2005

HSBC Holdings plc

Annual Review

The world's local bank

HSBC

HSBC

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises around 9,500 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by around 200,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

HSBC provides a comprehensive range of financial services to more than 125 million customers: personal financial services (including consumer finance); commercial banking; corporate, investment banking and markets; and private banking.

Contents

Illustrative Theme

Global trends

HSBC plans for the long term. It assesses the major trends that are likely to affect the demand for financial services over the next 25 years.

The photographs in this *Annual Review* illustrate three major trends.

First, we believe that there will be a rebalancing of the world economy. A much higher proportion of world GDP will be contributed by Asia, by an American-led NAFTA and by South America.

Secondly, demographic change will be a major influence. We expect that, in most of the developed world, the ratio of people in retirement to those in employment will increase, intensifying the need for pensions and retirement-related services. By contrast, emerging markets will experience rising incomes, and the growth of new consumer markets will create demand for all kinds of personal financial services.

Thirdly, we recognise the transforming effect of technology and, particularly, the internet which is empowering individuals as never before, changing the relationship between financial services providers and their customers.

Cover:

The cover illustrations show these trends in action (anticlockwise from bottom): A customer in China, one of the world's most dynamic economies, pays for a purchase with a newly issued credit card; an HSBC manager explains an employee pension plan to a business customer in the UK, where the population is ageing; and a French customer contacts HSBC from a laptop while in transit at an airport.

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2005.* 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.* The *Annual Report and Accounts 2005* also contains a description of the significant differences between corporate governance standards applicable to US companies listed on the New York Stock Exchange and the corporate governance practices followed by HSBC Holdings plc. The description is available at www.hsbc.com/nysegovernancedifferences.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2005* from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC - North America, 2700 Sanders Road, Prospect Heights, Illinois 60070, USA; or from 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* may be obtained from Computershare Hong Kong Investor Services Limited, Hopewell Centre, 46th 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 2005* may be viewed on our web site: www.hsbc.com.

Annual Review 2005

Financial Highlights

2004	Year ended 31 December	2005	2005	2005
US$m	**For the year**	**US$m**	*£m*	*HK$m*
18,943	Profit before tax	**20,966**	*11,531*	*163,076*
12,918	Profit attributable to shareholders of the parent company	**15,081**	*8,295*	*117,300*
6,932	Dividends	**7,750**	*4,263*	*60,280*
	At year-end			
85,522	Total shareholders' equity	**92,432**	*53,704*	*716,718*
90,780	Capital resources	**105,449**	*61,266*	*817,652*
777,127	Customer accounts and deposits by banks	**809,146**	*470,112*	*6,274,118*
1,279,974	Total assets	**1,501,970**	*872,645*	*11,646,275*
759,210	Risk-weighted assets	**827,164**	*480,582*	*6,413,830*
US$	**Per share**	**US$**	*£*	*HK$*
1.18	Basic earnings	**1.36**	*0.75*	*10.58*
1.17	Diluted earnings	**1.35**	*0.74*	*10.50*
0.63	Dividends	**0.69**	*0.38*	*5.36*
0.13	— first interim	**0.14**	*0.08*	*1.09*
0.13	— second interim	**0.14**	*0.08*	*1.09*
0.13	— third interim	**0.14**	*0.08*	*1.09*
0.27	— fourth interim[1]	**0.31**	*0.18*	*2.40*
7.66	Net asset value at the year-end	**8.16**	*4.74*	*63.27*
	Share information			
11,172m	US$0.50 ordinary shares in issue	**11,334m**		
US$190b	Market capitalisation	**US$182b**		
£8.79	Closing market price per ordinary share	**£9.33**		
	Total shareholder return against peer index[2]	**HSBC**	**Benchmark**	
	— over 1 year	**111.3**	120.8	
%	**Ratios**	%		
16.3	Return on average total shareholders' equity[3]	**16.8**		
1.14	Post-tax return on average total assets	**1.06**		
2.13	Post-tax return on average risk-weighted assets	**2.01**		
	Capital ratios			
8.9	— tier 1 capital	**9.0**		
12.0	— total capital	**12.8**		
51.6	**Cost efficiency[4]**	**51.2**		

1 *The fourth interim dividend of US$0.31 per share is translated at the closing rate on 31 December 2005. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 2 May 2006.*

2 *Total shareholder return ('TSR') is defined as the growth in share value and declared dividend income during the relevant period. In calculating TSR, dividend income is assumed to be reinvested in the underlying shares. The peer index is the TSR of our defined peer group of financial institutions.*

3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders' equity.*

4 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

Overview of Results

Geographical Distribution of Results

Figures in US$m	**Year ended 31 December 2005**		Year ended 31 December 2004	
Profit before tax		**%**		%
Europe	**6,356**	**30.3**	5,756	30.4
Hong Kong	**4,517**	**21.5**	4,830	25.5
Rest of Asia-Pacifc	**2,574**	**12.3**	1,847	9.8
North America	**6,872**	**32.8**	6,070	32.0
South America	**647**	**3.1**	440	2.3
	20,966	**100.0**	18,943	100.0
Tax expense	**(5,093)**		(4,685)	
Profit for the year	**15,873**		14,258	
Profit attributable to shareholders of the parent company	**15,081**		12,918	
Profit attributable to minority interests	**792**		1,340	

Distribution of Results by Customer Group

Figures in US$m	**Year ended 31 December 2005**		Year ended 31 December 2004	
Profit before tax		**%**		%
Personal Financial Services	**9,904**	**47.2**	8,497	44.9
Commercial Banking	**4,961**	**23.7**	4,057	21.4
Corporate, Investment Banking and Markets	**5,163**	**24.6**	5,288	27.9
Private Banking	**912**	**4.4**	697	3.7
Other	**26**	**0.1**	404	2.1
	20,966	**100.0**	18,943	100.0

Five-Year Comparison

	Amounts in accordance with IFRSs[1]		Amounts in accordance with UK GAAP[2]		
	2005	2004	2003	2002	2001
	US$m	US$m	US$m	US$m	US$m
For the year					
Net interest income	**31,334**	31,099	25,598	15,460	14,725
Other operating income	**30,370**	24,889	15,474	11,135	11,163
Loan impairment charges and other credit risk provisions	**(7,801)**	(6,191)	–	–	–
Provisions for bad and doubtful debts	**–**	–	(6,093)	(1,321)	(2,037)
Total operating expenses	**(29,514)**	(26,487)	(22,532)	(15,808)	(15,404)
Profit before tax	**20,966**	18,943	12,816	9,650	8,000
Profit attributable to shareholders of the parent company	**15,081**	12,918	8,774	6,239	4,992
Dividends	**7,750**	6,932	6,532	5,001	4,467
At the year-end					
Called up share capital	**5,667**	5,587	5,481	4,741	4,678
Total shareholders' equity	**92,432**	85,522	–	–	–
Shareholders' funds	**–**	–	74,473	51,765	45,688
Capital resources	**105,449**	90,780	74,042	57,430	50,854
Customer accounts	**739,419**	693,072	573,130	495,438	449,991
Undated subordinated loan capital	**3,474**	3,686	3,617	3,540	3,479
Dated subordinated loan capital	**35,856**	32,914	17,580	14,831	12,001
Loans and advances to customers[3,4]	**740,002**	672,891	528,977	352,344	308,649
Total assets	**1,501,970**	1,279,974	1,034,216	758,605	695,545
	US$	US$	US$	US$	US$
Per ordinary share					
Basic earnings	**1.36**	1.18	0.84	0.67	0.54
Diluted earnings	**1.35**	1.17	0.83	0.66	0.53
Dividends	**0.69**	0.63	0.60	0.53	0.48
Net asset value at year-end	**8.16**	7.66	6.79	5.46	4.88
Share information					
US$0.50 ordinary shares in issue (millions)	**11,334**	11,172	10,960	9,481	9,355
	%	%	%	%	%
Financial ratios					
Dividend payout ratio[5]	**50.7**	53.4	60.6	69.7	76.2
Post-tax return on average total assets	**1.06**	1.14	1.01	0.97	0.86
Return on average total shareholders' equity	**16.8**	16.3	–	–	–
Return on average shareholders' funds	**–**	–	13.0	12.4	10.6
Average total shareholders' equity to average total assets	**5.96**	6.35	–	–	–
Average shareholders' funds to average total assets	**–**	–	7.06	6.91	6.87
Capital ratios					
Tier 1 capital	**9.0**	8.9	8.9	9.0	9.0
Total capital	**12.8**	12.0	12.0	13.3	13.0
Amounts in accordance with US GAAP					
	US$m	US$m	US$m	US$m	US$m
Income statement for the year					
Net income available for ordinary shareholders	**14,703**	12,506	7,231	4,900	4,911
Other comprehensive income	**(7,271)**	983	7,401	5,502	(1,439)
Dividends	**7,750**	6,932	6,974	4,632	4,394
Balance sheet at 31 December					
Total assets	**1,406,944**	1,266,365	1,012,023	763,565	698,312
Shareholders' equity	**93,524**	90,082	80,251	55,831	48,444
	US$	US$	US$	US$	US$
Per ordinary share					
Basic earnings	**1.33**	1.15	0.69	0.52	0.53
Diluted earnings	**1.32**	1.13	0.69	0.52	0.53
Dividends	**0.69**	0.63	0.685	0.495	0.48
Net asset value at period end	**8.25**	8.06	7.32	5.89	5.18

1 *Comparative data for 2004 excludes the provisions of International Accounting Standard ('IAS') 32, IAS 39 and International Financial Reporting Standard ('IFRS') 4, which were adopted for the first time with effect from 1 January 2005.*

2 *The periods 2001-2003 were prepared in accordance with UK GAAP. The principal adjustments necessary to conform these periods with IFRSs are described in Note 46 on the Financial Statements in the* 2005 Annual Report and Accounts *on page 332. HSBC's accounting policies under UK GAAP are stated in Note 2 on the Financial Statements in the* 2004 Annual Report and Accounts.

3 *Net of impairment allowances against customers (IFRSs).*

4 *Net of suspended interest and provisions for bad and doubtful debts (UK GAAP).*

5 *Dividends per share expressed as a percentage of earnings per share (2001-2003: excluding goodwill amortisation).*

Group Chairman's Statement

Overall, 2005 was a year of sustained progress for HSBC and our all-round performance during the last three years has brought impressive returns to our shareholders.

Our results reflect our success in growing revenues and improving productivity, in line with our 'Managing for Growth' strategic plan. We grew profit attributable to shareholders by 17 per cent to US$15.1 billion in 2005. This represents US$1.36 per share, an increase of 15 per cent. Our earnings remained well diversified both geographically and by customer group. Although we continued to invest in the future of our business, particularly in the growth of our personal financial services in Asia, we improved productivity as the level of expenditure on the development of our investment banking business passed its peak. We also achieved good growth and further efficiencies in our core UK personal and commercial banking businesses. Worldwide, we grew our commercial banking business strongly on the back of recent investments.

The Board has declared a fourth interim dividend of US$0.31 per share, taking the total dividend in respect of 2005 to US$0.73 per share, an increase of 10.6 per cent over the dividends for 2004. The dividend is payable on 11 May 2006 to shareholders on the register on 24 March 2006, with a scrip dividend available to shareholders who prefer this option.

Over the past 15 years, dividends paid to shareholders have grown strongly, reflecting our aim of increasing them in line with the Group's underlying performance. Since 1990, HSBC's dividend has grown at a compound annual growth rate of 17.3 per cent. Over the same period, the total return to shareholders has grown at a compound annual growth rate of 28.5 per cent. To put this in simpler terms, £100 invested in HSBC 15 years ago, with dividends reinvested, would have been worth £4,281 at the end of 2005.

Strategy

HSBC is managed for the long-term. In planning our strategy, we take full account of the trends that we expect will shape our industry over the next 25 years. These trends form the illustrative theme of this *Annual Review*. I have described in previous statements to shareholders how we foresee a rebalancing of the global economy, with a greater share of world GDP being contributed by Asia, by an American-led NAFTA and by South America. Demographic change will also exert a profound influence as will the power of technology and, particularly, the internet.

HSBC's roots lie in Asia and we owe much of our success to the success of our customers there, including those in our original home market of Hong Kong. Although a number of Asian economies began to achieve high growth rates from the 1970s onwards, the regulatory environment in most countries limited the extent to which we could build on our long-established presence in them. In particular, our ability to provide personal financial services was constrained. Accordingly, in the 1980s and 1990s, HSBC built on its history of internationalism and invested some of the profits it earned in Asia in the more mature markets of Europe and North America. Including the transforming acquisition of Midland Bank in the UK in 1992, this changed the balance of our business. As a result, HSBC became a uniquely diversified financial services company which spanned both mature and emerging markets and which now earns no more than 25 per cent of its profits in any one country.

> **'...we foresee a rebalancing of the global economy, with a greater share of world GDP being contributed by Asia, by an American-led NAFTA and by South America.'**

The high economic growth rates in much of Asia and in other parts of the world have continued but, in recent years, have been accompanied by progressive deregulation of financial markets as a number of countries have sought to encourage greater participation in their economies by the international banks.

It is entirely appropriate that nations should deregulate at a pace with which they feel comfortable. However, should they choose to do so, HSBC will respond positively, seeking to contribute to economic development while ensuring a reasonable return to its shareholders. Our highly successful investment in Mexico is a case in point. So too is the growth of our business in China, where so far we have invested a total of more than US$5 billion, including US$1.5 billion in 2005.

The profits earned in the mature markets have also permitted our expansion in India, Vietnam and Turkey, the re-establishment of a presence in Kuwait and Iraq, and our move into new markets such as Slovakia and Paraguay.

Such initiatives are integral to our strategy of 'Managing for Growth', which Stephen Green describes in more detail on pages 9 to 19.

Reputation and Brand

One of the most exciting developments in recent years has been the creation of the HSBC brand name and its increasing visibility around the world. It takes many years to build a brand but, according to the consultancy Interbrand, HSBC had the 29th most valuable brand in the world by 2005, four places higher than in 2004. In France, after five successful years as part of the HSBC family, CCF and four of its subsidiaries adopted the HSBC brand in 2005.

Although brand recognition is vitally important in a crowded market-place and, in an age dominated increasingly by the internet, substance will always be more important than style. A brand is more than a name. It is in essence a company as experienced by its customers. HSBC aspires to be the world's leading financial services company. That means our name must be synonymous with integrity, trust and excellent customer service everywhere we operate. For an organisation which provides a safe haven for the hard-earned savings of millions of people, reputation is all. We were pleased to receive a number of awards during 2005 that recognise our standing in our industry and in the wider community. These included being named 'Global Bank of the Year' by *The Banker* magazine for an unprecedented fourth year in a row.

This electronic money transfer booth illustrates the synergy between HSBC in the United States and HSBC México. The booth is located in the HSBC Credit Center in Santa Ana, California, which caters for Hispanic customers living in southern California. On pay day, this Mexican worker is making a cash wire transfer to his family, who is able to withdraw the money from any of the 1,400 HSBC México branches conveniently located throughout the country. The HSBC Credit Center provides not only a bilingual service in English and Spanish, but the fee charged for a wire transfer is 80-90 per cent less than that levied by competitors. HSBC has 17 such booths in California, with plans to expand the total number to 23.

Group Chairman's Statement (continued)

Client Preferences and the Rise of Technology

Technology is transforming our relationships with our customers. Of the 20 billion customer transactions we perform in the course of a year, only 5 per cent are customer-facing. In some sectors in certain markets, over 90 per cent of all transactions are now carried out by automated requests, direct access by corporate clients, direct payments, the internet, ATMs and cell phones. Internet-based transactions grew by 36 per cent in the past year, which demonstrates the shift from branch-based activity to an increased usage of our electronic network. Technology enables us to provide our customers with a wider range of services, and it gives them greater independence and convenience in managing their financial affairs. As we look forward, we see this trend accelerating.

The growing influence of technology has important consequences for banks and other financial services providers, not least in terms of the physical networks they require. Although the demand for face-to-face contact in conducting more complex transactions will remain, the growing proportion of business which can be conducted remotely means that the nature of our physical presence in many markets is likely to change over time. The resulting period of adjustment will require sensitive management and we are mindful of our obligations to the communities we serve and of the need to balance the requirements of shareholders, customers and colleagues.

Corporate Social Responsibility

HSBC's first responsibility is to be successful. We estimate that more than 15 million people in the UK alone have an interest in HSBC shares, either directly or through pension schemes or savings plans. Success enables us to pay the dividends that are so important to their financial well-being. It allows us to invest in new products and services for our 125 million customers. Success enables us to invest in training and development and to pay taxes to governments. It creates jobs for colleagues and suppliers. Far from being at odds with social responsibility, success and the profits by which success is measured go hand in hand.

At the same time, a company cannot enjoy long-term success unless it conducts itself according to a set of values and in a manner that earns the trust and respect of the wider community. In practice, the public has different and sometimes conflicting expectations of business. Balancing a company's various obligations is an important part of management. We are grateful to the Corporate Social Responsibility (CSR) Committee of the Board for the wisdom and expertise it brings to a range of increasingly complex social, ethical and environmental issues, and for helping us to shape policies and practices appropriate to the modern world.

During the year, we have made further progress across a range of CSR activities. For example, having made a commitment to become carbon neutral from January 2006, we were the world's first major bank to achieve this objective — three months ahead of schedule. We introduced new guidelines for lending to the freshwater infrastructure and chemicals industry sectors. Furthermore, we built on our long tradition of sharing our success with communities around the world, principally by supporting educational and environmental initiatives. Pages 20 to 22 provide further details of our CSR activities and, for the specialist reader, we will publish a separate *CSR Report* in April.

Colleagues

At any time of the day or night, 24 hours a day, 365 days a year, HSBC colleagues are serving our customers somewhere in the world and, by so doing, serving our shareholders. The people who work for HSBC are an essential part of our success and I thank them warmly for their immense contribution in 2005.

Forty years ago, the HSBC Group employed about 8,000 people, mostly in Asia. Today, it employs 284,000 in 76 countries and territories. Clearly, the experience of working for HSBC today is very different to that of the 1960s. Nevertheless, it is gratifying to note that the sense of teamwork and common purpose, and commitment to shared values, remain. We have no more important task than harnessing the diverse talents of our people.

The Board

HSBC is fortunate in having one of the strongest and most distinguished Boards of any company in the world. I have described the structure and role of the Board in some detail in previous *Annual Reviews* and spoken about them at past Annual General Meetings. This year, therefore, I shall simply record my sincere thanks to the Directors who, individually and collectively, make such a major contribution to HSBC's success.

Boards, like the companies they lead, are not static, and since the last *Annual Review* was published, we have announced a number of changes to the HSBC Board. Simon Robertson was appointed an independent non-executive Director with effect from 3 January 2006. Simon is non-

HSBC's 19.9 per cent stake in Bank of Communications is the largest single equity holding by a foreign bank in a mainland Chinese bank to date. An important element of this strategic partnership is the dual currency Pacific credit card, launched in May by Bank of Communications and backed by HSBC's technical expertise. The card is particularly useful to Chinese business people with interests abroad as it can be used to pay for purchases in China in renminbi — as well as in other parts of the world in US dollars.

(From top to bottom) This montage illustrates how, during the course of a day, a Chinese venture capitalist is able to use her card to pay for lunch on Shanghai's Bund with a mainland electronics manufacturer seeking export opportunities; afterwards to buy duty-free perfume before boarding a flight to Hong Kong at Shanghai Pudong International Airport; and, later that evening, to treat her friends to dinner in bustling Wan Chai, Hong Kong.

Group Chairman's Statement (continued)

executive Chairman of Rolls-Royce Group plc, the former Chairman of Dresdner Kleinwort Benson and a former Managing Director of Goldman Sachs International.

Sir John Kemp-Welch, an independent non-executive Director since 2000, will retire at the 2006 Annual General Meeting. I take this opportunity to thank Sir John for the great knowledge and wisdom he has brought to the business of the Board.

Alan Jebson, an executive Director since 2000, will also retire at the 2006 AGM after 28 years' distinguished service with HSBC. Alan has played a leading role in the development of the Group's information technology including, in more recent times, the key strategic initiative of global resourcing.

I, too, will retire at this year's AGM and will be succeeded as Group Chairman by Stephen Green. Stephen will be succeeded as Group Chief Executive by Michael Geoghegan. The selection process which resulted in the Board making these appointments is described in the letter which Sir Brian Moffatt, Chairman of the Nomination Committee and senior independent non-executive Director, sent to all shareholders on 28 November 2005.

It has been my privilege to serve HSBC for 45 years and as its Chairman since 1998. Management continuity is a hallmark of your company and the transition in May will be no different. Stephen and Michael were both part of the team which formulated our 'Managing for Growth' strategy and they will see it through to completion. I could not be leaving the Group in more capable hands. I have no doubt at all that they, the rest of our talented management team, and colleagues throughout HSBC, will continue to work tirelessly in the long-term interests of shareholders.

Prospects for 2006

Building on our achievements, our priority for the rest of this year is to continue to implement our 'Managing for Growth' strategy. We will achieve this by being distinctive, reinforcing our brand values of trust and integrity in all our dealings with customers. We will make ourselves even more relevant by broadening the product, channel and geographical coverage we offer. Furthermore, we will ensure that the scale and complexity needed to compete successfully will be seamless from the perspective of our customers and manageable from that of our colleagues.

The US economy, and its consumers who account for much of world economic growth, are proving resilient. Our businesses in Asia, Turkey, Mexico, Brazil and the Middle East see strong opportunities for growth on the back of investments already made. We also see opportunities to strengthen our position in our franchises in the UK, Hong Kong, North America and France. We believe there is growing momentum from the development of our new business streams within Corporate, Investment Banking and Markets businesses. Overall, HSBC is well positioned for further growth.

Sir John Bond, *Group Chairman*

HSBC México has a leading position in the customer payroll market, covering small businesses as well as multinationals and including over two million individual employees. This photo shows the pilot of a new initiative being launched in March 2006 that brings a range of financial services to the customer's own premises where employees, who typically use only a debit card to withdraw their salary, are able to see what other services are available. Salary withdrawals are made via an ATM (background), which also provides personal loans, a service not offered by other banks' ATMs. HSBC México has over 4,900 ATMs in 500 cities and towns throughout the country — a 35 per cent market share, the largest of any Mexican bank.

