

# 2006

Annual Review  
HSBC Holdings plc



The world's local bank

HSBC 

HSBC is the world's local bank. Over 125 million individuals and businesses around the world count on us to help them achieve their financial goals. They are served by our 312,000 employees, who work in 10,000 offices in 82 countries and territories across Europe, Asia, the Americas, the Middle East and Africa.

Reflecting our unique international outlook and customer base, our shares are listed on five stock exchanges: London, Hong Kong, New York, Paris and Bermuda. We have 200,000 shareholders in over 100 countries and territories.

**Illustrative theme: Joining up the company – the global pillars**

By being more 'joined up', we can demonstrate the real benefits of our size and global network to both customers and shareholders.

We have identified seven actions – the 'global pillars' that form our illustrative theme – to help us achieve this.

Cover: Traditional Chinese dancers perform on the terrace of Shanghai's famed waterfront, the Bund, against the dramatic backdrop of the city's fast-growing financial centre, Pudong.

Below: Pudong is home to both HSBC's China headquarters (fourth from right) and to Bank of Communications (extreme left), China's fifth largest bank, in which HSBC has a 19.9 per cent stake.



This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2006*. 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 2006*.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2006* from Group Communications, 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 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, 46<sup>th</sup> 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 page 48.

The *Annual Report and Accounts 2006* may be viewed on our web site: [www.hsbc.com](http://www.hsbc.com).

## Contents

- 1 Highlights of 2006
- 2 Group at a Glance: Geography
- 4 Group at a Glance: Customers
- 6 How We Run Our Business
- 8 Group Chairman's Statement
- 12 Group Chief Executive's Business Review
- 24 Corporate Responsibility: Managing for Long-Term Success
- 26 Our Board: Promoting Your Interests
- 28 Our Leadership Team: Working for You
- 30 Summary Directors' Report
- 35 Summary Directors' Remuneration Report
- 41 Summary Consolidated Income Statement
- 42 Summary Consolidated Balance Sheet
- 43 Notes on the Summary Financial Statement
- 45 Statement of the Independent Auditors
- 46 Shareholder Information
- 48 Addresses

# Highlights of 2006

- ▶ Profit before tax rose to a record high of US\$22 billion.
- ▶ Strong performance in the emerging markets – Asia, the Middle East and Latin America – with pre-tax profits approaching nearly 50% of the Group's total.
- ▶ Pre-tax profits exceeded US\$1 billion for the first time in each of Mexico, the Middle East and Private Banking, and in our Commercial Banking business in Asia outside Hong Kong.
- ▶ Total operating income in Corporate, Investment Banking and Markets rose by 18% as businesses in which we have invested produced strong results.
- ▶ For the third year running, revenue growth was in double digits and return on average shareholders' equity exceeded 15%.
- ▶ Dividends per share in respect of 2006 up 11% to US\$0.81.

## Profit before tax

**US\$22,086m**

£11,993m, HK\$171,586m for 2006

## Profit before tax

**5.3%**

Increase on 2005

## Assets

**US\$1,861b**

£947b, HK\$14,469b at 31 December 2006

## Dividends per share

**US\$0.81**

£0.42, HK\$6.30 in respect of 2006

## Market capitalisation

**US\$212b**

At 31 December 2006

## Capital strength

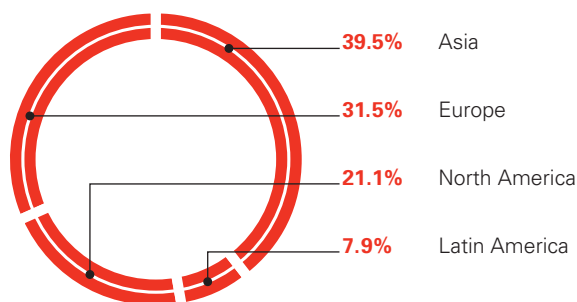
**13.5%**

Total capital ratio at  
31 December 2006

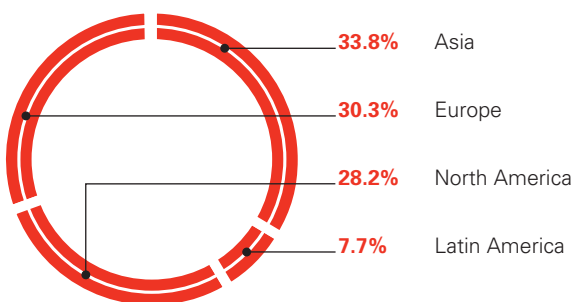
# Group at a Glance: Geography

HSBC is one of the largest banking and financial services organisations in the world, serving 125 million customers through its operations in Europe, Asia, North America and Latin America.

2006 Pre-tax profit by geographical region



2005 Pre-tax profit by geographical region



## Geographical regions

### Europe

HSBC's European operations make up over 30 per cent of the Group's business, with the largest contribution from the UK, where HSBC Bank plc is one of the largest banks. In the UK, we also have a leading direct business, First Direct, as well as financial services through M&S Money and several consumer finance operations. In continental Europe, we have major businesses in France and Switzerland. We have a large and rapidly growing business in Turkey and we are investing in developing our operations in Eastern Europe.

### Asia

HSBC was founded in Hong Kong, and The Hongkong and Shanghai Banking Corporation Limited remains the largest bank incorporated in the Hong Kong SAR and HSBC's flagship bank in Asia, with operations in 21 countries and territories in the region. Hang Seng Bank Limited, a majority-owned subsidiary, is also based in Hong Kong. We are the leading foreign bank operating in China, both through our own network and through partnerships with several important Chinese banks, including a 19.9 per cent stake in China's fifth largest bank, Bank of Communications, and 16.8 per cent in one of China's largest insurers, Ping An Insurance.

This region also includes our fast-growing businesses in the Middle East, where HSBC Bank Middle East Limited and a Group associate, The Saudi British Bank, have the widest network of branches, subsidiaries and associates in the region.

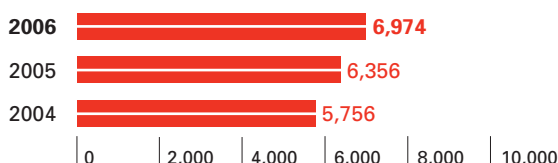
#### Profit before tax

**US\$6,974m**

#### Total assets

**US\$829b**

#### Pre-tax profit: 3-year comparison (US\$m)



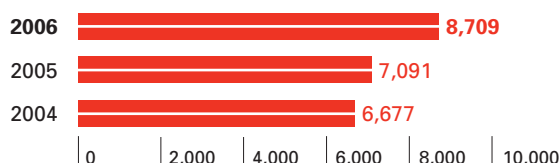
#### Profit before tax

**US\$8,709m**

#### Total assets

**US\$440b**

#### Pre-tax profit: 3-year comparison (US\$m)



## North America

HSBC's North American businesses comprise our operations in the US, Canada and Bermuda. In the US, we operate as HSBC Bank USA, N.A., which is concentrated in New York State, and as HSBC Finance Corporation, a national consumer finance company based in Chicago. HSBC Bank Canada and The Bank of Bermuda Limited have important franchises in their respective countries. The decrease in pre-tax profits in North America was primarily due to higher than expected loan impairment charges in the correspondent mortgage services business within HSBC Finance.

## Latin America

For the first time this year, we are reporting our results for a new segment, Latin America and the Caribbean. This reflects the growing importance of our operations in Latin America within the HSBC portfolio. We have major operations in Mexico, Brazil, Argentina and Panama, with HSBC México, S.A. the fourth largest contributor to the Group's profits, after Hong Kong, the UK and the US. In 2006, we enhanced our presence in Latin America through the acquisition of Grupo Banistmo, the largest bank in Panama. The acquisition took us into five new markets – Costa Rica, Honduras, Colombia, Nicaragua and El Salvador – whose economies have good growth prospects.

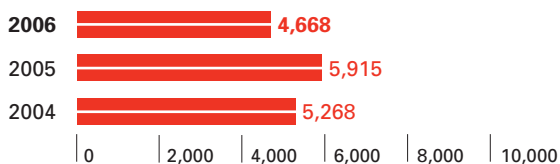
Profit before tax

**US\$4,668m**

Total assets

**US\$511b**

Pre-tax profit: 3-year comparison (US\$m)



Profit before tax

**US\$1,735m**

Total assets

**US\$81b**

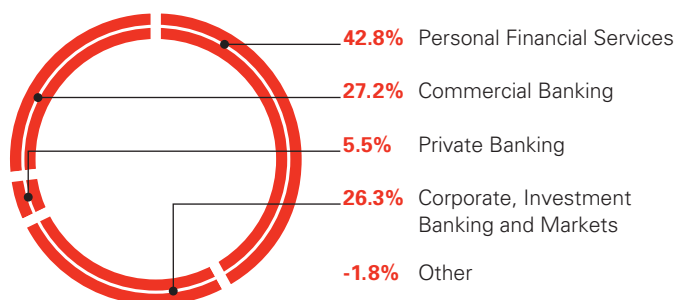
Pre-tax profit: 3-year comparison (US\$m)



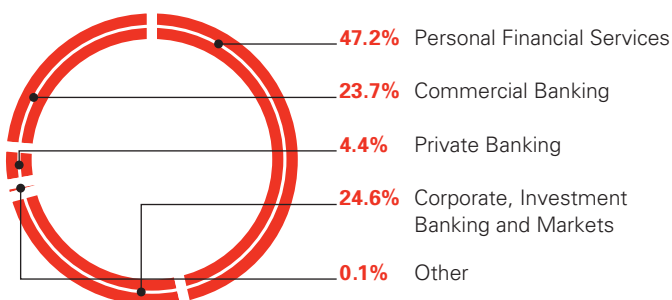
# Group at a Glance: Customers

HSBC manages its business through two customer groups, Personal Financial Services and Commercial Banking, and through two global businesses, Corporate, Investment Banking and Markets, and Private Banking.

2006 Pre-tax profit by customer group and global business



2005 Pre-tax profit by customer group and global business



## Customer groups and global businesses

### Personal Financial Services

(including Consumer Finance)

We serve over 120 million individual and self-employed customers around the world, providing them with a wide range of banking and other financial services through our branch networks, over the telephone, online and via self-service machines. Our goal is to simplify our products and to offer them through multiple channels, so that customers can choose how they do business with us. Other key areas of growth include our premium banking service for affluent customers, HSBC Premier, and our consumer finance services which we are extending from the US into new markets. In 2006, our pre-tax profits in Personal Financial Services fell by 5 per cent due to unexpectedly high loan impairment charges, particularly in the US.

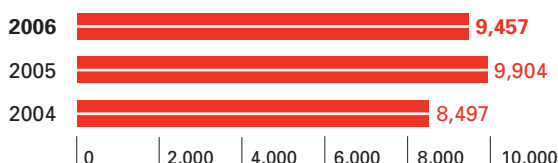
Profit before tax

**US\$9,457m**

Total assets

**US\$547b**

Pre-tax profit: 3-year comparison (US\$m)



### Commercial Banking

HSBC is one of the world's leading, and most international, banks with 2.6 million Commercial Banking customers in 62 locations. These customers include sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. The globalisation of their activities has been very marked in recent years, and we are uniquely placed to help them through offering supply chain management, cash management and business introductions all over the world. In 2006, pre-tax profit in Commercial Banking grew strongly, up 21 per cent, due to growth in customer assets and liabilities and our success in serving customers internationally.

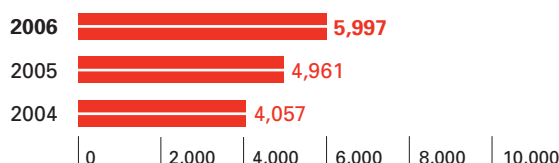
Profit before tax

**US\$5,997m**

Total assets

**US\$213b**

Pre-tax profit: 3-year comparison (US\$m)



## Corporate, Investment, Banking and Markets

The role of our Corporate, Investment Banking and Markets (CIBM) business is to provide tailored financial solutions to major corporate, institutional and government clients worldwide. Our strategy is to be a leading wholesale bank by focusing on financing and emerging markets, and by building on the Group's unique footprint and heritage. We saw the positive results of this focus on cross-border distribution, both in the transactions that we led in the course of the year, and in our results for 2006, which saw pre-tax profit rise by 12 per cent.

## Private Banking

We have a presence in all the major wealth-creating regions, and this has allowed us to build one of the world's leading private banking groups. We provide financial services to high net worth individuals and their families from 90 locations in 35 countries and territories to help them manage and preserve their wealth. Client assets grew by 22 per cent to US\$333 billion at 31 December 2006. This contributed to another very successful year for our private banking business, with pre-tax profit growing by over 30 per cent for the second year running.

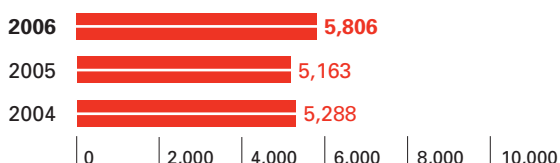
### Profit before tax

**US\$5,806m**

### Total assets

**US\$994b**

### Pre-tax profit: 3-year comparison (US\$m)



### Profit before tax

**US\$1,214m**

### Total assets

**US\$73b**

### Pre-tax profit: 3-year comparison (US\$m)



# How We Run Our Business

In our strategy, 'Managing for Growth', we outline our vision – to be the world's leading financial services company. We want to be the first choice for our customers and for our employees. If HSBC can be the best place to bank, and the best place to work, we will have built a sustainable business that will deliver for the long term for our customers, colleagues, shareholders and society at large. To achieve this ambition, we have articulated seven 'global pillars' – the actions we will take to build a financial services company based on the concept of recommendation, both as a place to work and a place to do business.

## Joining up the company – our global pillars

### 1. Our customers – service excellence

Customers are our foundation and our future. We will improve the customer experience by living our brand values, so that customers feel HSBC is the 'best place to bank' (our brand values are set out on page 10).

