

Annual Results 2006

HSBC Holdings plc

Presentation

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Stephen Green

Forward-looking statements

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

HSBC Group Results, 2006

This presentation will cover

- **Financial performance in 2006**
- **Business achievements in 2006 and objectives for 2007**
- **The Group's strategy going forward**

First, the headlines

- Profit before tax up 5% to US\$22,086 million
- EPS up 3% to US\$1.40
- DPS for 2006 up 11% to US\$0.81
- Strong growth in Emerging Markets (Asia and Latin America up 20%)
- Strong growth in Commercial Banking (PBT up 21%) and in Private Banking (PBT up 33%)
- Corporate, Investment Banking and Markets PBT up 36%, ex Balance Sheet Management revenues and loan impairment releases
- Robust capital position (Tier 1, 9.4%)
- Mortgage arrears in the US resulted in an increase in loan impairment charge from US\$448 million to US\$2,171 million for Mortgage Services

Douglas Flint

Financial performance in 2006

2006 results

(US\$ millions)	2005	2006	% Change
Net operating income before loan impairment charges	57,637	65,366	+13.4
Loan impairment and other charges	7,801	10,573	+35.5
Net operating income	49,836	54,793	+9.9
Total operating expenses	29,514	33,553	+13.7
Profit before tax	20,966	22,086	+5.3
Profit attributable to shareholders	15,081	15,789	+4.7
Earnings per share (US\$)	1.36	1.40	+2.9
Dividends per share (US\$), in respect of 2006	0.73	0.81	+11.0
Tier 1 ratio (%)	9.0	9.4	

Underlying growth, 2006 v 2005

(US\$ millions)	Restated¹ 2005	2006	Acquisitions/ disposals	Rest of HSBC	% change
Net operating income before loan impairment charges	58,332	65,366	895	64,471	+11
Loan impairment charges	7,889	10,573	309	10,264	+30
Net operating income	50,433	54,793	586	54,207	+7
Total operating expenses	29,906	33,553	383	33,170	+11
Profit before tax	21,191	22,086	347	21,739	+3

(1) At constant currency

Underlying growth, 2H06 v 1H06

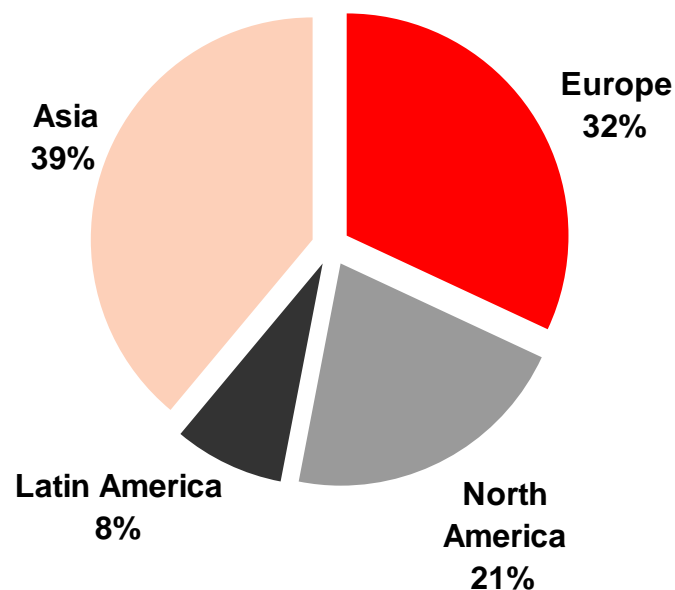
(US\$ millions)	Restated 1H06	2H06	Acquisitions/ disposals	Rest of HSBC	% change
Net operating income before loan impairment charges	32,709	33,181	85	33,096	+1
Loan impairment charges	3,934	6,683	12	6,671	+70
Net operating income	28,775	26,498	73	26,425	-8
Total operating expenses	16,448	17,414	56	17,358	+6
Profit before tax	12,688	9,569	21	9,548	-25

Underlying growth, 2H06 v 2H05

(US\$ millions)	Restated 2H05	2H06	Acquisitions/ disposals	Rest of HSBC	% change
Net operating income before loan impairment charges	30,400	33,181	396	32,785	+8
Loan impairment charges	4,595	6,683	141	6,542	+42
Net operating income	25,805	26,498	255	26,243	+2
Total operating expenses	15,539	17,414	180	17,234	+11
Profit before tax	10,611	9,569	160	9,409	-11

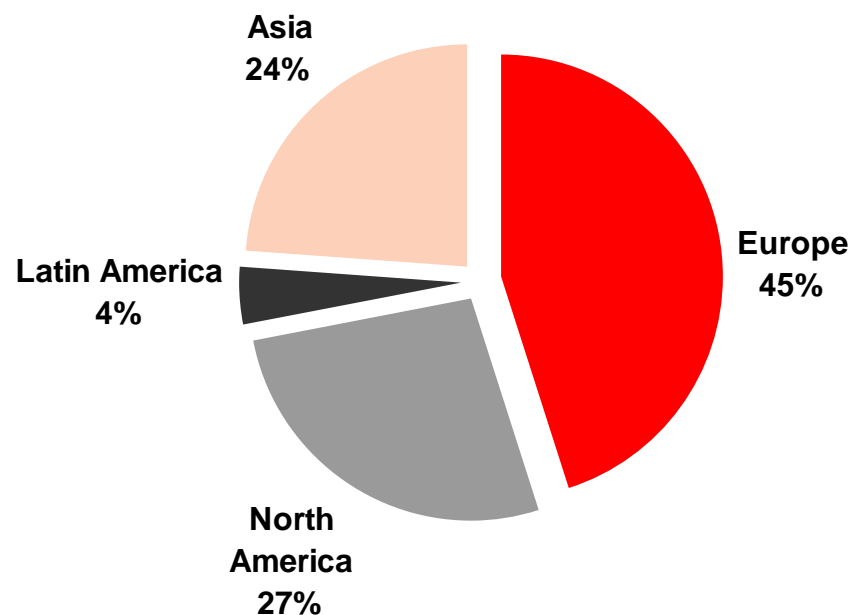
HSBC's footprint – by geography

Profit before tax, 2006



US\$22,086m

Total assets, 31 December 2006

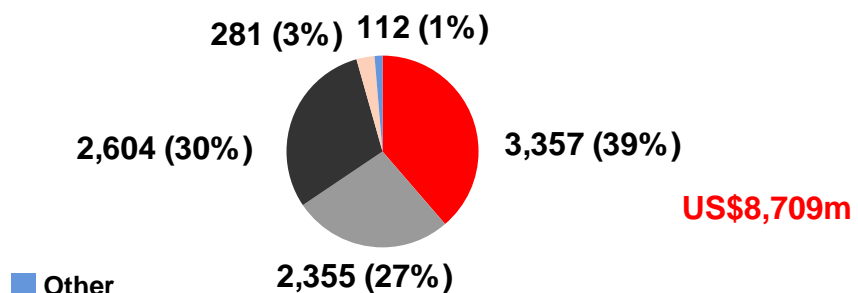


US\$1,861bn

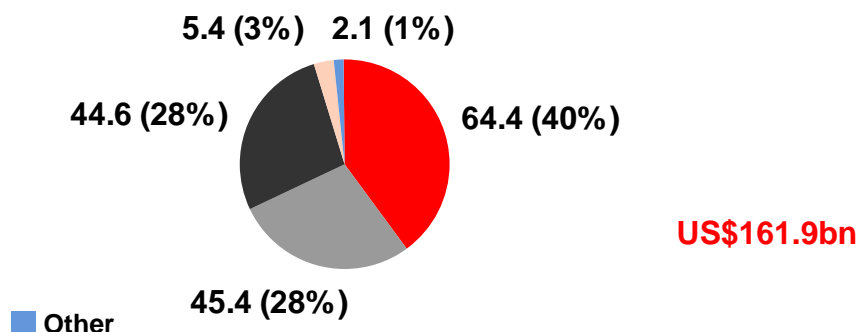
Asia

Business mix

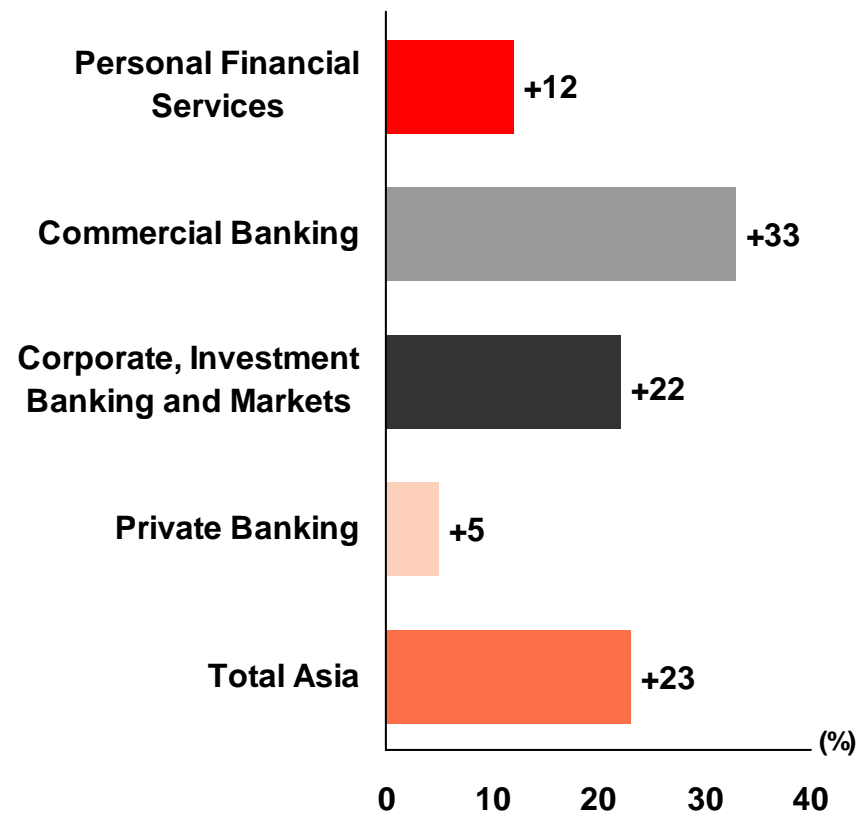
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



