions in Hong Kong and a lower charge in North America due to the favourable economic environment.

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Our pre-tax profit excluding goodwill amortisation for our Corporate, Investment Banking and Markets business was 5.2 billion US dollars, an increase of 17 per cent. On a constant currency basis and excluding acquisitions, the increase was 11 per cent.

In 2004 substantial progress was made in realigning the CIBM business and establishing multi-disciplinary global client service teams. The planned investment programme is on track. We have recruited nearly 2,000 people, and 1,455 people have left the organisation.

Against the backdrop of difficult market conditions, Global Markets maintained strong business momentum.

Global Transaction Banking had a strong year aided by the launch of our proprietary internet banking service HSBC*net*, by the introduction of our integrated payables and receivables service in Asia, and by strong earnings from our securities services business.

The restructuring of Global Investment Banking has resulted in significant advisory and financing roles with global clients, such as the 17 billion US dollar reverse acquisition of LNM Holding by Ispat International to form Mittal Steel.

The improved economic environment and increased corporate restructuring activity resulted in a net release of provisions.

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Pre-tax profit for Private Banking excluding goodwill amortisation grew to 693 million US dollars, an increase of 23 per cent. On a constant currency basis, excluding acquisitions and business transfers, the increase was 21 per cent.

Income grew three times as fast as costs. The lending book grew strongly as clients sought to leverage their investments in low interest environments.

The integration of Bank of Bermuda's private banking operation was largely completed, and has strengthened the private trust capabilities of the Group. We expanded our onshore private banking operations and completed the integration of four French private banks.

Since the Republic acquisition in 1999, the business has been developed and is now the fourth-ranked private bank globally.

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The unique balance of HSBC's profits by geographic region is shown here. In 2004, Europe, Asia and North America all made similar contributions. The Group has changed its geographic profile in the last four years – in 2000, the Group's profits were dominated by Asia and Europe.

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All regions grew profits in 2004.

[Slide 16]

This slide shows the broad range of countries from which the Group's pre-tax profits derive.

Over the last six years, this range has been increased with the significant additions in Mexico, France, Malta, Turkey and Bermuda.

Let me now hand you over to Douglas who will take you through some of the detail.

[Slide 17]

Thank you John. This slide shows the underlying growth for the Group. Reading from the left, we have adjusted for the impact of the additional quarter from Household – by taking out the 2004 first quarter figures – then adjusted for the impact of other acquisitions, principally Bank of Bermuda and Losango.

After restating last year on a constant currency basis, you can see that underlying operating profit growth is 6.5 per cent. This reflects the benefits of our investment in fee and commission income generating businesses.

We have also continued to invest in our established businesses, which is reflected in cost growth of 8.5 per cent.

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Historically, HSBC's results have shown a degree of seasonality, typically characterised by a slightly stronger first half than second half. The two graphs show this at both the pre-provision level and at the net attributable level and expressed on a per share basis.

However, this chart also shows that the year-on-year trends for each half are generally stronger.

[Slide 19]

I'd now like to turn to the rates of growth in income and costs for our Personal Financial Services businesses.

In Europe, we grew revenues by 13.7 per cent and held cost growth at 3.7 per cent. Income continued to grow at a faster rate than costs when looking at the second half compared to the first.

For Hong Kong, the outcome for the year, where income growth was marginally lower than cost growth, was a marked improvement on the position at the half year, when cost growth was significantly higher than income growth. This reflected the improved position in net interest income as the pressure on margins began to ease. The recent rise in Hong Kong dollar interest rates and in loan demand are encouraging signs for 2005. However, the market will be affected by macro-economic issues including the strength of the US economy and the success of the Chinese authorities in engineering a cooling of the investment boom in mainland China.

In the rest of Asia-Pacific, income grew by 23.4 per cent against cost growth of 15.1 per cent. We increased marketing activity and added sales staff to deliver strong growth in mortgage and credit card balances, and in investment products.