### 2. Our brand – the world's local bank

We want to be the world's best financial services brand. We have operations in 82 countries and territories, and we want a customer's perception of HSBC – wherever they are in the world – to be uniformly excellent.

### 3. Our culture – the best place to work

We want to be recognised as the world's most respected and customer-driven financial services employer because we know that the motivation, or engagement, of our employees is a critical factor in business performance.

### 4. Our global distribution – our global advantage

HSBC's global reach is its key competitive advantage. In today's globalising world, we can offer our customers an unparalleled international service and we are working to create a truly joined-up network, with seamless referrals between countries, to support customers around the world.

### 5. Our businesses – building for sustained growth

We will prioritise the allocation of our capital so that it generates the best return for shareholders in the long term. We want our businesses, especially in mature markets, to be self-funding. We will focus capital investment in areas with strong growth potential, including emerging markets, and retirement and insurance businesses.

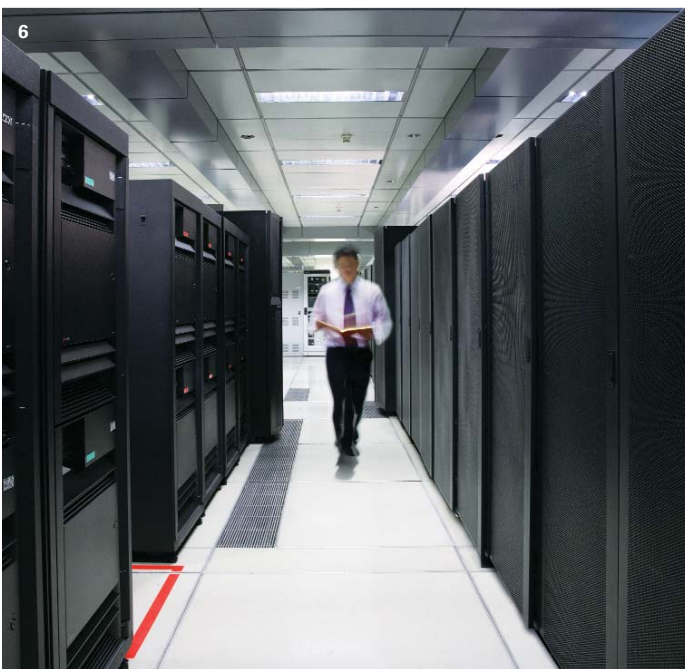
### 6. Our technology and process – joining up the company

We will use technology to make it easier for customers to do business with us, when and where they want it. At the same time, we will improve our efficiency by simplifying our product range and automating our processing.

### 7. Our organisation – guidance with wisdom and delegation with confidence

We will give responsibility for delivery of our objectives to country managers and heads of customer groups and global businesses, with Group and regional head offices providing guidance and, where appropriate, delegating authority.







## Group Chairman's Statement

2006 was a year of change for HSBC. With a new management team leading the company, we refined the Group's strategy to take account of the forces of globalisation.

Our compelling competitive advantage is our global footprint. Our ability to serve customers within countries, across regions and throughout the world helped us achieve record results for 2006. We continued to extend our franchise by organic growth and by acquisition in the world's fastest growing regions, including Asia and Latin America.

We also highlight in this *Annual Review* the opportunities we see to grow our business further.

**Stephen Green**  
Group Chairman

**“HSBC has been transformed into a truly global bank, with earnings broadly distributed in Asia and the Middle East, Europe, North America and Latin America.”**

**Stephen Green**

## Dear shareholder

It is a privilege to write to you for the first time this year as your Chairman. HSBC is one of the world's largest and most respected financial institutions and I am honoured to be entrusted with the leadership of this great company. Michael Geoghegan, the former Chief Executive of our UK business, succeeded me as Group Chief Executive. Michael, a 33-year veteran of HSBC, has worked in 12 different countries and territories, and the breadth of knowledge and experience he brings to the role is a tremendous asset to the Group.

Let me run through our headline results. It is a testament to HSBC's strength and diversity that we grew pre-tax profits to US\$22 billion, despite a major setback in part of our mortgage business in the United States. For the third year running, return on average shareholders' funds exceeded 15 per cent, revenue growth was in double digits, and we maintained an essentially flat cost efficiency ratio, demonstrating the improvement we are achieving in our productivity. In 2006, pre-tax profits from Asia, the Middle East, Latin America and other emerging markets approached 50 per cent of the Group's total.

Our earnings continued to be well-diversified, both geographically and by customer group. Regionally Asia, including the Hong Kong SAR, had record results, as did Latin America, which combines Mexico and Central America with our South American businesses. Within our customer groups, Commercial Banking again delivered a record performance, as did Private Banking and Corporate, Investment Banking and Markets, which made strong progress in the areas in which we have been investing in recent years. In Personal Financial Services, strong growth in Asia and Latin America was overshadowed by problems in the US mortgage business.

Profit attributable to shareholders grew by 5 per cent to US\$15,789 million. This equates to earnings per share of US\$1.40, a 3 per cent increase over 2005. The total dividend payout for the year will be US\$0.81 per share, an increase of 11 per cent over 2005. These results are a credit to the talents of my 312,000 colleagues who have worked tirelessly to achieve our strategic goals.

Michael gives a detailed report of our operating performance in 2006 later in this *Annual Review*, but I would like to highlight a couple of areas.

The first is the disappointing results of one part of our business in the United States. In one unit in our Consumer Finance subsidiary, Mortgage Services, purchased sub-prime mortgages experienced much higher delinquency than had been expected.

The second area I would like to highlight is the success of the strategy of diversifying earnings we have pursued in recent years. This enabled us to achieve record profits during 2006, in spite of the increased impairment allowances in the United States. It has also radically changed the shape and size of your Group in the last 15 years. HSBC has been transformed into a truly global bank, with earnings broadly distributed in Asia and the Middle East, Europe, North America and Latin America.

This diversity is both a protection and a strength. We enjoy generally stable earnings from our mature businesses, and we benefit from the potential for rapid economic growth in many of the world's emerging markets, where demand for financial services is growing strongly.

Our unique international footprint creates significant business opportunities for us as the changing pattern of economic flows makes national boundaries less relevant, and we are positioning HSBC to take advantage of the new environment. We expect emerging economies to continue driving world economic growth so we will continue to focus our investment on fast-growing markets in Asia and Latin America, among others. Let me highlight some developments in 2006.

China, the world's most populous nation and the country in which HSBC was founded in 1865, offers extraordinary potential. As it has opened up to foreign investors, we have built our business both organically and through strategic investment in local institutions. We are the largest foreign bank operating in mainland China today. We opened 13 new offices in 2006, taking the total number to 45 by the year-end.

The beginning of 2007 has been marked by our application to incorporate our operations in mainland China after 142 years of unbroken presence in the country. Today, HSBC offers renminbi deposit services in nine cities: Beijing, Dalian, Guangzhou, Qingdao, Shanghai, Shenzhen, Tianjin, Wuhan and Xiamen. We believe the provision of international banking services to mainland Chinese citizens and companies is one of our most significant growth opportunities in the near and long term, and we will support this opportunity with whatever capital and technology resources are required.

We continue to seek other opportunities to extend our franchise in Asia. At the start of 2007, we announced our intention to acquire, when regulations permit, a further 10 per cent stake in Vietnam's third largest joint-stock bank, Techcombank, taking our ownership interest to 20 per cent, as rules are relaxed to make higher levels of foreign ownership possible. Vietnam has enjoyed economic growth of 7.8 per cent a year for the past five years and we are optimistic about its growth prospects.

Our Latin American businesses are now a major contributor to the Group's profits. Our Mexican operations are now the fourth largest business in the Group measured by country, and made record profits of just over US\$1 billion in 2006. We added 2,000 new jobs in Mexico in 2006 as we continued to develop our business, bringing the total

number of jobs created since we acquired Bital in 2002 to 8,000. We also have significant businesses in Brazil and Argentina, and these operations were complemented by our strategic acquisition of Grupo Banistmo S.A., the leading banking group in Central America. Banistmo is Panama's largest bank and the acquisition also takes HSBC into five new markets – Colombia, Costa Rica, El Salvador, Honduras and Nicaragua – whose economies are gathering pace. Reflecting the importance of these businesses to the HSBC portfolio, we have a newly designated Latin American region, on which we will report separately from now on.

In addition, we continued to invest in enhancing our existing personal and commercial distribution networks throughout Asia and the Middle East as well as Latin America. We added 25 Consumer Finance offices in India and 28 in Indonesia. We established a further 38 branches in Turkey and three in Malaysia. We will concentrate investment primarily in emerging markets in the form of both organic development and acquisition.

We enter 2007 with a strong management structure in place and a clear strategy of differentiation. We will remain a broad-based universal bank, with four strategic businesses:

- **Personal Financial Services**, within which Consumer Finance will remain a core competence;
- **Commercial Banking**, for which our international service capabilities and connectivity provide a unique competitive platform;
- **Corporate, Investment Banking and Markets**, which will be a leading wholesale bank by focusing on financing and emerging markets; and
- **Private Banking**, with its broad international network and connectivity with the rest of the Group's businesses.

These businesses will be increasingly interconnected.

The way we are developing our business is consistent with our overall vision to be the world's leading financial services company. However, we know we need to keep the strategy under constant review to meet the challenges our fast-changing world presents. We have therefore taken the opportunity to renew our 'Managing for Growth' strategy, and identified seven key priorities for the Group in 2007-08. These seven 'global pillars' are covered in more detail on page 6. In the following pages, Michael Geoghegan will highlight the opportunities

## Our brand values – the way we are

We want to be the world's best financial services brand. We want our customers to know that they can rely on us to provide the same high quality of customer service and to work with the same high ethical standards wherever they see our brand. We have highlighted the five brand values that we aspire to.

### Perceptive

- We will anticipate and meet the needs of our diverse customers around the world by using our ability to combine our global reach across markets and segments with local knowledge and expertise.

### Progressive

- We are committed to continuous improvement in quality, effectiveness and efficiency through teamwork.

### Responsive

- We will act quickly to ensure we meet and exceed our customers' ever-changing expectations.
- Management at all levels will be hands-on, operating with a minimum of bureaucracy, giving guidance with wisdom and delegating with confidence.

### Respectful

- We will exercise corporate responsibility in our activities and we are committed to the welfare and development of our local communities.
- We are committed to complying with the letter and the spirit of all relevant laws and regulations in the various countries in which we are present.
- We will operate the Group prudently, exercising strict expense and credit discipline, and maintaining strong capital and liquidity ratios to ensure no diminution in our external ratings.
- We value long-term, ethical client relationships.

### Fair

- We will demonstrate the highest levels of integrity and put the Group's interests ahead of the individual's.
- We will treat customers, employees and suppliers fairly and objectively.

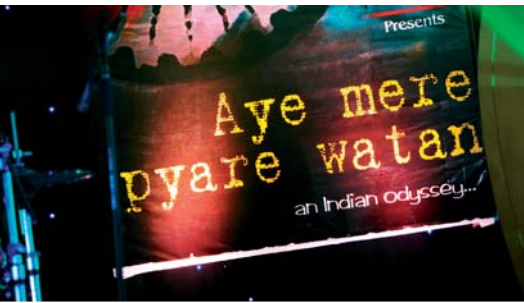
we see to grow our business in both emerging and mature markets in 2007.

Increasingly important to our ongoing success in this globalised world is our brand, and you will find our brand values articulated on the facing page. Starting in 2007, we will progressively invest more to support and enhance the customer experience that drives the brand's strength.

The Board of HSBC Holdings plc will continue to oversee the pursuit of these goals by executive management and to exercise rigorous stewardship of your company. It is important to HSBC to continue to ensure that the Board is representative of the Group's broad international franchise and the diversity of our businesses. As usual, there will be changes to the make-up of our Board in 2007. As previously announced, as part of planned succession, Simon Robertson will become senior independent non-executive Director, Rona Fairhead will become Chairman of the Group Audit Committee and Sir Brian Williamson will become Chairman of the Nomination Committee at the conclusion of this year's AGM. Raymond Ch'ien, Sharon Hintze and Helmut Sohmen will all retire at the 2007 AGM

after many years of distinguished service. I thank them all for their counsel and guidance.

Your company enters 2007 in strong financial shape and with clear growth objectives for the year ahead. I look forward to reporting back to you on our progress in 2008.



**Our brand – the world's local bank**  
Non-resident Indian customers living in the United Arab Emirates enjoy a Bollywood evening, courtesy of HSBC in India and HSBC Bank Middle East. Our diversity reflects the world's and makes us uniquely able to serve people across cultures.



## Group Chief Executive's Business Review

This is my first report to you as Group Chief Executive. I am delighted to have the opportunity to highlight our many successes in 2006, some of which were outstanding. Several businesses joined the 'billion dollar club' – exceeding US\$1 billion in pre-tax profits for the first time or adding incremental profits of US\$1 billion.

There was one disappointment to report: our losses in the sub-prime mortgage market in the United States. I detail the actions we are taking to restructure this business later. Thanks to the strength and diversity of our business, we still achieved record profits in 2006.

**Michael Geoghegan**  
Group Chief Executive

“Our operations in Asia, the Middle East and Latin America grew by 20 per cent year on year and, in 2005, by 10 per cent compared with 2004.”

**Michael Geoghegan**

2006 was a year in which we made strong progress overall in developing our businesses around the world, with one major exception.

There were a number of outstanding achievements. For the first time ever, we made pre-tax profits of over US\$1 billion in each of Mexico, the Middle East, Private Banking, and in our Commercial Banking business in Asia outside Hong Kong. We added around an extra US\$1 billion in pre-tax profits in Asia outside Hong Kong, and another US\$1 billion in our Commercial Banking businesses worldwide. In Hong Kong, net fee income from personal customers grew over 30 per cent to approach US\$1 billion for the first time.