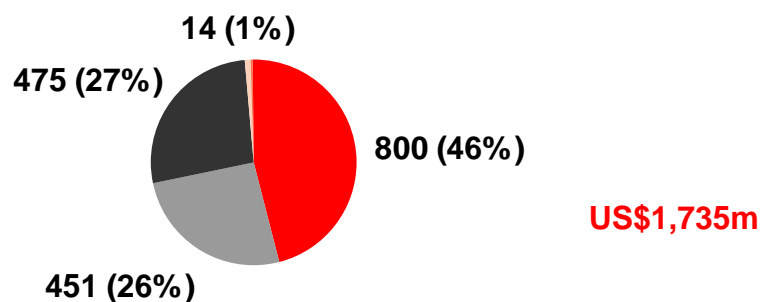
Growth in profit before tax (%), 2006 v 2005



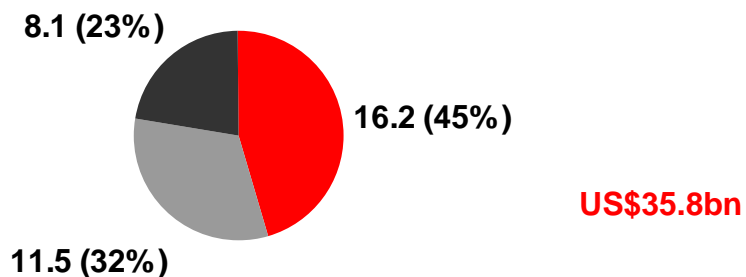
Latin America

Business mix

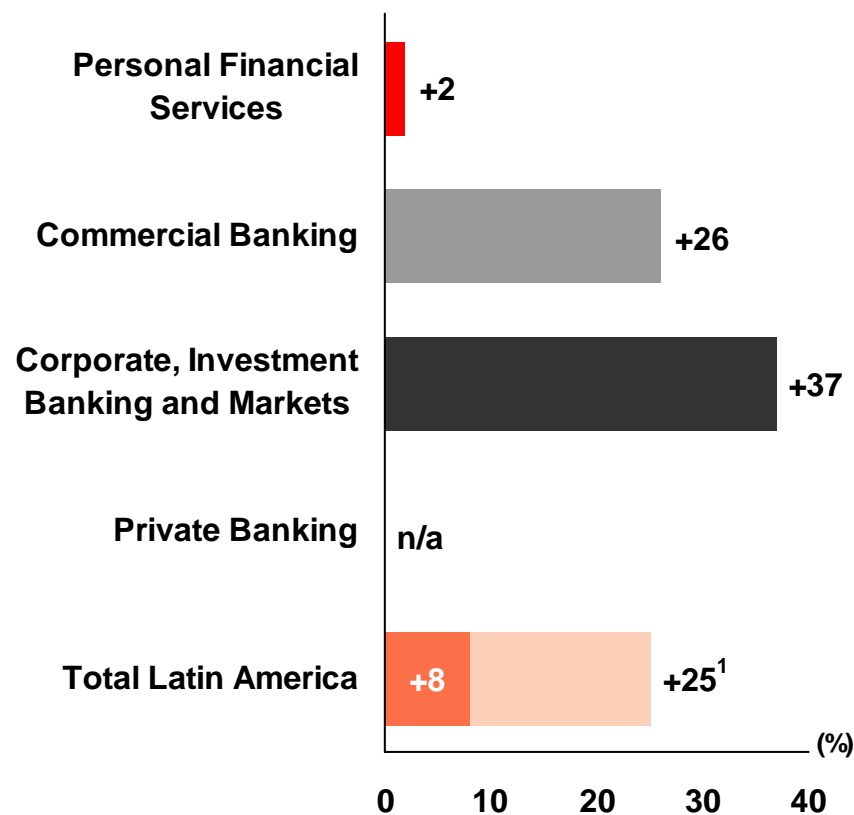
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



Growth in profit before tax (%), 2006 v 2005

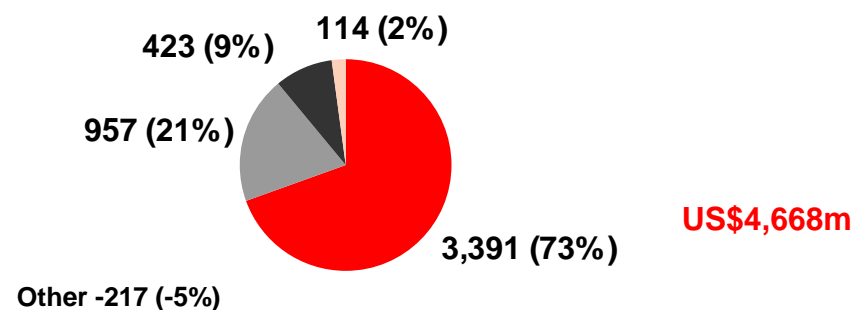


(1) Excluding, for 2005, gain on sale of Property and Casualty insurance business in Brazil and one-off coverage bond receipts in Argentina

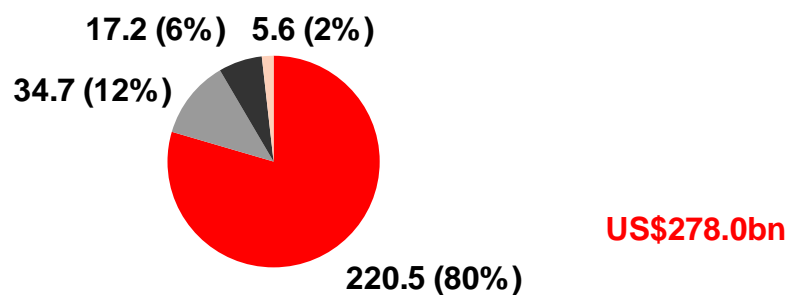
North America

Business mix

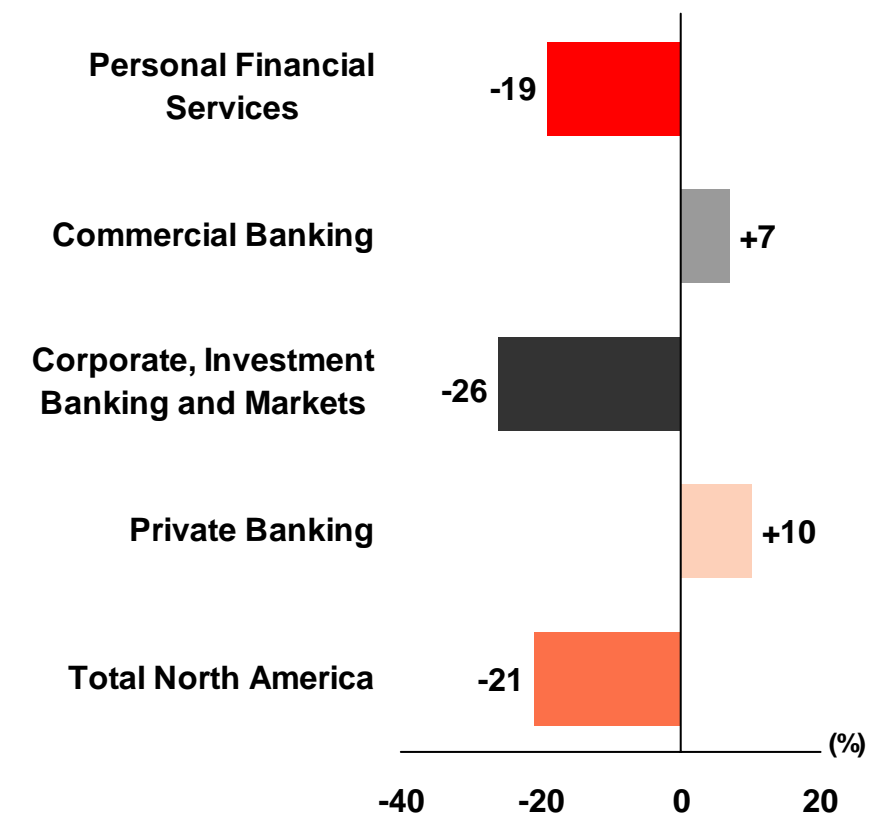
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