Group Chief Executive's Review of Strategy

2005 was the second year of 'Managing for Growth', our five-year strategic plan designed to build on our record of profitable growth. With 'Managing for Growth' as our blueprint, we aim to become the world's leading financial services company. We will measure our success by benchmarking our absolute performance against a peer group of financial institutions over a three-year rolling period, as well as looking at comparative total shareholder return — defined as the increase in share price and the value of dividends reinvested.

Our plan calls for growing revenues through a world-class, ethical sales and marketing culture; focusing relentlessly on customers' needs; increasing productivity and controlling costs effectively; and managing our people in a way that encourages and rewards strong performance. We also aim to be in the top 25 per cent of our peer group in earnings per share growth and in terms of productivity as measured by our cost efficiency ratio.

Although we made a small number of acquisitions in 2005 to complement existing businesses, our strategy is essentially one of organic growth, taking advantage of our strong international network and investing in certain new businesses and markets. During 2005, we substantially completed the build-up of our investment in the development of our Corporate, Investment Banking and Markets business and continued a number of new strategic investment programmes, including investing in the growth of our Personal Financial Services businesses in Asia, Mexico and South America. We also made a number of disposals, releasing capital for investment in our core growth businesses.

We continued to make good progress in implementing our plan in 2005. Here are some of the highlights from our four customer groups:

Personal Financial Services

Using sophisticated, computer-based relationship management systems, HSBC serves more than 120 million personal customers worldwide through our network of 8,500 branches, 16,500 self-service terminals, and by telephone and the internet.

This business, in which we aim to provide uncomplicated, good value and transparent products and services, reported 2005 profit before tax of US$9.9 billion, an increase of 17 per cent over 2004.

17%

The growing importance of e-channels, particularly the internet, continues unabated. Last year, HSBC customers conducted 183 million transactions online, an increase of 17 per cent over 2004. Online sales to our personal customers rose by 65 per cent and total online revenues by 71 per cent. The main contributors were US Card Services, US Consumer Lending, the UK, and both HSBC and Hang Seng Bank in Hong Kong. High interest savings products, available only on the internet, were introduced in the US and the UK. Our US offering is our first national savings product in the country and has attracted over US$1 billion from more than 62,000 customers, 35 per cent of whom are new to HSBC.

With over a quarter of our personal and consumer finance customers registered to bank with us online, the year saw 29 per cent more customers logging onto our secure internet banking. Highest traffic growth was reported by our sites in the United Arab Emirates, Argentina and Malta. Secure internet banking is now offered in 42 countries and territories. The number of visitors to our public web sites also increased significantly, by 69 per cent.

> **'With 'Managing for Growth' as our blueprint, we aim to become the world's leading financial services company.'**

Our retail outlets, however, still remain important in promoting and distributing our products and services. We refurbished 60 branches in the UK and launched the easy-listening 'HSBC Radio' in 400 key branches. We opened 27 new branches in the US and expanded our networks in South Korea, Vietnam, India and Indonesia. We opened six new branches in mainland China where we have the largest network of

HSBC Bank Brasil plays a vital role in Brazil's fast-developing economy, particularly in providing trade, investment and agricultural finance to its agribusiness sector, which comprises nearly 30 per cent of GDP. At this coffee plantation in Jacarezinho in Paraná state, some 380 kilometres west of São Paulo, an HSBC commercial banking relationship manager is being shown newly harvested coffee beans by the proprietors. The growers want HSBC to finance the export of their beans to the lucrative markets in Europe. HSBC provides financial services to the entire coffee production chain, from plantations and the processing industry to exporters and suppliers.

any foreign bank and, in Hong Kong, we rolled out 25 new Financial Management Centres to provide investment planning for customers who do not use HSBC *Premier*.

HSBC's innovative January sale in the UK resulted in a 23 per cent growth in sales during a traditionally quiet period, winning *Marketing Week*'s 'Effectiveness' award, while our US operations also enjoyed success with a Memorial Day sale.

The number of customers using HSBC *Premier* increased for the sixth consecutive year and, at the year-end, the total stood at 1.3 million, an increase of 17 per cent. HSBC *Premier* serves our most valuable personal customers and is now available in 35 countries, with Bangladesh and South Korea joining in 2005.

Our International Personal Banking proposition has been enhanced to offer a financial needs review for customers with banking requirements in more than one country. Some 35,000 reviews were undertaken in 2005 in the 11 countries where the service is available. This builds on our simplified cross-border account-opening referral service for existing internationally mobile customers.

HSBC became the first bank in Mexico to introduce a packaged financial services product, 'Tu Cuenta', which bundles day-to-day banking services for one monthly fee. Sales have exceeded 600,000 units. New value-added packages were also launched in the UK and France and we introduced the first flexible mortgage in the fast-growing United Arab Emirates market.

More than 100 million HSBC cards are now in circulation worldwide. Growth was reported in all our main markets, with cardholder numbers in Asia increasing by 25 per cent to 9.6 million. In mainland China, 650,000 dual currency credit cards bearing the logos of HSBC and Bank of Communications, in which we have a 19.9 per cent stake, had been issued by the year-end.

A major programme of global research, the 'Future of Retirement', was launched to support our retirement businesses, the centrepiece of which is a global survey of attitudes to ageing and retirement, the most extensive of its kind ever. In addition, we entered into a long-term strategic alliance with Oxford University's Institute of Ageing to help develop academic research in this field.

In the UK, we acquired the Nursing Homes Fees Association Ltd, making HSBC the market leader in advising and assisting UK customers considering long-term care.

Group Chief Executive's Review of Strategy (continued)

Islamic financial services saw sales of the HSBC Amanah-branded personal finance product grow by 106 per cent, deposits by 323 per cent and vehicle finance by 83 per cent in the United Arab Emirates. We also launched Amanah charge cards and a range of investment products for personal customers. After launching the first 'Takaful' or *shariah* (Islamic law)-compliant household insurance product in the UK, HSBC was named 'Best General Takaful Provider' for 2005 by *Euromoney*.

Other awards recognising our PFS performance included *Global Finance* magazine's 'Best Consumer Internet Bank' award and the *Asian Banker* magazine's 'Best Bank in Asia' accolade for HSBC in Hong Kong. HSBC in the UK was named 'Best Bank' by *Mortgage Magazine* and 'Best Value National Bank' over two, five and 10 years in the *What Mortgage* awards. First Direct was named 'Best Online Bank' by *Personal Finance and Savings* magazine.

Our **Consumer Finance** businesses, which provide credit and financial products and services for more than 60 million customers of varying credit profiles, are now reported as part of our Personal Financial Services customer group.

We strengthened our Consumer Finance operations in North America during 2005 while expanding into Europe and the Middle East. New business initiatives in Hungary, the Czech Republic, Slovakia, Australia, Saudi Arabia and the United Arab Emirates offer credit through local and global retailers. We acquired Financomer, a finance company in Panama that lends to civil servants and pensioners, and we established a strategic partnership with the international retailer C&A in Argentina. HSBC in Brazil, Mexico and India developed loans specifically for Consumer Finance customers.

Our branch-based Consumer Lending business in the US, which operates under the HFC and Beneficial brands, reported a record year for loans, aided by growth in several new products, including expansion of lending in the near-prime customer segment. The internet was responsible for more than US$2 billion in new loans, a 30 per cent increase. Consumer Finance mortgage businesses now benefit from a common platform enabling the 1,400-plus US branch network to provide a wider variety of loans. In addition, Decision One Mortgage Company funded US$12.7 billion in 2005 — a fourfold increase over 2004 — through its online pricing engine, a tool for pricing loans quickly and accurately.

Retail Services, our store credit card business in the US, increased its retail portfolio by 10 per cent to US$17.1 billion and acquired 12 new merchant programmes, including leading retailers such as Neiman Marcus, BonTon, Office Max and Advance Auto Parts. A further 12 existing merchant agreements, representing US$2.5 billion of the portfolio, were renewed.

Card Services' Union Privilege programme for a federation of labour unions representing over 13.5 million American workers benefited from new product offerings and enhanced rewards, resulting in additional business and the reactivation of more than 50,000 accounts. In December, we completed the acquisition of Metris, the 11th largest issuer of MasterCard and VISA cards in the country, with 4.3 million cards, making HSBC the fifth biggest MasterCard/VISA issuer in the US. This acquisition introduced 2.3 million active accounts.

In a step to enable India's rural poor to be part of the country's dynamic economy, in 2005 HSBC launched an initiative to provide loans to microfinance institutions which, in turn, advance small loans to help villagers, mainly women, to lift their families out of poverty. 'Microfinance' is the provision of thrift, credit and other financial instruments of a small value to enable the poor to support themselves. This basket weaver outside Hyderabad in Andhra Pradesh is a typical example of a small family enterprise that has used such a loan. HSBC now lends to six microfinance institutions in four states, benefiting over 70,000 households.

Group Chief Executive's Review of Strategy (continued)

In 2005, Insurance Services strengthened its relationships with Consumer Finance, managing core credit protection and ancillary products to deliver profitable income growth of 20 per cent over 2004.

Taxpayer Financial Services, the leading US provider of tax-related financial products for consumers, helped a record 9.2 million customers through nearly 25,000 non-HSBC retail tax preparation locations. It signed an agreement with H&R Block, America's largest consumer tax services provider, that enables HSBC to remain the company's exclusive banking partner until 2011.

Cross-business opportunities saw Card Services and Consumer Lending team up to issue more than 50,000 cards through the US branch network, and Consumer Lending and Auto joined forces to bring in more than US$400 million in auto loans originated in the branches. Retail Services and Card Services jointly developed and piloted a retail co-branded credit card to launch in 2006. HSBC also signed an agreement to issue American Express cards, as well as a pilot marketing agreement with a subsidiary of American International Group, Inc. to sell its products in HFC and Beneficial branches.

The April rebranding of the HFC Canada branch network to HSBC Financial almost doubled the number of sites in Canada displaying the HSBC name. Nine new HSBC Financial branches were also opened and HSBC Financial launched a new credit card business. We acquired Invis Inc., the largest independent mortgage broker in Canada.

Commercial Banking

HSBC has the leading international commercial banking franchise, with over 2.5 million customers in the small, medium-sized and middle-market enterprise sectors, including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. This franchise enables the Group to take advantage of growing international trade flows.

In 2005, Commercial Banking earned profit before tax of US$5.0 billion, an increase of 22 per cent over 2004.

Commercial Banking customer numbers increased by more than 230,000, or 10 per cent, with particularly strong gains in Brazil, Mexico, the US, the UK and the Middle East.

Net profits from the small and medium-sized enterprise (SME) segment in Hong Kong nearly doubled while in the UK, one of our major markets, we retained our number one position as the bank with the highest net gain of switcher business. In the US, our 'Business Smart' cheque account initiative helped to record a 17 per cent increase in customer numbers. We retained our position as number one lender to small businesses in New York State under a programme run by the government-backed Small Business Administration agency.

The UK Corporate Banking Centres and Commercial Centres continued to perform strongly and, in Hong Kong, Business Banking Centres were rebranded SME Centres, supported by a dedicated call centre which handled over four million calls during the year. New unsecured products for the small business sector include Hong Kong's first pre-approved lending scheme, and we also launched SME initiatives in Mexico, Canada, India, Malaysia and Sri Lanka.

Malaysia is a dynamic emerging economy with a young population whose spending power — and, therefore, need for banking products and services — is increasing rapidly. About 40 per cent of the banking population is in the 20 to 34 age group. HSBC Bank Malaysia's mobile station is an innovative, 'anywhere, anytime' way to attract young city professionals and executives in places where they frequent, such as the Kuala Lumpur City Centre, overlooked by the Petronas Twin Towers, Malaysia's tallest building. The mobile station is promoting the bank's latest credit card campaign.

Most Western societies face the challenge of an ageing population, which requires long-term planning by individuals, employers and government alike. HSBC Bank in the UK offers a stakeholder pension scheme to corporate customers to help their employees save for their retirement. This HSBC Employee Benefits Manager is explaining the tax benefits of the scheme to employees of Topps Tiles, the UK's largest ceramic tile and wood flooring specialists, with over 250 stores nation-wide. In 2005, HSBC published the 'Future of retirement', a survey of attitudes to ageing and retirement in 10 countries representing over half the world's population. To position HSBC as a leading international financial services organisation on ageing and retirement issues, the second phase of the survey, due for release in 2006, covers 20 countries.

In mainland China, where we opened new offices in Chongqing, Chengdu and the Tianjin Economic Development Area focusing on mid-market customers, we introduced regional relationship management to meet the cross-border banking needs of companies operating in Hong Kong, mainland China and Taiwan. A similar approach is also being adopted in the Middle East.

We are working with our strategic partners in China: with Bank of Communications to provide customers with improved trade processing; and with Ping An Insurance to extend our product range, most notably through a new referral programme.

We established four new Corporate Banking Centres in South Korea and opened new US offices in Washington, Philadelphia and New Jersey. We increased our representation in Poland and opened a new office in Slovakia.

Purchasing on the internet by our customers is growing and, to support this, we are developing credit card propositions in such major areas as Hong Kong, the US, Brazil and the UK. A Small Business card was launched in Turkey while, in the UK, we set up our first commercial card online application process with excellent results. We established a joint venture with Global Payments, Inc. to develop credit card merchant acquiring businesses in Asia.

'Net profits from the small and medium-sized enterprise segment in Hong Kong nearly doubled while in the UK... we retained our number one position as the bank with the highest net gain of switcher business.'

A new Insurance Division in Hong Kong provides comprehensive commercial insurance products under one brand. Combining our in-house manufacturing and broking capabilities gives us a unique position in the commercial insurance market. The combined life and general insurance premiums handled by the Group worldwide increased by 13 per cent over 2004.

In Bermuda, we launched a programme incorporating cash management, investment management, insurance services and collateralised credit in a package tailored for the insurance market and we rolled out MATCH, an asset and liability management tool which develops structured investments using HSBC mutual funds. We launched

Group Chief Executive's Review of Strategy (continued)

a number of innovative deposit products in the UK, Bangladesh, Taiwan and the US, which were well received.

We continued to develop HSBCnet, our global e-banking system for corporate and middle-market customers. Online transaction volumes more than doubled with transaction revenues, subscription fees and sales through the internet increasing by 188 per cent to US$115 million. The number of commercial customers registered for HSBC internet banking jumped by almost a quarter, to nearly one million.

We also launched Global Links, a web-based, global referral and tracking system connecting 3,000 relationship managers across 29 countries. The system provides a quick and effective way to create and track cross-border referrals.

In the UK, we outsourced the processing of the vehicle finance contract hire business to Lex, which provides access to their state-of-the-art IT system. This gives us a wider range of services and the combined purchasing power also improves our capability to support our customers and staff.

Our successful 'Living Business' initiative, which promotes socially and environmentally responsible business practices among SMEs, continued in Hong Kong and has been expanded into Singapore and Malaysia.

In Hong Kong, our online commercial banking service won a series of *Global Finance* awards, including the 'Best Corporate/Institutional Internet Bank' for the third successive year. Elsewhere, the 'Estímulo' SME packaged loan product received a government award in Mexico as the best initiative for SME owners while, in the UK, HSBC Invoice Finance won the 'Best Factor' award for 2005.

Corporate, Investment Banking and Markets

Corporate, Investment Banking and Markets (CIBM) serves the world's largest corporations, financial institutions and government agencies.

It reported profit before tax of US$5.2 billion, a decrease of 2 per cent.

2%

We made a significant investment in developing distribution platforms and product capabilities, which began to contribute progressively through the year. Revenue rose by 9 per cent to US$11.5 billion compared with 2004 and was adversely affected by

With private banking clients, retirement planning is often focused on succession planning to manage the secure and efficient transfer of family and business assets from one generation to the next. This couple, owners of a watch-manufacturing business, and their son are taking advantage of HSBC Private Bank's 'Family Forum', held every summer in the Swiss ski resort of Gstaad, to consult a relationship manager about setting up a trust to manage professionally the family's art collection and property holdings.

With internet banking increasing in popularity throughout the world, the need for enhanced security is paramount. HSBC in Hong Kong has pioneered the one-time password device for personal customers. Introduced in 2005, the device produces a random security code that, when combined with the customer's password, verifies access to online banking. Visually impaired customers, like this one, are provided with a specially customised version that features a larger display screen and an audio capability.

the impact of flattening yield curves as short-term interest rates rose in major currencies. Costs rose by 18 per cent. However, the rate of cost growth peaked in early 2005 as the investment phase of the development programme was largely completed.

There was significant revenue growth in areas where we have invested, such as foreign exchange options, project and export finance, funds administration and securities services. By enhancing client service, particularly online through HSBCnet, we also grew revenues in mature product areas, such as foreign exchange and cash management.

We advised on various cross-border acquisitions, notably outward investment by clients in the Middle East and inward investment into mainland China. Development of our primary debt finance and secondary debt trading capabilities allowed HSBC, acting as bookrunner, to help 792 clients in 65 countries and territories raise US$867.8 billion in bond and loan financing in the public markets. In transaction banking, we won several new multi-country mandates and, in foreign exchange trading, Mexico, other major emerging markets in Latin America, Asia and the Middle East all showed strong growth.

'We made considerable investment in developing distribution platforms and product capabilities, which began to contribute progressively through the year.'

HSBC continues to manage some of the world's largest active equity funds investing in India and China, with assets of US$4.7 billion and US$1.9 billion respectively at the end of 2005. A third fund covering four markets — Brazil, Russia, India and China — had assets of US$2.1 billion.

CIBM's principal business lines are Global Markets, Global Investment Banking, Corporate and Institutional Banking, Global Transaction Banking, Private Equity and Group Investment Businesses.

Global Markets includes our foreign exchange, fixed income, derivatives, equities and metals sales and trading businesses as well as our balance sheet management business. Revenues fell by 15 per cent to US$4.1 billion.

Client revenues and market share rose in the Global Markets areas in which we have invested. We are now a primary dealer in 10 European government bond markets compared with eight at the end of 2004. Cash equities commission revenue rose, reversing a four-year declining trend, and structured derivatives activity rose strongly. However, rising short-term interest rates produced adverse conditions which saw revenues from managing the balance sheet decline significantly.

Independent research showed we had the largest gain in global market share in foreign exchange options, confirming the results of the annual *Euromoney* foreign exchange survey which ranked us number two in foreign exchange options. *Euromoney* also ranked us fourth in global foreign-exchange trading market share and named us 'Best Foreign Exchange Bank' in London.

Global Investment Banking includes our advisory, equity and debt financing activities. Revenues rose by 17 per cent to US$1 billion in 2005. Project and export finance contributed strongly with a double-digit increase in revenue. *Dealogic* ranked us number one 'Global Financial Adviser, Project Finance', and number two 'Global Mandated Lead Arranger, Export Finance'.

In advisory, major transactions included Dubai International Capital's US$1.5 billion acquisition of Tussauds Group in the UK; acting as adviser to Autoroutes Paris-Rhin-Rhône on its privatisation; and a US$1 billion private placement for Ariel Reinsurance in the US.

The convenience, speed and ease of use of the internet have transformed our daily lives. This British backpacker is in Queen Street, the main thoroughfare in Auckland's business district, when he discovers he is short of cash and has no money in his account. He makes a quick call to his parents back home in Surrey to ask them urgently to transfer some funds into his account with HSBC Bank. Although it is almost midnight in the UK, his father is able to perform the transaction immediately. Within minutes on the other side of the world in New Zealand, the teenager uses his debit card to withdraw NZ$200 from the ATM at HSBC's Central City branch. That online transaction is one of 183 million involving movements of money performed via HSBC's web sites every year.

Group Chief Executive's Review of Strategy (continued)

In equity capital markets, we had senior roles in a number of significant transactions including The Link REIT's US$2.84 billion initial public offering (IPO) in Hong Kong; the US$1.88 billion IPO of China's Bank of Communications, also in Hong Kong; Polish gas company PGNiG's US$840 million IPO; and Middle East telecommunications provider Investcom's US$778 million IPO.

We improved our debt capital markets ranking by two places to fifth in the international bond league with a market share of 5.1 per cent. Significant transactions included a €6 billion, 50-year benchmark bond for the French government, a US$500 billion bond for Brazil and, in asset-backed securities, a £400 million issue of 30-year fixed-rate bonds for Freshwater Finance.

Corporate and Institutional Banking includes our relationship management and lending activities. We broadened our range of products and services, with strong growth in the number of clients using both our established and newer offerings.

Independent research showed our competitive position improved in key markets. We won several first-time financing and advisory mandates with newly acquired corporate and institutional clients, and completed a number of landmark transactions with existing clients.

Global Transaction Banking includes our payments and cash management, trade services, supply chain and securities service businesses. Revenue grew in our major product areas across all regions. There was strong growth in newer businesses, such as hedge funds administration and alternative fund services, and in established businesses, such as payments and cash management and sub-custody services. This was reflected by winning Unilever's first Asian pan-regional cash management mandate covering 17 countries and territories.

In securities services, assets under custody rose by 15 per cent to US$3,242 million at the year-end and funds under administration rose by 28 per cent to US$779 million.

In **Private Equity**, revenues rose by 213 per cent to US$648 million in 2005 due to significant capital gains from the sale of investments.

Group Investment Businesses managed US$272 billion of assets at year-end 2005, a 33 per cent increase. A notable achievement was the US$33 billion of net flows from clients — three times the 2004 level. Group Investment Businesses reported a pre-tax profit of US$304 million*, a 37 per cent increase. HSBC Investments, our global investment business, saw assets in money market products exceed US$60 billion, sourced from a variety of corporates and institutions. We also had considerable success in providing pension products to corporates, notably in Germany, where we attracted US$4 billion worth of business.

Sinopia, a specialist in active quantitative strategies, had a successful year, particularly with its alternative fixed income strategy, which attracted net flows of US$5.3 billion. HSBC Halbis Partners, the specialist active investment businesses established in 2005, also performed well, notably with its 'freestyle' products, which attracted assets worth US$2.5 billion.