However, our pre-tax profits fell by US\$725 million in our personal businesses in the United States. This was caused by one portfolio of

purchased sub-prime mortgages in our US Consumer Finance subsidiary, Mortgage Services, which experienced much higher delinquency than had been built into the pricing of these products. We are restructuring this business to avoid any repetition of the risk concentration that built up over the past two years. As part of this exercise, we have effected broad changes in management and strengthened risk controls and processes.

Banking is an industry based on risk and we have summarised on page 23 the principal risks that we seek to manage in the conduct of our business. On page 22, you will also find the key performance indicators that we use to measure the success of our business.

## Who we are

### Worldwide

**4th largest bank**

by market capitalisation

**10,000**

offices

**82**

countries and territories

### Europe

**Largest bank**

by market capitalisation

### Asia, China

**Largest**

international bank

### Emerging markets

**Leading**

international bank

### Middle East

**Widest**

coverage in the region

### The growing importance of emerging markets

The growing importance of emerging markets, as globalisation changes the pattern of economic flows, and our strength in these markets, is reflected in our results. Our operations in Asia, the Middle East and Latin America grew by 20 per cent year on year and, in 2005, by 10 per cent compared with 2004. However, this understates the importance of emerging markets to HSBC, as their influence is also significant to the results of our operations in developed economies. This reflects the growth in export flows to meet the infrastructure development needs of emerging markets and the reorganisation of global supply chains to optimise international resourcing. HSBC is strongly positioned to benefit from these trends.

We continued to invest in our business in Asia where we saw strong demand from both personal and commercial customers. We used Group technology and marketing expertise to expand our card base in Asia by 1.9 million to 11.9 million. In addition, Bank of Communications' card business in mainland China, with which we co-operate, reached over two million cards in issue at the end of the year from its launch in May 2005.

**“We used Group technology and marketing expertise to expand our card base in Asia by 1.9 million to 11.9 million.”**

We took the successful direct retail deposit service introduced in the United States at the end of 2005 and used the experience to launch in Taiwan in 2006. In the first 15 weeks, over 24,000 customers had signed up for the service and US\$182 million had been raised in deposits. By the end of 2006, in the United States the direct deposit product had raised some US\$7 billion of funding for our businesses there.

We seek to differentiate ourselves by taking developed market opportunities to emerging market customers and bringing emerging market products to developed investment markets. This is creating new business opportunities.

In Commercial Banking, we launched a new customer referral system, which led to international referrals with an aggregate facility value of US\$3 billion, involving over 50 sites and 4,000 relationship managers.



**Our customers – service excellence**  
Customers are our foundation and our future. This is why we continue to invest in improving our products and services: in 2006, this included a £450 million transformation of our UK branch network.





Within Group Investment Businesses, HSBC's India, China and BRIC (Brazil, Russia, India, China) funds were major contributors to a record performance in the year as we leveraged our reputation for emerging market expertise to become a major distributor as well as manager of such funds. Performance fees reached record levels.

Corporate, Investment Banking and Markets' strategy to be a leading wholesale bank by focusing on financing and emerging markets was recognised by industry awards, including 'European Loan House of the Year', 'China Loan House of the Year' and 'Asian Domestic Currency Bond House of the Year' by *International Financing Review*. Our Global Markets business line was named 'Best at Treasury and Risk Management in Asia' by *Euromoney* for the ninth consecutive year.

**“...our payments and cash management business had a record year, particularly in Asia, as an increasing number of commercial customers expanded internationally.”**

## Personal Financial Services

# 55%

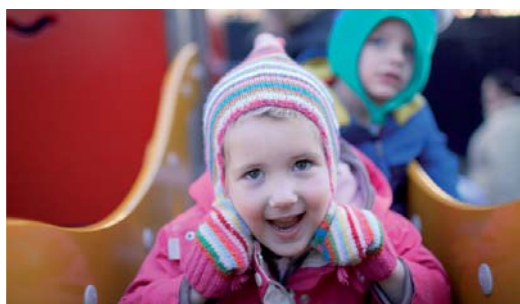
Increase in online sales volumes

# 7-day opening

In selected UK, US and Hong Kong branches

# 1st

'Best global consumer internet bank' award  
(*Global Finance* magazine)



**Our culture – the best place to work**  
We serve our customers and shareholders best when our employees feel valued and engaged at work. An enlightened approach to family commitments, such as our childcare facilities in the US, is key to that.



### Putting our international franchise to work for our customers

As the effects of globalisation spread, our international capabilities become increasingly valuable to an ever-wider range of customers. HSBC continued to provide value to customers by offering co-ordinated global service products, enabling us to grow our business as a result.

Benefiting from growing international trade, our payments and cash management business had a record year, particularly in Asia, as an increasing number of commercial customers expanded internationally. During 2006, we launched improved web-based applications to support our import and export customers.

**“HSBC Premier, the Group's personal banking service targeted at affluent customers, grew by 35 per cent to reach 1.8 million.”**

The outperformance of emerging market stock exchanges benefited the Group's custody businesses, both in terms of the volume of international flows into emerging market equities as well as the increased value of the funds held under custody. HSBC retained its position as the leading sub-custodian in Asia and the Middle East, being ranked first in 19 of the 28 markets it serves. Growth in both assets under custody and assets under administration exceeded 25 per cent, as interest in emerging market equities increased and the alternative fund management sector expanded.

HSBC Premier, the Group's personal banking service targeted at affluent customers, grew by 35 per cent to reach 1.8 million. Enhanced international services for Premier customers with financial needs in more than one country are currently offered in 18 countries, and this will be extended to 39 markets by the end of 2007. An extensive programme of retail development is under way to provide a network of some 300 Premier Centres in all major cities where HSBC Premier operates.

Cross-border distribution was a noteworthy feature of many HSBC-led debt capital market and equity capital market transactions. Highlights included: America Movil's 8 billion Mexican peso bond; Khazanah Nasional of Malaysia's US\$750 million Islamic exchangeable *sukuk*;



Emaar Economic City's US\$680 million initial public offering in Saudi Arabia; and Shui On Land's US\$876 million initial public offering in Hong Kong. These achievements reflect the progress being made by our Corporate, Investment Banking and Markets business in meeting its objective of focusing on financing and emerging markets.

Building on our *Takaful* (Islamic insurance) experience in Singapore and the United Arab Emirates, we were among the first to be awarded licences to conduct *Takaful* business in both Malaysia and Saudi Arabia during 2006.

**“Our private bank...was rated a top three global private bank by *Euromoney*.”**

Increasing migration around the world is also creating opportunities for us to serve migrant communities, such as the Hispanic community in the United States, non-resident Indians living in the Middle East, and Europeans who are moving within the expanded European Union. In the UK, we have set up a bank account, Passport, which provides individuals newly arrived in Britain with discounted remittance services back home, together with guidance on establishing themselves in the country.

## Commercial Banking

# 2.6m

Customers worldwide

# 29%

Increase in business internet banking customers

# 1st

'World's best trade finance bank in Asia' award  
(*Global Finance* magazine)



**Our businesses – building for sustained growth**  
A new headquarters in Mettawa, Illinois (this page), will bring together employees from dispersed sites and allow for future growth. Meanwhile, the acquisition of Grupo Banistmo, based in Panama City (opposite), has given us a strong presence in the fast-growing Central American region.





**Our global distribution – our global advantage**  
 Thanks to our worldwide network, customers with international business can be confident they will receive the same high standard of service at HSBC all over the world.



## Growing our customers' wealth

There is increasing demand, especially in mature markets, for wealth management services, particularly in retirement planning and insurance, which we are positioning HSBC to meet. Here are a couple of examples.

We are building on our tremendous success in Private Banking worldwide by linking our private bank, which was rated a top three global private bank by *Euromoney*, with our Corporate, Investment Banking and Markets, and Commercial Banking businesses. To illustrate, in the UK, we put private bankers alongside commercial bankers. Our Private Banking business attracted a global total of US\$34 billion in new client assets during the year.

**“Online banking continues to grow rapidly. We offer online banking in 35 countries and territories, and have 17 million internet banking customers.”**

Ageing populations in many developed countries and the reducing role of the state in pension provision are increasing demand for retirement and insurance services. Our retirement and insurance businesses are currently punching below their weight, at around a tenth of Group profits. We have appointed Clive Bannister, former head of our highly successful Private Banking business, as Group Managing Director Insurance, and tasked him with growing the business significantly.

### Corporate, Investment Banking and Markets

**24%**

Increase in profits from Asia, the Middle East and Latin America

**11%**

Increase in funds under management

**1st**

‘European loan house of the year’ award  
‘China loan house of the year’ award  
(*International Financing Review*)

## Creating advantage from scale, technology and process re-engineering

Technology is revolutionising banking and changing customers' banking preferences. Customers increasingly want to bank 24/7 and to choose between channels according to the needs of their business and at their own convenience. This is prompting us to re-evaluate how we serve our customers in the future.

We see scope for re-engineering our operations to meet these changing needs. We aim to give customers the products they want through the channels they prefer while reducing the costs of handling routine transactions.

Online banking continues to grow rapidly. We offer online banking in 35 countries and territories, and have 17 million active internet banking customers. This represents 13 per cent of our personal customers and 30 per cent of our commercial customer base. We also added 13 countries to *HSBCnet*, our strategic internet platform for corporate and institutional clients.

Traffic and sales are growing. Our web sites handled 1.8 billion visits in 2006, and online sales volumes were up 55 per cent over 2005. We made some 900,000 online insurance sales.

While demand for direct services is growing rapidly, we also see demand for trusted personal advice in the more complex areas of financial life, like retirement and long-term savings.

**“Technology is revolutionising banking and changing customers' banking preferences. Customers increasingly want to bank 24/7 and to choose between channels...”**

Overall, we will improve our customers' experience of the HSBC brand by allowing them to choose how they deal with us. Simultaneously, we are building more efficient platforms. For example, thanks to the re-engineering of our network in Hong Kong over the past four years, less than 5 per cent of transactions are now being handled physically in the branches.

In the UK retail network, product simplification has reduced the range of products by two-thirds over the last two years which, together with branch relocation and refurbishment and adopting retail store hours, is having a positive impact on sales volumes.

**“Our web sites handled 1.8 billion visits in 2006, and online sales volumes were up 55 per cent over 2005.”**

### **Credit environment**

With one notable exception, the credit environment remained generally favourable in 2006, particularly in the corporate and commercial segments. The major credit issue affecting the Group in 2006 was in the US sub-prime mortgage market.

A slowdown in the rate of growth of US house prices accelerated delinquency trends in the American sub-prime mortgage market. Deterioration was marked in the more recent loans, as the absence of equity appreciation reduced customers' options for refinancing. Reduced refinancing options also highlighted the fact that, as adjustable rate mortgages reset over the next few years at higher interest rates than their original rates, the effect of the greater contractual payment obligations will lead to further delinquency.

We took these factors into account in determining the appropriate level of impairment allowances at 31 December 2006 against the Mortgage Services loan book. We factored into our allowances the most recent trends in delinquency and loss severity, and estimated the effect of the higher payments due on adjustable-rate mortgages as they reset, in particular where we hold a second lien mortgage behind an adjusting first mortgage.



**Our technology and process – joining up the company**  
Technology is the central nervous system of our company, flashing vast amounts of information around the world instantly. These mid-range computers in Hong Kong help us provide a 'joined up' service to customers in 30 different countries.

“...we continued to invest in enhancing our existing personal and commercial distribution networks throughout Asia, the Middle East and Latin America.”

Elsewhere in Consumer Finance in the United States, the delinquency rate rose during the year, in large part due to the unusually low levels of delinquency at the beginning of 2006.

In UK Personal Financial Services, loan impairment charges as a percentage of lending remained broadly in line with 2005, as actions taken on underwriting and collections mitigated the increasing trend of indebted customers to seek recourse in debt management services. Similarly, in Taiwan measures taken to deal with the effect of mandatory regulatory relief from credit card debt reduced the charge there to a normalised level in the second half of the year.

In the context of HSBC's financial strength and operating profitability, the areas of current weakness are well covered, and they will not restrict our ability to develop our business as planned.

## Private Banking

# 33%

Increase in pre-tax profit on 2005

# US\$333b

Client assets

# 1st

Top private bank for services to super-affluent award  
(*Euromoney* magazine)



**Our organisation – guidance with wisdom and delegation with confidence  
Teamwork and personal responsibility  
are two important tenets of HSBC's  
approach to managing its business.**

### Positioning HSBC for growth in a changing world

The world continues to evolve at a remarkable pace, and the business environment changes with it. We are developing our business to meet the challenges of this rapid change. Stephen Green earlier highlighted acquisitions and investments that extended our franchise in 2006.

**“Key to our delivery on our targets for 2007 will be our success in ‘joining up our company’.”**

Key to our delivery on our targets for 2007 will be our success in ‘joining up our company’. The management team has identified seven ‘global pillars’ that will be our principal areas of focus for 2007 and 2008. These are the actions that we will take to build a financial services company based on the concept of recommendation, both as a place to work and a place to do business. You can read more about the pillars on page 6.

HSBC has a fantastic brand – the fourth most valuable financial services brand in the world according to Interbrand’s ‘Best Global Brands 2006’ survey. However, the brand has been created during the last decade and we now need to prove to our customers and shareholders that the whole of HSBC is indeed more than the sum of its parts. By creating the connections that will serve our customers best – across business segments, across geographies and across channels – we will be able to meet more of our customers’ needs, and we will truly be the world’s local bank.

**“HSBC has a fantastic brand – the fourth most valuable financial services brand in the world.”** (*Interbrand’s ‘Best Global Brands 2006’ survey*)

## Monitoring our performance

We track our performance against a number of benchmarks known as key performance indicators (KPIs). The KPIs fall into two categories. Financial KPIs measure hard numbers, such as revenue, cost efficiency and total shareholder return. Non-financial KPIs track operational aspects of our business, such as employee engagement and customer service. The KPIs are used to track our performance against planning targets and previous years’ results.