In North America, income growth was 13.7 per cent against cost growth of 11.7 per cent. In particular, Mexico delivered strong growth in consumer loans, customer deposits and pension funds business, with commensurate cost growth to support this business activity.

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Turning to Commercial Banking, income growth exceeded cost growth in all regions. In Europe there was strong growth in both lending and deposit gathering in the UK, and credit card fee income also recorded strong growth. Cost growth at 2 per cent was substantially lower than income growth at 10 per cent and was helped by lower staff costs in the UK.

In Hong Kong, revenue growth of 14 per cent was nearly double that of cost growth at 7.3 per cent. Income growth benefited from the investment in relationship managers and business banking centres, from a significant rise in trade finance activity, and from demand for our broader range of commercial wealth management products.

In the rest of Asia-Pacific, the higher levels of income were driven by growth in international trade.

In North America, increased lending balances and commercial deposits generated revenue growth. The substantial fall in costs related to the disposal of businesses in the US in 2003.

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Turning to our Corporate, Investment Banking and Markets businesses, which we have been restructuring and expanding, this slide shows the change in income and costs.

The growth in income was constrained by the impact of lower interest rates affecting yields on the investment of the Group’s liquidity, which contributed to the 318 million US dollar decline in net interest income. This was more than compensated for by growth in other operating income of 583 million US dollars, which represented 11 per cent growth over 2003, adjusted for constant currency and acquisitions.

On costs, of the underlying increase of 744 million US dollars, slightly under half was directed towards the planned expansion of our capabilities in corporate advisory services, sector relationship management, equity sales and trading, in asset-backed securities and in research. The remaining increase in costs related to the continuing build-up of our derivatives capabilities, the improvement of our operating infrastructure and higher staff costs related to business growth.

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You can see from this slide that the investment in people has been broadly based across the different product and service areas within CIBM, together with strengthening the support platforms. This investment has also covered our many geographies within the Global Markets area, and we have also restructured our global equities business to implement a more focused and cost-effective operating model. The investment in key senior management is now largely complete; 2005 will see the consequential build up of support and technology costs.

[Slide 23]

This slide shows the profit contributions from each product and service line. Our business is broadly-based. This reflects the range of financial services that our corporate and institutional customer base requires, and generates a comparatively low level of volatility in customer-driven earnings.

[Slide 24]

This familiar slide of the daily distribution of market risk revenues shows that revenues remain concentrated in a similar range to previous years.

[Slide 25]

Dealing profits continued to account for an acceptable proportion of total income, at 5.1 per cent. Foreign exchange profits accounted for 70 per cent of all dealing profits.

[Slide 26]

Now I'd like to look at credit quality. HSBC's risk profile has changed significantly over the last four years with lending to the personal customer base now standing at 56.8 per cent of advances, compared to 39 per cent in 2000.

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Growth in lending in 2004 was 18 per cent on a constant currency basis, excluding acquisitions and lending to financial institutions. Residential mortgage lending increased by 30 per cent and there was good growth in other personal lending of 13 per cent. There was a notable pick up in corporate and commercial lending, which rose 14 per cent.

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The Group charge for bad and doubtful debts was 104 basis points, down from 125 basis points. Household's bad debt charge fell by 96 basis points to 425 basis points, reflecting the strength of the US economic recovery, increasing employment and the more conservative positioning of the loan portfolio.

Excluding the impact of Household, the charge was only 19 basis points, which continues to be low in historical terms, but reflects the improved economic climate.

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Excluding Household, the rate of new provisioning improved over 2003. Corporate credit quality remained highly favourable compared with historical trends. Improved sentiment resulted in corporate restructuring and refinancing, and allowed us to recover provisions made previously.

Releases of specific and general provisions were 1.7 billion US dollars, 540 million US dollars higher than in 2003; and recoveries were 435 million US dollars, 132 million US dollars higher. This helped reduce the net charge by 618 million US dollars.