* *Group Investment Businesses' results exclude the profit on disposal of its interest in Framlington, and adjustments to consolidate funds treated as under the control of HSBC in accordance with International Accounting Standard 27, 'Consolidated and Separate Financial Statements'.*

HSBC uses HSBCnet, an industry-leading online banking platform for its commercial, corporate and institutional clients. Here, a global relationship manager with the Corporate, Investment Banking and Markets (CIBM) division is demonstrating to a UK corporate client the new features introduced in 2005, including comprehensive global payments management, foreign exchange options analytics and trading capabilities. In CIBM's Global Transaction Banking business line, HSBCnet will replace Hexagon, HSBC's long-standing telecommunications-based banking platform built some 25 years ago.

Group Chief Executive's Review of Strategy (continued)

Private Banking

Group Private Banking's 6,000 employees provide from 74 locations in 35 countries and territories bespoke banking services, both onshore and offshore, to high net worth individuals.

31%

With strong performances in all regions, Group Private Banking reported record profit before tax of US$912 million, an increase of 31 per cent over 2004.

Funds under management grew to US$282 billion, an increase of 13 per cent with net new money reaching US$35.7 billion. Lending portfolios increased by 13 per cent to US$27.7 billion.

We enjoyed a record year in Asia, with further expansion of our business in Hong Kong and Singapore. We continued to invest in Taiwan and Japan, and extended our support for clients from China. In India, we established private banking offices in Mumbai, Kolkata, Bangalore and New Delhi.

Our domestic private banks in the US, Brazil and Mexico produced strong growth. In North America, our Wealth and Tax Advisory Services business was expanded into Philadelphia and we established a global market management structure to serve our Latin American clients. Bank of Bermuda was fully integrated in 2005.

We continued to grow our investment capabilities in Europe and the Middle East and, working with HSBC Bank in the UK, we established regional private banking offices in Birmingham, Leeds and Cardiff. We opened a representative office in the French city of Lyon and in Moscow, and launched onshore private banking services in the United Arab Emirates.

Our Strategic Investment Solutions product increased mandated funds by US$1.9 billion to US$2.9 billion, and we continued to expand our hedge funds advisory capabilities into Asia. HSBC was named third largest provider of fund of hedge funds worldwide by *Institutional Investment* magazine. Assets totalled US$29.5 billion of funds under management.

The Way Ahead

We shall continue to pursue our 'Managing for Growth' objectives in 2006. Our priorities will be investing in markets where we see growth opportunities, and improving our operating

One of the key components in the adoption of the HSBC brand in November by CCF was the creation of a unified web site, www.hsbc.fr for all customers — personal, corporate and institutional — with the aim of providing a more efficient service. The rebranding, which came five years after CCF joined the HSBC Group, also involved four CCF subsidiaries — Union de Banques à Paris, Banque de Picardie, Banque de Baecque Beau and Banque Hervet branches in the Paris region. This HSBC France commercial customer is viewing the new web site as he awaits his flight in the departure lounge of Charles de Gaulle Airport, Paris. A major advertising campaign, displaying the HSBC brand on aerobridges and luggage trolleys, will run at the two airports serving Paris and at various regional airports for three years.

efficiency. Our focus will be on organic growth and building on our unique geographical footprint and diverse range of businesses. We do not rule out the possibility of acquisitions but, as always, any opportunities brought to us will be considered according to a set of strict criteria. As a general principle, we prefer to invest in the expansion of our existing business.

Global resourcing remains a fundamental component of our strategy, delivering shareholder value by deploying work where it can be done most efficiently and cost effectively. Such work includes account administration, credit card processing, payments, mortgages, trade services, securities, insurance and telephone enquiries for customers in Europe, North America, the Middle East, Hong Kong and other areas in Asia-Pacific.

In 2005, we opened a second Group Service Centre in Hyderabad and a new centre in Kolkata, bringing the total to 11. These centres provide much needed jobs in the areas where they are located and, at the year-end, more than 19,000 people were employed in the network. This figure will rise to around 25,000 by the end of 2006 as we continue to expand the scale and scope of our global resourcing operations.

People, of course, remain key to our continued success and we invested more resources to develop the skills of those who work for us. Our workforce is already extremely diverse, but we will do all we can to broaden that diversity through our recruitment programmes.

‘...with e-channels increasingly becoming our customers’ preferred way of doing business with us, we will invest even more in the systems we need to heighten our customer focus and keep us at the technological cutting edge of financial services.’

We will continue to invest heavily in IT. In 2005, we invested US$4.4 billion on technology and, with e-channels increasingly becoming our customers’ preferred way of doing business with us, we will invest even more in the systems we need to heighten our customer focus and keep us at the technological cutting edge of financial services.

Building our brand around the world, managing our costs strategically, and marshalling the diverse talents of our people across all 76 countries and territories where HSBC has offices will remain priorities. They are the key to our success.

Stephen Green, *Group Chief Executive*

Corporate Social Responsibility Progress Report

HSBC has long recognised the importance of good corporate citizenship. Our five-year strategic plan, 'Managing for Growth', aims to establish HSBC as one of the world's leading brands for Corporate Social Responsibility (CSR).

External benchmarks, such as FTSE4Good and the Dow Jones Sustainability Index (DJSI), in which we have consistently ranked among the world's top 10 per cent of companies, help us to highlight our CSR activities and to identify areas for improvement. In the AccountAbility rating for Fortune Global 100 companies, HSBC moved up to fourth place overall and was the world's highest placed financial services company.

Our Customers

Among our key business values is a commitment to the highest personal standards of integrity at all levels and to truth, transparency and fair dealing in all our business activities.

This strong customer focus prompted a number of new initiatives in 2005. In the UK, government, regulators, debt advice agencies and the media have called upon the industry to protect consumers better from over-indebtedness. HSBC took the decision to become the first of the main banks to start sharing positive customer details on all personal credit products through the UK's three main credit reference agencies. We now share a complete view of customer credit commitments, including level of debt, repayment terms and repayment history where we have customers' consent.

We rolled out the first free money transfer product in the US. Through the new service, called 'Envío Fácil' ('Easy Send'), a savings account is linked to a personal account and an ATM card is sent to the foreign (or domestic) beneficiary who can access the savings account instantly and free of charge at any HSBC ATM around the world. HSBC México and HSBC North America are also collaborating to launch a new cross-border mortgage product that will help Hispanics who work in the US but reside in Mexico to qualify for mortgages with their US income.

Encouraged by the success of a similar capability in our operations in Mexico, in 2005 we enhanced our ATMs so that nearly nine million customers in the UK could donate money electronically to charitable causes. This initiative has been well received and we plan to extend it to other markets over time.

HSBC is keen to operate in areas of high social impact and we see microfinance as a commercially viable means of doing so on a long-term basis. We are currently working with local microfinance organisations in India, Mexico, the Philippines and Russia. We also hosted a United Nations discussion forum in London on microfinance to address the issues of financial services provision for people who are too poor to qualify for traditional banking services.

The market in environmental services is now substantial. As a result, we have agreed a sustainable development strategy to expand our involvement in this area, particularly for low carbon technologies, water infrastructure and sustainable forestry. A Group Sustainable Development team has been established to manage the implementation of this strategy.

Our People

HSBC employs 284,000 people in 76 countries and territories. Collectively, they speak about 130 languages and almost a third of them can speak more than one. We believe our diversity profile at all levels of the business should reflect the diversity of our customers.

HSBC's first women's Global Summit was held in Paris in 2005. This was one response to a commitment we made the previous year to act on a survey which found that fewer women than men thought we offered equal opportunities to advance, regardless of gender.

We also undertook a comprehensive equal pay analysis in Brazil, France, Hong Kong, Mexico, the US and the UK, and also within our investment banking business. We found that, at career entry point, there is no difference in salaries offered to men and women, but that there are discrepancies at some specific organisational levels and in some locations. Our global business heads have been asked to address these discrepancies as a matter of urgency.

In 2005, we spent an average of US$800 per employee on training programmes delivered by our 16 major training centres worldwide.

Our Commercial Banking customer group introduced CSR training as part of its global lending and relationship management courses during 2005. The ongoing programme covers reputational risk, living brand values and meeting strategic imperatives and was attended by 120 of our existing relationship managers and all new commercial relationship managers recruited in the UK. More than 235 executives from our Corporate, Investment Banking and Markets customer group also attended our CSR training courses during 2005.

Recognising that we operate in a number of countries seriously affected by HIV/AIDS, we launched an awareness campaign across all of HSBC's Group Service Centres in 2005, aimed at preventing new infection and reducing the stigma associated with the disease. The campaign included fund-raising activities, the proceeds of which are channelled towards local community initiatives to combat HIV/AIDS. We intend to extend the campaign in 2006.

The Environment

We believe that climate change is one of the major challenges facing the world today — a challenge requiring continuous effort on our part to work in collaboration with the banking sector and in the wider community. As part of its commitment, HSBC announced its intention in 2004 to become the world's first major bank to become carbon neutral. We achieved this objective during 2005, three months ahead of schedule.

HSBC's Corporate Real Estate and Travel departments play key roles in measuring and managing the Group's direct impact on the environment. We made significant progress in reducing our own carbon dioxide emissions in 2005 by reviewing and building upon current carbon reduction practices, investigating opportunities to use renewable technologies and purchasing cost effective, energy efficient and environmentally friendly products.

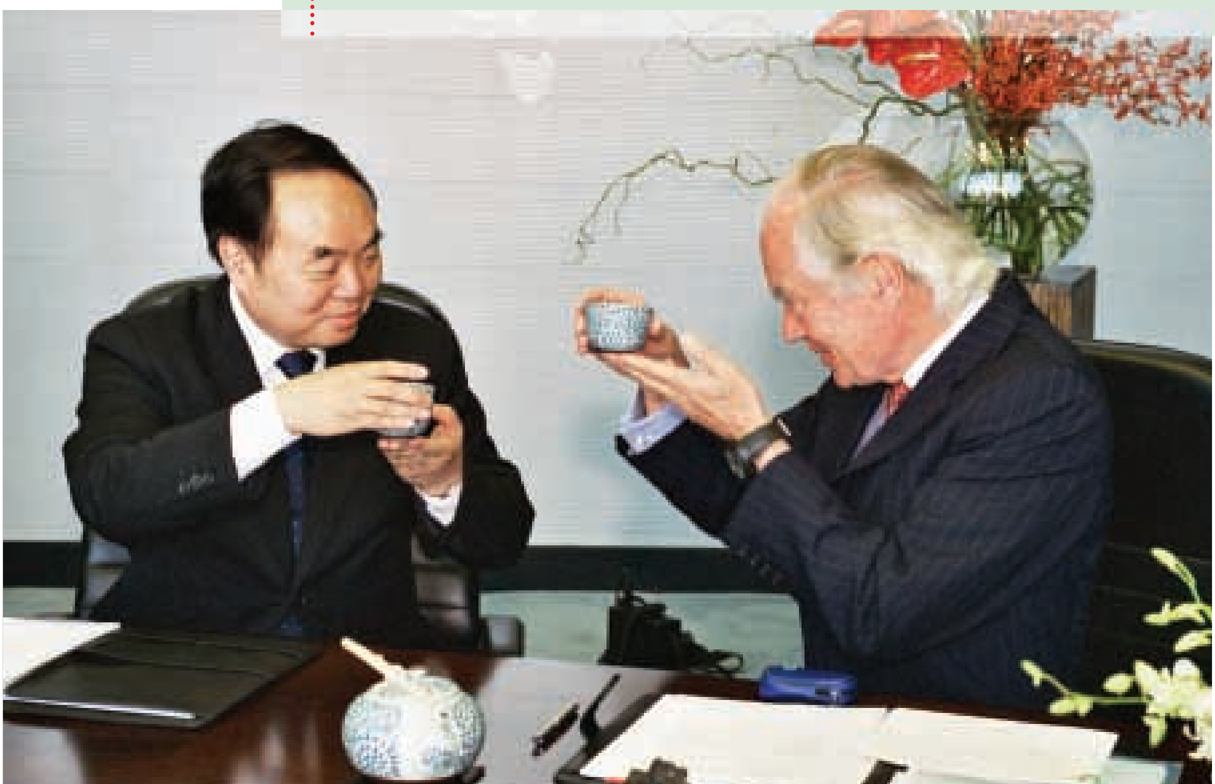
We developed environmental design guidelines for managing and reducing the carbon impacts of our buildings; built a travel management database to enable us to reduce carbon dioxide produced as a result of business travel; and produced a travel project plan to encourage individual travellers to take responsibility for their carbon emissions.

Another new database develops and tracks environmental initiatives across the Group, identifying energy, waste, water and carbon dioxide, and cost reductions for each environmental initiative. We have set ourselves reduction targets which are being tracked by individual countries.

Further progress in purchasing paper from certified sources has been made in 10 countries. Most of the 300 million sheets of copier paper we use every year in our UK operations now have Forest Stewardship Council (FSC) approval, and we are starting to use FSC-certified paper for letterheads and compliments slips.

It is HSBC's policy to adhere strictly to the letter and spirit of laws and regulations wherever we operate. We also comply with a number of voluntary codes that we have adopted. Among them are the Equator Principles, which govern the financing of projects larger than US$50 million. We monitor transactions we have undertaken where the Equator

A key corporate social responsibility initiative in 2005 was the signing of a memorandum of understanding by Sir John Bond, HSBC Group Chairman, and Dr Zhou Ji, China's Minister of Education, to promote educational exchange between the UK and China. The five-year agreement, which was sealed in September at HSBC's Group Head Office in London, promotes links between UK and Chinese universities, helps China's top postgraduates to study in the UK, and enhances international research collaboration.



Corporate Social Responsibility Progress Report (continued)

Principles have been applied and record those we decline through their failure to comply with the principles. In 2005, seven transactions were declined because, among other issues, they failed to meet the criteria.

HSBC's Sustainable Risk Advisory Unit publishes internal guidelines which lay down minimum standards for lending and investment. These focus on how HSBC's involvement in certain environmentally sensitive industry sectors can contribute to sustainable development. Following publication in 2004 of the first, the *Forest Land and Forest Products Sector Guideline,* we issued the *Freshwater Infrastructure Guideline* in May 2005 and the *Chemicals Industry Sector Guideline* in August. Further sector guidelines are planned for 2006. Our policy is to work closely with our customers to help them achieve the minimum standards laid down in the guidelines if they have not already done so.

Our first Group Environment Conference was held in the UK, bringing together business managers from across our global operations and in-house and external environmental specialists. Our Asia-Pacific region hosted its own conference in Kuala Lumpur with around 40 delegates. Both events led to action plans which are now being implemented.

Sharing our Success

We reviewed our philanthropic policies and programmes in 2005 and concluded that education and the environment should remain the principal areas for our support, accounting for at least 75 per cent of our total philanthropic expenditure and with the greater share going to education.

HSBC supports a number of educational programmes aimed at fostering international understanding. For example, the Global Teachers Programme, supported by the HSBC Education Trust, enabled 38 teachers from the UK to spend their summer holiday in South Africa and Uganda, living in basic conditions, teaching and sharing their expertise with local schools and communities. We continue to support the teaching of Mandarin in schools, funding 35 teachers to come from China to teach in the UK in 2005, and supporting a Mandarin-speaking and performance competition for UK schoolchildren organised by the British Council. Also in 2005, HSBC and the Ministry of Education of the People's Republic of China reached an agreement to promote education through a series of joint initiatives.

The HSBC Financial Literacy Programme, a US$3 million commitment over three years and our first global programme in education, was launched during the year, initially in 27 countries. It was developed by our Corporate, Investment Banking and Markets customer group with the HSBC Education Trust and Students In Free Enterprise (SIFE), a non-profit organisation involved with more than 1,000 university campuses in over 40 countries. In 2005, the programme provided funds to around 300 SIFE universities that ran nearly 350 projects. SIFE estimates that more than 2,850 students were involved and that over 169,000 individuals benefited directly from their efforts in local communities.

The linchpin of HSBC's worldwide support for the environment is our 'Investing in Nature' programme, launched in 2002 and involving three partners: WWF, Earthwatch and Botanic Gardens Conservation International (BGCI).

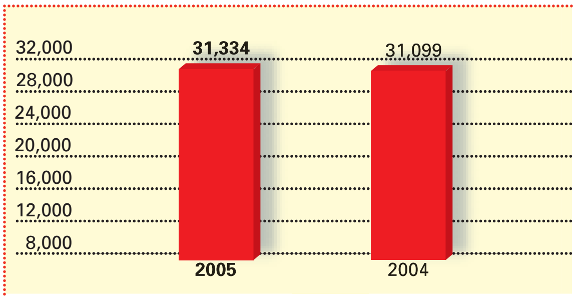
Our work with BGCI aims to protect 20,000 plant species from extinction and our support has enabled over 440 botanic gardens from 81 countries to take on key conservation roles. WWF is working with HSBC to breathe new life into three of the world's major rivers — the Yangtze, Amazon and Rio Grande — by concentrating on developing sustainable river management, while employee involvement is the main focus of our work with Earthwatch. To date, 1,510 HSBC employees from 54 countries and territories have joined Earthwatch scientists in the field, contributing nearly 77 years' worth of vital environmental research to 88 projects.

HSBC's *Corporate Social Responsibility Report 2005*, available from April 2006, includes more information on these and other initiatives. Further details can also be found on our CSR web site: www.hsbc.com/csr.

Financial Review

Net Interest Income

Net interest income (US$m)



Net interest income of US$31,334 million was US$235 million, or 1 per cent, higher than in 2004.

The adoption of International Financial Reporting Standards ('IFRSs') affected the presentation of net interest income through the reclassification of preference dividends and non-equity minority interests as interest expense; the inclusion of certain loan origination fees and expenses as part of an effective interest rate calculation instead of being recognised in full on inception of the loan; and external interest income and expense on trading assets and liabilities now included within 'Net trading income'. The following commentary adjusts for these changes, as well as the effects of acquisitions and foreign exchange translation.

Net interest income increased by 12 per cent. In Europe, higher personal and commercial lending and increased deposit balances led to a 12 per cent increase in net interest income. UK Personal Financial Services balances grew strongly in all core product areas. In Turkey, card balances grew, largely from increased marketing. Spreads tightened on UK personal lending, reflecting the introduction of risk-based pricing, and on savings. In Commercial Banking in the UK, lending and overdraft balances increased by 23 per cent, with growth particularly strong in the property, distribution and services sectors. Deposit balances grew by 11 per cent, partly from keen pricing. Yields on UK corporate lending were lower largely as a result of competitive pressure, but were partly offset by higher balances. Lower treasury income reflected the effect of rising short term rates and flattening yield curves on balance sheet management revenues.

In North America, net interest income increased by 6 per cent. Growth in mortgage, card and unsecured personal lending balances was strong, offsetting spread contraction as the cost of funds rose with progressive interest rate rises. Core deposit growth benefited from expansion of the branch network and the launch of new savings products. Treasury income from balance sheet management within Corporate, Investment Banking and Markets diminished as the rise in short-term interest rates limited opportunities to profit from placing the liquidity generated from personal and core banking operations over extended periods.

In Hong Kong, net interest income rose by 17 per cent. Rising interest rates reinvigorated demand for traditional savings products and deposit spreads increased in line with interest rates. Mortgage rates, however, contracted, as while yields gradually increased during the year in line with higher rates, this was more than offset by rising funding costs. There was little net new lending for residential mortgages as interest rate rises cooled the residential property market in the second half of 2005. Economic growth in mainland China boosted commercial lending to the trade and manufacturing sectors, and property lending also increased. Treasury income remained under pressure, with rising short-term interest rates and a flat yield curve providing limited opportunities to deploy profitably surplus liquidity and increasing funding costs.

In the Rest of Asia-Pacific, net interest income increased by 24 per cent, reflecting business expansion and favourable economic conditions throughout the region. In the Middle East, buoyant oil-based economies stimulated demand for credit for property and infrastructure projects. Increasing personal and corporate wealth contributed to growth in deposit balances, while interest rate rises led to higher deposit spreads. General economic expansion created demand for consumption credit which boosted credit card lending. For the reasons noted above, treasury income from balance sheet management was weaker.

In South America, the positive economic environment encouraged growth in personal and commercial lending, particularly in credit cards and vehicle finance, which led to a 35 per cent increase in net interest income. A significant rise in customer acquisition and the development of the Losango customer base in Brazil also contributed.

Average interest-earning assets increased by US$23 billion, or 2 per cent, compared with 2004. At constant exchange rates, and excluding the presentational changes mentioned above, average interest-earning assets increased by 11 per cent, reflecting strong growth in mortgages, personal lending and cards globally, and increased lending in Commercial Banking.

HSBC's net interest margin was 3.14 per cent in 2005 compared with 3.19 in 2004. For the reasons set out in the opening paragraph, these figures are not strictly comparable as a result of presentational changes under IFRSs from 1 January 2005.

Financial Review (continued)

Net Fee Income

Net fee income of US$14,456 million was US$1,508 million or 12 per cent, higher than in 2004. Under IFRSs, a greater proportion of fees related to the provision of credit facilities is now amortised and accounted for in net interest income as part of an effective interest rate calculation than was the case under UK GAAP. This resulted in a reduction in reported net fee income of approximately 4 per cent. The following commentary adjusts for this, as well as the effects of acquisitions and foreign exchange translation.

On an underlying basis, growth in net fee income was 14 per cent. In Europe, fee income increased by 9 per cent. Higher personal and commercial lending volumes led to a 19 per cent increase in credit fees. Card fee income rose by 22 per cent, principally in the UK which benefited from higher customer numbers and greater card utilisation. Account service fees increased by 9 per cent, reflecting increased customer numbers, the launch of a new packaged product in the UK and the introduction of a small business tariff in Commercial Banking. Buoyant equity markets benefited custody fees, which grew as a result of both increased asset values and strong new business volumes. Private Banking fee income was 12 per cent higher than in 2004 following increases in client assets under management and transaction volumes.