### Financial key performance indicators

**Revenue growth and revenue mix** are the indicators showing how well we are growing the business and the sources of our income. Understanding our business mix helps management decide where to invest for future growth.

We measure our **cost efficiency** to assess our consumption of resources in creating income. We can improve our efficiency through the better use of technology and higher productivity, but this may be offset in the short term by the higher costs typically associated with investing in new or growth businesses.

**Credit performance as measured by risk-adjusted margin** is an essential gauge for assessing whether credit is correctly priced so that the returns available after recognising impairment charges meet our required return parameters. We aim to improve our risk-adjusted margin over time.

**Return on average invested capital** measures the return on the capital invested in the business.

Our progressive **dividend policy** aims to deliver sustainable and growing returns to shareholders.

The **earnings per share** ratio shows the level of earnings generated per ordinary share.

**Total shareholder return** is a way of assessing the overall value of a shareholding in HSBC, including the growth in the share price and the dividend, and allows shareholders to benchmark HSBC against competitors.

### Non-financial key performance indicators

There is a well established link between **employee engagement** and customer satisfaction, which is why we track employee engagement. In 2006, over 168,000 employees were surveyed. From 2007 on, we will launch a Group-wide employee engagement survey to measure engagement consistently so we can benchmark HSBC internally and externally.

**Customer satisfaction** is key to the development of our business. We regularly conduct customer satisfaction surveys around the world and, in 2007, we will introduce a consistent measure of recommendation to gauge customer satisfaction among personal and commercial customers.

A strong **brand** is essential in today’s globalised world. Wherever a customer finds HSBC, their dealings with us will influence their perception of the Group. We want to ensure that perception is uniformly excellent. We will extend our brand-tracking surveys in 2007 to include our commercial customers as well as personal customers in our major markets.

**IT performance and systems reliability** are key to our ability to meet customer needs. We track the number of customer transactions processed, and the reliability and resilience of our systems measured in terms of service availability targets.



## Managing our risk

Banking is an industry based on risk. Thus, the analysis, evaluation, acceptance and management of risks is a core element of our business. This list, although not exhaustive, highlights the principal risks HSBC seeks to manage.

### **Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance, treasury and leasing business. It also arises when issues of debt securities are downgraded and the value of HSBC's holdings of assets falls.

### **Liquidity and funding risk**

The objective of HSBC's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due, and that wholesale market access is co-ordinated and disciplined.

### **Market risk**

Market risk is the risk that movements in market elements, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce HSBC's income or the value of its portfolios.

### **Operational risk**

Inherent in every business organisation, operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events such as legal litigation risk.

### **Reputational risk**

The safeguarding of HSBC's reputation is of paramount importance to its continued prosperity and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events.

### **Insurance risk**

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

### **Pension risk**

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

# Corporate Responsibility: Managing for Long-Term Success

“How a business like HSBC responds to the challenge of balancing the needs of people, planet and profit is part of our corporate responsibility strategy... we want HSBC to be one of the world’s leading brands for corporate responsibility.”

**Stephen Green**  
Group Chairman

At HSBC, we believe that corporate responsibility is critical to our long-term business success. In order to deliver enduring returns to our shareholders, we need to build lasting relationships with our customers that are based on the highest standards of personal integrity, transparency and fair dealing in all our business activities. This is the philosophy that underpins our approach to running our business responsibly.

We are committed to treating all present and future stakeholders in an open and transparent way. This commitment to openness is vital, whether in relation to the products and services we provide to our 125 million customers, in the way we manage our global workforce of 312,000 employees, or in the assessment of sustainability risks in our lending and investment activities, which range from commercial banking loans to multi-million dollar infrastructure projects.

Companies like ours must also share responsibility for addressing some of the formidable challenges currently facing societies across the globe, including the impact of climate change. We also provide support for educational and environmental projects worldwide through our charitable donations, which totalled US\$86.3 million in 2006.

## Managing for sustainable growth

We aspire to be one of the world’s leading brands in corporate responsibility. An example of our strategy here is microfinance, which demonstrates the growing alignment between business and community investment. Developed in 2006, our new microfinance strategy is based on commercial viability, albeit with high social impact. HSBC’s emerging market footprint and our expertise in transaction banking make us well-placed to provide small-scale financial services – such as credit, savings, insurance and remittance products – to those without banking relationships largely in the developing world. Microfinance projects, previously launched in 2005, continue in India, Mexico, the Philippines, Russia, Brazil and the United States.

In more developed markets including the UK and the United States, we continue to take seriously our commitment to responsible selling and preventing over-indebtedness. We continue to work with industry

peers to ensure consistency and fairness in decision-making, including the full sharing of credit data to make it easier for lenders to assess an individual’s overall financial position. If customers find themselves in financial difficulty, we work with them to adjust repayments and will offer free debt counselling where appropriate.

In pursuit of our goal to attract, develop and motivate our staff, we continue to shape our human resource strategy to take advantage of the diversity within our global network. Diversity helps to foster different perspectives on working and leadership style, problem-solving, managing relationships, creativity and business growth. By embracing and managing diversity within our organisation, we gain the best from our people while providing the best service to our customers.

We believe that a key component of career development at HSBC should be working internationally because it allows our employees to gain the experience of another country and culture. To facilitate international moves, we created a Global Job Opportunities intranet in 2006. Designed with the help of employee feedback, this intranet has improved employees’ opportunities to find new roles in other parts of the Group. Another area of employee development is training, in which we continue to invest significantly, with each person receiving five days of training on average during 2006.

HSBC continues to develop and implement sector risk policies that reinforce our commitment to social and environmental sustainability. In 2006, we published our fourth sector guideline, the *Energy Sector Policy*, which complements our policies for the Forest Land and Forest Products Sector, the Freshwater Infrastructure Sector, and the Chemicals Sector. We have published our final policy, for the Mining and Metals Sector, in early 2007.

## HSBC and climate change

We believe financial institutions will be critical in minimising the impacts of climate change, playing a key role in financing the shift to cleaner energy and more efficient transport. HSBC itself aspires to be among the leading financial institutions in a low-carbon economy.

We recognise that, as a global financial institution, the largest impact we have is through the business we do, which is why we incorporate environmental criteria into our lending decisions. HSBC is supporting its clients to run environmentally responsible businesses. In recognition of this, and to help clients respond to the challenges and opportunities of creating a lower carbon economy, we launched a Carbon Finance Strategy in 2006. This seeks to develop opportunities to work with clients to promote clean energy generation, and efficient and renewable energy technologies.

As part of our long-standing commitment to the environment we have, since 2003, measured energy usage and carbon dioxide (CO<sub>2</sub>) emissions from our offices around the world, along with waste production and water consumption. In line with targets set in 2005, we aim to reduce these impacts primarily through energy efficiency and recycling initiatives, and the purchase of 'low-carbon' electricity where available.

In addition, since we became the world's first major carbon neutral bank in 2005, we have purchased carbon dioxide 'offsets'. As we cannot actually reduce our CO<sub>2</sub> emissions to zero and remain in business, we buy 'offset' credits – equivalent to our CO<sub>2</sub> emissions – from projects which reduce CO<sub>2</sub>, thereby bringing our own net impact to zero.

In 2006, we launched [www.hsbc.com/committochange](http://www.hsbc.com/committochange), which provides information to help others to learn how to minimise their own environmental impact.

### Investing in our communities

Education and the environment continue to be HSBC's key priorities for community involvement. Indeed, some 75 per cent of donations are channelled towards educational and environmental community projects.

In November 2006, HSBC launched 'Future First', a five-year programme administered by the HSBC Global Education Trust to help street children, children in care and orphans. HSBC will collaborate with local charitable organisations, including global partner SOS Children's Villages – the world's largest charity dedicated to helping orphans – to make a measurable difference in the lives of some of the most marginalised and impoverished members of society.

HSBC's five-year, US\$50 million eco-partnership, 'Investing in Nature', concluded in 2006. This ground-breaking programme between HSBC and environmental groups Botanic Gardens Conservation International, Earthwatch Institute and WWF, was not only the largest single corporate donation to each of these three non-governmental organisations, but it was also the biggest financial commitment made by a bank to worldwide environmental conservation. The programme has contributed in a major way to the protection and preservation of some of the world's most threatened species and habitats.

### Measuring our success

In recognition of our leadership in merging social, environmental and business objectives, HSBC was named overall winner in the first *Financial Times* Sustainable Banking Awards. HSBC also received a commendation for excellence in the 'Sustainable Deal of the Year' category in the same awards programme for a project to finance 1,800 low emission buses to Santiago, Chile.

Further information on HSBC's corporate responsibility activities can be found in our *Corporate Responsibility Report 2006*, to be published in May 2007. The report will be available in hard copy and online at [www.hsbc.com/crreport](http://www.hsbc.com/crreport).

## Investing in Nature 2002-06

Achievements of HSBC's five-year partnership with Botanic Gardens Conservation International, Earthwatch Institute and WWF:

**15,000 species**

of plants and animals conserved or protected

**3 million hectares**

of natural habitats protected, managed or restored

## Educational projects

**US\$40m**

donated around the world in 2006

# Our Board: Promoting Your Interests



## Directors

### 1. Stephen Green, Group Chairman

Age 58. An executive Director since 1998; Group Chief Executive from 2003 to 26 May 2006. Joined HSBC in 1982. Chairman of HSBC Bank plc, HSBC North America Holdings Inc. and HSBC Private Banking Holdings (Suisse) SA. Deputy Chairman of HSBC Trinkaus & Burkhardt AG. A Director of HSBC France and The Hongkong and Shanghai Banking Corporation Limited. Group Treasurer from 1992 to 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003. Chairman of The British Bankers' Association.

### 2. The Baroness Dunn, DBE, Deputy Chairman and senior non-executive Director\*

Age 67. 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 Patron of the UK Foundation of the University of British Columbia, a registered charity. A member of the Asia Task Force. A former Senior Member of the Hong Kong Executive Council and Legislative Council.

### 3. Sir Brian Moffat, OBE, Deputy Chairman and senior independent non-executive Director†

Age 68. 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. From the conclusion of the Annual General Meeting in 2007 will cease to be the senior independent non-executive Director, a member and Chairman of the Group Audit Committee and the Chairman of the Nomination Committee. A non-executive Director of Macsteel Global BV. Former Chairman of Corus Group plc and a former member of the Court of the Bank of England.

### 4. Michael Geoghegan, CBE, Group Chief Executive

Age 53. An executive Director since 2004. Joined HSBC in 1973. Chairman of HSBC Bank USA, N.A. and HSBC USA Inc. and HSBC Bank Canada. A Director and, since 6 March 2006, Deputy Chairman of HSBC Bank plc. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC France,

HSBC North America Holdings Inc. and HSBC National Bank USA. 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.

### 5. The Rt Hon the Lord Butler of Brockwell, KG, GCB, CVO†

Age 69. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Responsibility Committee and the HSBC Global Education Trust. A member of the Nomination Committee until the conclusion of the Annual General Meeting in 2007. 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 in 2004. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

### 6. Raymond Ch'ien, CBE† (retiring on 25 May 2007)

Age 55. 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.

### 7. John Coombe†

Age 61. Chairman of Hogg Robinson plc. A non-executive Director since March 2005. A member of the Group Audit Committee and, since 1 June 2006, a member of the Remuneration Committee. A non-executive Director of Home Retail Group plc and a member of the Supervisory Board of Siemens AG. A member of The Code Committee of the Panel on Takeovers and Mergers. A trustee of the Royal Academy Trust. Former executive Director and Chief Financial Officer of GlaxoSmithKline plc. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

### 8. Rona Fairhead†

Age 45. Chief Executive Officer and Director of the Financial Times Group Limited and a Director of Pearson plc. A non-executive Director since 2004. A member, and from the conclusion of the Annual General Meeting in 2007, Chairman of the Group Audit Committee. A non-executive Director of The Economist Newspaper Limited. Finance Director of Pearson plc until 12 June 2006. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

### 9. Douglas Flint, CBE, Group Finance Director

Age 51. Joined HSBC as an executive Director in 1995. Non-executive Chairman of HSBC Finance Corporation. A non-executive Director of BP p.l.c. and a member of the Consultative Committee of the Large Business Advisory Board of HM Revenue and Customs. Chaired the Financial Reporting Council's review of the Turnbull Guidance on Internal Control. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. A former partner in KPMG.

### 10. William Fung, OBE†

Age 58. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Corporate Responsibility Committee and, until the conclusion of the Annual General Meeting in 2007, of the Remuneration Committee. A non-executive Director and, since May 2005, Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited. A non-executive Director of CLP Holdings Limited, Integrated Distribution Services Group Limited, Convenience Retail Asia Limited, Shui On Land Limited and VTech Holdings Limited. A member of the Hong Kong Trade Development Council. A former non-executive Director of Bank of Communications Co. Ltd. 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.

### 11. Sharon Hintze†

(retiring on 25 May 2007)  
Age 62. Former Chief Operating Officer of Barilla S.P.A. A non-executive Director since 2001. A member of the Corporate Responsibility Committee and of the Remuneration Committee. A non-executive Director of Premier Foods plc. A former non-executive Director of Safeway plc and the Society of



12



13



15



17



19



14



16



18



20

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.

**12. James Hughes-Hallett†**

Age 57. Chairman of John Swire & Sons Limited. A non-executive Director since 1 March 2005. A member of the Group Audit Committee since 1 June 2006 and, from the conclusion of the Annual General Meeting in 2007, a member of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A non-executive Director and formerly Chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A director of China Festival 2008. A trustee of the Dulwich Picture Gallery, the Hong Kong Maritime Museum and the Esmée Fairbairn Foundation. A member of the Governing Body of the School of Oriental and African Studies, University of London.