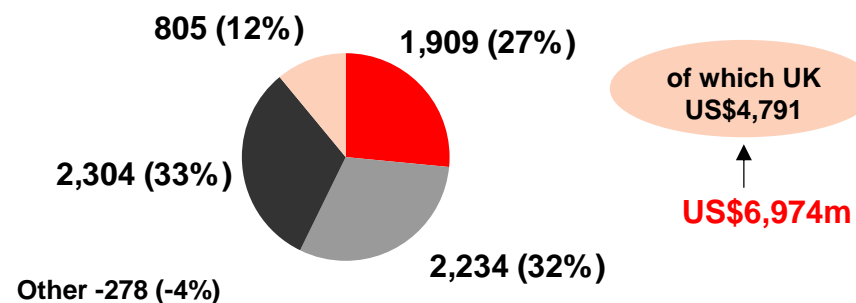
Growth in profit before tax (%), 2006 v 2005



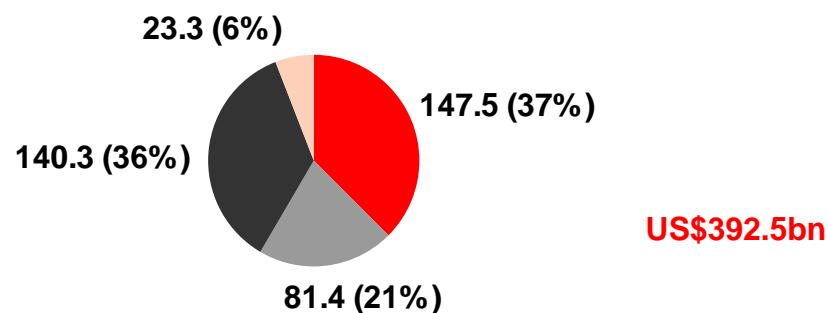
Europe

Business mix

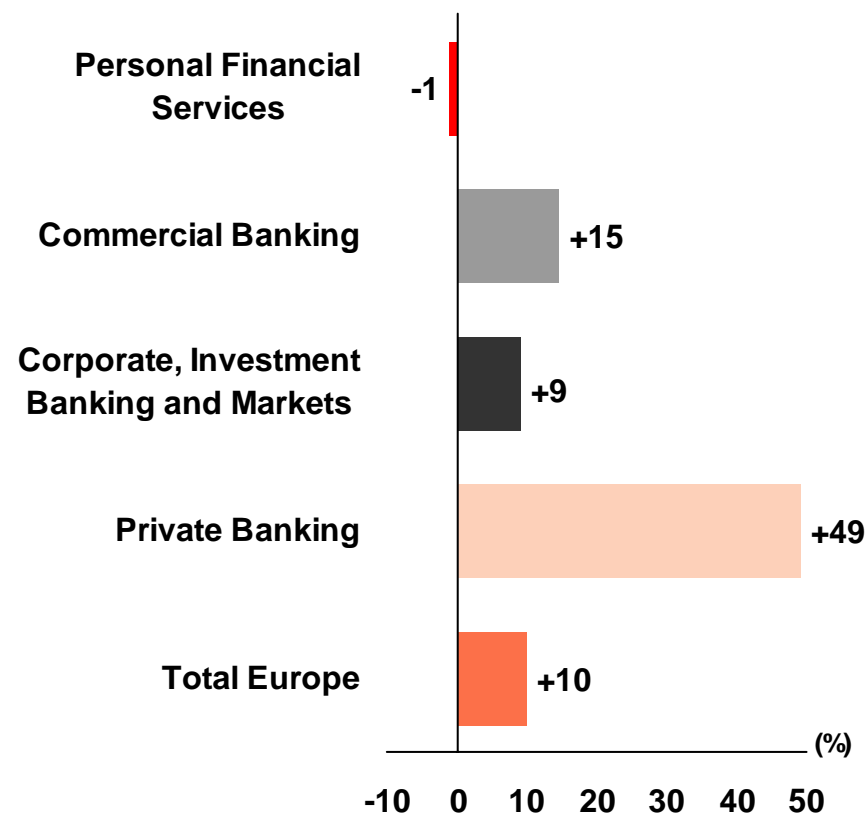
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006