In Hong Kong, net fee income was in line with 2004. Unit trust fees decreased by 42 per cent as Personal Financial Services customers switched to traditional deposit savings and shorter term investment products. The launch of 173 new open-ended funds established HSBC as the leading investment service provider in Hong Kong. This, together with the successful attraction of client assets in Private Banking, contributed to a rise in income from funds under management. Credit card fee income increased by 18 per cent, reflecting growth in cardholder spending as HSBC strengthened its position as the largest credit card issuer in Hong Kong. In Commercial Banking, net fees increased as trade services income and insurance and lending fees rose. However, lower structured finance revenues led to reduced Corporate, Investment Banking and Markets fees.

Net fee income in the Rest of Asia-Pacific rose by 28 per cent from higher card transaction volumes and increased account service fees in response to the expansion of the Personal Financial Services business in the region. Rising equity markets, buoyant regional economies and an increase in personal wealth led to increased sales of investment products to personal customers. Client assets in Private Banking also grew. Global Transaction Banking revenues increased in line with transaction volumes following investment in 2004 to expand capabilities. Custody fees grew by 29 per cent as a result of improved investor sentiment and rising local equity markets. Trade services income rose by 13 per cent, reflecting strong trade flows.

In North America, net fee income grew by 21 per cent. Card fee income grew as a result of higher transactions, increased receivables and improvements in the interchange rate. US mortgage lending fees benefited from lower refinancing prepayments and the consequent release of impairment provisions on mortgage servicing rights. In Mexico, growth came from cards fee income, higher ATM fees and increased remittance income. Investment banking fees increased from attracting customers with an expanded product range.

Net fee income in South America increased by 23 per cent, principally due to higher card, lending and current account servicing fees.

Net Trading Income

Net trading income of US$5,864 million rose by 110 per cent against 2004. Under IFRSs, HSBC's presentation of trading income for 2005 reclassified into trading income, external interest income and dividend income on trading assets and interest expense on trading liabilities. Income from trading activities rose, reflecting positive revenue trends on core products within Global Markets following the investment made in client-facing trading capabilities.

In Europe, revenues were boosted by higher volumes through electronic trading platforms and by the expansion of primary dealing activity in European government bond markets. In the US, the benefit of favourable movements on credit spreads was compounded by the non-recurrence of losses experienced in the industrial sector in 2004.

In Asia, volatility in the value of the Korean won against the US dollar, the introduction of a managed float for the Malaysian ringgit and the enhancement of capabilities coupled with greater focus on trading regional currencies in the Middle East, all contributed to higher foreign exchange revenues. In Europe, the weakening euro and market volatility afforded opportunities to increase foreign exchange revenues.

Derivatives activity grew strongly as structured product capabilities were added in the credit, equity, and interest rate and foreign exchange areas. Further benefit was derived from the greater focus put on client-driven risk management and the investment made in sales and execution expertise in previous years.

Net Income from Financial Instruments Designated at Fair Value

Under IFRSs with effect from 1 January 2005, HSBC has opted to designate financial instruments at fair value in order to remove or reduce accounting mismatches in measurement or presentation, or where financial instruments are managed and their performance is evaluated on a fair value basis. All income and expense on financial instruments for which the fair value option has been taken is included in this line except for debt securities in issue and related derivatives, where the interest components are shown in interest income.

Additionally, the introduction of the new categories of financial instruments under IAS 39 on 1 January 2005 has led to a change in income statement presentation for the results of HSBC's life insurance business. In 2005, income from assets designated at fair value and held to meet liabilities under insurance and investment contracts of US$1,760 million is reported under 'Net income from financial instruments designated at fair value'. In 2004, the corresponding amounts were reported within 'Net investment income on assets backing policyholder liabilities'.

Gains Less Losses from Financial Investments

The net gain of US$692 million from the disposal of available-for-sale financial investments was 28 per cent higher than in 2004. Lower income from the disposal of debt securities was more than compensated by an increase in gains from the disposal of private equity investments, particularly in HSBC's European operations.

Net Earned Insurance Premiums

Net earned insurance premiums of US$5,436 million were US$68 million higher compared with 2004. On an underlying basis, net earned insurance premiums were in line with 2004.

Under IFRSs, in 2005 there were changes in the presentation of certain aspects of HSBC's insurance business, which are now treated as liabilities under investment contracts. Investment income from these products is now reported as 'Net income from financial investments designated at fair value'. Income that was previously reported as 'Net earned insurance premiums' is now taken directly to the balance sheet as customer liabilities, with a corresponding movement in net insurance claims. Net insurance claims have fallen to a greater extent than premium income, due to the additional impact of the reclassification of the fair value movement in respect of liabilities under the investment contracts. The commentary that follows excludes these presentational changes as well as the effects of acquisitions and foreign exchange translation.

Higher premium income in Europe was due to increased uptake of creditor protection products in the UK, coupled with growth in France from new product launches and focused marketing.

The increase in premiums in Hong Kong reflected HSBC's continued emphasis on the growth and development of its insurance proposition. Higher volumes of life assurance new business were directly driven by the launch of new endowment products, augmented by HSBC's leading position in online personal insurance provision. Investment in HSBC's insurance business included the establishment of a new Commercial Banking insurance division in October, which contributed positively to higher volumes of new business.

In the Rest of Asia-Pacific, the increase in premiums was mainly attributable to growth in the number of personal insurance policies, resulting from an expansion of HSBC's insurance operations in the region.

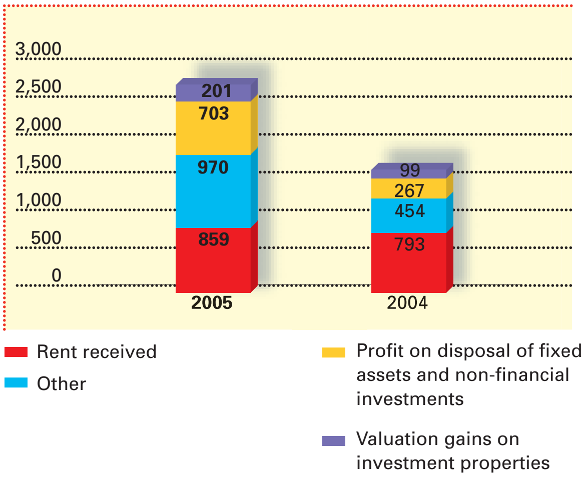
In North America, increased cross-sales of insurance products through the branch network, combined with strong sales of other personal insurance-related products, resulted in an increase in net earned insurance premiums.

Adjusting for the impact of a strengthening Brazilian real, net earned insurance premiums in South America were broadly in line with 2004.

Financial Review (continued)

Other Operating Income

Other operating income (US$m)



Other operating income of US$2,733 million was US$1,120 million higher than in 2004. Excluding the effects of acquisitions and on a constant currency basis, other operating income grew by 69 per cent.

In Europe, the increase in other operating income was largely driven by increased rental income on the leasing of train rolling stock, higher disposals of assets and a number of private equity realisations. In Germany, higher disposals of fixed assets arose from the sale of a non-controlling share of a subsidiary.

In Hong Kong, higher other operating income was mainly driven by an increase in market value of the investment property portfolio and the disposal of a leasehold residential property. HSBC's investment properties are located principally in Hong Kong. Under IFRSs, valuation movements on investment properties are reflected in the income statement rather than through revaluation reserves. Within Hong Kong, the commercial property sector enjoyed good growth as the economy grew and vacant space fell markedly with a corresponding rise in rents.

The increase in other operating income in the Rest of Asia-Pacific was in part due to profit realised on the sale of the Group's asset management operations in Australia.

Other operating income in North America more than doubled, partly due to improved revenues from the sale of consumer real estate owned assets, together with higher rental income and disposals of fixed assets.

In South America, other operating income increased by US$160 million, primarily from the profit on the sale of the insurance underwriter HSBC Seguros (Brasil) S.A., and the receipt of compensation and coverage bonds in Argentina.

HSBC's rental income mainly arose in the UK from leasing contracts in respect of rail and vehicle finance. Europe accounted for 80 per cent of total rental income: the remainder was attributable to North America and Hong Kong.

The increase in the 'other' caption was partly due to the receipt of non-core income in Mexico from the distribution of third-party products through the HSBC network. Higher 'other' income in South America reflected the receipt of compensation and coverage bonds in Argentina and increased revenues from 'capitalisation' products in Brazil.

Net Insurance Claims Incurred and Movement in Policyholders' Liabilities

Net insurance claims incurred and movement in policyholder liabilities of US$4,067 million decreased by 12 per cent compared with 2004. On an underlying basis, net insurance claims incurred decreased by 13 per cent.

As with net earned insurance premiums, the primary reason for the reduction was the introduction of IFRSs in 2005, under which policyholder liabilities in respect of long-term assurance contracts were reclassified as liabilities to customers under investment contracts. As a consequence, reported net insurance claims incurred and movement in policyholder liabilities have reduced.

The majority of HSBC's non-life insurance business largely relates to the provision of personal insurance products. Minimal impact from hurricane damage in the US and a lack of significant claims events during 2005 resulted in a relatively stable claims experience, augmented by negligible prior-year reserve development in respect of 2004.

Excluding the effect of the above reclassification, the most significant reduction in net claims occurred in Europe, due to the effect of revised actuarial valuations of existing life insurance policies in the UK life operations.

Loan Impairment Charges and other Credit Risk Provisions

During 2005, the underlying growth in customer lending, excluding loans to the financial sector and the impact of grossing adjustments required under IFRS, was 12 per cent. Personal lending accounted for 63 per cent of this increase, principally in mortgages, credit cards and other lending products. At 31 December 2005, personal lending accounted for 56 per cent of the customer loan portfolio, in line with 2004. The proportion of the portfolio attributable to non-personal lending increased as commercial lending was inflated by the IFRSs adjustment noted above. Residential mortgages comprised 56 per cent of the personal lending portfolio.

The charge for loan impairment adjusts the balance sheet allowance for loan impairment to the level that management deems adequate to absorb actual and inherent losses in the Group's loan portfolios. The majority of the Group's loan impairment charges are determined on a portfolio basis, employing statistical calculations using roll rate methodologies. The total charge for loan impairment and other credit risk provisions in 2005 was US$7,801 million compared with a total provision of US$6,191 million in 2004, a rise of 26 per cent.

In the US, the underlying trend in loan impairment charges was favourable compared with 2004. The negative effect on loan impairment charges of Hurricane Katrina and a surge in personal bankruptcies in October ahead of new legislation making such declarations more onerous, was compensated by a change in portfolio mix towards higher quality lending and a positive economic environment.

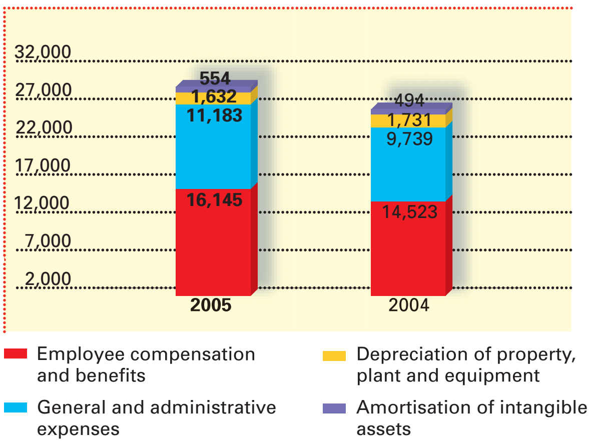
In the UK, credit costs rose following an expansion in personal lending, which was accompanied by an increase in delinquencies as the economy slowed. This was evidenced by rising personal bankruptcy, caused in part by changes in legislation which facilitated debt reconstruction, an increase in unemployment and higher levels of personal debt. In Hong Kong, the credit environment remained benign, with falling bankruptcies contributing to a modest reduction in loan impairment allowances in the personal sector. A fall in releases in the corporate sector, however, contributed to a modest charge for loan impairment as compared to a net release in 2004. In the Rest of Asia-Pacific, continuing releases and recoveries partly offset the impact of lending growth in the region. Higher charges in the personal sector in Brazil followed intense competitive pressure in the consumer segment, where significant increases in the availability of credit led to customers becoming over-indebted.

The aggregate customer loan impairment allowances at 31 December 2005 of US$11,357 million represented 1.5 per cent of gross customer advances (net of reverse repos, settlement accounts and netting) compared with 2.0 per cent at 31 December 2004. As in 2004, HSBC's cross-border exposures did not necessitate significant allowances.

Impaired loans to customers were US$11,446 million at 31 December 2005 compared with US$12,427 million at 31 December 2004, largely reflecting the write-off of impaired loans against the provisions held in respect of these loans. At constant exchange rates, impaired loans were 3 per cent lower than 2004. Lending (excluding financials) increased by 12 per cent after grossing.

Operating Expenses

Operating expenses (US$m)



Operating expenses of US$29,514 million were US$3,027 million, or 11 per cent, higher than in 2004. Excluding the efects of acquisitions and foreign exchange, cost growth was 9 per cent, trailing operating income growth before impairment charges by 3 percentage points. This resulted in a slight improvement in the cost efficiency ratio to 51 per cent. The three main drivers of cost growth were as follows:

- In Personal Financial Services and Commercial Banking, business expansion drove cost growth of 6 per cent and 4 per cent respectively, though this was exceeded by income growth of 11 per cent and 15 per cent, respectively;
- HSBC continued to improve productivity in mature markets. In the UK, reorganisations in Personal Financial Services and Commercial Banking in 2004 resulted in aggregate, in broadly flat costs, compared with income growth of 10 per cent. In Hong Kong, the promotion of cost-efficient delivery channels and greater utilisation of the Group Service Centres contributed to a 6 percentage point improvement in the cost efficiency ratios in Personal Financial Services and Commercial Banking; and

Financial Review (continued)

- Following a number of senior hires in 2004 in Corporate, Investment Banking and Markets, subsequent investment was focused on operations and technology, developing middle and back office capabilities to support revenue growth. Non-staff costs increased by 23 per cent in 2005, with staff costs growing by 14 per cent. The rate of cost growth peaked during the year and the cost efficiency ratio was 2 percentage points better in the second half of the year than in the first half, as income grew faster than costs.

The following points are also of note.

In Europe, costs included the rebranding of the Group's operations in France, the refurbishment of 60 UK branches and increased marketing costs.

In Hong Kong, higher operating expenses from business expansion in Corporate, Investment Banking and Markets were partly offset by the effect of branch restructuring and increased utilisation of the Group Service Centres, which led to a 4 per cent fall in branch headcount.

Underlying operating expenses in the Rest of Asia-Pacific increased by 31 per cent, reflecting investment in broadening the customer base and the distribution platform. HSBC's branch network was extended in mainland China, South Korea and India. Staff numbers also increased in response to the migration of call centre activities to the Group Service Centres in the region.

In North America, costs bore a particularly large share of the investment in Corporate, Investment Banking and Markets, reflecting HSBC's commitment to growing its presence in the region. Costs also reflected the expansion of the network, with the opening of 27 new branches in 2005 and the launch of HSBC's online savings account in the US.

HSBC's South American operations reported a 17 per cent increase in operating expenses partly as a result of higher average staff numbers following the acquisition of consumer finance businesses in 2004. Marketing costs rose following a number of high profile campaigns in 2005.

Productivity improvements and strong disposal gains allowed HSBC to complete substantially its investment in Corporate, Investment Banking and Markets without any deterioration in the Group's cost efficiency ratio.

Taxation

The following table reconciles the overall tax expense that would apply if all profits had been taxed at the UK corporate tax rate:

	2005		2004	
	US$m	**%**	US$m	%
Analysis of overall tax expense				
Taxation at UK corporate tax rate of 30 per cent (2004: 30 per cent)	**6,290**	**30.0**	5,683	30.0
Impact of overseas profits in principal locations taxed at different rates	**(342)**	**(1.6)**	(347)	(1.8)
Tax-free gains	**(220)**	**(1.0)**	(64)	(0.3)
Adjustments in respect of prior period liabilities	**(187)**	**(0.9)**	(229)	(1.2)
Low income housing tax credits[1]	**(110)**	**(0.5)**	(95)	(0.5)
Other items	**(145)**	**(0.8)**	9	(0.1)
Deductible innovative tier 1 capital expense presented below pre-tax profit	**–**	**–**	(192)	(1.0)
Impact of profit in associates and joint ventures	**(193)**	**(0.9)**	(80)	(0.4)
Overall tax charge	**5,093**	**24.3**	4,685	24.7

1 *Low income housing tax credits arise in the United States and are designed to encourage the provision of rental housing for low income households.*

Assets

HSBC's total assets (excluding Hong Kong Government certificates of indebtedness) at 31 December 2005 were US$1,489.4 billion, an increase of US$221.3 billion or 17 per cent since 31 December 2004. Acquisitions, including Metris in the US, added just over US$6 billion to total assets. The accounting effect of the transition to IFRSs on 1 January 2005 added a further US$89.8 billion, to which the largest single contributor was the grossing up of certain customer lending and current account relationships in the UK, mainly in Corporate, Investment Banking and Markets, which would previously have been offset in reported loans and advances and customer accounts. At 31 December 2005, this 'offsetting' change resulted in a US$44.2 billion increase in customer loans and advances. At constant exchange rates and excluding these changes, total assets grew by 17 per cent.

At 31 December 2005, HSBC's balance sheet remained highly liquid. The proportion of assets deployed in customer advances fell to 50 per cent, largely due to expansion of the fixed income business,

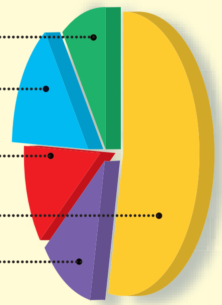
Assets 2005 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Trading assets*	15.6	233
Financial investments†	12.2	182
Loans and advances to banks	8.5	126
Loans and advances to customers	49.7	740
Other	14.0	208
Total	100.0	1,489

* includes trading assets which may be repledged or resold by customers
† includes financial investments which may be repledged or resold by customers

Assets 2004 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Trading assets	9.6	122
Financial investments	14.6	185
Loans and advances to banks	11.3	143
Loans and advances to customers	53.2	673
Other	11.3	145
Total	100.0	1,268



and the reclassification of certain financial instruments to 'trading assets'. Customer advances increased by 10 per cent, driven by lending to finance consumer spending, mortgage financing and cards. These were areas in which HSBC grew market share.

Growth in corporate lending was concentrated in Commercial Banking, and largely reflected trade financing, project finance in the Middle East and expansion of the customer base in the UK.

Trading Assets and Financial Investments

Trading assets principally comprise debt and equity instruments acquired for the purpose of benefiting from short-term price movements. Securities classified as held-for-trading are carried in the balance sheet at fair value with movements in fair value reflected within the income statement.

Trading assets of US$232.9 billion were 91 per cent higher than at 31 December 2004, primarily driven by the reclassification of certain financial instruments as 'Trading assets', coupled with the expansion of the fixed income platform in Global Markets.

Financial investments also comprise debt and equity instruments and until disposal, are classified as available-for-sale or, to a very small extent, held to maturity. The available-for-sale investments essentially represent the deployment of the Group's surplus deposits and may be disposed of either to manage liquidity or in response to reinvestment opportunities arising from favourable movements in economic indicators, such as interest rates, foreign exchange rates and equity prices.

Financial investments of US$182.3 billion were broadly in line with the balance at 31 December 2004. Unrealised gains included in equity amounted to US$1.1 billion.

Funds under Management

Funds under management of US$561 billion were US$85 billion, or 18 per cent, higher than at 31 December 2004. Growth reflected strong inflows of net new money and good investment performances in both HSBC's Group Investment Businesses and Private Banking, partly offset by the effect of the strengthening US dollar on the translation of sterling and euro-denominated funds.

At 31 December 2005 Group Investment Businesses, including affiliates, reported funds under management of US$272 billion, and Private Banking reported funds under management of US$202 billion. Other funds under management, of which the main constituent was a corporate trust business in Asia, comprised US$87 billion.

Client assets, which are a measure of overall Private Banking volumes and include funds under management, cash deposits and fiduciary deposits, rose by 13 per cent to US$282 billion.

Board of Directors and Senior Management

Directors

Sir John Bond, *Group Chairman*
(retiring on 26 May 2006)
Age 64. An executive Director since 1990; Group Chief Executive from 1993 to 1998. Joined HSBC in 1961; a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, having been an executive Director from 1988 to 1992. A Director of HSBC North America Holdings Inc. A Director of HSBC Bank plc from 1993 to 1997 and Chairman from 1998 to 2004. A non-executive Director of Ford Motor Company and of Vodafone Group Plc. Chairman of the Mayor of Shanghai's International Business Leaders' Advisory Council.

*__The Baroness Dunn,__ DBE, *Deputy Chairman and senior non-executive Director*
Age 66. An executive Director of John Swire & Sons Limited and a Director of Swire Pacific Limited. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A member of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. A member of the Asia Task Force. A former Senior Member of the Hong Kong Executive Council and Legislative Council.

† **Sir Brian Moffat,** OBE, *Deputy Chairman and senior independent non-executive Director*
Age 67. Former Chairman of Corus Group plc. A non-executive Director since 1998 and a non-executive Deputy Chairman since 2001. Chairman of the Group Audit Committee and of the Nomination Committee. A member of the Court of the Bank of England. A non-executive Director of Macsteel Global BV.

S K Green, *Group Chief Executive (Group Chairman designate)*
Age 57. An executive Director since 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Bank plc, HSBC Bank Middle East Limited, HSBC Bank USA, N.A., HSBC Group Investment Businesses Limited, HSBC Private Banking Holdings (Suisse) S.A., and HSBC USA Inc. A Director of The Bank of Bermuda Limited, HSBC France, The Hongkong and Shanghai Banking Corporation Limited, Grupo Financiero HSBC, S.A. de C.V., HSBC North America Holdings Inc. and HSBC Trinkaus & Burkhardt KGaA.

A W Jebson, *Group Chief Operating Officer*
(retiring on 26 May 2006)
Age 56. An executive Director since 2000. Group IT Director from 2000 to 2003. Group General Manager, Information Technology from 1996 to 2000. Joined HSBC in 1978. A Director of HSBC Finance Corporation.