**13. Sir Mark Moody-Stuart, KCMG†**

Age 66. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Responsibility Committee. A non-executive Director of Accenture Limited, a Governor of Nuffield Hospitals and President of the Liverpool School of Tropical Medicine. Chairman of the Global Business Coalition on HIV/AIDS and the Global Compact Foundation. 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.

**14. Gwyn Morgan†**

Age 61. A non-executive Director since 1 October 2006 and, from the conclusion of the Annual General Meeting in 2007, a member of the Remuneration Committee. A Director of SNC-Lavalin Group Inc., and Alcan Inc. A member of the Board of Trustees of The Fraser Institute and the Energy Advisory Board of Accenture Limited. A non-executive Director of HSBC Bank Canada until 18 April 2006. Founding President and Chief Executive Officer of EnCana Corporation until December 2005 and Vice Chairman from December 2005 to 24 October 2006.

**15. Stewart Newton†**

Age 65. Chairman of The Real Return Group Company Limited. A non-executive Director since 2002 and, from the conclusion of the Annual General Meeting in 2007, a member of the Group Audit Committee. 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.

**16. Simon Robertson†**

Age 66. 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. From the conclusion of the Annual General Meeting in 2007, to be the senior independent non-executive Director and a member of the Nomination Committee. A non-executive Director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and The Royal Opera House Covent Garden Limited. Chairman of Trustees of the Royal Academy Trust and the Ernest Kleinwort Charitable Trust. A trustee of the Eden Project and of 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.

**17. Helmut Sohmen, OBE\***

(retiring on 25 May 2007)  
Age 67. Chairman of Bergesen Worldwide Limited, Bergesen Worldwide Offshore Limited and Bergesen Worldwide Gas ASA. Chairman and President of BW Corporation Limited (formerly World-Wide Shipping Group Limited). A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1984 to 2005 and Deputy Chairman from 1996 to May 2005. Former Chairman of The International Tanker Owners Pollution Federation Limited.

**18. Sir Brian Williamson, CBE†**

Age 62. Chairman of Electra Private Equity plc. A non-executive Director since 2002. A member and, from the conclusion of the Annual General Meeting in 2007, Chairman 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**

**19. David Shaw**

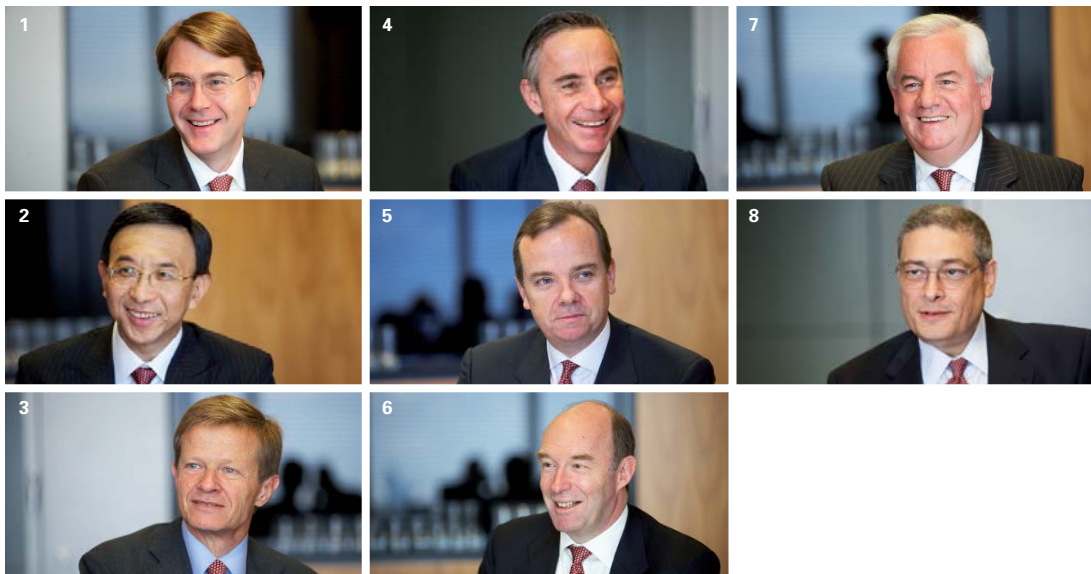
Age 60. An Adviser to the Board since 1998. Solicitor. A partner in Norton Rose from 1973 to 1998. A Director of The Bank of Bermuda Limited, HSBC Private Banking Holdings (Suisse) SA and, since May 2006, a non-executive Director of Shui On Land Limited.

**Secretary**

**20. Ralph Barber**

Age 56. Group Company Secretary. Appointed a Group General Manager on 1 October 2006. Joined HSBC in 1980. Company Secretary of HSBC Holdings plc since 1990. Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992 and Company Secretary of HSBC Bank plc from 1994 to 1996.

# Our Leadership Team: Working for You



## Group Managing Directors

### 1. Clive Bannister

Age 48. Group Managing Director, Insurance. A Group Managing Director since 1 August 2006. Joined HSBC in 1994. Appointed a Group General Manager in 2001. Chairman of HSBC Insurance Holdings Limited since November 2006. Deputy Chief Executive Officer, HSBC Securities (USA) Inc. from 1996 to 1998 and Chief Executive Officer, Group Private Banking from 1998 to 2006.

### 2. Vincent Cheng, OBE

Age 58. Chairman of The Hongkong and Shanghai Banking Corporation Limited. A Group Managing Director since 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 2005.

### 3. Charles-Henri Filippi

Age 54. Chairman and Chief Executive Officer of HSBC France. A Group Managing Director since 2004. A Director of HSBC Bank plc. A member of the Supervisory Board of HSBC Trinkaus & Burkhardt AG. 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.

### 4. Sandy Flockhart

Age 55. President and Group Managing Director, Latin America and the Caribbean. A Group Managing Director since 1 October 2006. Joined HSBC in 1974. Appointed a Group General Manager and Chief Executive Officer, Mexico in 2002. Chief Executive Officer HSBC Thailand from 1992 to 1994. Managing Director of The Saudi British Bank from 1997 to 1999 and Senior Executive Vice-President, Commercial Banking, HSBC Bank USA, N.A. from 1999 to 2002.

### 5. Stuart Gulliver

Age 47. Head of Corporate, Investment Banking and Markets and Group Investment Businesses. A Group Managing Director since 2004. Director of HSBC Bank plc, HSBC USA Inc. and The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1980. Appointed a Group General Manager in 2000. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002, Head of Global Markets from 2002 to 2003, and Co-Head of Corporate, Investment Banking and Markets from 2003 to May 2006.

### 6. David Hodgkinson

Age 56. Group Chief Operating Officer. A Group Managing Director since 26 May 2006 and Chairman of HSBC Bank Middle East Limited since 24 July 2006. Joined HSBC in 1969. Appointed a Group General Manager in 2003. Managing Director of The Saudi British Bank from 1999 to 2003. Deputy Chairman and Chief Executive Officer of HSBC Bank Middle East Limited from 2003 to May 2006.

### 7. Dyfrig John

Age 56. Chief Executive, HSBC Bank plc. 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.

### 8. Youssef Nasr

Age 52. Group Managing Director, Strategic Investments since 1 October 2006. A Director of HSBC Private Banking Holdings (Suisse) SA. 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. President, HSBC Bank Brasil S.A.-Banco Múltiplo from 2005 to 2006.

## Group General Managers

### **Emilson Alonso**

Age 51. President and Chief Executive Officer, HSBC Bank Brasil S.A.-Banco Múltiplo. Joined HSBC in 1997. Appointed a Group General Manager on 1 October 2006.

### **Piraye Antika**

Age 46. Chief Executive Officer, HSBC Turkey. Joined HSBC in 1990. Appointed a Group General Manager in August 2005.

### **Roberta Arena**

Age 58. Group General Manager, Global e-Business. Joined HSBC in 1999. Appointed a Group General Manager in 2000.

### **Richard Bennett**

Age 55. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

### **Niall Booker**

Age 48. Deputy Chairman and Chief Executive Officer, HSBC Bank Middle East Limited. Joined HSBC in 1981. Appointed a Group General Manager in 2004.

### **Peter Boyles**

Age 51. Group General Manager, Human Resources. Joined HSBC in 1975. Appointed a Group General Manager on 1 January 2006.

### **David Budd**

Age 53. Chief Operating Officer and Executive Director, HSBC Bank plc. Joined HSBC in 1972. Appointed a Group General Manager in May 2005.

### **Zed Cama**

Age 59. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad. Joined HSBC in 1968. Appointed a Group General Manager in 2001.

### **Thomas Detelich**

Age 50. President, Consumer and Mortgage Lending, HSBC Finance Corporation. Joined HSBC Finance Corporation in 1976. Appointed a Group General Manager on 1 October 2006.

### **Joe Garner**

Age 37. Group General Manager, Personal Financial Services and Direct Businesses, HSBC Bank plc. Joined HSBC in 2004. Appointed a Group General Manager on 1 October 2006.

### **Lindsay Gordon**

Age 54. President and Chief Executive Officer, HSBC Bank Canada. Joined HSBC in 1987. Appointed a Group General Manager in August 2005.

### **Ken Harvey**

Age 46. Group General Manager and Group Chief Information Officer. Joined HSBC Finance Corporation in 1989. Appointed a Group General Manager in 2004.

### **Alan Keir**

Age 48. Global Co-Head Commercial Banking. Joined HSBC in 1981. Appointed a Group General Manager on 1 October 2006.

### **Naina Lal Kidwai**

Age 49. Chief Executive Officer, HSBC India. Joined HSBC in 2002. Appointed a Group General Manager on 1 October 2006.

### **Matthew King**

Age 50. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in 2002.

### **Paul Lawrence**

Age 45. Head of Corporate, Investment Banking and Markets, USA. President and Chief Executive Officer, HSBC Bank USA, N.A. and HSBC USA Inc. Joined HSBC in 1982. Appointed a Group General Manager in August 2005.

### **Margaret Leung**

Age 54. Global Co-Head Commercial Banking. Joined HSBC in 1978. Appointed a Group General Manager in August 2005.

### **Tony Mahoney**

Age 44. Group General Manager and Head of Network, HSBC Bank plc. Joined HSBC in 1983. Appointed a Group General Manager on 24 November 2006.

### **Brendan McDonagh**

Age 48. Chief Executive Officer, HSBC Finance Corporation and Chief Operating Officer, HSBC North America Holdings Inc. Joined HSBC in 1979. Appointed a Group General Manager in August 2005.

### **Chris Meares**

Age 49. Chief Executive Officer, Group Private Banking. Joined HSBC in 1980. Appointed a Group General Manager on 1 November 2006.

### **Walter Menezes**

Age 61. Group Executive, Card Services, HSBC Finance Corporation. Joined HSBC in 1996. Appointed a Group General Manager on 1 October 2006.

### **Kevin Newman**

Age 49. Senior Executive Vice President, Personal Financial Services, HSBC Bank USA, N.A. Joined HSBC in 1989. Appointed a Group General Manager on 1 October 2006.

### **Raymond Or**

Age 57. Vice-Chairman and Chief Executive, Hang Seng Bank Limited and Director, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in 2000.

### **Krishna Patel**

Age 58. Group General Manager, Chief Executive Officer, Africa. Joined HSBC in 1984. Appointed a Group General Manager in 2000.

### **Russell Picot**

Age 49. Group Chief Accounting Officer. Joined HSBC in 1993. Appointed a Group General Manager in 2003.

### **Mike Powell**

Age 45. Head of Global Markets. Joined HSBC in 1984. Appointed a Group General Manager on 1 October 2006.

### **Brian Robertson**

Age 52. Group General Manager, Credit and Risk. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

### **Michael Smith, OBE**

Age 50. 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.

### **Paul Thurston**

Age 53. Chief Executive Officer, HSBC Mexico. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

### **Peter Wong**

Age 55. Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in February 2005. Appointed a Group General Manager in April 2005.

# Summary Directors' Report

## Results for 2006

HSBC reported pre-tax profit of US\$22,086 million. Profit attributable to shareholders of HSBC Holdings transferred to retained earnings was US\$15,789 million, a 15.7 per cent return on average total shareholders' equity.

## Principal activities and business review

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of over 10,000 properties in 82 countries and territories in five geographical regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America; and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients.

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 8 to 25 and form part of this Summary Financial Statement.

## Corporate governance report

The information set out on pages 26 to 40 and information incorporated by reference, is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 248 to 290 of the *Annual Report and Accounts 2006*.

## Board of Directors

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

The Board sets the strategy for 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, the authority or the delegation of authority to approve credit, market risk limits, acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, specified senior appointments and any substantial change in balance sheet management policy.

At 5 March 2007, the Board comprises three executive and 15 non-executive Directors. The roles of Group Chairman and Group Chief Executive are separated and held by experienced full-time Directors. S K Green succeeded Sir John Bond as Group Chairman at the conclusion of the Annual General Meeting on 26 May 2006 and M F Geoghegan succeeded 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 Group Chief Executive. 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 was M F Geoghegan, who led HSBC Bank, HSBC's principal subsidiary in the UK from 2004 to March 2006. He, too, is highly qualified for his position as Group Chief Executive and his appointment also had the unanimous support of the Board. Mr Geoghegan has over 33 years' experience with HSBC and has worked in 10 countries in North and South America, Asia, the Middle East and Europe.

The Directors believed strongly that these appointments were in the best interests of the shareholders. The appointments had the unanimous support of the Directors and were made after consulting with representatives of major institutional investors and explaining the succession planning and independent external search process. S K Green and M F Geoghegan stood for re-election at the 2006 Annual General Meeting and were both re-elected ahead of taking up their new roles from the conclusion of that meeting.