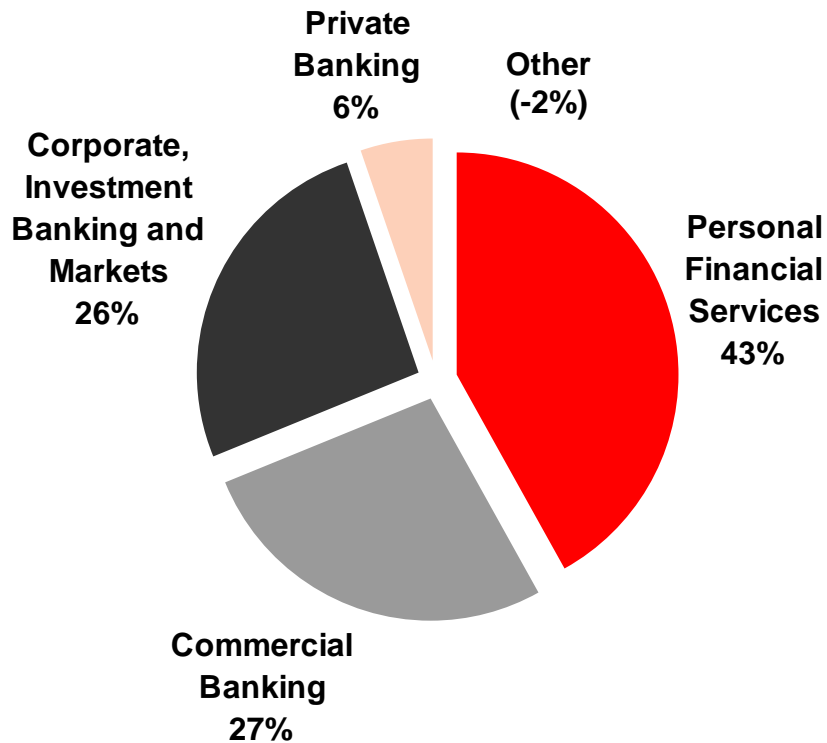


Growth in profit before tax (%), 2006 v 2005



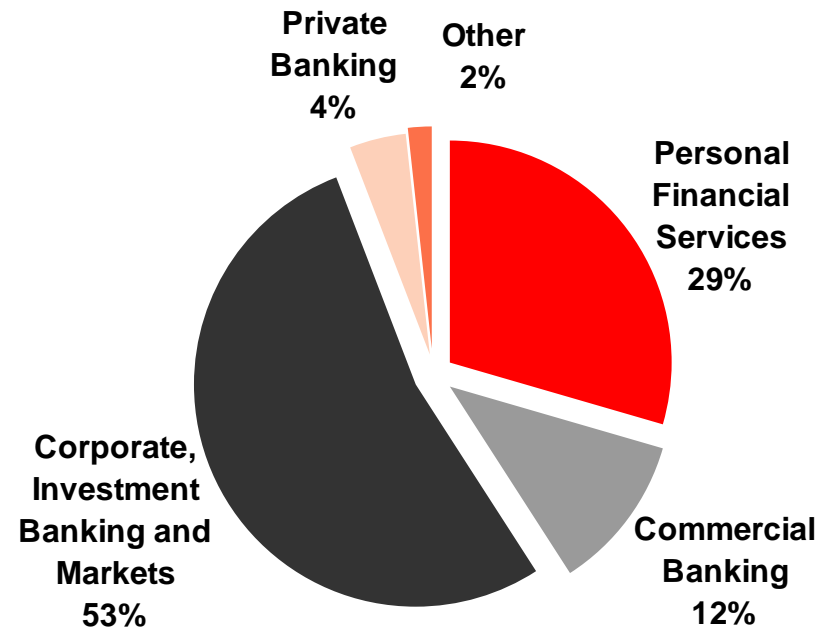
HSBC's footprint – by customer

Profit before tax, 2006



US\$22,086m

Total assets, 31 December 2006

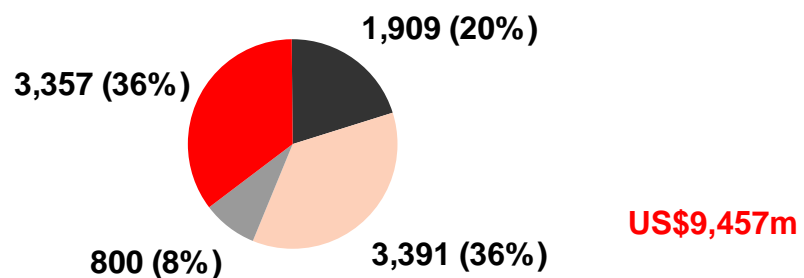


US\$1,861bn

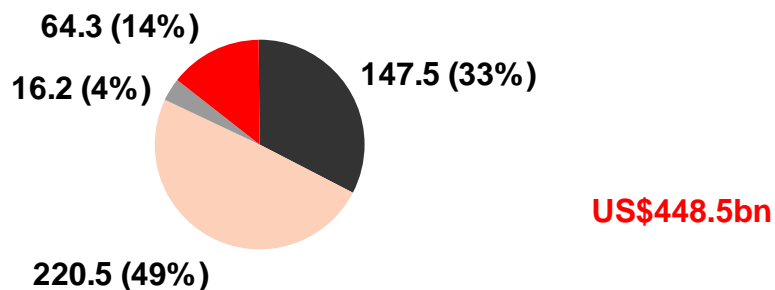
Personal Financial Services

Regional mix

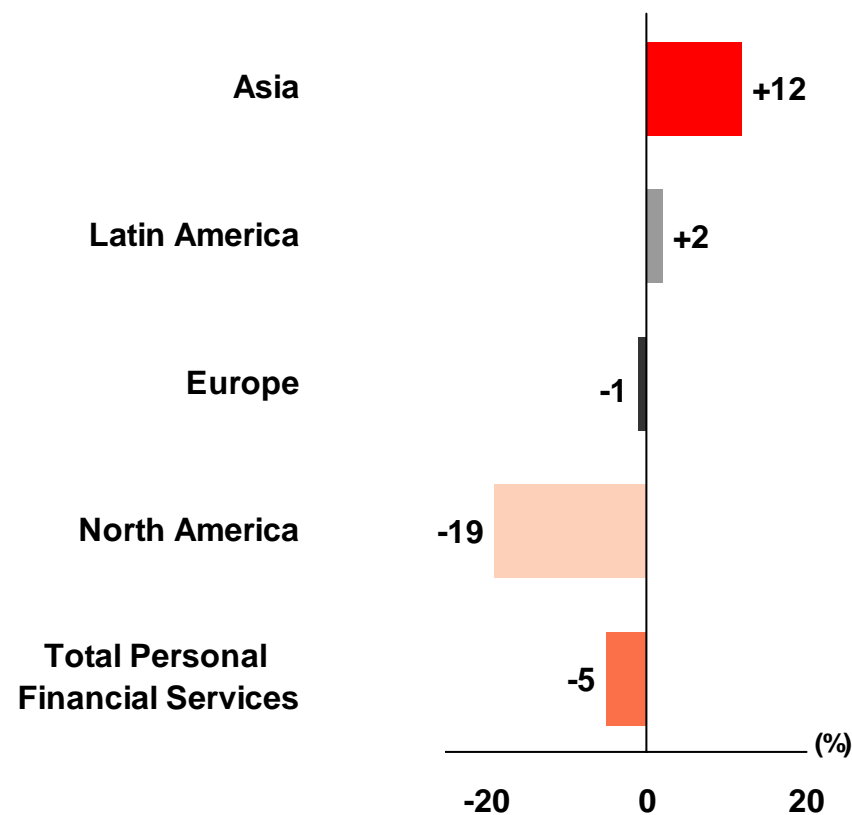
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



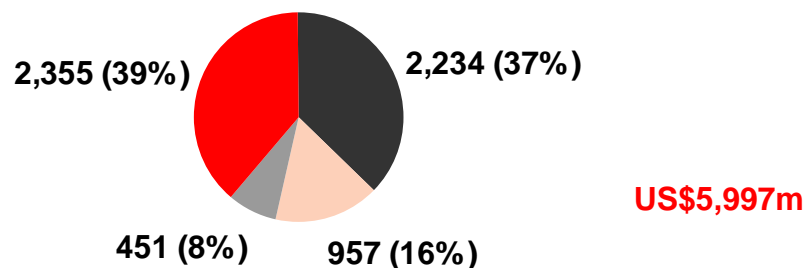
Growth in profit before tax (%), 2006 v 2005



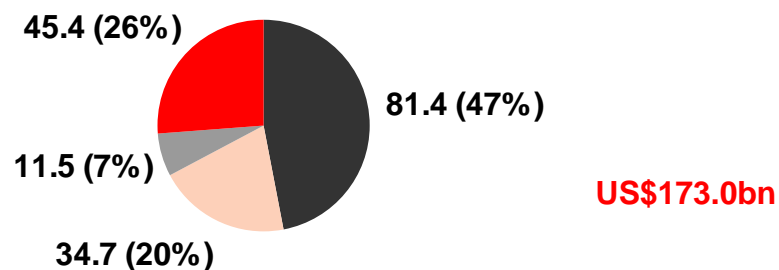
Commercial Banking

Regional mix

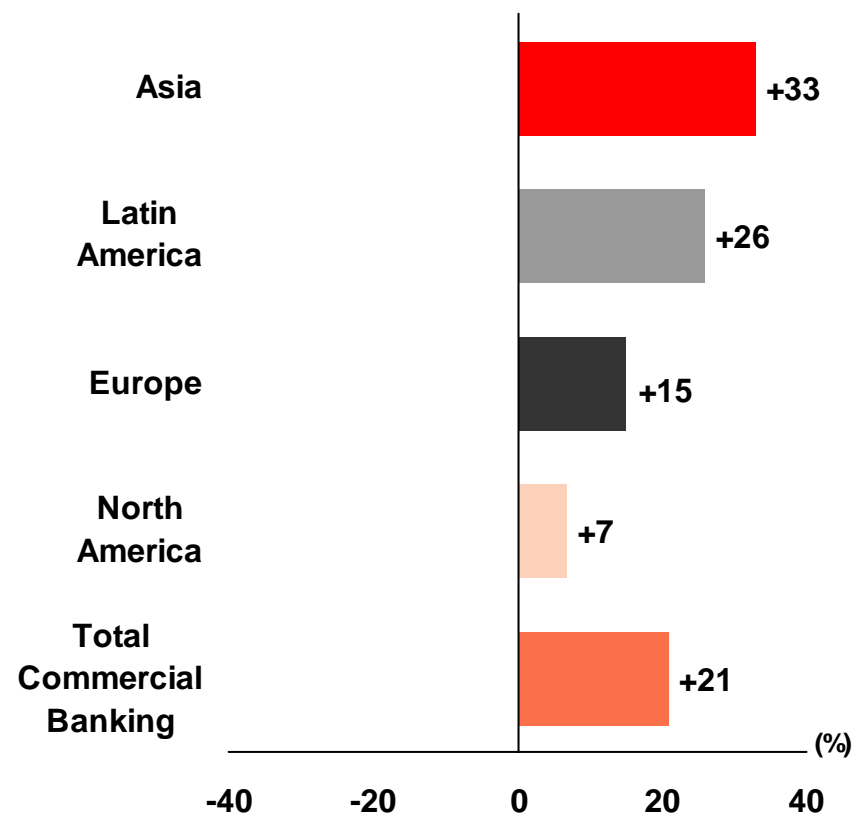
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



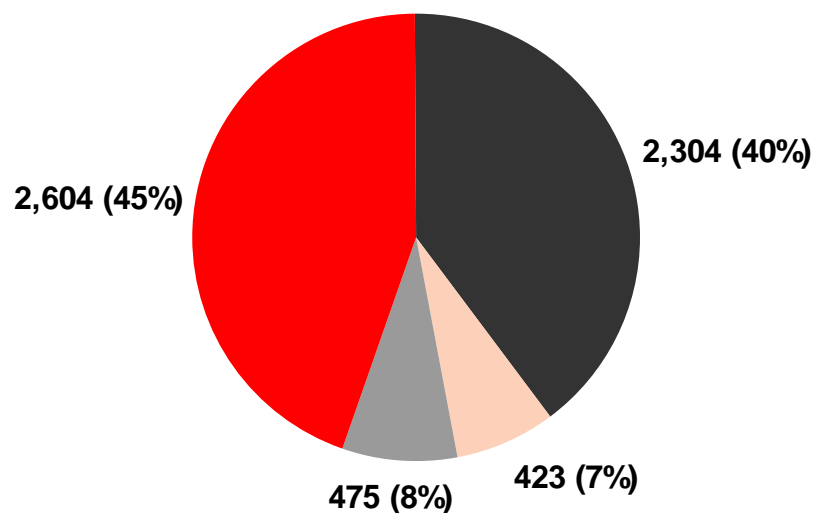
Growth in profit before tax (%), 2006 v 2005



Corporate, Investment Banking and Markets

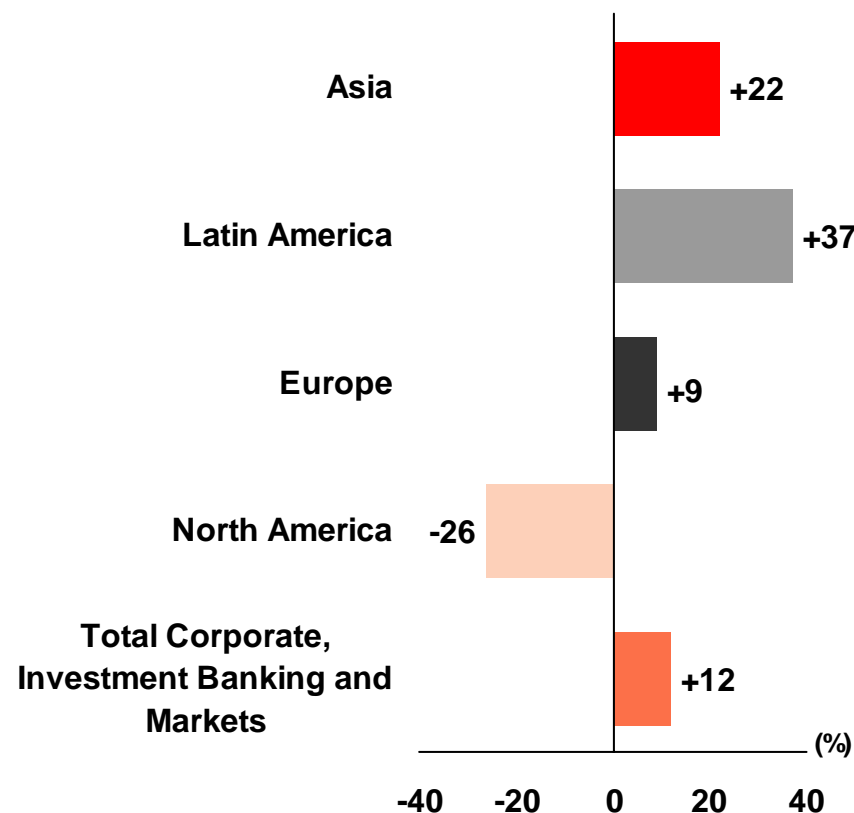
Regional mix

Profit before tax (US\$ millions), 2006



US\$5,806m

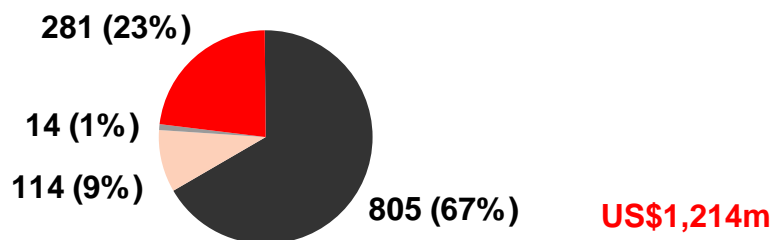
Growth in profit before tax (%), 2006 v 2005