†**The Rt Hon the Lord Butler of Brockwell,** KG, GCB, CVO
Age 68. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Social Responsibility Committee, a member of the Nomination Committee and Chairman of the HSBC Education Trust. A non-executive Director of Imperial Chemical Industries plc. A member of the International Advisory Board of Marsh McLennan Inc. Chaired the UK Government Review of Intelligence on Weapons of Mass Destruction. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

† **R K F Ch'ien,** CBE
Age 54. Chairman of CDC Corporation and of its subsidiary, China.com Inc. A non-executive Director since 1998. A member of the Group Audit Committee. Non-executive Chairman of HSBC Private Equity (Asia) Limited and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997. Non-executive Chairman of MTR Corporation Limited and a non-executive Director of Convenience Retail Asia Limited, Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited.

† J D Coombe

Age 60. Former executive Director and Chief Financial Officer of GlaxoSmithKline plc. A non-executive Director since 1 March 2005. A member of the Group Audit Committee since 1 July 2005. Appointed a member of the Remuneration Committee with effect from 1 June 2006. A non-executive Director of the Supervisory Board of Siemens AG and a non-executive Director of GUS plc. A member of The Code Committee of the Panel on Takeovers and Mergers. A trustee of the Royal Academy Trust. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

†R A Fairhead

Age 44. Finance Director of Pearson plc. A non-executive Director since March 2004. A member of the Group Audit Committee. A non-executive Director of The Economist Newspaper Limited. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

D J Flint, *Group Finance Director*

Age 50. Joined HSBC as an executive Director in 1995. A Director of HSBC Bank Malaysia Berhad. 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 non-executive Director of BP p.l.c. since 1 January 2005. A former partner in KPMG.

†W K L Fung, OBE

Age 57. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Corporate Social Responsibility Committee and of the Remuneration Committee. Deputy Chairman and non-executive Director of The Hongkong and Shanghai Banking Corporation Limited. A non-executive Director of Bank of Communications Limited. Former Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Co-operation Council.

M F Geoghegan, CBE, *Deputy Chairman, HSBC Bank plc. (Group Chief Executive designate)*

Age 52. An executive Director since March 2004. Joined HSBC in 1973. A Director and, since 6 March 2006, Deputy Chairman of HSBC Bank plc. A Director of HSBC France and HSBC Private Banking Holdings (Suisse) S.A. President of HSBC Bank Brasil S.A.-Banco Múltiplo from 1997 to 2003 and responsible for all of HSBC's business throughout South America from 2000 to 2003. Chief Executive of HSBC Bank plc from 2004 to 6 March 2006. A non-executive Director and Chairman of Young Enterprise.

†S Hintze

Age 61. Former Chief Operating Officer of Barilla S.P.A. A non-executive Director since 2001. A member of the Corporate Social Responsibility Committee and of the Remuneration Committee. A non-executive Director of Premier Foods plc and the Society of Genealogists, a registered charity. A former Senior Vice President of Nestlé S.A. With Mars Incorporated from 1972 to 1993, latterly as Executive Vice President of M&M/Mars in New Jersey. A former non-executive Director of Safeway plc.

†J W J Hughes-Hallett

Age 56. Chairman of John Swire & Sons Limited. A non-executive Director since 1 March 2005. Appointed a member of the Group Audit Committee with effect from 1 June 2006. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A non-executive Director and formerly Chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A trustee of the Dulwich Picture Gallery, the Hong Kong Maritime Museum and the Esmée Fairbairn Foundation.

Board of Directors and Senior Management (continued)

† **Sir John Kemp-Welch**
(retiring on 26 May 2006)
Age 69. Former Joint Senior Partner of Cazenove & Co and former Chairman of the London Stock Exchange. A non-executive Director since 2000. A member of the Group Audit Committee and of the Remuneration Committee. A Deputy Chairman of the Financial Reporting Council and a member of the Panel on Takeovers and Mergers from 1994 to 2000.

†**Sir Mark Moody-Stuart,** KCMG
Age 65. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Social Responsibility Committee. A non-executive Director of Accenture Limited, a Governor of Nuffield Hospitals, President of the Liverpool School of Tropical Medicine and Chairman of the Global Business Coalition on HIV/AIDS. A former Director and Chairman of The 'Shell' Transport and Trading Company, plc and former Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies.

† **S W Newton**
Age 64. Chairman of The Real Return Holdings Company Limited. A non-executive Director since 2002. A Member of the Advisory Board of the East Asia Institute and of the Investment Board at Cambridge University. A member of The Wellcome Trust Investment Committee. Founder of Newton Investment Management, from which he retired in 2002.

†**S M Robertson**
Age 65. Non-executive Chairman of Rolls-Royce Group plc and the founder member of Simon Robertson Associates LLP. A non-executive Director since 3 January 2006. A Director of The Economist Newspaper Limited, The Royal Opera House Covent Garden Limited and a non-executive Director of Berry Bros. & Rudd Limited. Chairman of Trustees of the Royal Academy Trust and the Ernest Kleinwort Charitable Trust. A trustee of the Eden Project and the Royal Opera House Endowment Fund. A former Managing Director of Goldman Sachs International. Former Chairman of Dresdner Kleinwort Benson and a former non-executive Director of Inchcape plc, Invensys plc and the London Stock Exchange.

* **H Sohmen,** OBE
Age 66. Chairman of Bergesen Worldwide Limited and Bergesen Worldwide Gas ASA. Chairman and President of BW Corporation Limited (formerly World-Wide Shipping Group Limited) and Chairman of The International Tanker Owners Pollution Federation Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1984 to May 2005 and Deputy Chairman from 1996 to May 2005.

†**Sir Brian Williamson,** CBE
Age 61. Chairman of Electra Private Equity plc. A non-executive Director since 2002. A member of the Nomination Committee. A non-executive Director of Resolution plc. A member of the Supervisory Board of Euronext NV. A senior adviser to Fleming Family and Partners. Former Chairman of London International Financial Futures and Options Exchange, Gerrard Group plc and Resolution Life Group Limited. A former non-executive Director of the Financial Services Authority and of the Court of The Bank of Ireland.

* *Non-executive Director*
† *Independent non-executive Director*

Adviser to the Board

D J Shaw
Age 59. An Adviser to the Board since 1998. Solicitor. A partner in Norton Rose from 1973 to 1998. A Director of The Bank of Bermuda Limited and HSBC Private Banking Holdings (Suisse) S.A.

Secretary

R G Barber
Age 55. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

Group Managing Directors

V H C Cheng, OBE
Age 57. Chairman of The Hongkong and Shanghai Banking Corporation Limited. A Group Managing Director since 25 May 2005. Joined HSBC in 1978. Appointed a Group General Manager in 1995. Deputy Chairman and Chief Executive Officer of Hang Seng Bank Limited from 1998 to 25 May 2005.

C-H Filippi
Age 53. Chairman and Chief Executive Officer of HSBC France. A Group Managing Director since 2004. A Director of HSBC Bank plc. Joined HSBC France in 1987 having previously held senior appointments in the French civil service. Appointed a Group General Manager in 2001. Global Head of Corporate and Institutional Banking from 2001 to 2004.

S T Gulliver
Age 46. Co-Head Corporate, Investment Banking and Markets. A Group Managing Director since 2004. Joined HSBC in 1980. Appointed a Group General Manager in 2000. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002 and Head of Global Markets from 2002 to 2003.

D D J John
Age 55. Chief Executive, HSBC Bank plc and a Group Managing Director since 6 March 2006. Joined HSBC Bank plc in 1971. Appointed a Group General Manager in 2000. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad from 1999 to 2002. Chief Operating Officer of HSBC Bank plc from 2003 to May 2005 and Deputy Chief Executive from May 2005 to 6 March 2006.

S N Mehta
Age 47. Chief Executive of HSBC North America Holdings Inc, and Chairman and Chief Executive Officer of HSBC Finance Corporation since March 2005. A Group Managing Director since 30 April 2005. Joined HSBC Finance Corporation in 1998 and was appointed Vice Chairman in April 2004.

Y A Nasr
Age 51. President, HSBC Bank Brasil S.A.-Banco Múltiplo. A Group Managing Director since 2004. Joined HSBC in 1976. Appointed a Group General Manager in 1998. President and Chief Executive Officer of HSBC Bank Canada from 1997 to 1999. President and Chief Executive Officer of HSBC USA Inc. and HSBC Bank USA from 1999 to 2003.

J J Studzinski
Age 49. Co-Head Corporate, Investment Banking and Markets. A Group Managing Director since 2004. Joined HSBC in 2003 as a Group General Manager, having previously been with Morgan Stanley from 1980 to 2003, latterly as Deputy Chairman of Morgan Stanley International.

Board of Directors and Senior Management (continued)

Group General Managers

P Y Antika
Age 45. Chief Executive Officer, HSBC Turkey. Joined HSBC in 1990. Appointed a Group General Manager on 1 August 2005.

R J Arena
Age 57. Group General Manager, Global e-business. Joined HSBC in 1999. Appointed a Group General Manager in 2000.

C C R Bannister
Age 47. Chief Executive Officer, Group Private Banking. Joined HSBC in 1994. Appointed a Group General Manager in 2001.

R E T Bennett
Age 54. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

N S K Booker
Age 47. Chief Executive Officer, India. Joined HSBC in 1981. Appointed a Group General Manager in January 2004.

P W Boyles
Age 50. Group General Manager, Human Resources. Joined HSBC in 1975. Appointed a Group General Manager on 1 January 2006.

D C Budd
Age 52. Chief Operating Officer and Executive Director, HSBC Bank plc. Joined HSBC in 1972. Appointed a Group General Manager on 5 May 2005.

G P S Calvert, OBE
Age 53. Group General Manager Special Duties. Joined HSBC in 1974. Appointed a Group General Manager in June 2004.

Z J Cama
Age 58. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad. Joined HSBC in 1968. Appointed a Group General Manager in 2001.

S L Derickson
Age 52. Vice Chairman of HSBC Finance Corporation. Joined HSBC Finance Corporation in 2000. Appointed a Group General Manager on 30 April 2005.

A A Flockhart
Age 54. Chief Executive Officer and Chairman, Grupo Financiero HSBC, S.A. de C.V. and HSBC México, S.A. Joined HSBC in 1974. Appointed a Group General Manager in 2002.

M J G Glynn
Age 54. President and Chief Executive Officer, HSBC Bank USA, N.A. Joined HSBC in 1982. Appointed a Group General Manager in 2001.

L Gordon
Age 53. President and Chief Executive Officer, HSBC Bank Canada. Joined HSBC in 1987. Appointed a Group General Manager on 1 August 2005.

K M Harvey
Age 45. Group General Manager and Group Chief Information Officer. Joined HSBC Finance Corporation in 1989. Appointed a Group General Manager in August 2004.

D H Hodgkinson
Age 55. Chief Executive Officer and Deputy Chairman, HSBC Bank Middle East Limited. Joined HSBC in 1969. Appointed a Group General Manager in 2003.

A P Hope
Age 59. Group General Manager, Insurance. Joined HSBC in 1971. Appointed a Group General Manager in 1996.

M J W King
Age 49. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in 2002.

P J Lawrence
Age 44. Chief Executive Officer, HSBC Singapore. Joined HSBC in 1982. Appointed a Group General Manager on 1 August 2005.

M Leung
Age 53. Global Co-Head Commercial Banking. Joined HSBC in 1978. Appointed a Group General Manager on 1 August 2005.

B McDonagh
Age 47. Chief Operating Officer, HSBC Bank USA, N.A. Joined HSBC in 1979. Appointed a Group General Manager on 1 August 2005.

R C F Or
Age 56. Vice-Chairman and Chief Executive, Hang Seng Bank Limited and Executive Director, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in 2000.

K Patel
Age 57. Chief Executive Officer, South Africa branch of HSBC Bank plc and Head of Africa. Joined HSBC in 1984. Appointed a Group General Manager in 2000.

R C Picot
Age 48. Group Chief Accounting Officer. Joined HSBC in 1993. Appointed a Group General Manager in 2003.

B Robertson
Age 51. Group General Manager, Credit and Risk. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

M R P Smith, OBE
Age 49. President and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Chairman, Hang Seng Bank Limited. Joined HSBC in 1978. Appointed a Group General Manager in 2000.

I A Stewart
Age 47. Head of Transaction Banking, Corporate, Investment Banking and Markets. Joined HSBC in 1980. Appointed a Group General Manager in 2000.

P E Stringham
Age 56. Group General Manager, Marketing. Joined HSBC in 2001. Appointed a Group General Manager in 2001.

P A Thurston
Age 52. Group General Manager, Personal Financial Services, Asia-Pacific. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

P T S Wong
Age 54. Executive Director, Hong Kong and Mainland China of The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC on 28 February 2005. Appointed a Group General Manager on 1 April 2005.

Results for 2005

HSBC reported operating profit of US$20,966 million. Profit attributable to shareholders of HSBC Holdings, transferred to retained earnings, was US$15,081 million, a 16.8 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. HSBC operates through long-established businesses and has an international network in 76 countries and territories in Europe; the Asia-Pacific region, the Americas, the Middle East and Africa.

A review of the development of the business of HSBC undertakings during the year and any indication of likely future developments are given on pages 4 to 29.

Dividend

First, second and third interim dividends for 2005, each of US$0.14 per ordinary share, were paid on 6 July 2005, 5 October 2005 and 19 January 2006 respectively. On 6 March 2006, the Directors declared a fourth interim dividend for 2005 of US$0.31 per ordinary share in lieu of a final dividend, which will be payable to ordinary shareholders on 11 May 2006 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 2 May 2006, with a scrip dividend alternative. A financial calendar, including the key dates for payment of the fourth interim dividend for 2005, is on page 58.

Summary Corporate Governance Report

The information set out on pages 30 to 51, and information incorporated by reference, is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 184 to 233 of the *Annual Report and Accounts 2005*.

Board of Directors and Board Committees

The objectives of the management structures within HSBC, headed by the Board of Directors of HSBC Holdings and led by the Group Chairman, are 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 HSBC through the five-year strategic plan and approves the annual operating plans presented by management for the achievement of the strategic objectives. The annual 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 annual plans and performance targets, procedures for monitoring and control of operations, specified senior appointments, acquisitions and disposals above predetermined thresholds and any substantial change in balance sheet management policy.

The Board of Directors meets regularly and Directors receive information between meetings about the activities of committees and developments in HSBC's business. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

At 6 March 2006 the Board comprises five executive and 15 non-executive Directors. The roles of Group Chairman and Group Chief Executive are separated and held by experienced executive Directors. Before assuming the role of Group Chairman in 1998 Sir John Bond had been the Group Chief Executive for five years. The Group Chairman's knowledge of HSBC's complex and widespread geographical business from his previous service as Group Chief Executive has been a considerable benefit to HSBC.

On 28 November 2005 it was announced that S K Green, the Group Chief Executive since 2003, would succeed Sir John Bond as Group Chairman at the conclusion of the 2006 Annual General Meeting on 26 May 2006 and that M F Geoghegan would succeed S K Green as Group Chief Executive. Sir Brian Moffat, the senior independent non-executive Director and the Chairman of the Nomination Committee, wrote to shareholders regarding these appointments.

He explained that the decision by the Board to appoint S K Green as Group Chairman was made after a thorough selection process. This was conducted by the Nomination Committee, assisted by external advisers, and included extensive benchmarking against external candidates. The Committee considered carefully the requirements of the position in terms of HSBC's size, geographical spread and complexity; the need for full-time executive commitment and experience of international banking at the highest level; and took account of the need for the Group Chairman to have a wide range of skills, the capacity for strategic thinking and the ability to sustain and enhance the Group's corporate character. The Committee also took into consideration the need for the Group Chairman to be able to work closely and effectively with the Group Chief Executive, to have the authority to run the Board and to have the personal standing to represent HSBC externally at the highest level. Job specifications for the Group Chairman and the Group Chief

Executive, setting out their respective authorities and responsibilities, have been agreed by the Board. The Nomination Committee came to the unanimous conclusion that S K Green was the outstanding candidate.

S K Green joined HSBC in 1982. He was Group Treasurer from 1992 to 1998, and Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003 when he was appointed to his current position. He has worked in Hong Kong, New York, the Middle East and London, and has immense international experience and knowledge of HSBC. The Committee concluded that S K Green is superbly well qualified to serve as Group Chairman.

S K Green's successor, as Group Chief Executive, will be M F Geoghegan, who has led HSBC Bank, HSBC's principal subsidiary in the United Kingdom since 2004. He too is highly qualified for his new position and his appointment also has the unanimous support of the Board. Mr Geoghegan has 33 years' experience with HSBC and has worked in 10 countries in North and South America, Asia, the Middle East and Europe.

Nowadays, success in financial services depends in a large measure on the relative strengths of competing management teams. Planning management succession is key to this, has long been established in the Group and the plan is regularly reviewed by the non-executive Directors. Furthermore, HSBC is a remarkable organisation with a distinctive character and culture. The business is managed through international teamwork and HSBC believes this is best achieved by management continuity and amongst colleagues who have similar values. By way of example, the top fifty executives have a combined service approaching 1,000 years with HSBC, although 20 per cent of these executives have joined the Group in the last six years, thus ensuring there is a balance of new talent to help run the business.

The Directors believe strongly that these appointments are in the best interests of the shareholders. The appointments have the unanimous support of the Directors and have been made after consulting with representatives of major institutional investors and explaining the succession planning and independent external search process.

The Board considers all of the non-executive Directors to be independent in character and judgement. Baroness Dunn and H Sohmen have served on the Board for more than nine years, however, and in that respect only, do not meet the usual criteria for independence set out in the UK Combined Code on corporate governance. The Board has therefore determined Lord Butler, R K F Ch'ien, J D Coombe, R A Fairhead, W K L Fung, S Hintze, J W J Hughes-Hallett, Sir John Kemp-Welch, Sir Brian Moffat, Sir Mark Moody-Stuart, S M Robertson, S W Newton 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.

The Directors who served during the year were W F Aldinger, Sir John Bond, Lord Butler, R K F Ch'ien, J D Coombe, Baroness Dunn, D G Eldon, R A Fairhead, D J Flint, W K L Fung, M F Geoghegan, S K Green, S Hintze, J W J Hughes-Hallett, A W Jebson, Sir John Kemp-Welch, Sir Brian Moffat, Sir Mark Moody-Stuart, S W Newton, H Sohmen, C S Taylor and Sir Brian Williamson.

C S Taylor resigned as a Director on 14 March 2005, W F Aldinger resigned as a Director on 29 April 2005 and D G Eldon retired as a Director on 27 May 2005. J D Coombe and J W J Hughes-Hallett were appointed Directors with effect from 1 March 2005.

S M Robertson was appointed a Director with effect from 3 January 2006. Having been appointed since the Annual General Meeting in 2005, he will retire at the forthcoming Annual General Meeting and offer himself for re-election.

Sir John Bond, A W Jebson and Sir John Kemp-Welch will retire at the conclusion of the forthcoming Annual General Meeting and will not therefore seek re-election.

Baroness Dunn, M F Geoghegan, S K Green, Sir Mark Moody-Stuart, H Sohmen and Sir Brian Williamson will retire by rotation at the forthcoming Annual General Meeting and offer themselves for re-election.

The Board has undertaken an evaluation of its performance and that of its committees. This evaluation covered board composition and capabilities; dynamics; strategy; corporate governance; and the performance of individual Directors. In undertaking this review the Group Chairman held structured meetings with each Director using a framework adapted from that employed in the two previous reviews. The report on the evaluation of the Board and its committees has been reviewed by the Board and has been used by the non-executive Directors, led by Sir Brian Moffat, in their evaluation of the performance of the Group Chairman. The review concluded that the board and its committees were functioning effectively. The Group Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility Committee have also each undertaken a review of their terms of reference and their own effectiveness in 2005.

Following the review of the Board the Group Chairman has confirmed that the Directors standing for re-election at the Annual General Meeting continue to perform effectively and to demonstrate commitment to their roles. It is the intention of the Board of HSBC Holdings to continue to review its performance and that of its Directors annually.

Seven regular Board meetings were held during 2005. Sir John Bond, Lord Butler, R K F Ch'ien, Baroness Dunn, D J Flint, W K L Fung, M F Geoghegan, S K Green, S Hintze, A W Jebson, Sir John Kemp-Welch, Sir Brian Moffat, Sir Mark Moody-Stuart, S W Newton, H Sohmen and Sir Brian Williamson attended all of the Board meetings. R A Fairhead attended five of the Board meetings. W F Aldinger and C S Taylor attended the two Board meetings held before they ceased to be Directors. D G Eldon attended all four Board meetings held before his retirement. J D Coombe and J W J Hughes-Hallett attended all five of the Board meetings held following their appointments.

Full, formal and tailored induction programmes, with particular emphasis on internal controls, are arranged for newly appointed Directors to enable them to familiarise themselves with HSBC. Opportunities to update and develop skills and knowledge, through externally run seminars and through briefings by senior executives, are provided to all Directors.

The Board has established a Group Audit Committee, a Remuneration Committee and a Nomination Committee.

The Group Audit Committee meets regularly with HSBC's senior financial, 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 and compliance. The Committee undertakes an annual review of the effectiveness of HSBC's system of internal control. The Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee receives reports from the external auditor on its own policies and procedures regarding independence and quality control and oversees the appropriate rotation of audit partners within the external auditor. 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 8 on page 269 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts*.

The members of the Group Audit Committee throughout 2005 were Sir Brian Moffat (Chairman), R K F Ch'ien, R A Fairhead and Sir John Kemp-Welch. J D Coombe was appointed a member of the Committee with effect from 1 July 2005. J W J Hughes-Hallett has been appointed a member of the Committee with effect from 1 June 2006. All members of the Committee are independent non-executive Directors.

The Board has determined that Sir Brian Moffat, R A Fairhead and J D Coombe are independent according to Securities and Exchange Commission criteria, may be regarded as audit committee financial experts for the purposes of section 407 of the Sarbanes-Oxley Act and as having recent and relevant financial experience.

There were seven meetings of the Group Audit Committee during 2005. Sir John Kemp-Welch and Sir Brian Moffat attended all of the meetings; R K F Ch'ien attended five meetings; R A Fairhead attended six meetings; and J D Coombe attended each of the five meetings held following his appointment.