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 45 executives have a combined service of over 1,000 years with HSBC, although four 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 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



## Summary Financial Statement

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 Brian Moffat, Sir Mark Moody-Stuart, G Morgan, S W Newton, S M Robertson, 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. From the conclusion of the Annual General Meeting in 2007, Lord Butler, W K L Fung and Sir Brian Moffat will each have served on the Board for more than nine years and, in that respect only, will not meet the usual criteria for independence set out in the UK Combined Code on corporate governance. When determining independence the Board considers that calculation of the length of service of a non-executive Director begins on the date of his or her first election by shareholders as a Director of HSBC Holdings. Given the complexity and geographical spread of HSBC's business, the experience of previous service on a subsidiary company board can be a considerable benefit to HSBC and does not detract from a Director's independence.

The Directors who served during the year were Sir John Bond, Lord Butler, R K F Ch'ien, J D Coombe, Baroness Dunn, 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, G Morgan, S W Newton, S M Robertson, H Sohmen and Sir Brian Williamson.

Sir John Bond, A W Jebson and Sir John Kemp-Welch retired as Directors at the conclusion of the Annual General Meeting held on 26 May 2006. S M Robertson was appointed a Director on 3 January 2006, G Morgan was appointed a Director on 1 October 2006 and J F Gil Díaz was appointed a Director on 2 January 2007 and resigned on 5 March 2007.

Seven Board meetings were held during 2006. Lord Butler, R K F Ch'ien, J D Coombe, Baroness Dunn, D J Flint, M F Geoghegan, S K Green, S Hintze, Sir Brian Moffat, S M Robertson, H Sohmen and Sir Brian Williamson attended all of the Board meetings. R A Fairhead, W K L Fung, J W J Hughes-Hallett, Sir Mark Moody-Stuart and S W Newton attended six of the Board meetings. Sir John Bond and A W Jebson attended the four Board meetings held before they ceased to be Directors. Sir John Kemp-Welch attended three of the four Board meetings held before he ceased to be a Director. G Morgan attended the one Board meeting held following his appointment.

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

Lord Butler, R K F Ch'ien, Baroness Dunn, R A Fairhead, W K L Fung, S Hintze, Sir Brian Moffat, G Morgan and H Sohmen will retire at the forthcoming Annual General Meeting. With the exception

of R K F Ch'ien, S Hintze and H Sohmen, who are to retire, they offer themselves for re-election.

Following a performance evaluation 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.

Brief biographical particulars of all Directors including those seeking re-election at the Annual General Meeting, are given on pages 26 to 27.

### Corporate governance codes

HSBC is committed to high standards of corporate governance. HSBC Holdings has complied with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Combined Code') throughout the year, save for code provision A.2.2 as the Group Chairman did not on appointment meet the Combined Code's independence criteria. On 26 May 2006 S K Green, who had previously served as Group Chief Executive, became Group Chairman. In accordance with the provisions of the Combined Code, the Board consulted major shareholders in advance of the appointment. Sir Brian Moffat, the senior independent non-executive Director and the Chairman of the Nomination Committee, wrote to all shareholders to explain the Board's decision and the reasons for the appointment. These are described on page 30. HSBC Holdings has complied with all 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 throughout the year.

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

### Board committees

The Board has 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, credit, 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 members of the Group Audit Committee throughout 2006 were Sir Brian Moffat (Chairman), R K F Ch'ien, J D Coombe and R A Fairhead. J W J Hughes-Hallett was appointed a member of the Committee on 1 June 2006. Sir John Kemp-Welch ceased to be a member of the Committee on 26 May 2006. From the conclusion of the Annual General Meeting in 2007, Sir Brian Moffat will cease to be Chairman and a member of the Committee, R A Fairhead will become Chairman of the Committee and S W Newton will become a member of the

## Summary Financial Statement

### Summary Directors' Report (continued)

Committee. All members of the Committee are independent non-executive Directors.

The Board has determined that Sir Brian Moffat, R K F Ch'ien, J D Coombe, R A Fairhead and J W J Hughes-Hallett are independent according to US Securities and Exchange Commission criteria, and that Sir Brian Moffat, J D Coombe, R A Fairhead and J W J Hughes-Hallett 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 2006. R K F Ch'ien, J D Coombe, R A Fairhead and Sir Brian Moffat attended all of the meetings; Sir John Kemp-Welch attended two of the three meetings held before his retirement and J W J Hughes-Hallett attended each of the four meetings held following his appointment.

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 331 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts 2006*.

Further information about the Group Audit Committee is given on pages 259 to 261 of the *Annual Report and Accounts 2006*.

The role of the Remuneration Committee and its membership are set out in the Summary Directors' Remuneration Report on page 35.

The Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board. Before recommending an appointment to the Board, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this, identifies the role and capabilities required for a particular appointment. Candidates are considered on merit against these criteria. Care is taken to ensure that appointees have enough time to devote to HSBC. Prospective Directors are asked to identify any significant other commitments and confirm they have sufficient

time to discharge what is expected of them. 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 2006 were Sir Brian Moffat (Chairman), Lord Butler, Baroness Dunn and Sir Brian Williamson. From the conclusion of the Annual General Meeting in 2007, Sir Brian Williamson will become Chairman of the Committee in succession to Sir Brian Moffat, Lord Butler will cease to be a member of the Committee and J W J Hughes-Hallett and S M Robertson will become members of the Committee.

There were four Nomination Committee meetings during 2006, each of which was attended by all members.

The appointments of J F Gil Díaz, G Morgan and S M Robertson as non-executive Directors were made on the advice and recommendation of the Nomination Committee. J F Gil Díaz, former Secretary of Finance and Public Credit in Mexico, and G Morgan, a director of HSBC Bank Canada for nine years, were identified by the Nomination Committee and so neither an external consultancy nor open advertising was used in connection with their appointments.

As set out on page 30, 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.

Further information about the Nomination Committee is given on pages 261 to 262 of the *Annual Report and Accounts 2006*.

### 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 2006							Percentage of ordinary shares in issue
	At 1 January 2006	Beneficial owner	Child under 18 or spouse	Trustee	Jointly with another person	Other	Total interests <sup>1</sup>	
R K F Ch'ien	49,835	52,055	–	–	–	–	52,055	0.00
J D Coombe	42,195	6,000	–	33,799 <sup>2</sup>	–	–	39,799	0.00
Baroness Dunn	170,210	147,875	–	28,650 <sup>2</sup>	–	–	176,525	0.00
D J Flint	81,726	76,984	–	27,963	–	–	104,947	0.00
W K L Fung	328,000	328,000	–	–	–	–	328,000	0.00
M F Geoghegan	73,536	113,525	–	–	–	–	113,525	0.00
S K Green	295,148	356,441	–	–	45,355	–	401,796	0.00
S Hintze	2,037	2,037	–	–	–	–	2,037	0.00
J W J Hughes-Hallett	2,119,229	–	–	1,668,986 <sup>2</sup>	–	–	1,668,986	0.02
Sir Brian Moffat	11,632	–	–	–	12,149	–	12,149	0.00
Sir Mark Moody-Stuart	10,840	5,000	840	5,000 <sup>2</sup>	–	–	10,840	0.00
S W Newton	5,391	5,631	–	–	–	–	5,631	0.00
S M Robertson	33,799 <sup>3</sup>	5,177	–	33,799 <sup>2</sup>	–	–	38,976	0.00
H Sohmen	3,370,147	–	1,326,278	–	–	2,105,989 <sup>4</sup>	3,432,267	0.03
Sir Brian Williamson	16,543	17,281	–	–	–	–	17,281	0.00

## Summary Financial Statement

- 1 Details of executive Directors' other interests in HSBC Holdings ordinary shares of US\$0.50 arising from employee share plans are set out in the Directors' Remuneration Report on pages 39 to 40. At 31 December 2006, the aggregate interests under the Securities and Futures Ordinance of Hong Kong of D J Flint, M F Geoghegan and S K Green in HSBC Holdings ordinary shares of US\$0.50 (each of which represents less than 0.02 per cent of the shares in issue), including interests arising through employee share plans are: D J Flint – 817,055; M F Geoghegan – 778,298; and S K Green – 1,405,974.
- 2 Non-beneficial.
- 3 Interests at 3 January 2006 – date of appointment.
- 4 Interests held by private investment companies.

S K Green has an interest as beneficial owner in €75,000 of HSBC Holdings plc 5<sup>1</sup>/<sub>2</sub> per cent Subordinated Notes 2009 which he held throughout the year.

As a Director of HSBC Private Banking Holdings (Suisse), S K Green has an interest as beneficial owner in one share of CHF1,000, which he held throughout the year. S K Green has waived his rights to receive dividends on the share and has undertaken to transfer the share to HSBC on ceasing to be a Director of HSBC Private Banking Holdings (Suisse).

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.

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 HSBC or any 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.

### Employees' remuneration policy

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.

In line with the overall principles applied by the Remuneration Committee as described on page 35 in the Summary Directors' Remuneration Report:

- 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; employee engagement; full utilisation of professional skills; and adherence to HSBC's ethical standards, lending guidelines, 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.

### Donations

During the year, HSBC made charitable donations totalling US\$86.3 million. Of this amount, US\$32.8 million was given for charitable purposes in the UK.

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. A resolution to renew the authority will be submitted to the Annual General Meeting in 2007.

### Dividends

First, second and third interim dividends for 2006, each of US\$0.15 per ordinary share, were paid on 6 July 2006, 4 October 2006, and 18 January 2007 respectively. On 5 March 2007, the Directors declared a fourth interim dividend for 2006 of US\$0.36 per ordinary share in lieu of a final dividend, which will be payable to ordinary shareholders on 10 May 2007 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 30 April 2007, with a scrip dividend alternative. As the fourth interim dividend for 2006 was declared after the balance sheet date it has not been included as a creditor at 31 December 2006. The reserves available for distribution at 31 December 2006 are US\$12,045 million. The key dates for the payment of the fourth interim dividend for 2006, and the proposed timetables for the interim dividends in respect of 2007 on the ordinary shares of US\$0.50 each are given in the Shareholder Information section on page 46.

### Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank plc, 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 2006.

## **Summary Financial Statement**

Summary Directors' Report (continued)

### **Auditors' report**

The auditors' report on the full accounts for the year ended 31 December 2006 was unqualified and did not include a statement under sections 237(2) (inadequate accounting records or returns or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985. The statement under section 235(3) (whether directors' report is consistent with accounts) was unqualified.

# Summary Directors' Remuneration Report

## Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, the development of high potential employees and key succession planning. Within the authority delegated by the Board, the Committee is responsible for approving the remuneration policy of HSBC including the terms of bonus plans, share plans and other long-term incentive plans and for agreeing the individual remuneration packages of executive Directors and other senior Group employees. No Directors are involved in deciding their own remuneration. 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/boardcommittees](http://www.hsbc.com/boardcommittees).

The members of the Remuneration Committee throughout 2006 were Sir Mark Moody-Stuart (Chairman), W K L Fung and S Hintze. Sir John Kemp-Welch was a member of the Committee until 26 May 2006. J D Coombe was appointed a member of the Committee on 1 June 2006. From the conclusion of the Annual General Meeting to be held in 2007, W K L Fung and S Hintze will retire as members of the Committee and G Morgan will become a member of the Committee.

There were seven meetings of the Remuneration Committee during 2006. S Hintze and Sir Mark Moody-Stuart attended all of these meetings and W K L Fung attended six meetings. Sir John Kemp-Welch attended three of the four meetings held before his retirement. J D Coombe attended each of the three meetings held following his appointment.

Further information about the Remuneration Committee is given on page 280 of the *Annual Report and Accounts 2006*.

## Overall principles

In carrying out its responsibilities, 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 markets in which HSBC operates;
- to offer fair and realistic salaries with an important element of variable pay, differentiated by performance;
- through awards of shares to recognise high performance, retain key talent and provide alignment with the interests of shareholders; and
- to follow a policy of moving progressively from defined benefit to defined contribution pension schemes.

## Executive Directors

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

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

To ensure that the executive Directors' remuneration packages are competitive having regard to the broad international nature of the Group and the scope of its activities, the Remuneration Committee considers market data on senior executive remuneration arrangements within organisations that are considered key competitors. As far as the executive Directors are concerned, these are FTSE30 companies with significant international operations and other major European and where appropriate US parented banks.

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.

The policy adopted in 2006 will also apply in 2007. It is, however, kept under regular review and where appropriate, shareholders will be consulted about any proposed changes in policy for subsequent years. Any such changes will also be described in future reports on Directors' remuneration.

Each component of executive Directors' remuneration is explained below.

## Salary

The Committee reviews salary levels for executive Directors each year and any adjustments made take into account the individual's performance in the job as well as competitive rates of pay found in comparator organisations.

The table below shows base salaries in 2006 and with effect from 1 March 2007 or, in the case of M F Geoghegan, 1 June 2007.

	2007 £000	2006 £000
D J Flint	700	575
M F Geoghegan	1,070	1,000
S K Green	1,250	1,250

## Annual cash bonus

Cash bonuses for executive Directors are based primarily upon performance measured against a number of key financial targets for the Group. An assessment of individual performance, customer satisfaction and measures of employee engagement are also factors taken into account in determining bonuses for executive Directors.

Performance against these key measures may result in discretionary cash bonuses of up to 250 per cent of basic salary for executive Directors. The table below shows the awards made to the current executive Directors in 2006 in respect of 2005 and in 2007 in respect of 2006.

	2007 £000	2006 £000
D J Flint	500	500
M F Geoghegan	1,750	1,819
S K Green	1,750	1,750

## Summary Financial Statement

### Summary Directors' Remuneration Report (continued)

#### Long-term incentive plan

In 2005 the vesting of Performance Share awards was made more challenging and highly geared to performance than under the previous arrangements. Under The HSBC Share Plan vesting is now based on two independent measures, relative TSR 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. Individual awards being made in 2007 are set out in the table below.

#### 2007 awards

	Face value £000	
	2007	2006
D J Flint	2,200	1,600
M F Geoghegan	5,000	2,000
S K Green	3,750	2,500
<b>Total</b>	<b>10,950</b>	<b>6,100</b>

It is to be noted that all of the shares will only be released to participants if both performance conditions are fully met. The 'expected value' of these awards is 44 per cent of the face value.