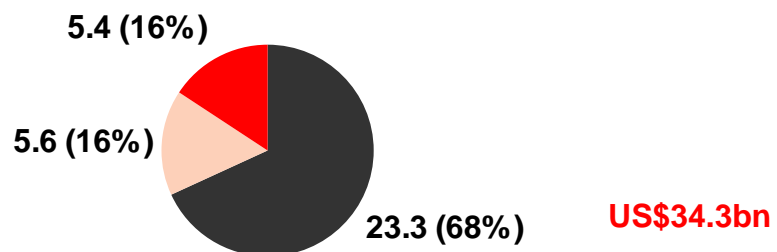
Private Banking

Regional mix

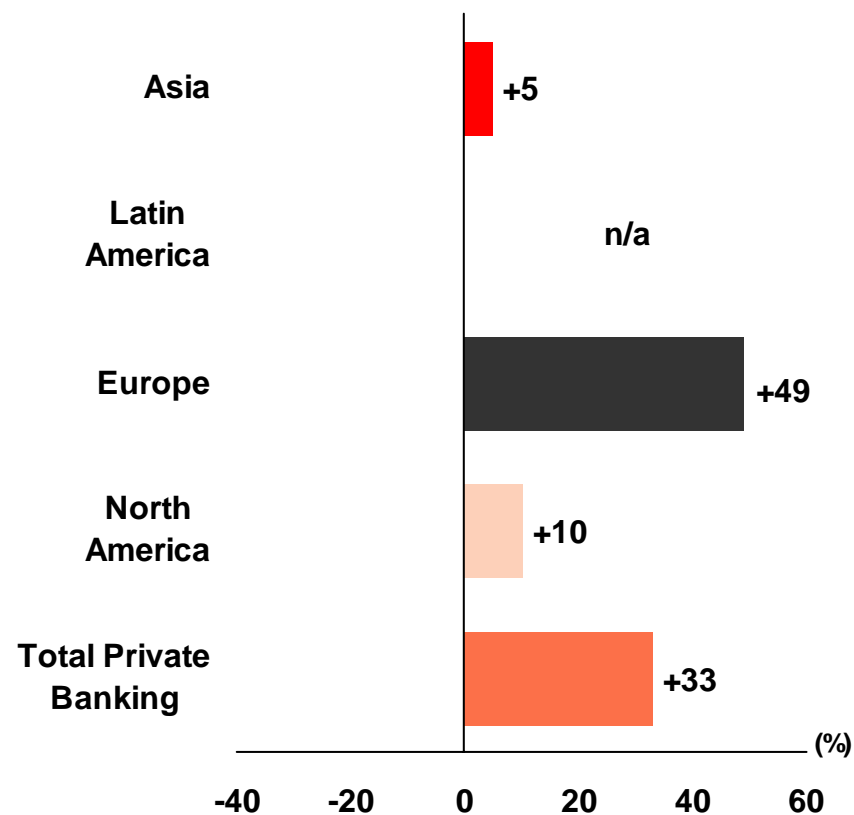
Profit before tax (US\$ millions), 2006



Customer lending (US\$ billions), 31 December 2006



Growth in profit before tax (%), 2006 v 2005

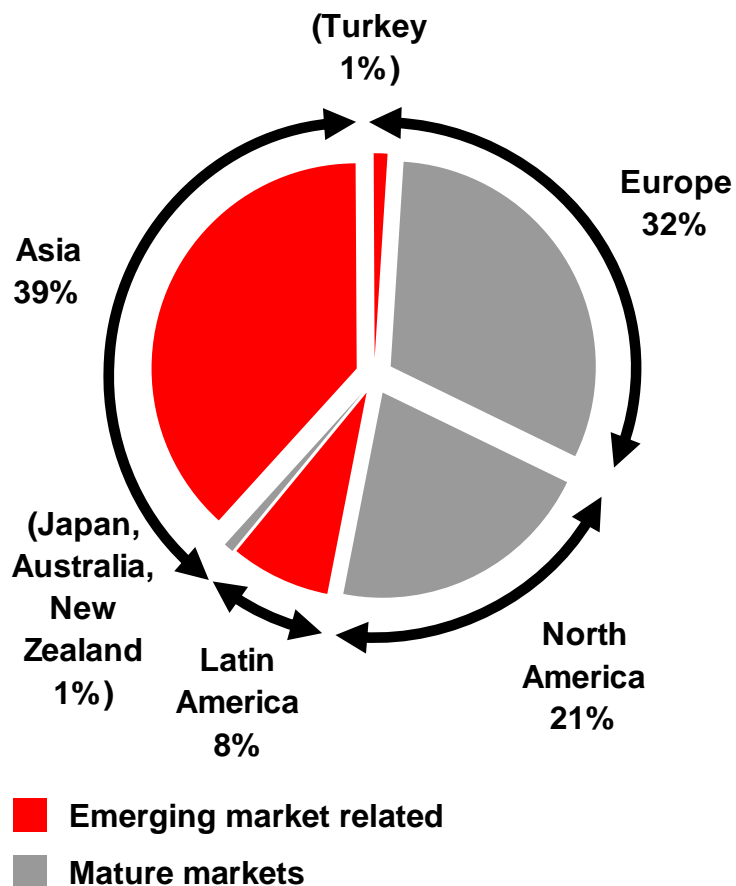


Three key themes

1. **Strong growth in Emerging Markets**
2. **Strong performance from Corporate, Investment Banking and Markets, notably in areas of investment**
3. **US Mortgage Services impairment issue**