The role of the Remuneration Committee and its membership are set out in the Summary Directors' Remuneration Report on page 40.

The Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval of 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. All Directors are subject to election by shareholders at the Annual General Meeting following their appointment and to re-election at least every three years. The members of the Nomination Committee throughout 2005 were Sir Brian Moffat (Chairman), Lord Butler, Baroness Dunn and Sir Brian Williamson.

There were three Nomination Committee meetings during 2005, each of which was attended by all members.

The appointments of J D Coombe, J W J Hughes-Hallett and S M Robertson as non-executive Directors were made on the advice and recommendation of the Nomination Committee. An external consultancy was used in connection with these appointments.

As set out on page 35 the Committee conducted the selection process which recommended to the Board that S K Green succeed Sir John Bond as Group Chairman at the conclusion of the 2006 Annual General Meeting and that M F Geoghegan succeed S K Green as Group Chief Executive.

Corporate Governance Codes

HSBC is committed to high standards of corporate governance. HSBC Holdings complied throughout the year with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council. The terms of reference of the Group Audit Committee and the Remuneration Committee were modified in February 2005 to incorporate certain provisions set out in the Code on Corporate Governance Practice in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which came into effect on 1 January 2005. HSBC Holdings has complied throughout the year with all other applicable code provisions of 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 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.

Directors' Interests

According to the registers of Directors' interests maintained by HSBC Holdings pursuant to section 325 of the Companies Act 1985 and section 352 of the Securities and Futures Ordinance of Hong Kong, the Directors of HSBC Holdings at the year-end had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC and its associated corporations:

HSBC Holdings ordinary shares of US$0.50

		At 31 December 2005						
	At 1 January 2005	*Beneficial owner*	*Child under 18 or spouse*	*Trustee*	*Jointly with another person*	*Other*	*Total interests*[1]	*Percentage of ordinary shares in issue*
Sir John Bond	451,531	389,897	3,743	–	121,160	–	514,800	0.00
R K F Ch'ien	47,796	49,835	–	–	–	–	49,835	0.00
J D Coombe	40,659[2]	6,000	–	36,195[3]	–	–	42,195	0.00
Baroness Dunn	164,411	141,560	–	28,650[3]	–	–	170,210	0.00
D J Flint	81,271	54,726	–	27,000	–	–	81,726	0.00
W K L Fung	328,000	328,000	–	–	–	–	328,000	0.00
M F Geoghegan	37,795	73,536	–	–	–	–	73,536	0.00
S K Green	243,659	233,434	16,359	–	45,355	–	295,148	0.00
S Hintze	2,037	2,037	–	–	–	–	2,037	0.00
J W J Hughes-Hallett	3,053,983[2]	–	–	2,119,229[3]	–	–	2,119,229	0.02
A W Jebson	83,628	108,099	–	–	–	–	108,099	0.00
Sir John Kemp-Welch	96,800	127,300	7,000	6,000[3]	–	–	140,300	0.00
Sir Brian Moffat	11,157	–	–	–	11,632	–	11,632	0.00
Sir Mark Moody-Stuart	10,840	5,000	840	5,000[3]	–	–	10,840	0.00
S W Newton	5,170	5,391	–	–	–	–	5,391	0.00
H Sohmen	3,270,147	–	1,302,274	–	–	2,067,873[4]	3,370,147	0.03
Sir Brian Williamson	15,865	16,543	–	–	–	–	16,543	0.00

1 *Details of executive Directors' other interests in HSBC Holdings ordinary shares of US$0.50 arising from share option plans, The HSBC Share Plan and the HSBC Holdings Restricted Share Plan 2000 are set out in the 'Summary Directors' Remuneration Report' on pages 50 to 51.*
2 *Interests at 1 March 2005 – date of appointment.*
3 *Non-beneficial.*
4 *Interests held by private investment companies.*

Sir John Bond has an interest as beneficial owner in £290,000 of HSBC Capital Funding (Sterling 1) L.P. 8.208 per cent Non-cumulative Step-up Perpetual Preferred Securities, which he held throughout the year.

S K Green has an interest as beneficial owner in €75,000 of HSBC Holdings plc 5½ per cent Subordinated Notes 2009 which he held thoughout the year. During the year he ceased to have an interest in £100,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005.

J W J Hughes-Hallett has a non-beneficial interest as Trustee in £4,700,000 of HSBC Capital Funding (Sterling 1) L.P. 8.208 per cent Non-cumulative Step-up Perpetual Preferred Securities, which he acquired during the year.

During the year, H Sohmen ceased to have a corporate interest in £1,200,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005.

As Directors of HSBC France, S K Green and M F Geoghegan each have an interest as beneficial owner in one share of €5 in that company, which they held throughout the year. The Directors have waived their rights to receive dividends on these shares and have undertaken to transfer these shares to HSBC on ceasing to be Directors of HSBC France.

As Directors of HSBC Private Banking Holdings (Suisse), S K Green and M F Geoghegan each have an interest as beneficial owner in one share of CHF1,000, which they held during the year. The Directors have waived their rights to receive dividends on these shares and have undertaken to transfer these shares to HSBC on ceasing to be Directors of HSBC Private Banking Holdings (Suisse).

At 31 December 2005, the aggregate interests under the Securities and Futures Ordinance of Hong Kong of the executive Directors in HSBC Holdings ordinary shares of US$0.50 (each of which represents less than 0.01 per cent of the shares in issue, unless otherwise stated), including interests arising through share option plans, the Restricted Share Plan and The HSBC Share Plan are: Sir John Bond – 1,663,088 (0.01 per cent of shares in issue); D J Flint – 668,647; M F Geoghegan – 549,492; S K Green – 1,097,718 (0.01 per cent of shares in issue); and A W Jebson – 709,751.

No directors held any short positions as defined in the Securities and Futures Ordinance of Hong Kong. Save as stated above and in the 'Summary Directors' Remuneration Report', none of the Directors had an interest in any shares or debentures of any HSBC or associated corporation at the beginning or at the end of the year, and none of the Directors or members of their immediate family was awarded or exercised any right to subscribe for any shares or debentures during the year.

Since the end of the year, the interests of each of the following Directors have increased by the number of HSBC Holdings ordinary shares shown against their name:

HSBC Holdings ordinary shares of US$0.50

	Beneficial owner	*Child under 18 or spouse*	*Jointly with another person*	*Beneficiary of a trust*
Sir John Bond	67[1]	28[2]	–	10,846[3]
R K F Ch'ien	429[4]	–	–	–
Baroness Dunn	1,222[4]	–	–	–
D J Flint	492[5]	–	–	5,045[6]
M F Geoghegan	533[7]	–	–	4,106[6]
S K Green	2,040[8]	141[4]	–	6,903[6]
A W Jebson	933[4]	–	–	5,192[6]
Sir Brian Moffat	–	–	100[4]	–
S W Newton	46[4]	–	–	–
Sir Brian Williamson	143[4]	–	–	–

1 *Comprises the automatic reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan manager (35 shares), the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through regular monthly contributions (25 shares) and the automatic reinvestment of dividend income on shares held in the plan (7 shares).*
2 *The automatic reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan manager.*
3 *Comprises scrip dividend on awards held under The HSBC Share Plan and the HSBC Holdings Restricted Share Plan 2000 (9,915 shares) and on shares held in a Trust (931 shares).*
4 *Scrip dividend.*
5 *Comprises scrip dividend on shares held as beneficial owner (425 shares), the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through regular monthly contributions (25 shares), the automatic reinvestment of dividend income on shares held in the plan (7 shares) and by the automatic reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan manager (35 shares).*
6 *Scrip dividend on awards held under the HSBC Share Plan and the HSBC Holdings Restricted Share Plan 2000.*
7 *Exercise of an option awarded in 2000 under the HSBC Savings-Related Share Option Plan: International; options over 26 ordinary shares lapsed.*
8 *Comprises scrip dividend on shares held as beneficial owner (2,008 shares), the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through normal monthly contributions (25 shares) and the automatic reinvestment of dividend income on shares held in the plan (7 shares).*

S M Robertson held, on his appointment as a Director on 3 January 2006, a non-beneficial interest as Trustee in 36,195 HSBC Holdings ordinary shares of US$0.50.

Since the end of the year, the non-beneficial interests of J W J Hughes-Hallett as Trustee of two Trusts have decreased by a net 44,194 HSBC Holdings ordinary shares.

There have been no other changes in Directors' interests from 31 December 2005 to the date of this Report. Any subsequent changes up to the last practicable date before the publication of the *Notice of Annual General Meeting* will be set out in the notes to that *Notice*.

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 undertaking has bought, sold or redeemed any securities of HSBC Holdings during the year ended 31 December 2005.

Donations

During the year, HSBC made charitable donations totalling US$81.4 million. Of this amount, US$28.9 million was given for charitable purposes in the United Kingdom.

No political donations were made during the year.

At the Annual General Meeting in 2003 shareholders gave authority for HSBC Holdings and HSBC Bank to make EU political donations and incur EU political expenditure up to a maximum aggregate sum of £250,000 and £50,000 respectively over a four-year period as a precautionary measure in light of the wide definitions in The Political Parties, Elections and Referendums Act 2000. These authorities have not been used.

Auditors' Report

The auditors' report on the full accounts for the year ended 31 December 2005 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.

On behalf of the Board
R G Barber, *Secretary* 6 March 2006

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning. The Remuneration Committee seeks to respond to the variety of environments and circumstances which are faced by different businesses in different markets at different times and has in place appropriate policies and procedures to monitor the size of the potential remuneration awards and resulting company liabilities. The Remuneration Committee reviews the incentive plans on an ongoing basis to ensure that they remain effective and appropriate to HSBC's circumstances and prospects.

The members of the Remuneration Committee throughout 2005 were Sir Mark Moody-Stuart (Chairman), W K L Fung, S Hintze and Sir John Kemp-Welch. J D Coombe has been appointed a member of the Committee with effect from 1 June 2006.

There were seven meetings of the Remuneration Committee during 2005. S Hintze, Sir Mark Moody-Stuart and Sir John Kemp-Welch attended all of these meetings and W K L Fung attended six meetings. Following each meeting the Committee reports to the Board on its activities. The terms of reference of the Committee are available at www.hsbc.com/committeer.

General Policy on Employees

As with most businesses, HSBC's performance depends on the quality and commitment of its people. Accordingly, the Board's stated strategy is to attract, retain and motivate the very best people.

In a business that is based on trust and relationships, HSBC's broad policy is to look for people who want to make a long-term career with the organisation since trust and relationships are built over time.

Remuneration is an important component in people's decisions on which company to join, but it is not the only one; it is HSBC's experience that people are attracted to an organisation with good values, fairness, the potential for success and the scope to develop a broad, interesting career.

Within the authority delegated by the Board of Directors, the Remuneration Committee is responsible for determining 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. No Directors are involved in deciding their own remuneration.

The Remuneration Committee applies the following key principles:

- to ensure that the total remuneration package (salary, bonus, long-term incentive awards and other benefits) is competitive in relation to comparable organisations in each of the countries or regions in which HSBC operates;
- to offer fair and realistic salaries with an important element of variable pay, differentiated by performance;
- through awards of shares (and in limited circumstances, share options) to recognise high performance and retain key talent; and
- since 1996, to follow a policy of moving progressively from defined benefit to defined contribution Group pension schemes for new employees only.

In line with these principles:

- employees' salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. Allowances and benefits are largely determined by local market practice;
- employees participate in various bonus arrangements. The level of performance-related variable pay depends upon the performance of constituent businesses and the individual concerned. Variable bonus plans emphasise revenue growth whilst retaining a strong link to expense control; other key measures taken into account in determining individual bonus levels include customer relationships; full utilisation of professional skills; adherence to HSBC's ethical standards, internal controls and procedures. Bonus ranges are reviewed in the context of prevailing market practice; and
- HSBC has a long history of paying close attention to its customers in order to provide value for shareholders. This has been achieved by ensuring that the interests of HSBC and its employees are aligned with those of its shareholders and that HSBC's approach to risk management serves the interests of all. Accordingly, employees are encouraged to participate in the success they help to create, through participating in the HSBC Holdings savings-related share option plans and in local share ownership and profit-sharing arrangements.

Following a comprehensive review of share-based remuneration arrangements The HSBC Share Plan was approved at the 2005 Annual General Meeting. The arrangements for the most senior executives of HSBC are described under 'Long-term incentive plan' on page 43.

Below the senior executive level and in the context of an employee's total remuneration package, the practice of awarding share options at all levels within HSBC has been reviewed. Commencing with awards made in 2005, restricted shares will be granted to a substantially smaller number of executives than those who previously received share options, with awards focused on those individuals who bring key talents and high levels of performance to the Group. These awards will normally vest after three years, subject to the individual remaining in employment. Awards of share options will only be granted in limited circumstances. For those who will normally no longer be eligible to receive awards of shares or share options, variable bonus arrangements have been reviewed and enhanced, as appropriate, taking account of local markets. Such changes may include an element of deferral.

In 2003, under the HSBC Holdings Group Share Option Plan, share option awards were made to some 35,000 high performing employees (approximately the top 20 per cent of performers) below senior management who are still with HSBC. The awards included those at the most junior levels in the organisation. Of the awards of share options, over 95 per cent were granted subject to the achievement of the same performance conditions as apply to awards of shares under the HSBC Holdings Restricted Share Plan 2000 (as described under 'Arrangements from 2000-2004' on page 46, below). In addition, in some areas, performance was rewarded by bonuses rather than share options. Awards of share options with performance conditions were relatively modest, but form an important part of performance motivation of frontline staff. The range of awards was up to 10,000 shares under option with an average award of 1,100. With a recent share price of £9.50 and an option price of £6.91 this would translate to an average gain of £2,850. Some 60 per cent of those granted awards in 2003 received awards of 1,000 shares under option or fewer.

The Total Shareholder Return (TSR) comparison with the defined Benchmark is not due to be made until 31 March 2006. As at 28 February 2006 HSBC's TSR, while showing growth of 67 per cent since the beginning of the measurement period in March 2003, is lower than the Benchmark TSR. A performance condition based on a single TSR test against a comparator group is very sensitive to the relative position at the start of the measurement period. HSBC's share price at the start of the measurement period for the 2003 awards under the HSBC Holdings Group Share Option Plan was at an unusually high level compared to historical relationships within the comparator group. Several companies in the comparator group have subsequently recovered from the historically low ratings they experienced in 2003, thereby affecting HSBC's relative TSR performance over the measurement period.

While not currently meeting the TSR performance condition for the 2003 awards under the HSBC Holdings Group Share Option Plan, HSBC Holdings has delivered impressive and sustained performance and shareholder returns over the same period. Earnings per share (EPS) for 2002 (which was calculated on a UK GAAP basis, excluding goodwill amortisation) was US$0.76 and for 2005 (now prepared under IFRSs) it was US$1.36, representing an increase of 79 per cent. Dividends per share have grown by 38 per cent over the same period. The cash return on cash invested has improved from 12.9 per cent in 2002 to 15.7 per cent in 2005.

In light of the above the Committee has decided that if the performance condition is not satisfied at the end of March 2006, the Committee will exercise its discretion to waive the performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan. This waiver will not apply to awards with performance conditions which were granted to senior executives under the French sub-plan of the HSBC Holdings Group Share Option Plan.

To encourage greater participation in the HSBC Holdings Savings-Related Share Option Plan: International, two amendments were approved at the 2005 Annual General Meeting. The first was the introduction of the facility to save and have option prices expressed in US dollars, Hong Kong dollars and euros as well as in pounds sterling. The maximum savings limit of £250 per month will continue to apply but be converted to the other currencies on a consistent and appropriate date. The second amendment gives individuals the choice of options over one year in addition to three and five year terms. This change carries tax advantages in certain jurisdictions.

The impact on earnings per share of granting share options which are to be satisfied by the issue of new shares is shown in diluted earnings per share on the face of the consolidated income statement, with further details disclosed in Note 12 of the 'Notes on the Financial Statements' on page 276 of the *Annual Report and Accounts 2005*. The effect on basic earnings per share of exercising all outstanding share options would be to dilute it by 0.4 per cent.

The new UK pensions tax regime introduced by the Finance Act 2004 means that the current pension arrangements may cease to be tax effective for some employees. The changes become effective from 6 April 2006. In anticipation of these changes, the Remuneration Committee established some principles when formulating its policy response:

1. the cost of executive pension provision should not increase;
2. HSBC should not compensate individuals for changes in the tax regime; and
3. HSBC should make available an effective alternative form of reward where current pension provision is no longer tax effective for senior executives.

After taking advice and considering market data, all UK employees whose pension arrangements may cease to be a tax-effective reward mechanism with defined benefit pension provision will be offered the following choices:

1. retain their current pension plan membership; or
2. opt out of the current pension plan to receive either (i) a salary supplement, paid monthly, in lieu of pension provision; or (ii) a pension promise from HSBC that will pay the same benefit as if the executive had continued in the current plan (provided on an unfunded basis).

UK employees whose pension arrangements may cease to be a tax-effective reward mechanism with defined contribution pension provision will be offered the following choices:

1. retain their current pension plan membership; or
2. a salary supplement, paid monthly, in lieu of pension provision of the same amount as the current employer pension contribution.

Directors and Senior Management

HSBC's operations are substantial, diverse and international; for example, over 79 per cent of profit before tax is derived from outside the United Kingdom.

The HSBC Holdings Board comprises 15 non-executive Directors and five executive Directors. With businesses in 76 countries and territories, HSBC aims to attract Directors with a variety of experience, both in its key areas of activity and internationally. The Board currently includes nationals of four different countries. The five executive Directors, seven Group Managing Directors and 29 Group General Managers have in total more than 945 years of service with HSBC.

Directors' fees

Directors' fees are regularly reviewed and compared with other large international companies. The current fee, which was approved by shareholders in 2004, is £55,000 per annum. With effect from 1 January 2005 all executive Directors waived their rights to receive a Director's fee from HSBC Holdings. Having considered comprehensive data it is clear that the current Director's fee is below the level paid in other major UK companies. The approval of shareholders will therefore be sought at the 2006 Annual General Meeting for the fee for non-executive Directors to be increased to £65,000 per annum with effect from 1 January 2006.

In addition, non-executive Directors receive, from 1 January 2006, the following fees:

Chairman, Audit Committee	£50,000 p.a.
Member, Audit Committee	£20,000 p.a.

During 2005, seven Audit Committee meetings were held. A Director's commitment to each meeting, including preparatory reading and review, can be 15 hours or more.

Chairman, Remuneration Committee	£40,000 p.a.
Member, Remuneration Committee	£20,000 p.a.

During 2005, seven meetings of the Remuneration Committee were held.

Chairman, Nomination Committee	£30,000 p.a.
Member, Nomination Committee	£20,000 p.a.

During 2005, three meetings of the Nomination Committee were held.

Chairman, Corporate Social Responsibility Committee	£30,000 p.a.
Member, Corporate Social Responsibility Committee	£20,000 p.a.

During 2005, four meetings of the Corporate Social Responsibility Committee were held.

Executive Directors

The executive Directors are experienced executives with detailed knowledge of the financial services business in various countries. In most cases there has been a need to attract them from abroad to work in the United Kingdom.

Consistent with the principles applied by the Committee to employees generally, there are four key components to the executive Directors' remuneration:

- salary;
- annual cash bonus;
- long-term incentives; and
- pension.

The level of awards available to the executive Directors under the annual cash bonus scheme and as Performance Shares is entirely dependent on performance. Remuneration policy for executive Directors is intended to provide competitive rates of base salary but with the potential for the majority of the value of the remuneration package to be delivered in the form of both short- and long-term incentives. This typically results in base salary comprising around 30 per cent of total direct pay and the remaining 70 per cent split between annual bonus and the expected value of Performance Share awards.

Each component of executive Directors' remuneration is explained in detail below as it applies to 2006 and, as far as possible, for subsequent years. Any changes in policy for subsequent years will be described in future reports on Directors' remuneration.

Salary

The Committee reviews salary levels for executive Directors each year in the same context as other employees. With reference to market practice and taking account of the international nature of the Group, the Committee benchmarks the salary of each Director and member of Senior Management against those of comparable executives in large, diverse companies.

Base salaries with effect from March 2006 will be:

Sir John Bond	£1,400,000
D J Flint	£575,000
M F Geoghegan	£1,000,000
S K Green	£1,250,000
A W Jebson	£550,000

To assist with a smooth transition to the revised organisation structure announced in November 2005 and with the aim of having only one salary adjustment per year, the salary increases for S K Green and M F Geoghegan incorporate adjustments for their new appointments as Group Chairman and Group Chief Executive respectively.

Annual cash bonus

Cash bonuses for executive Directors are based on two key factors: individual performance, taking into account, as appropriate, results against plan of the business unit or performance of the support function for which the individual is responsible; and Group performance, measured by comparing operating profit before tax with plan. The Remuneration Committee has discretion to eliminate extraordinary items when assessing bonuses, if the main cause did not arise during the current bonus year.

Measurement against these key performance factors may result in discretionary cash bonuses of up to 250 per cent of basic salary for executive Directors.

Long-term incentive plan

Long-term incentive plans are designed to reward the delivery of sustained financial growth of HSBC. So as to align the interests of the Directors and senior employees more closely with those of shareholders, the vesting of Performance Share awards is subject to the attainment of predetermined performance criteria.

As part of the comprehensive review of share-based remuneration in 2004-2005, the Remuneration Committee considered whether the continued use of Performance Shares was appropriate. The Committee considered several other types of arrangement but concluded that Performance Shares remain the most appropriate vehicle for HSBC's executive Directors and Senior Management.

Following approval at the 2005 Annual General Meeting, The HSBC Share Plan has replaced the HSBC Holdings Restricted Share Plan 2000 and the HSBC Holdings Group Share Option Plan as the plan under which long-term incentive awards are made.

The vesting of Performance Share awards under The HSBC Share Plan is more challenging and highly geared to performance than under the previous arrangements. Vesting is now based on two independent measures, relative Total Shareholder Return and growth in earnings per share, both of which are considered by the Remuneration Committee to be key measures of the Group's overall business success.