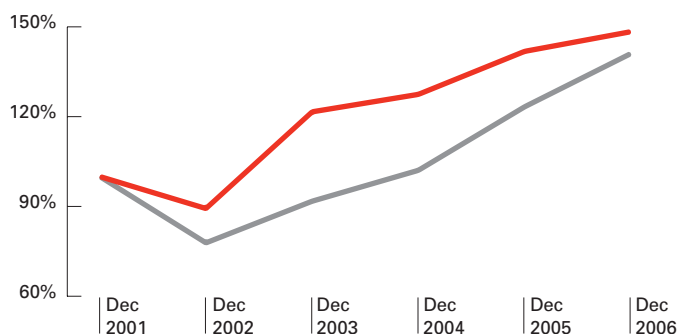
#### Performance conditions

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 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.

#### 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 2006. The FTSE 100 has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.



● HSBC total shareholder return  
● FTSE 100

Source: Datastream

#### Pensions

The normal retirement age for executive Directors is 65.

The pension entitlements earned by the executive Directors during the year are set out on page 38.

#### Non-executive Directors

##### Fees

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

In addition, non-executive Directors receive the following fees:

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

During 2006, seven meetings of the Group Audit Committee were held.

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

During 2006, seven meetings of the Remuneration Committee were held.

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

During 2006, four meetings of the Nomination Committee were held.

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

During 2006, five meetings of the Corporate Responsibility Committee were held.

## Summary Financial Statement

### Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 2006 were as follows:

	Fees £000	Salary £000	Allowance <sup>1</sup> £000	Benefits in kind <sup>2</sup> £000	Bonuses <sup>3</sup> £000	Total 2006 £000	Total 2005 £000
<b>Executive Directors<sup>4</sup></b>							
Sir John Bond <sup>5</sup>	–	602	–	16	1,458	2,076	4,479
D J Flint	–	563	275	17	500	1,355	1,190
M F Geoghegan	–	939	375	19	1,535 <sup>6</sup>	2,868	671
S K Green	–	1,170	–	14	1,750	2,934	2,529
A W Jebson <sup>5</sup>	–	227	–	7	573	807	1,547
<b>Non-executive Directors</b>							
Lord Butler	115	–	–	–	–	115	90
R K F Ch'ien <sup>7</sup>	200	–	–	–	–	200	187
J D Coombe	97	–	–	–	–	97	53
Baroness Dunn	85	–	–	–	–	85	70
R A Fairhead	85	–	–	–	–	85	70
W K L Fung <sup>8</sup>	136	–	–	–	–	136	117
S Hintze	105	–	–	–	–	105	85
J W J Hughes-Hallett	77	–	–	–	–	77	46
Sir John Kemp-Welch <sup>5</sup>	44	–	–	–	–	44	85
Sir Brian Moffat	145	–	–	–	–	145	115
Sir Mark Moody-Stuart	125	–	–	–	–	125	85
G Morgan <sup>9</sup>	16	–	–	–	–	16	–
S W Newton	65	–	–	–	–	65	55
S M Robertson <sup>10</sup>	65	–	–	–	–	65	–
H Sohmen <sup>11</sup>	–	–	–	–	–	–	16
Sir Brian Williamson	85	–	–	–	–	85	70
Total <sup>12</sup>	1,445	3,501	650	73	5,816	11,485	15,541
Total (US\$000)	2,660	6,444	1,196	134	10,705	21,139	28,233

1 Executive allowance paid to fund personal pension arrangements.

2 Benefits in kind for executive Directors include provision of company car, medical insurance, other insurance cover, accountancy advice and travel assistance.

3 These discretionary bonuses are in respect of 2006.

4 Each of the executive Directors waived their right to receive a fee from HSBC Holdings (2006: £27,083; 2005: £55,000).

5 Retired as a Director on 26 May 2006.

6 In return for the prior waiver of part of his bonus, an employer contribution has been made into a pension arrangement for M F Geoghegan equal to £215,000 (2005: £1,818,750) which would otherwise have been paid.

7 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 Limited.

8 Includes fee as a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited.

9 Appointed as a Director on 1 October 2006.

10 Appointed as a Director on 3 January 2006.

11 H Sohmen has elected to waive any fees payable to him by HSBC Holdings (2006: £65,000; 2005: £55,000).

12 Total emoluments for 2005 include the emoluments of Directors who retired in that year.

## Summary Financial Statement

### Summary Directors' Remuneration Report (continued)

#### Pensions

S K Green ceased membership of the HSBC Bank (UK) Pension Scheme on 5 April 2006. From 6 April 2006 Mr Green has been entitled to receive benefits from an Employer-Funded Retirement Benefits Scheme (EFRBS). The benefits from the HSBC Bank (UK) Pension Scheme will be calculated based on completed service to the date of opting out and on pensionable salary calculated at the date employment with HSBC Holdings plc ceases. The intention of this arrangement is to provide benefits to Mr Green that would be broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service.

M F Geoghegan ceased membership of the HSBC International Staff Retirement Benefits Scheme on 31 March 2006. From 1 April 2006 Mr Geoghegan transferred all past service benefits into the HSBC Asia Holdings Pension Plan, on a defined contribution basis (see below). An employer contribution was made to the HSBC Asia Holdings Pension Plan in respect of 2006 of £215,000 (2005: £1,818,750) arising

entirely from a bonus sacrifice. There were no other employer contributions made to this plan. From 1 April 2006 Mr Geoghegan has received an executive allowance of 50 per cent of annual basic salary to fund personal pension arrangements.

From 1 January 2006 to 31 March 2006 D J Flint received an executive allowance of 30 per cent of annual basic salary which was paid to fund personal pension arrangements. In addition, for the same period, Mr Flint participated in the HSBC Holdings plc Funded Unapproved Retirement Benefits Scheme (FURBS) on a defined contribution basis with an employer contribution of £26,594 (2005: £92,500). The intention of this arrangement was to provide benefits broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service. From 1 April 2006 the FURBS was closed and, to ensure that pension arrangements for Mr Flint remain broadly comparable, the executive allowance was increased to 55 per cent of annual basic salary.

	Accrued annual pension at 31 December 2006 £000	Increase in accrued pension during 2006 £000	Increase in accrued pension during 2006, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2005 <sup>1</sup> £000	Transfer value of accrued pension at 31 December 2006 <sup>1</sup> £000	Increase of transfer value of accrued pension (less personal contributions) in 2006 <sup>1</sup> £000	Transfer value (less personal contributions) at 31 December 2006 relating to increase in accrued pensions during 2006, excluding any increase for inflation <sup>1</sup> £000
Sir John Bond <sup>2</sup>	494	58 <sup>3</sup>	49	10,667	11,410 <sup>3</sup>	743	947
M F Geoghegan <sup>4</sup>	–	14	–	12,495	–	–	–
S K Green	586	251	239	5,758	11,082 <sup>5</sup>	5,324	4,513
A W Jebson <sup>2</sup>	214	13	10	3,231	5,287	2,056	254

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 Sir John Bond and A W Jebson retired as employees on 31 May 2006. The accrued annual pension at 31 December 2006 is the same amount as was put into payment on 31 May 2006 following their retirement. Sir John Bond elected to receive a lump sum payment on his retirement, as allowed under the rules of the HSBC Bank (UK) Pension Scheme. The accrued pension at 31 December 2006 for Sir John Bond is therefore lower than would have been the case had he not opted to receive a lump sum payment.

3 The increase in accrued pension during 2006 has been calculated as the difference between the accrued pension as at 31 December 2006 (ignoring the reduction to the accrued pension due to the exchange of some pension for a lump sum payment on retirement) and the accrued pension as at 31 December 2005. The actual post commutation pension in payment at the year end is lower than the accrued pension at the start of the year due to the exchange of pension for a lump sum payment on retirement.

4 As noted above, on 31 March 2006 M F Geoghegan ceased membership of, and the accrual of benefits under, the HSBC International Staff Retirement Benefits Scheme. As required by the rules of the HSBC International Staff Retirement Benefits Scheme, M F Geoghegan made personal contributions towards his pension of £4,308 in respect of 2006. At 31 December 2005 M F Geoghegan was entitled to a pension of £557,000 per annum and at 31 March 2006 he was entitled to a pension of £571,000 per annum, an increase in accrued pension entitlement during the period of £14,000 per annum (£10,000 per annum excluding any increase for inflation). The increase in the transfer value of the accrued pension (less personal contributions) from 31 December 2005 to 31 March 2006 was £419,000. The transfer value (less personal contributions) at 31 March 2006 relating to the increase in accrued pension during 2006, excluding any increase for inflation, was £216,000. M F Geoghegan transferred all his benefits out of the HSBC International Staff Retirement Benefits Scheme on 31 March 2006 with a transfer payment from the Scheme of £12,918,000 into the HSBC Asia Holdings Pension Plan on a defined contribution basis. There were no pension liabilities under the HSBC International Staff Retirement Benefits Scheme for M F Geoghegan at 31 December 2006.

5 Increase in transfer value reflects increase in base salary in 2006, following S K Green's new role as Group Chairman.



## Summary Financial Statement

### Share plans

#### The HSBC Share Plan

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards at 1 January 2006	Awards made during year <sup>1</sup>	Monetary value of awards made during year £000	Awards at 31 December 2006 <sup>2</sup>
Sir John Bond	27 May 2005	2008	474,353	–	–	495,521
D J Flint	27 May 2005	2008	177,883	–	–	185,821
	6 Mar 2006	2009	–	161,458	1,600	167,220
M F Geoghegan	27 May 2005	2008	237,177	–	–	247,761
	6 Mar 2006	2009	–	201,823	2,000	209,025
S K Green	27 May 2005	2008	296,471	–	–	309,701
	6 Mar 2006	2009	–	252,278	2,500	261,280
A W Jebson	27 May 2005	2008	167,803	–	–	175,291

Vesting of these Performance Share awards is subject to the performance conditions described on page 281 of the *Annual Report and Accounts 2006* being satisfied.

1 At the date of the award, 6 March 2006, the market value per share was £9.895.

2 Includes additional shares arising from scrip dividends.

## Summary Financial Statement

### Summary Directors' Remuneration Report (continued)

#### HSBC Holdings Restricted Share Plan 2000

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards at 1 January 2006	Awards vested during the year <sup>1</sup>	Monetary value of awards vested during year £000	Awards at 31 December 2006 <sup>1</sup>
Sir John Bond	12 Mar 2001	2006	91,276	92,063 <sup>2</sup>	914	–
	8 Mar 2002	2007	136,679	141,597 <sup>3</sup>	1,318	–
	5 Mar 2003	2008	182,406	188,969 <sup>4</sup>	1,759	–
	4 Mar 2004	2009	263,574	273,058 <sup>4</sup>	2,583	–
D J Flint	12 Mar 2001	2006	65,198	65,760 <sup>2</sup>	653	–
	8 Mar 2002	2007	86,324	–	–	90,176
	5 Mar 2003	2008	124,367	–	–	129,917
	4 Mar 2004	2009	130,532	–	–	136,357
M F Geoghegan	12 Mar 2001	2006	39,119	39,456 <sup>2</sup>	392	–
	8 Mar 2002	2007	43,162	–	–	45,089
	5 Mar 2003	2008	58,040	–	–	60,630
	4 Mar 2004	2009	97,899	–	–	102,268
S K Green	12 Mar 2001	2006	91,276	92,063 <sup>2</sup>	914	–
	8 Mar 2002	2007	107,905	–	–	112,720
	5 Mar 2003	2008	124,367	–	–	129,917
	4 Mar 2004	2009	179,481	–	–	187,490
A W Jebson	12 Mar 2001	2006	78,237	78,911 <sup>2</sup>	783	–
	8 Mar 2002	2007	100,712	104,335 <sup>3</sup>	993	–
	5 Mar 2003	2008	124,368	–	–	127,754 <sup>5</sup>
	4 Mar 2004	2009	130,532	–	–	134,086 <sup>5</sup>

Vesting of these Performance Share awards is subject to the performance conditions described on page 283 of the *Annual Report and Accounts 2006* being satisfied.

- Includes additional shares arising from scrip dividends.
- The performance tests were met in 2004 and the shares have vested. At the date of vesting, 13 March 2006, the market value per share was £9.925. The market value per share at the date of the award, 12 March 2001, was £8.62.
- Retired as a Director on 26 May 2006. The awards held at the date of retirement that had passed the performance condition vested immediately. Consequently, the 2002 awards were released to Sir John Bond on 14 June 2006 when the market value per share was £9.31 and to A W Jebson on 30 June 2006 when the market value per share was £9.515. The market value per share at the date of the award, 8 March 2002, was £8.34.
- In line with the previous practice for executives who had worked significantly beyond retirement age, and where the awards had passed the performance condition at the time of originally planned retirement, the Remuneration Committee agreed that the Performance Share awards held by Sir John Bond at retirement should vest in full without time prorating. Consequently, the 2003 award vested on 14 June 2006 when the market value per share was £9.31. The 2004 award vested in two tranches: the first on 16 June 2006 (200,000 shares) when the market value per share was £9.37; and the second on 31 July 2006 (73,058 shares) when the market value per share was £9.71. The market values per share at the dates of the awards, 5 March 2003 and 4 March 2004, were £6.70 and £8.515 respectively.
- Interests at date of retirement as a Director (26 May 2006).