The improved economic climate has also had a favourable impact on credit quality trends, reflected in lower delinquency and loss statistics, particularly in the US and Hong Kong.

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Looking at a longer historical perspective, and excluding the effects of Household, there has been a steadily improving trend in credit quality as shown by the declining level of new specific provisions as a percentage of average advances.

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Turning to credit quality in Household, both the charge-off rate and the delinquency rate show improving trends.

The decline in the risk-adjusted revenue margin reflects a combination of the lagged impact of charge-offs relating to business written some time ago and pressures on the net interest margin, partly as a result of a move to more secured lending.

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We have completed the integration of Household with HSBC. 2004 was a record year with pre-tax profits of 3.7 billion US dollars, which represented a return on investment of 18 per cent.

We generated strong momentum in volume growth of 18 per cent in 2004 and we expect this momentum to continue.

Several factors have contributed to the contraction in the net interest margin. Market pricing pressure has been the most important factor, particularly with the mortgage portfolio. Pressure was also experienced in the personal unsecured lending and auto loan portfolios. Funding costs increased with rising rates and the change in the loan mix accounted for a modest element of the decline.

The risk-adjusted return is stabilising and an improving US economy should provide opportunities to rebalance the loan mix.

The transfer of Household's consumer finance skills to other parts of HSBC has been very valuable.

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Looking at operating margin on a risk-adjusted basis, the Group's profitability improved from 2.55 per cent for 2003 to 2.75 per cent in 2004, reflecting a full year's contribution from Household and an improved credit environment.

Let me now hand you back to John.

Thank you Douglas.

[Slide 34]

I'd like to update you on our progress during 2004 in building further our platform for growth in China, one of the world's fastest growing economies, and where we have had a continuous presence since we were founded in 1865.

In 2004 we invested 1.7 billion US dollars to acquire a 19.9 per cent stake in Bank of Communications, China's fifth largest bank, with over 2,700 branches. We invested a further 168 million US dollars to retain a 9.99 per cent stake in Ping An Insurance, and Hang Seng Bank invested 208 million US dollars to acquire a 15.98 per cent stake in Industrial Bank. Combined with our 8 per cent stake in Bank of Shanghai and the steady expansion of our own branch network in mainland China, these investments are laying the foundations for our future in a country that may be, within a few decades, the largest economy in the world.

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We continue to invest in the HSBC brand. During 2004, Household International became HSBC Finance Corporation and, in France, CCF will adopt the HSBC name for much of its operations later this year.

Recognition for our brand continues to grow. According to Interbrand, the HSBC brand is the 33rd most valuable in the world, and the first among British-based companies. We were delighted to receive a number of awards last year, including being named Global Bank of the Year for the third year running by *The Banker* magazine.

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Managing for Growth one year on is on track. I'd now like to say a few words about the outlook for 2005.

The continuing growth in the US economy is encouraging, given the scale of our consumer-facing businesses in North America.

As trade continues to grow and the world seeks higher returns, we expect emerging markets to be increasingly important to HSBC in generating profitable growth in the future, and we are positioning our business accordingly.

We continue to position HSBC to withstand sudden economic volatility and to respond to opportunities for profitable growth.

In 2005, our prime areas of focus will be to leverage the Group’s considerable expertise in cards, consumer finance and funds administration internationally.

We will also concentrate on building on our investments in businesses in the emerging markets of China, India, Brazil and Mexico, which have good growth prospects for the future.

We will complete the restructuring of our Corporate, Investment Banking and Markets business.

We will also focus on achieving further revenue growth and improvements in productivity.

Finally, we plan to pursue organic growth opportunities in Korea, a country which has strong growth potential for financial services. We believe that direct investment in Korea offers greater potential returns than those available by acquisition at today's prices.

Now we would be very happy to answer any questions. Can I ask you to wait until the roving microphone reaches you so that we can hear your questions. It would be helpful if you would identify yourself.

If time permits, we will also take some questions by e-mail.

[End Slide]