Awards under The HSBC Share Plan can be up to a maximum of seven times salary. Whilst having flexibility to make awards at this level in certain exceptional circumstances, the Remuneration Committee does not intend seven times salary to be the normal level of award. The average face value of the awards proposed for executive Directors is 2.3 times base salary; proposed individual awards are set out in the table below. The average face value of awards proposed for 2006 for Group Managing Directors and Group General Managers is 1.6 times salary; no award is higher than four times salary.

Further details of the performance conditions and vesting arrangements for The HSBC Share Plan are set out below. A summary of the arrangements relevant to previous awards of Performance Shares under The HSBC Holdings Restricted Share Plan 2000 is also given.

2006 Awards

The Remuneration Committee is proposing that the conditional awards shown in the table below should be made to executive Directors in 2006. The table shows the face value of the full conditional awards and their approximate expected value.

	Face value *£000*	*Expected value* *£000*
D J Flint	1,600	704
M F Geoghegan	2,000	880
S K Green	2,500	1,100
Total	6,100	2,684

The higher face value of these awards reflects the significantly more challenging vesting schedule of The HSBC Share Plan where maximum value will only be released to the individual if Group performance is at a very high level.

The Trustee to the Plan will be provided with funds to acquire HSBC Holdings ordinary shares at an appropriate time after the announcement of the annual results.

Sir John Bond and A W Jebson, who are to retire at the conclusion of the forthcoming Annual General Meeting, will not receive a long-term incentive awards in 2006.

Performance conditions

Awards of Performance Shares under The HSBC Share Plan are divided into two equal parts subject to separate performance conditions measured over a three-year performance period ('the performance period'):

- the Total Shareholder Return award ('TSR award'): one half of the award of Performance Shares will be subject to a relative TSR measure. TSR is defined as the growth in share value and declared dividend income, measured in sterling, during the relevant period. In calculating TSR, dividend income is assumed to be reinvested in the underlying shares. As the comparator group includes companies listed on overseas markets, a common currency is used to ensure that TSR is measured on a consistent basis; and
- the earnings per ordinary share award ('EPS award'): the other half of the Performance Share award will be based upon the absolute growth in EPS achieved by HSBC Holdings. For this purpose, EPS means the profit attributable to the shareholders (expressed in US dollars), divided by the weighted average number of ordinary shares in issue and held outside the Group during the year in question.

The TSR award is based on HSBC's ranking against a comparator group of 28 major banks. The comparator group will generally comprise the largest banks in the world measured in terms of market capitalisation, having regard to the geographic spread and the nature of the activities of each bank. The Remuneration Committee will use these criteria in selecting any replacements to the comparator group that may be necessary during the performance period, for example because a bank ceases to exist or to be quoted or if its relevance to HSBC as a comparator significantly diminishes.

The TSR comparator group at 6 March 2006 comprises ABN AMRO Holding N.V., Banco Bilbao Vizcaya Argentaria S.A, Banco Santander Central Hispano S.A., Bank of America Corporation, The Bank of New York Company, Inc., Barclays PLC, BNP PARIBAS S.A., Citigroup Inc., Crédit Agricole S.A., Credit Suisse Group, Deutsche Bank AG, HBOS plc, JPMorgan Chase & Co., Lloyds TSB Group plc, Mitsubishi Tokyo Financial Group, Inc., Mizuho Financial Group, Inc., Morgan Stanley, National Australia Bank Limited, Royal Bank of Canada, The Royal Bank of Scotland Group plc, Société Générale, Standard Chartered PLC, UBS AG, UniCredito Italiano S.p.A., US Bancorp, Wachovia Corporation, Wells Fargo & Company and Westpac Banking Corporation.

The extent to which the TSR award will vest will be determined on a sliding scale based on HSBC Holdings' relative TSR ranking against the comparator group. The opening calculation of the share price component within HSBC Holdings' TSR will be the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 2006 is 6 March. The starting point will be, therefore, the average over the period 6 March to 31 March 2006 inclusive. The end point will be the average market price over the 20 trading days commencing on the day on which the annual results are announced three years later. TSR for comparator group constituents will be calculated over the same two periods.

For TSR performance in line with the bank ranked 14th, only 30 per cent of the conditional TSR award will vest; if HSBC's performance is in line with or above the bank ranked seventh in the ranked list all of the TSR award shares will vest.

Vesting between the 14th and seventh ranked banks will be based on HSBC's position against the ranked list. In simple terms, the percentage vesting will start at 30 per cent and will rise in 10 per cent increments for each position that HSBC achieves higher than the 14th bank in the ranked list until full vesting is achieved for TSR performance equal to or greater than the seventh bank in the ranked list. Where HSBC's performance falls between these incremental steps, account will be taken of HSBC's TSR performance relative to the banks immediately above and below it.

For example, if HSBC's TSR falls half way between the bank ranked 12th (where, a release of 50 per cent of the TSR award would occur) and the bank ranked 13th (where a release of 40 per cent of the TSR award would occur), then the actual proportion of the TSR award released would be 45 per cent, i.e. half way between 40 per cent and 50 per cent.

For the EPS award, the base measure shall be EPS for the financial year preceding that in which the award is made ('the base year'). EPS will then be compared with the base year over three consecutive financial years commencing with the year in which the award is made. Incremental EPS shall be calculated by expressing as a percentage of the EPS of the base year the difference each year of the three-year performance period between the EPS of that year and the EPS of the base year (with a negative percentage for any year in which the EPS is less than the EPS of the base year). These percentages will then be aggregated to arrive at the total incremental EPS for the performance period. In the event that the published EPS for the base year is restated during the performance period to adjust for changes in accounting standards, that restated EPS will be used for the purposes of the EPS performance condition.

The percentage of the conditional EPS award vesting will depend upon the absolute growth in EPS achieved over the three years. Thirty per cent of the EPS award will vest if the incremental EPS over the performance period is 24 per cent or more.

The percentage of shares vesting will rise on a straight line proportionate basis to 100 per cent if HSBC's incremental EPS over the performance period is 52 per cent or more.

No element of the TSR award will vest if over the three-year performance period HSBC's TSR is below that of the bank ranked 14th in the comparator group list and no element of the EPS award will vest if HSBC's incremental EPS over the performance period is less than 24 per cent.

To the extent that the performance conditions have not been met at the third anniversary, the shares awarded will be forfeited.

In addition, 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 has achieved a sustained improvement in performance the Remuneration Committee will take account of all relevant factors but in particular the historical comparison against the comparator group in the following areas:

1. revenue growth;
2. revenue mix;
3. cost efficiency;
4. credit performance as measured by risk-adjusted revenues; and
5. cash return on cash invested, dividend performance and total shareholder return.

Following the three-year performance period, the conditions applying to awards of Performance Shares under The HSBC Share Plan will be tested and vesting will take place shortly afterwards. Shares released will include additional shares equivalent to the value of the dividends payable on the vested shares over the performance period, where permitted by the laws of the relevant jurisdiction.

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

Awards will vest in full immediately in cases of death. In the event of redundancy, retirement on grounds of injury or ill health, early retirement by agreement, normal retirement and where a participant ceases to be employed by 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 TSR performance condition has been satisfied. Awards will normally be forfeited if the participant is dismissed or resigns from HSBC. In all these circumstances the Committee retains discretion to ensure fair and reasonable treatment.

Arrangements from 2000-2004

For awards made from 2000 to 2004, vesting was linked to the attainment of predetermined TSR targets over a three-year period from date of award as set out below.

The extent to which each award will vest will be determined by reference to HSBC Holdings' TSR measured against the TSR benchmark. If HSBC Holdings' TSR over the performance period exceeds the benchmark TSR, awards with a value, at the date of grant, of up to 100 per cent of the individual's earnings (base salary and bonus in respect of the previous performance year), will vest. For higher value awards, the greater of 50 per cent of the award or the number of shares equating at the date of grant to 100 per cent of the individual's earnings, will vest at this level of performance. If HSBC Holdings' TSR over the performance period places it within the upper quartile of the ranked list of the banks comprising the benchmark, these higher value awards will vest in full. For performance between the median and the upper quartile, vesting will be on a straight-line basis.

The Performance Shares awarded in 2000 passed their three-year TSR performance condition in March 2003 and vested on the fifth anniversary of the award, 10 March 2005. The Performance Shares awarded in 2001 and 2002 have passed their three-year TSR performance conditions and will vest on the fifth anniversaries of the awards, 13 March 2006 and 8 March 2007 respectively.

For awards made in 2003 the initial performance period is three years. If the upper quartile performance target is achieved at the third anniversary of the date of award then an additional award equal to 20 per cent of the initial Performance Share award will be made and will vest at the same time as the original award to which it relates. However, regardless of whether the upper quartile is achieved, full vesting and transfer of the shares will not generally occur until the fifth anniversary of the date of grant. For awards made in 2004, the conditions are the same but, if the performance test is not passed at the third anniversary, the shares will be forfeited.

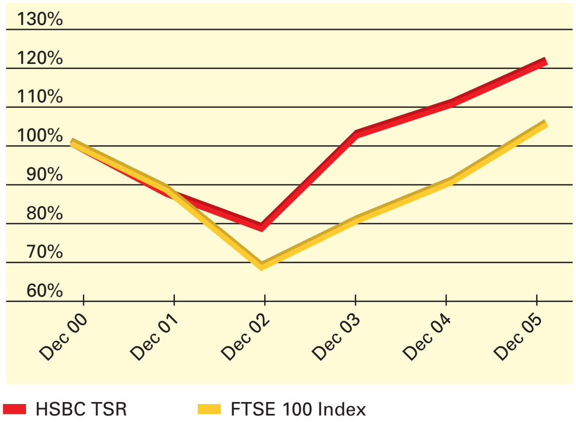
In addition to these performance conditions, none of the outstanding awards will vest unless the Remuneration Committee is satisfied that, during the performance period, HSBC has achieved sustained growth. The Remuneration Committee retains discretion to recommend early release of shares awarded in certain circumstances, for example, retirement, redundancy or ill health.

Where events occur which cause the Remuneration Committee to consider that the performance conditions have become unfair or impractical the right is reserved for the Committee to amend or substitute the performance conditions. The Committee believes that the continued use of a single TSR measure in the awards made in 2003 and 2004 may give rise to unfairness given that EPS for 2002 (which was calculated on a UK GAAP basis, excluding goodwill amortisation) was US$0.76 and for 2005 (now prepared under IFRSs) it was US$1.36, representing an increase of 79 per cent. Dividends per share have grown by 38 per cent over the same period and the share price has risen by 51.3 per cent from 31 March 2003 to 28 February 2006. The cash return on cash invested has improved from 12.9 per cent in 2002 to 15.7 per cent in 2005. The Committee intends to undertake a review of the appropriateness of the single TSR performance measure for Performance Share awards made in 2003 and 2004. As part of this review the Committee will ensure appropriate consultation is undertaken with shareholders and their representatives.

Total Shareholder Return

Pursuant to the Directors' Remuneration Report Regulations 2002, the graph below shows HSBC Holdings' TSR performance against the FTSE 100 Index for the five-year period ended 31 December 2005. The FTSE 100 has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.

HSBC TSR and FTSE 100 Index



Source: Datastream

Pensions

The pension entitlements earned by the executive Directors during the year are set out on pages 48 and 49.

Service contracts and terms of appointment

HSBC's policy is to employ executive Directors on one-year rolling contracts although, on recruitment, longer initial terms may be approved by the Remuneration Committee. The Remuneration Committee will, consistent with the best interests of the Group, seek to minimise termination payments.

No current executive Director has a service contract with HSBC Holdings or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind. There are no provisions for compensation upon early termination of any current executive Directors' service contracts.

In the case of W F Aldinger, who retired as a Director on 29 April 2005, there was an exception to the general policy on director's service contracts. Details of the arrangements relating to W F Aldinger, were set out in the 2004 'Directors' Remuneration Report'. The Remuneration Committee reviewed the financial and other terms which were reflected in an amendment agreement between HSBC Finance and Mr Aldinger. Having reviewed the relevant factors and circumstances, the Committee considered that these financial and other terms were appropriate and in the best interests of the Group.

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at subsequent Annual General Meetings. Non-executive Directors have no service contract and are not eligible to participate in HSBC's share plans. Non-executive Directors' terms of appointment will expire as follows: in 2006, Sir John Kemp-Welch; in 2007, Lord Butler, R K F Ch'ien, Baroness Dunn, R A Fairhead, W K L Fung, S Hintze, Sir Brian Moffat, Sir Mark Moody-Stuart and H Sohmen; in 2008, J D Coombe and J W J Hughes-Hallett; and in 2009, S W Newton, S M Robertson and Sir Brian Williamson.

Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 2005 were as follows:

	Fees[1] *£000*	*Salary and other remuneration £000*	*Benefits in kind*[2] *£000*	*Bonuses £000*	*Total 2005 £000*	*Total 2004 £000*
Executive Directors						
W F Aldinger[3]	–	2,609[4]	34	716[5]	3,359	2,822
Sir John Bond	–	1,286	2	3,191[6]	4,479	3,649
D G Eldon[7]	–	286	180	144[6]	610	1,317
D J Flint	–	679[8]	11	500[6]	1,190	1,166
M F Geoghegan	–	658	13	–[9]	671	546
S K Green	–	778	1	1,750[6]	2,529	1,757
AW Jebson	–	545	2	1,000[6]	1,547	1,026
Non-executive Directors						
Lord Butler	90	–	–	–	90	90
R K F Ch'ien	187[10]	–	–	–	187	186
J D Coombe[11]	53	–	–	–	53	–
Baroness Dunn	70	–	–	–	70	70
R A Fairhead	70	–	–	–	70	58
W K L Fung	117[12]	–	–	–	117	117
S Hintze	85	–	–	–	85	85
J W J Hughes-Hallett[11]	46	–	–	–	46	–
Sir John Kemp-Welch	85	–	–	–	85	85
Sir Brian Moffat	115	–	–	–	115	115
Sir Mark Moody-Stuart	85	–	–	–	85	75
S W Newton	55	–	–	–	55	55
H Sohmen	16[13]	–	–	–	16	39
C S Taylor[14]	12	–	–	–	12	95
Sir Brian Williamson	70	–	–	–	70	59
Total	1,156	6,841	243	7,301	15,541	16,226[15]
Total (US$000)	2,100	12,428	441	13,264	28,233	29,722

1 *With effect from 1 January 2005, Sir John Bond, D J Flint, M F Geoghegan, S K Green and A W Jebson waived their rights to receive a Director's fee from HSBC Holdings (2005: £55,000, 2004: £55,000). W F Aldinger (2005: £18,333) and D G Eldon (2005: £22,917) had previously elected to waive any fees payable by HSBC Holdings (2004: £55,000).*
2 *Benefits in kind for executive Directors include provision of company car, medical insurance, other insurance cover and travel assistance.*
3 *Retired as a Director on 29 April 2005.*
4 *Includes a payment of US$4.6 million in lieu of salary and bonus under the terms of the amendment agreement.*
5 *Determined under the terms of the amendment agreement.*
6 *These discretionary bonuses are in respect of 2005 and were paid in 2006.*
7 *Retired as a Director on 27 May 2005. The emoluments of D G Eldon include a fee from The Hongkong and Shanghai Banking Corporation and housing and other expatriate benefits in kind that are normal within the location in which he is employed.*
8 *Includes an executive allowance of £154,269 (2004: £137,100) paid to fund personal pension arrangements.*
9 *In return for the prior waiver of bonus, an employer contribution has been made into a pension arrangement for M F Geoghegan equal to the amount of £1,818,750 which would otherwise have been paid. The bonus waived in respect of 2005 when added to the bonus waived in respect of 2004 (£1,200,000) equals 250 per cent of salary earned during 2004 and 2005.*
10 *Includes fees as non-executive Chairman of HSBC Private Equity (Asia) Limited and as a non-executive Director of The Hongkong and Shanghai Banking Corporation.*
11 *Appointed as a Director on 1 March 2005.*
12 *Includes fee as a non-executive Director of The Hongkong and Shanghai Banking Corporation.*
13 *Fees as a non-executive Director and member of the Audit Committee of The Hongkong and Shanghai Banking Corporation. H Sohmen has elected to waive any fees payable to him by HSBC Holdings (2005: £55,000; 2004: £55,000).*
14 *Retired as a Director on 14 March 2005.*
15 *Includes the emoluments of Directors who retired in 2004.*

Pensions

There are separate schemes for UK-based and overseas-based employees: the UK scheme has a normal retirement age of 60; retirement ages for overseas schemes vary in accordance with local legislation and practice. Save as stated below no other Director participated in any HSBC pension schemes, none of the Directors participating in HSBC's UK 'approved' pension schemes is subject to the earnings cap introduced by the 1989 Finance Act and only basic salary is pensionable. With the exception of D J Flint, the current executive Directors are members of defined benefit pension schemes, having joined HSBC at a time when these were the norm.

The pension arrangements for Sir John Bond, S K Green and A W Jebson to contractual retirement age of 60 are provided under the HSBC Bank (UK) Pension Scheme. The pensions accrue at a rate of one-thirtieth of pensionable salary for each year of pensionable service in the UK.

The existing pension arrangements for D J Flint to contractual retirement age of 60 are provided through an executive allowance set at 30 per cent of basic salary which is paid to fund personal pension arrangements. In addition he participates in the HSBC Holdings plc Funded Unapproved Retirement Benefits Scheme on a defined contribution basis with an employer contribution during 2005 of £92,500 (2004: £86,013). The intention of these arrangements is to provide benefits broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service. From 5 April 2006, this Funded Unapproved Retirement Benefits Scheme will be closed. So as to ensure that pension arrangements for Mr Flint remain broadly comparable to the existing arrangements, the executive allowance will increase to 55 per cent of annual basic salary.

The pension arrangements for D G Eldon are provided under the HSBC International Staff Retirement Benefits Scheme with a normal accrual rate of one twenty-seventh of pensionable salary per year of pensionable service. These arrangements are part of a remuneration package which includes a number of expatriate benefits.

Since his appointment as an executive Director in 2004, M F Geoghegan has remained a member of the HSBC International Staff Retirement Benefits Scheme whilst no longer in receipt of expatriate benefits. A full review of Mr Geoghegan's remuneration identified, in particular, that his pensionable pay of £252,000 was not aligned to his actual 2005 gross salary of £632,500. To bring his pension arrangements to a level more appropriate to both to his actual gross salary and his more than 30 years of service, Mr Geoghegan's pension provision will be adjusted to reflect his actual gross salary. The transfer value will be placed into a defined contribution arrangement in Mr Geoghegan's name with no further funding from HSBC after 31 March 2006. Thereafter, he will receive an annual executive allowance of 50 per cent of annual salary to find personal pension arrangements.

In addition, Mr Geoghegan participates in the HSBC Asia Holdings Pension Plan, on a defined contribution basis, with an employer contribution in respect of 2005 of £1,818,750 (2004: £1,200,000), arising entirely from a bonus sacrifice. There were no other employer contributions made to this plan.

	Accrued annual pension at 31 December 2005 £000	*Increase in accrued pension during 2005 £000*	*Increase in accrued pension during 2005, excluding any increase for inflation £000*	*Transfer value of accrued pension at 1 January 2005 £000*[1]	*Transfer value of accrued pension at 31 December 2005 £000*[1]	*Increase of transfer value of accrued pension (less personal contributions) in 2005 £000*[1]	*Transfer value (less personal contributions) at 31 December 2005 relating to increase in accrued pensions during 2005, excluding any increase for inflation £000*[1]
Sir John Bond[2]	546	34	20	9,230	10,667	1,438	395
D G Eldon[3,4]	290	12	10	5,275	5,596	313	179
M F Geoghegan[5,6]	557	372	367	4,042	12,495	8,436	8,230
S K Green	335	47	40	4,401	5,758	1,357	682
A W Jebson	200	19	14	2,612	3,231	619	225

1 *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.*

2 *On attaining age 60, Sir John Bond has been able, under the terms of the scheme, to retire at any time with an immediate pension equal to his accrued pension which, at 31 December 2005, is shown above.*

3 *Retired as a Director on 27 May 2005. On attaining age 53, D G Eldon was able, under the terms of the scheme, to retire at any time with an immediate pension equal to his accrued pension which, at 31 December 2005, is shown above.*

4 *D G Eldon retired from the Group with effect from 30 May 2005. He elected to commute all of his pension entitlement of £290,000 per annum for a lump sum of £3,770,000. The HSBC International Staff Retirement Benefits Scheme retains a liability to pay a contingent spouse's pension equal to 50 per cent of the commuted pension. The accrued pensions and transfer values stated in the above table do not reflect the commutation of the pension entitlement on retirement. As required by the rules of the HSBC International Staff Retirement Benefits Scheme, D G Eldon made personal contributions towards his pension of £8,119 in respect of 2005.*

5 *As required by the rules of the HSBC Incremental Retirement Benefit Scheme, M F Geoghegan made personal contributions towards his pension of £16,797 in respect of 2005.*

6 *As at 31 March 2006, under the revised pension arrangements described above, the accrued pension will amount to £571,000 per annum and it is estimated that the Transfer Value of that accrued pension, at that date, will amount to £12,919,000.*

Share options

At 31 December 2005, the undernamed Directors held options to acquire the number of HSBC Holdings ordinary shares set against their respective names.