1. Profit in emerging markets increased by 19% to US\$4.5bn

Profit before tax, 2006

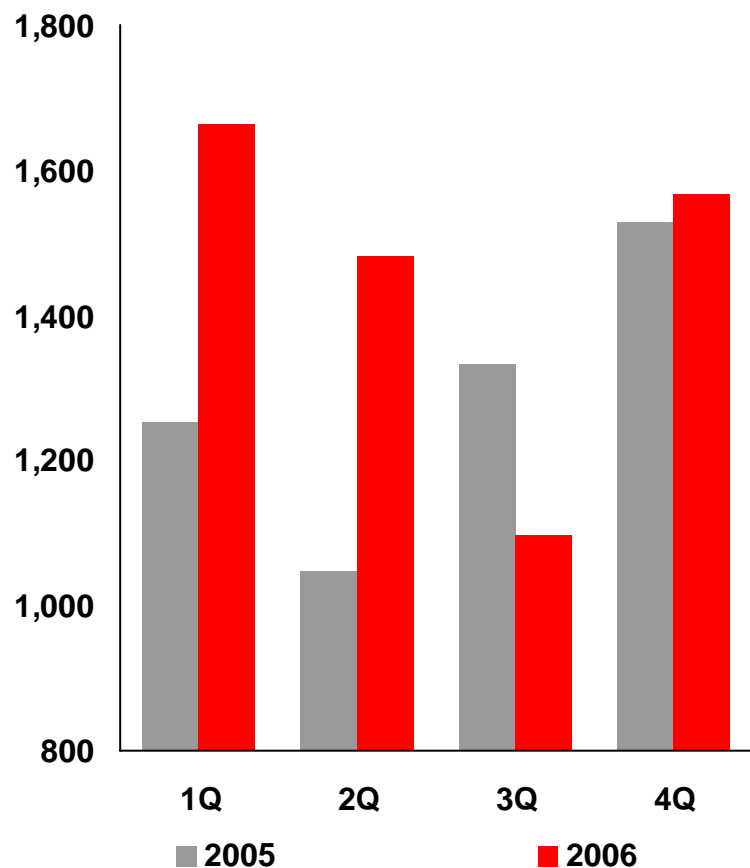


Key Emerging Markets

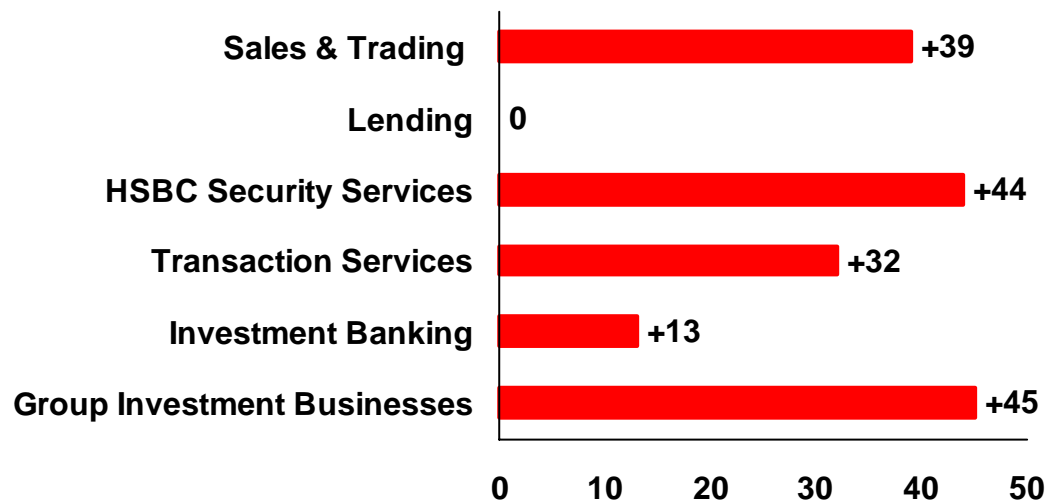
	Profit before tax, 2006 (US\$m)	% Change
Mexico	1,009	+9
Middle East	730	+25
Mainland China	708	+112
Brazil	526	+30
India	393	+85
Saudi Arabia	305	+29
Malaysia	274	+16
Turkey	217	-18
Argentina	157	-36
Indonesia	71	-37
Taiwan	(23)	n/a
Others	166	-15
Total EM related	4,533	+19

2. CIBM is delivering strong results from investment...

CIBM quarterly pre-tax profit (US\$m)



Revenue growth, key areas (%), 2006 v 2005

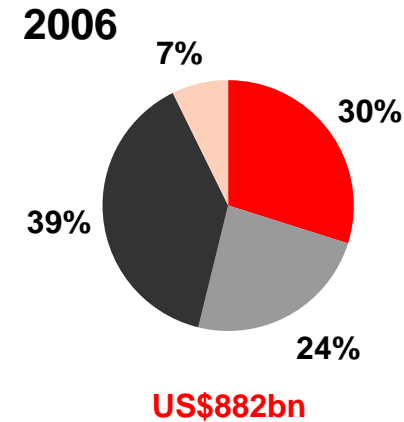
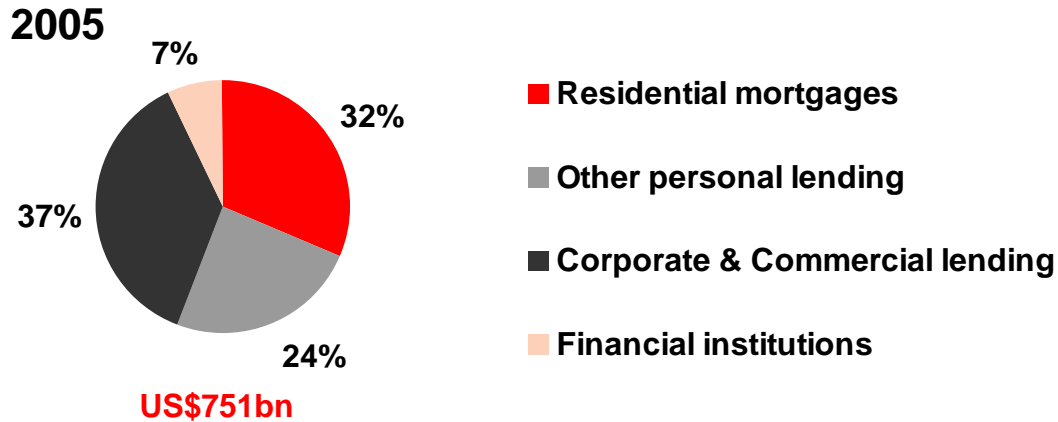


**PBT up 36%, ex Balance Sheet
Management revenues and loan
impairment releases**

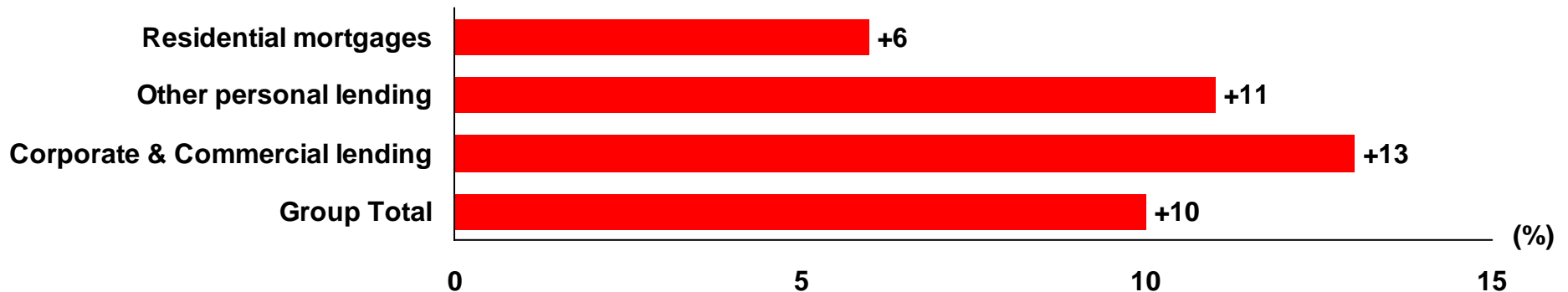
3. Customer lending

- Overall growth
- Quality broadly stable except in US mortgage services
- The US mortgage services position

Customer lending has grown in all major categories



2006 vs 2005 underlying growth¹ (%)

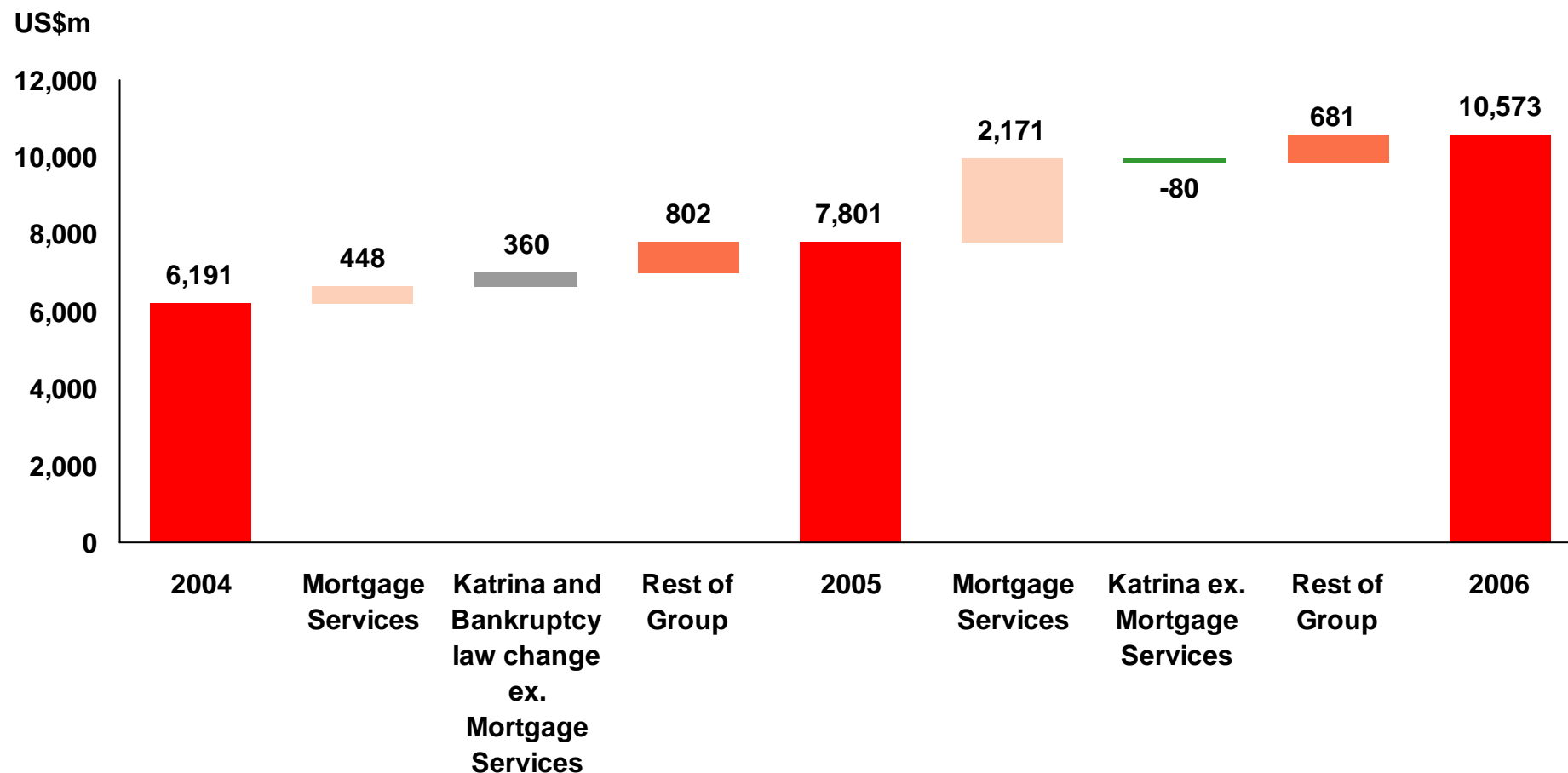


(1) Underlying growth: at constant currency, excluding acquisitions and financial institutions