## Summary Financial Statement

# Summary Consolidated Income Statement

2005 US\$m	Year ended 31 December 2006	2006 US\$m	2006 £m	2006 HK\$m
60,094	Interest income	75,879	41,202	589,504
(28,760)	Interest expense	(41,393)	(22,476)	(321,582)
31,334	<b>Net interest income</b>	<b>34,486</b>	18,726	267,922
17,486	Fee income	21,080	11,447	163,771
(3,030)	Fee expense	(3,898)	(2,117)	(30,284)
14,456	<b>Net fee income</b>	<b>17,182</b>	9,330	133,487
3,656	Trading income excluding net interest income	5,619	3,052	43,654
2,208	Net interest income on trading activities	2,603	1,413	20,223
5,864	<b>Net trading income</b>	<b>8,222</b>	4,465	63,877
1,034	Net income from financial instruments designated at fair value	657	357	5,104
692	Gains less losses from financial investments	969	526	7,528
155	Dividend income	340	185	2,641
5,436	Net earned insurance premiums	5,668	3,078	44,035
2,733	Other operating income	2,546	1,381	19,780
61,704	<b>Total operating income</b>	<b>70,070</b>	38,048	544,374
(4,067)	Net insurance claims incurred and movement in policyholders' liabilities	(4,704)	(2,554)	(36,546)
57,637	<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>65,366</b>	35,494	507,828
(7,801)	Loan impairment changes and other credit risk provisions	(10,573)	(5,741)	(82,141)
49,836	<b>Net operating income</b>	<b>54,793</b>	29,753	425,687
(16,145)	Employee compensation and benefits	(18,500)	(10,045)	(143,726)
(11,183)	General and administrative expenses	(12,823)	(6,963)	(99,622)
(1,632)	Depreciation and impairment of property, plant and equipment	(1,514)	(822)	(11,762)
(554)	Amortisation and impairment of intangible assets	(716)	(389)	(5,563)
(29,514)	<b>Total operating expenses</b>	<b>(33,553)</b>	(18,219)	(260,673)
20,322	<b>Operating profit</b>	<b>21,240</b>	11,534	165,014
644	Share of profit in associates and joint ventures	846	459	6,572
20,966	<b>Profit before tax</b>	<b>22,086</b>	11,993	171,586
(5,093)	Tax expense	(5,215)	(2,832)	(40,515)
15,873	<b>Profit for the year</b>	<b>16,871</b>	9,161	131,071
15,081	Profit attributable to shareholders of the parent company	15,789	8,573	122,665
792	Profit attributable to minority interests	1,082	588	8,406
	<b>US\$</b>	<b>US\$</b>	<b>£</b>	<b>HK\$</b>
1.36	Basic earnings per ordinary share	1.40	0.76	10.88
1.35	Diluted earnings per ordinary share	1.39	0.75	10.80
0.69	Dividends per ordinary share	0.76	0.41	5.90

## Summary Financial Statement

# Summary Consolidated Balance Sheet

	2005 US\$m	2006 US\$m	2006 £m	2006 HK\$m
<b>Assets</b>				
13,712	Cash and balances at central banks	12,732	6,481	99,004
11,300	Items in the course of collection from other banks	14,144	7,199	109,984
12,554	Hong Kong Government certificates of indebtedness	13,165	6,701	102,371
232,909	Trading assets	328,147	167,027	2,551,671
15,046	Financial assets designated at fair value	20,573	10,472	159,976
73,928	Derivatives	103,702	52,784	806,387
125,965	Loans and advances to banks	185,205	94,269	1,440,154
740,002	Loans and advances to customers	868,133	441,880	6,750,602
182,342	Financial investments	204,806	104,246	1,592,571
7,249	Interests in associates and joint ventures	8,396	4,274	65,287
33,200	Goodwill and intangible assets	37,335	19,004	290,317
15,206	Property, plant and equipment	16,424	8,360	127,713
26,596	Other assets	33,444	17,022	260,061
11,961	Prepayments and accrued income	14,552	7,407	113,156
1,501,970	Total assets	1,860,758	947,126	14,469,254
<b>Liabilities</b>				
12,554	Hong Kong currency notes in circulation	13,165	6,701	102,371
69,727	Deposits by banks	99,694	50,744	775,221
739,419	Customer accounts	896,834	456,489	6,973,781
7,022	Items in the course of transmission to other banks	12,625	6,426	98,172
174,365	Trading liabilities	226,608	115,343	1,762,104
61,829	Financial liabilities designated at fair value	70,211	35,737	545,961
74,036	Derivatives	101,478	51,652	789,093
188,072	Debt securities in issue	230,325	117,235	1,791,007
4,869	Retirement benefit liabilities	5,555	2,827	43,196
26,515	Other liabilities	29,824	15,183	231,910
14,144	Liabilities under insurance contracts	17,670	8,994	137,402
12,689	Accruals and deferred income	16,310	8,302	126,827
1,966	Provisions	2,859	1,455	22,232
16,537	Subordinated liabilities	22,672	11,540	176,297
1,403,744	Total liabilities	1,745,830	888,628	13,575,574
<b>Equity</b>				
5,667	Called up share capital	5,786	2,945	44,992
6,896	Share premium account	7,789	3,965	60,567
23,646	Other reserves	29,380	14,954	228,459
56,223	Retained earnings	65,397	33,287	508,527
92,432	Total shareholders' equity	108,352	55,151	842,545
5,794	Minority interests	6,576	3,347	51,135
98,226	Total equity	114,928	58,498	893,680
1,501,970	Total equity and liabilities	1,860,758	947,126	14,469,254

**S K Green**

Group Chairman

# Notes on the Summary Financial Statement

## 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 2006. The accounting policies adopted are consistent with those described in the *Annual Report and Accounts 2006*.

## 2 Directors' emoluments

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

	2006 US\$000	2005 US\$000	2004 US\$000
Fees	2,660	2,100	2,713
Salaries and other emoluments	7,774	12,869	9,721
Bonuses	10,705	13,264	17,288
	21,139	28,233	29,722
Gains on the exercise of share options	3	17	14,078
Vesting of Restricted Share Plan awards	18,975	24,221	9,598

In addition, there were payments under retirement benefit agreements with former Directors of US\$1,045,448 (2005: US\$996,098). The provision at 31 December 2006 in respect of unfunded pension obligations to former Directors amounted to US\$17,759,454 (2005: US\$16,458,975).

During the year, aggregate contributions to pension schemes in respect of Directors were US\$889,241 (2005: US\$4,819,759), including US\$395,740 (2005: US\$3,304,081) 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, were as follows:

	2006		2005	
	Number of persons	Balance at 31 December US\$000	Number of persons	Balance at 31 December US\$000
<b>Directors and connected persons and companies controlled by them</b>	<b>85</b>		<b>76</b>	
Loans		407,176		279,297
Credit cards		317		250
Guarantees		21,751		10,622
<b>Officers</b>	<b>12</b>		<b>37</b>	
Loans		16,706		42,857
Credit cards		687		352
Guarantees		23		164

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.

## Summary Financial Statement

Notes on the Summary Financial Statement (continued)

### 4 Called up share capital

#### Authorised

The authorised ordinary share capital of HSBC Holdings at 31 December 2006 and 2005 was US\$7,500 million divided into 15,000 million ordinary shares of US\$0.50 each.

At 31 December 2006 and 2005, 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 2006 and 2005, the authorised non-voting deferred share capital of HSBC Holdings was £301,500 divided into 301,500 non-voting deferred shares of £1 each.

#### Issued

HSBC Holdings ordinary shares	Number	US\$m
At 1 January 2006	11,333,603,942	5,667
Shares issued in connection with the maturity of HSBC Finance 8.875 per cent Adjustable Conversion-Rate Equity Security Units	3,424,742	2
Shares issued under HSBC Finance share plans	643,520	–
Shares issued under HSBC employee share plans	75,956,784	38
Shares issued in lieu of dividends	158,578,747	79
At 31 December 2006	11,572,207,735	5,786

HSBC Holdings preference shares	Number	US\$m
At 1 January 2006 and 31 December 2006	1,450,000	–

### 5 Foreign currency amounts

The Hong Kong dollar and sterling figures shown in the consolidated profit and loss account 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 2006 and the closing rate at that date respectively. These were as follows:

	Average rate	Closing rate
US\$1.00 = HK\$	7.769	7.776
US\$1.00 = £	0.543	0.509

### 6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2006*. 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 2006*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2006* from Group Communications, 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 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 page 48.

The *Annual Report and Accounts 2006* may be viewed on our web site: [www.hsbc.com](http://www.hsbc.com).

### 7 Approval of the Summary Financial Statement

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

# 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 30 to 44.

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, the 'Directors' Report' and the 'Directors' Remuneration Report' of HSBC Holdings plc for the year ended 31 December 2006 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (5 March 2007) and the date of this statement.

## **KPMG Audit Plc**

Chartered Accountants  
Registered Auditor  
London

15 March 2007

# Shareholder Information

## Fourth interim dividend for 2006

The Directors have declared a fourth interim dividend of US\$0.36 per ordinary share (in lieu of a final dividend). 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 3 April 2007. The timetable for the dividend is:

	2007
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	21 March
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	23 March
Shares quoted ex-dividend in Paris	26 March
Mailing of <i>Annual Report and Accounts 2006</i> and/or <i>Annual Review 2006, Notice of Annual General Meeting</i> and dividend documentation	3 April
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	26 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	30 April
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	10 May

## Annual General Meeting

The 2007 Annual General Meeting of HSBC Holdings plc will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday 25 May 2007 at 11:00 a.m.

## Interim Results

The interim results for the six months to 30 June 2007 will be announced on 30 July 2007.

## Interim dividends for 2007

The Board has adopted a policy of paying quarterly dividends on the ordinary shares. Under this policy it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2007 will be US\$0.17 per ordinary share. The proposed timetables for the dividends in respect of 2007 are:

Interim dividends for 2007	First	Second	Third	Fourth
Announcement	30 April 2007	30 July 2007	5 November 2007	3 March 2008
ADSs quoted ex-dividend in New York	16 May 2007	15 August 2007	20 November 2007	19 March 2008
Shares quoted ex-dividend in London, Hong Kong and Bermuda	16 May 2007	15 August 2007	21 November 2007	19 March 2008
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	18 May 2007	17 August 2007	23 November 2007	25 March 2008
Shares quoted ex-dividend in Paris	21 May 2007	20 August 2007	26 November 2007	26 March 2008
Payment date	5 July 2007	4 October 2007	16 January 2008	7 May 2008

## 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 at the relevant address shown on page 48.

### Investor relations

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

Senior Manager Investor Relations  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
UK  
  
Telephone: 44 020 7991 8041  
Facsimile: 44 020 7991 4663  
E-mail: investorrelations@hsbc.com

Director – Corporate Finance and  
Investor Relations  
HSBC Finance Corporation  
2700 Sanders Road  
Prospect Heights, IL 60070  
USA  
Telephone: 1 847 564 6478  
Facsimile: 1 847 205 7538  
E-mail: investor.relations@us.hsbc.com

Senior Manager External Relations  
The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong  
  
Telephone: 852 2822 4929  
Facsimile: 852 2845 0113  
E-mail: investorrelations@hsbc.com.hk



## **Annual Review 2006**

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:

Group Communications  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
UK

For those in Asia-Pacific:

Group Public Affairs  
The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

For those in the Americas:

Employee Communications  
HSBC-North America  
2700 Sanders Road  
Prospect Heights  
Illinois 60070  
USA

## **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](http://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 3 April 2007 from the Registrars. Please also contact the Registrars if you wish to receive Chinese translations of future documents or if you have received a Chinese translation of this document and do not wish to receive such translations in future.

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

## **French translation**

A French translation of this *Annual Review* is available on request from:

La traduction française du bilan d'activité est disponible sur demande:  
Direction de la Communication  
HSBC France  
103 avenue des Champs Elysées  
75419 Paris Cedex 08  
France

**HSBC Holdings plc**

Incorporated in England with limited liability  
Registered in England: number 617987

**Registered office and Group Head Office**

8 Canada Square  
London E14 5HQ  
United Kingdom  
Telephone: 44 020 7991 8888  
Facsimile: 44 020 7992 4880  
Web: www.hsbc.com

**Registrars***Principal Register*

Computershare Investor Services PLC  
PO Box 1064, The Pavilions  
Bridgwater Road  
Bristol BS99 3FA  
United Kingdom  
Telephone: 44 0870 702 0137

*Hong Kong Overseas Branch Register*

Computershare Hong Kong Investor Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong  
Telephone: 852 2862 8555

*Bermuda Overseas Branch Register*

Corporate Shareholder Services  
The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM11  
Bermuda  
Telephone: 1 441 299 6737

*ADR Depositary*

The Bank of New York  
101 Barclay Street  
Floor 22W  
New York, NY 10286  
USA  
Telephone: 1 888 269 2377

*Paying Agent (France)*

HSBC France  
103 avenue des Champs Elysées  
75419 Paris Cedex 08  
France  
Telephone: 33 1 40 70 22 56

**Stockbrokers**

Goldman Sachs  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

HSBC Bank plc  
8 Canada Square  
London E14 5HQ  
United Kingdom

© Copyright HSBC Holdings plc 2007  
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Holdings plc.

Published by Group Communications, HSBC Holdings plc, London

Designed by Addison Corporate Marketing Limited, London

Printed by St Ives Direct Romford Limited, Romford, UK, on Revive Special Silk paper using vegetable oil-based inks. Made in Spain, the paper comprises 60% virgin fibre, 30% de-inked post-consumer waste and 10% mill broke. Pulps used are elemental chlorine-free.

The FSC logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.



#### **Photography**

China (cover and inside front cover)  
Group Chairman  
United Arab Emirates  
Group Chief Executive  
UK (Worcester)  
USA (Buffalo)  
Panama  
USA (Mettawa)

Hong Kong  
UK (London)  
Directors and senior management

Philip Gostelow  
Niall McDiarmid  
Andy Wilson  
Samantha Sin  
Andy Wilson  
Derek Shapton  
Federico Galbraith  
Michael Moenning (construction images);  
McShane Fleming (aerial image)  
Almond Chu  
Andy Wilson  
Andy Wilson



**HSBC Holdings plc**

8 Canada Square, London E14 5HQ, United Kingdom  
Telephone: 44 020 7991 8888 Facsimile: 44 020 7992 4880  
[www.hsbc.com](http://www.hsbc.com)