HSBC Holdings Savings-Related Share Option Plan

HSBC Holdings ordinary shares of US$0.50

	Options held at 1 January 2005	*Options awarded during year*	*Options exercised during year*	*Options held at 31 December 2005*	*Exercise price (£)*	*Date of award*	*Exercisable from[1]*	*Exercisable until*
Sir John Bond	2,798	–	2,798[2]	–	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D J Flint	2,617	–	–	2,617[2]	6.3224	2 May 2002	1 Aug 2007	31 Jan 2008
M F Geoghegan	559	–	–	559[3]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
S K Green	3,070	–	–	3,070[2]	5.3496	23 Apr 2003	1 Aug 2008	31 Jan 2009

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *At the day of exercise, 2 August 2005, the market value per share was £9.32.*
3 *Options over 533 shares were exercised on 31 January 2006 and options over 26 shares lapsed on that date. At the date of exercise, the market value per share was £9.34.*

HSBC Holdings Restricted Share Plan 2000

HSBC Holdings ordinary shares of US$0.50

	Awards held at 1 January 2005	*Awards vested during the year[1]*	*Monetary value of awards vested during the year £000*	*Awards held at 31 December 2005[1]*	*Date of award*	*Year in which awards may vest*
W F Aldinger	670,821	687,435[2]	5,754	–	15 Apr 2003	2005 to 2006[2]
	379,232	388,623[3]	3,249	–	10 May 2004	2005 to 2007[3]
Sir John Bond	93,405	94,119[4]	798	–	10 Mar 2000	2005
	87,535	–	–	91,276	12 Mar 2001	2006
	131,077	–	–	136,679	8 Mar 2002	2007
	174,929	–	–	182,406	5 Mar 2003	2008
	252,771	–	–	263,574	4 Mar 2004	2009
D G Eldon	42,458	42,781[4]	363	–	10 Mar 2000	2005
	50,021	51,712[5]	449	–	12 Mar 2001	2006
	55,191	57,056[5]	*495*	–	8 Mar 2002	2007
	10,220	10,472[6]	87	–	15 May 2002	2005
	79,513	61,651[5]	535	20,729[7]	5 Mar 2003	2008
	13,892	–	–	14,486[8]	12 May 2003	2006
	90,276	38,886[5]	338	54,913[7]	4 Mar 2004	2009
D J Flint	38,211	38,502[4]	326	–	10 Mar 2000	2005
	62,525	–	–	65,198	12 Mar 2001	2006
	82,786	–	–	86,324	8 Mar 2002	2007
	119,270	–	–	124,367	5 Mar 2003	2008
	125,182	–	–	130,532	4 Mar 2004	2009
M F Geoghegan	33,965	34,224[4]	290	–	10 Mar 2000	2005
	37,515	–	–	39,119	12 Mar 2001	2006
	41,393	–	–	43,162	8 Mar 2002	2007
	55,661	–	–	58,040	5 Mar 2003	2008
	93,887	–	–	97,899	4 Mar 2004	2009
S K Green	42,458	42,781[4]	363	–	10 Mar 2000	2005
	87,535	–	–	91,276	12 Mar 2001	2006
	103,482	–	–	107,905	8 Mar 2002	2007
	119,270	–	–	124,367	5 Mar 2003	2008
	172,125	–	–	179,481	4 Mar 2004	2009
	–					
A W Jebson	33,965	34,224[4]	290	–	10 Mar 2000	2005
	75,030	–	–	78,237	12 Mar 2001	2006
	96,584	–	–	100,712	8 Mar 2002	2007
	119,270	–	–	124,368	5 Mar 2003	2008
	125,182	–	–	130,532	4 Mar 2004	2009

Unless otherwise indicated, these awards are subject to the performance tests set out in the section headed 'Arrangements from 2000-2004' on page 46. The awards made on 12 March 2001 and 8 March 2002 have passed their TSR performance conditions. Under the Securities and Futures Ordinance of Hong Kong, interests held through the HSBC Holdings Restricted Share Plan 2000 are categorised as the interests of a beneficiary of a Trust.

1 *Includes additional shares arising from scrip dividends.*
2 *Under the terms of this award the shares vested in three instalments on each of the first three anniversaries of 31 March 2003 so long as Mr Aldinger remained employed on the relevant vesting date, subject to accelerated vesting upon a termination of cause, or by Mr Aldinger for good reason or due to his death or disability. 341,463 shares therefore vested on 31 March 2005 when the market price was £8.37. Pursuant to the amendment agreement referred to above, the remaining 345,972 shares vested on Mr Aldinger's retirement as a Director on 29 April 2005 when the market price was £8.355. At the date of the award, 15 April 2003, the market value per share was £6.81.*

3 *Under the terms of this award the shares vested in three instalments on each of 31 March 2005, 2006 and 2007 so long as Mr Aldinger remained employed on the relevant vesting date, subject to accelerated vesting upon a termination of cause, or by Mr Aldinger for good reason or due to his death or disability. 128,245 shares therefore vested on 31 March 2005 when the market price was £8.37. Pursuant to the amendment agreement referred to above, the remaining 260,378 shares vested on Mr Aldinger's retirement as a Director on 29 April 2005 when the market price was £8.355. At the date of the award, 10 May 2004, the market value per share was £7.94.*

4 *The performance tests described in the 'Report of the Directors' in the* Annual Report and Accounts 2000 *and set out in the section headed 'Arrangements from 2000-2004' on pages 221 to 223 of the* Annual Report and Accounts 2005 *have been met and the shares have vested. At the date of vesting, 10 March 2005, the market value per share was £8.48. The market value per share at the date of the award, 10 March 2000, was £7.09.*

5 *Retired as a Director on 27 May 2005. At the date of vesting, 31 May 2005, the market value per share was £8.68. The market values per share at the dates of the awards, 12 March 2001, 8 March 2002, 5 March 2003 and 4 March 2004 were £8.62, £8.34, £6.70 and £8.515 respectively.*

6 *50 per cent of D G Eldon's discretionary bonus in respect of 2001 was awarded in Restricted Shares with a three-year restricted period. At the date of vesting, 29 April 2005, the market value per share was £8.355. The market value per share at the date of the award, 15 May 2002, was £8.635.*

7 *Interests at date of retirement as a Director (27 May 2005).*

8 *Interests at date of retirement as a Director (27 May 2005). 50 per cent of D G Eldon's discretionary bonus in respect of 2002 was awarded in Restricted Shares with a three year restricted period.*

The HSBC Share Plan

HSBC Holdings ordinary shares of US$0.50

	Awards held at 1 January 2005	*Awards made during period*[1]	*Monetary value of awards made during period £000*	*Awards held at 31 December 2005*[2]	*Date of award*	*Year in which awards may vest*
Sir John Bond	–	458,389	4,000	474,353	27 May 2005	2008
D J Flint	–	171,896	1,500	177,883	27 May 2005	2008
M F Geoghegan	–	229,195	2,000	237,177	27 May 2005	2008
S K Green	–	286,493	2,500	296,471	27 May 2005	2008
A W Jebson	–	162,155	1,415	167,803	27 May 2005	2008

Unless otherwise indicated, vesting of these shares is subject to the performance conditions described on pages 44 to 46 being satisfied. Under the Securities and Futures Ordinance of Hong Kong, interests in The HSBC Share Plan are categorised as the interests of a beneficiary of a Trust.

1 *At the date of the award, 27 May 2005, the market value per share was £8.68. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.726.*

2 *Includes additional shares arising from scrip dividends.*

On behalf of the Board
Sir Mark Moody-Stuart, *Chairman of Remuneration Committee* — 6 March 2006

Summary Consolidated Income Statement

Summary Financial Statement

2004 US$m	Year ended 31 December	2005 US$m	2005 £m	2005 HK$m
50,471	Interest income	**60,094**	*33,052*	*467,411*
(19,372)	Interest expense	**(28,760)**	*(15,817)*	*(223,694)*
31,099	**Net interest income**	**31,334**	*17,235*	*243,717*
15,902	Fee income	**17,486**	*9,617*	*136,006*
(2,954)	Fee expense	**(3,030)**	*(1,666)*	*(23,567)*
12,948	**Net fee income**	**14,456**	*7,951*	*112,439*
2,786	Trading income excluding net interest income	**3,656**	*2,011*	*28,436*
–	Net interest income on trading activities	**2,208**	*1,214*	*17,174*
2,786	**Net trading income**	**5,864**	*3,225*	*45,610*
–	Net income from financial instruments designated at fair value	**1,034**	*569*	*8,042*
1,012	Net investment income on assets backing policyholders' liabilities	**–**	*–*	*–*
540	Gains less losses from financial investments	**692**	*381*	*5,382*
622	Dividend income	**155**	*85*	*1,206*
5,368	Net earned insurance premiums	**5,436**	*2,990*	*42,280*
1,613	Other operating income	**2,733**	*1,502*	*21,256*
55,988	**Total operating income**	**61,704**	*33,938*	*479,932*
(4,635)	Net insurance claims incurred and movement in policyholders' liabilities	**(4,067)**	*(2,237)*	*(31,633)*
51,353	**Net operating income before loan impairment charges and other credit risk provisions**	**57,637**	*31,701*	*448,299*
(6,191)	Loan impairment charges and other credit risk provisions	**(7,801)**	*(4,290)*	*(60,677)*
45,162	**Net operating income**	**49,836**	*27,411*	*387,622*
(14,523)	Employee compensation and benefits	**(16,145)**	*(8,880)*	*(125,576)*
(9,739)	General and administrative expenses	**(11,183)**	*(6,150)*	*(86,977)*
(1,731)	Depreciation of property, plant and equipment	**(1,632)**	*(898)*	*(12,694)*
(494)	Amortisation of intangible assets	**(554)**	*(305)*	*(4,309)*
(26,487)	**Total operating expenses**	**(29,514)**	*(16,233)*	*(229,556)*
18,675	**Operating profit**	**20,322**	*11,178*	*158,066*
268	Share of profit in associates and joint ventures	**644**	*353*	*5,010*
18,943	**Profit before tax**	**20,966**	*11,531*	*163,076*
(4,685)	Tax expense	**(5,093)**	*(2,800)*	*(39,616)*
14,258	**Profit for the year**	**15,873**	*8,731*	*123,460*
12,918	Profit attributable to shareholders of the parent company	**15,081**	*8,295*	*117,300*
1,340	Profit attributable to minority interests	**792**	*436*	*6,160*
US$		**US$**	*£*	*HK$*
1.18	Basic earnings per ordinary share	**1.36**	*0.75*	*10.58*
1.17	Diluted earnings per ordinary share	**1.35**	*0.74*	*10.50*
0.63	Dividends per ordinary share	**0.69**	*0.38*	*5.36*

Summary Consolidated Balance Sheet

Summary Financial Statement

2004 US$m		2005 US$m	2005 £m	2005 HK$m
	ASSETS			
9,944	Cash and balances at central banks	**13,712**	*7,967*	*106,323*
6,338	Items in the course of collection from other banks	**11,300**	*6,565*	*87,620*
11,878	Hong Kong Government certificates of indebtedness	**12,554**	*7,294*	*97,344*
122,160	Trading assets	**190,257**	*110,539*	*1,475,251*
–	Trading assets which may be repledged or resold by counterparties	**42,652**	*24,781*	*330,724*
–	Financial assets designated at fair value	**15,046**	*8,742*	*116,667*
32,190	Derivatives	**73,928**	*42,952*	*573,238*
143,449	Loans and advances to banks	**125,965**	*73,186*	*976,733*
672,891	Loans and advances to customers	**740,002**	*429,941*	*5,737,975*
185,332	Financial investments	**176,301**	*102,431*	*1,367,038*
–	Financial investments which may be repledged or resold by counterparties	**6,041**	*3,510*	*46,842*
3,441	Interests in associates and joint ventures	**7,249**	*4,212*	*56,209*
34,495	Goodwill and intangible assets	**33,200**	*19,289*	*257,433*
15,624	Property, plant and equipment	**15,206**	*8,835*	*117,907*
23,077	Other assets	**26,596**	*15,452*	*206,225*
19,155	Prepayments and accrued income	**11,961**	*6,949*	*92,746*
1,279,974	Total assets	**1,501,970**	*872,645*	*11,646,275*
	LIABILITIES AND EQUITY			
	Liabilities			
11,878	Hong Kong currency notes in circulation	**12,554**	*7,294*	*97,344*
84,055	Deposits by banks	**69,727**	*40,511*	*540,663*
693,072	Customer accounts	**739,419**	*429,601*	*5,733,455*
5,301	Items in the course of transmission to other banks	**7,022**	*4,080*	*54,449*
46,460	Trading liabilities	**174,365**	*101,306*	*1,352,024*
–	Financial liabilities designated at fair value	**61,829**	*35,923*	*479,422*
34,988	Derivatives	**74,036**	*43,015*	*574,075*
211,721	Debts securities in issue	**188,072**	*109,271*	*1,458,310*
6,475	Retirement benefit liabilities	**4,869**	*2,829*	*37,754*
20,581	Other liabilities	**26,515**	*15,405*	*205,597*
–	Liabilities under insurance contracts issued	**14,144**	*8,218*	*109,673*
19,190	Liabilities to policyholders under long-term assurance business	**–**	*–*	*–*
16,499	Accruals and deferred income	**12,689**	*7,372*	*98,391*
4,071	Provisions	**1,966**	*1,142*	*15,245*
26,486	Subordinated liabilities	**16,537**	*9,608*	*128,228*
1,180,777	Total liabilities	**1,403,744**	*815,575*	*10,884,630*
	Equity			
5,587	Called up share capital	**5,667**	*3,293*	*43,942*
4,881	Share premium account	**6,896**	*4,007*	*53,472*
25,622	Other reserves	**23,646**	*13,738*	*183,351*
49,432	Retained earnings	**56,223**	*32,666*	*435,953*
85,522	Total shareholders' equity	**92,432**	*53,704*	*716,718*
13,675	Minority interests	**5,794**	*3,366*	*44,927*
99,197	Total equity	**98,226**	*57,070*	*761,645*
1,279,974	Total equity and liabilities	**1,501,970**	*872,645*	*11,646,275*

Sir John Bond, *Group Chairman*

1 Basis of preparation

The accounts have been prepared in accordance with the International Financial Reporting Standards ('IFRSs') as endorsed by the EU and effective for reporting for the year ended 31 December 2005. The accounting policies adopted are consistent with those described in the *Annual Report and Accounts 2005*.

2 Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings plc, computed in accordance with Part I of Schedule 6 of the UK Companies Act 1985, were US$28,233,000 (2004: US$29,722,000). Aggregate gains on the exercise of the share options were US$17,000 (2004: US$14,078,000). Restricted Share Plan awards of US$24,221,000 (2004: US$9,598,000) vested.

There were annual commitments under retirement benefit agreements with former Directors of US$996,098 (2004: US$906,000). The provision as at 31 December 2005 in respect of unfunded pension obligations to former Directors amounted to US$16,458,975 (2004: US$17,016,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$4,819,759 (2004: US$4,423,122), including US$3,304,081 (2004: US$2,198,072) arising from a Director's waiver of bonus.

3 Related party transactions

Transactions, arrangements and agreements involving Directors and others

Particulars of transactions, arrangements and agreements entered into by subsidiary undertakings of HSBC Holdings with Directors and connected persons and companies controlled by them and with officers of HSBC Holdings, disclosed pursuant to section 232 of the Companies Act 1985, are as follows:

	2005		*2004*	
	Number of persons	**Balance at 31 December US$000**	*Number of persons*	*Balance at 31 December US$000*
Directors and connected persons and companies controlled by them[1]	**76**		82	
Loans		**279,297**		310,239
Credit cards		**250**		324
Guarantees		**10,622**		21,628
Officers[2]	**37**		34	
Loans		**42,857**		47,767
Credit cards		**352**		395
Guarantees		**164**		168

Further information on related party transactions, disclosed pursuant to the requirements of International Accounting Standard 24, is shown below. The disclosure of the year-end balance and the highest amount outstanding during the year is considered the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

1 *All of the Directors are key management personnel of HSBC Holdings. The highest amount outstanding during 2005 of loans, credit card transactions and guarantees with HSBC for the Directors and connected persons and companies controlled by them were US$495,990,427, US$617,259 and US$16,775,779 respectively. (2004: US$642,727,305, US$811,453 and US$34,767,316 respectively.)*

2 *Included within Officers are non-Director members of the key management personnel of HSBC Holdings. During 2005, six non-Director key management personnel and members of their close family entered into loan, credit card transactions and guarantees with HSBC (2004: four persons). The highest amount outstanding during 2005 of loans, credit card transactions and guarantees with HSBC for the non-Director key management personnel and members of their close family were US$30,116,609, US$287,888 and US$20,385 respectively (2004: US$56,577,166, US$207,235 and US$20,385 respectively). The balances of loans and credit card transactions and guarantees with HSBC outstanding at 31 December 2005 for the non-Director key management personnel and members of their close family were US$20,166,452, US$66,467 and US$20,385 respectively (2004: US$24,264,409, US$128,155 and US$20,385 respectively).*

3 Related party transactions (continued)

Particulars of Directors' transactions are recorded in a register held at the Registered Office of HSBC Holdings which is available for inspection by members for 15 days prior to the HSBC Holdings Annual General Meeting and at the Annual General Meeting itself.

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:

The authorised share capital of HSBC Holdings at 31 December 2005 and 2004 was US$7,500 million divided into 15,000 million ordinary shares of US$0.50 each.

At 31 December 2005 and 2004, 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 2005 and 2004, the authorised non-voting deferred share capital of HSBC Holdings was £301,500 divided into 301,500 non-voting deferred shares of £1 each.

	Number of US$0.50 shares	US$m
HSBC Holdings ordinary shares		
At 1 January 2005	11,172,075,550	5,587
Shares issued in connection with the early settlement of HSBC Finance 8.875 per cent Adjustable Conversion-Rate Equity Security Units	324,726	–
Shares issued under HSBC Finance share plans	878,224	–
Shares issued under other employee share plans	56,363,536	28
Shares issued in lieu of dividends	103,961,906	52
At 31 December 2005	**11,333,603,942**	**5,667**

	Number of US$0.01 shares	US$m
HSBC Holdings preference shares		
At 1 January 2005	–	–
Issue of non-cumulative preference shares of US$0.01 each	1,450,000	–
At 31 December 2005	**1,450,000**	**–**

5 Foreign currency amounts

The Hong Kong dollar and sterling figures shown in the consolidated income statement and the balance sheet are for information only. They are translated from US dollars at the average rate of exchange for the year ended 31 December 2005 and the closing rate at that date respectively. These were as follows:

	Average rate	*Closing rate*
US$1.00 = HK$	7.778	7.754
US$1.00 = £	0.550	0.581

6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2005.* 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.*

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2005* from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC-North America, 2700 Sanders Road, Prospect Heights, Illinois 60070, USA; or from 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* may be obtained from Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 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 2005* may be viewed on our web site: www.hsbc.com.

7 Approval of the Summary Financial Statement

This Summary Financial Statement was approved by the Board of Directors on 6 March 2006.

Statement of the Independent Auditors to the Members of HSBC Holdings plc Pursuant to Section 251 of the Companies Act 1985

We have examined the Summary Financial Statement set out on pages 52 to 56.

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 and 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, Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2005 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

6 March 2006

Shareholder Information

Fourth Interim Dividend for 2005

The Directors have declared a fourth interim dividend of US$0.31 per ordinary share (in lieu of a final dividend) which, together with the first, second and third interim dividends, each of US$0.14, already paid, will make a total distribution for the year of US$0.73 per share, an increase of 11 per cent on 2004. 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 4 April 2006. The timetable for the dividend is:

	2006
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	22 March
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	24 March
Shares quoted ex-dividend in Paris	27 March
Mailing of *Annual Report and Accounts 2005* and/or *Annual Review 2005*, *Notice of Annual General Meeting* and dividend documentation	4 April
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	27 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	2 May
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	11 May

Annual General Meeting

The 2006 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on 26 May 2006 at 11 a.m.

An informal meeting of shareholders will be held at Level 28, 1 Queen's Road Central, Hong Kong, on Tuesday 23 May 2006 at 4.30 p.m.

Interim Results

The interim results for the six months to 30 June 2006 will be announced on 31 July 2006.

Interim Dividends for 2006

The Board has adopted a policy of paying quarterly dividends. 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 2006 will be US$0.15 per share. The proposed timetables for the dividends in respect of 2006 are:

Interim dividends for 2006	**First**	**Second**	**Third**	**Fourth**
Announcement	2 May 2006	31 July 2006	6 November 2006	5 March 2007
ADSs quoted ex-dividend in New York	17 May 2006	16 August 2006	21 November 2006	21 March 2007
Shares quoted ex-dividend in London, Hong Kong and Bermuda	17 May 2006	16 August 2006	22 November 2006	21 March 2007
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	19 May 2006	18 August 2006	24 November 2006	23 March 2007
Shares quoted ex-dividend in Paris	22 May 2006	21 August 2006	27 November 2006	26 March 2007
Payment date	6 July 2006	4 October 2006	18 January 2007	10 May 2007

Shareholder Enquiries and Communications

Enquiries

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:

Principal Register
Computershare Investor Services PLC
PO Box 1064, The Pavilions
Bridgwater Road
Bristol BS99 3FA
UK

Hong Kong Overseas Branch Register:
Computershare Hong Kong Investor Services Limited
Hopewell Centre, 46th Floor
183 Queen's Road East
Wan Chai
Hong Kong

Bermuda Overseas Branch Register:
Corporate Shareholder Services
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

ADR Depositary
The Bank of New York
101 Barclay Street
Floor 22W
New York, NY 10286
USA

Paying Agent in France
HSBC France
103 avenue des Champs Elysées
75419 Paris Cedex 08
France

Investor Relations

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

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HSBC Holdings plc
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Stock Symbols

HSBC Holdings ordinary shares trade under the following stock symbols:

London Stock Exchange	HSBA
Hong Kong Stock Exchange	5
New York Stock Exchange (ADS)	HBC
Euronext Paris	HSB
Bermuda Stock Exchange	HSBC

Shareholder Information (continued)

Annual Review 2005

Further copies of this *Annual Review*, and additional information about HSBC, may be obtained by writing to the following departments.

For those in Europe, the Middle East and Africa:

For those in Asia-Pacific:

For those in the Americas:

Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or electronically. To register online to receive electronic communications, or revoke or amend an instruction to receive electronic communications, go to www.hsbc.com/ecomms. If you received this document electronically and would like to receive a printed copy or would like to receive future shareholder communications in printed form, please write to the appropriate Registrars at the address given above. Printed copies will be provided without charge.

Chinese translation

A Chinese translation is available on request after 4 April 2006 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》及本公司日後其他文件備有中

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:

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HSBC France
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Bermuda Overseas Branch Register
Corporate Shareholder Services
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6 Front Street
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ADR Depositary
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