Credit quality has remained broadly stable except in US mortgage services

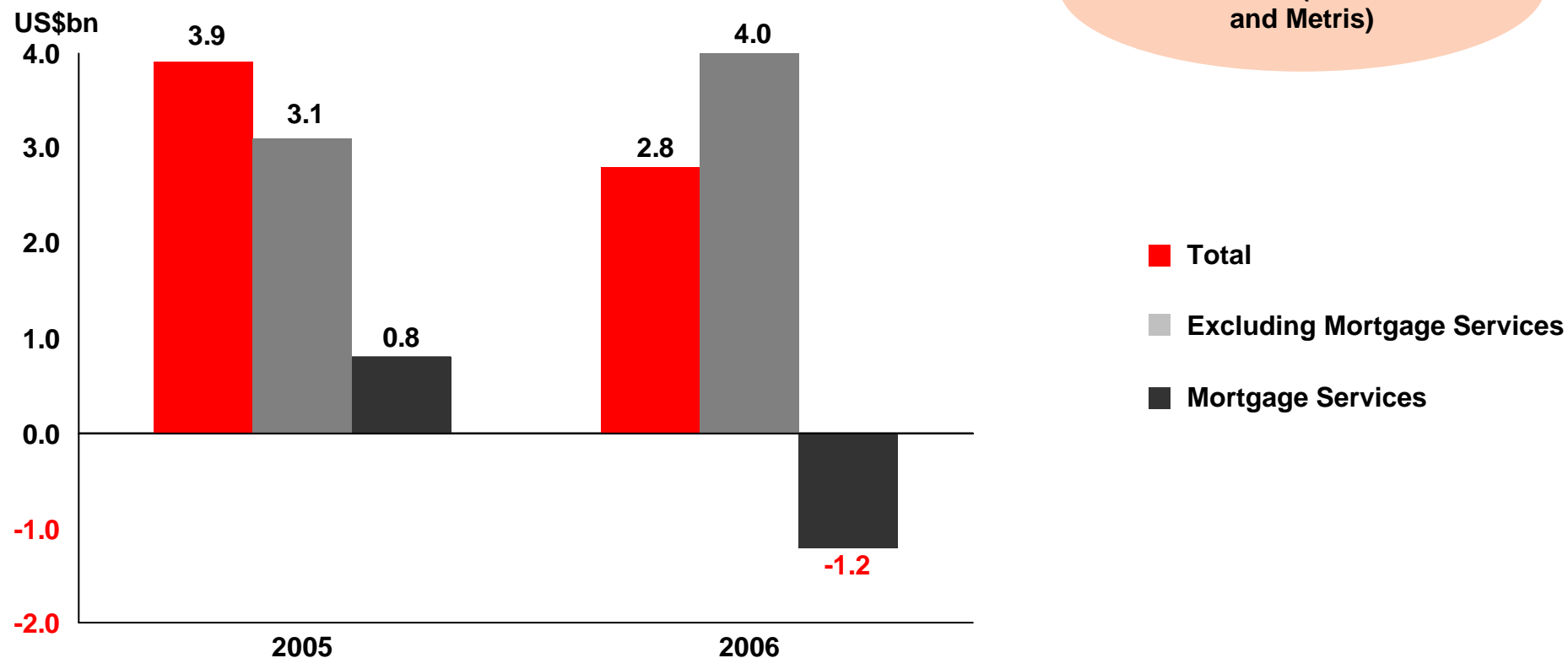
Loan impairment charges	US\$ millions		As a % of average advances (annualised)	
	2005	2006	2005	2006
Personal Financial Services				
Europe	1,711	1,838	1.44	1.39
Hong Kong	(11)	119	(0.03)	0.34
Rest of Asia-Pacific	236	545	0.94	1.91
North America	5,001	6,683	2.57	3.10
Latin America	600	764	6.74	6.63
Total	7,537	9,949	1.98	2.36
Commercial Banking				
Europe	378	386	0.57	0.54
Hong Kong	168	69	0.86	0.32
Rest of Asia-Pacific	(67)	(29)	(0.38)	(0.14)
North America	(21)	74	(0.08)	0.23
Latin America	89	197	1.76	2.50
Total	547	697	0.40	0.45
Corporate, Investment Banking and Markets	(272)	(119)	(0.17)	(0.06)
Private Banking	(12)	33	(0.05)	0.11

Loan impairment charges



HSBC Finance Corporation¹

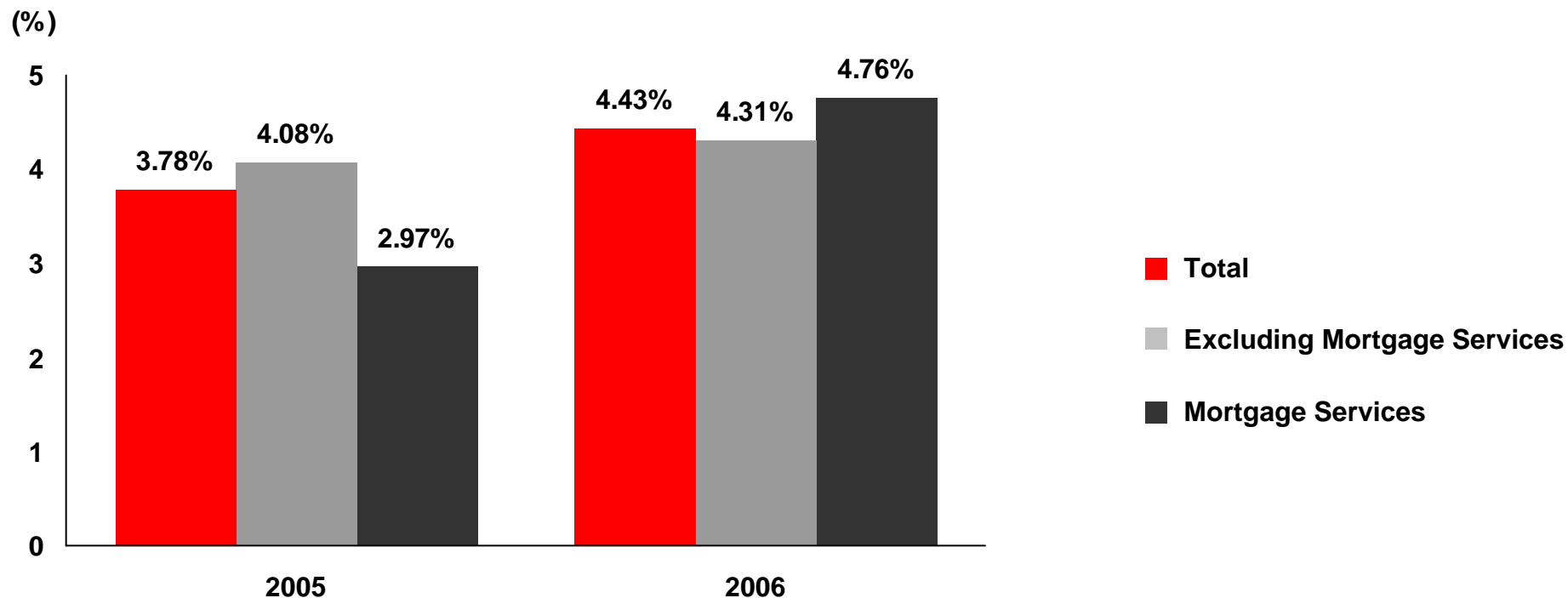
Profit before tax



(1) IFRS Management Basis

HSBC Finance Corporation¹

2+ Delinquency ratio



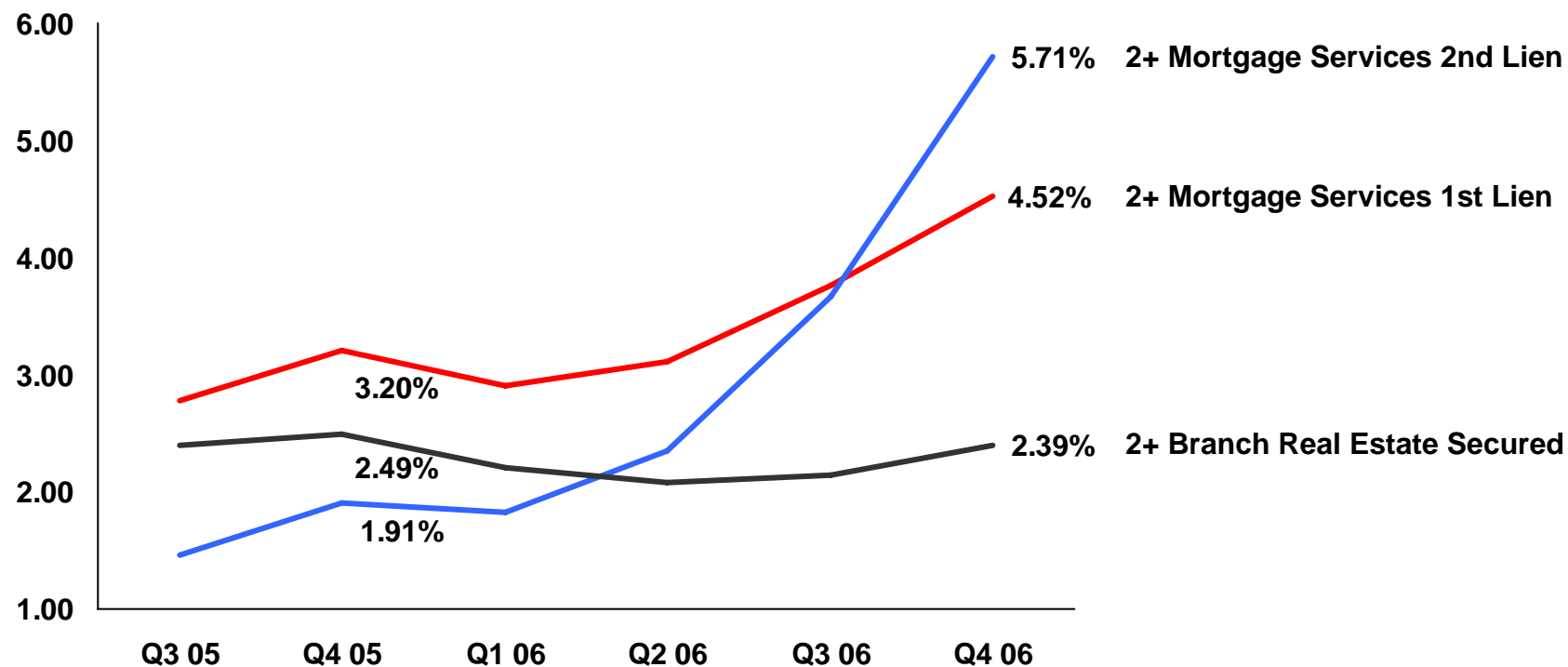
(1) IFRS Management Basis

HSBC Finance Corporation¹

Mortgages

2+ Delinquency

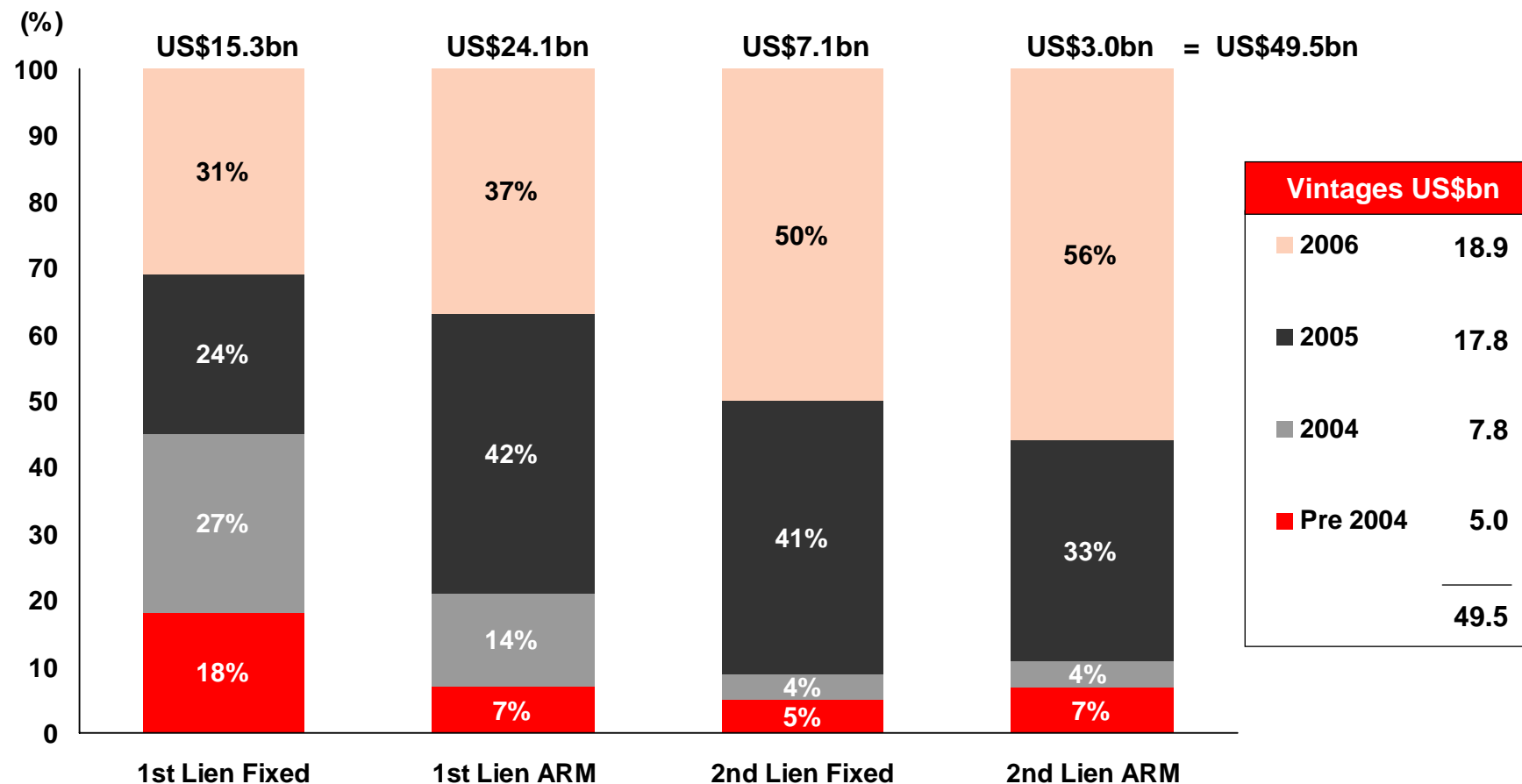
(%)



(1) IFRS Management Basis

Mortgage Services

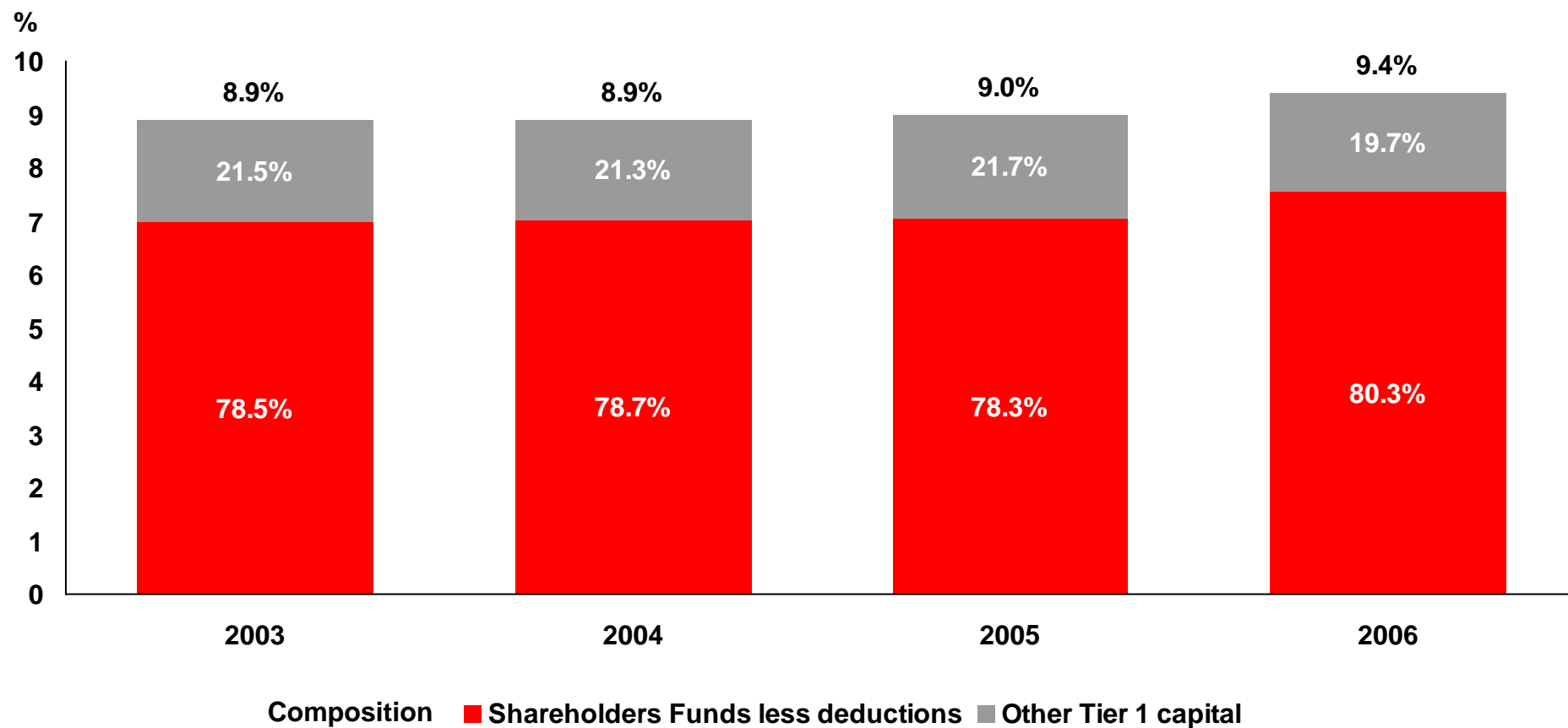
At 31 December 2006 by vintage and type¹



(1) IFRS Management Basis

Capital strength

Consistently strong Tier 1 capital ratios (%)



Michael Geoghegan
Business Achievements for 2006 and Objectives for 2007

How we are managed



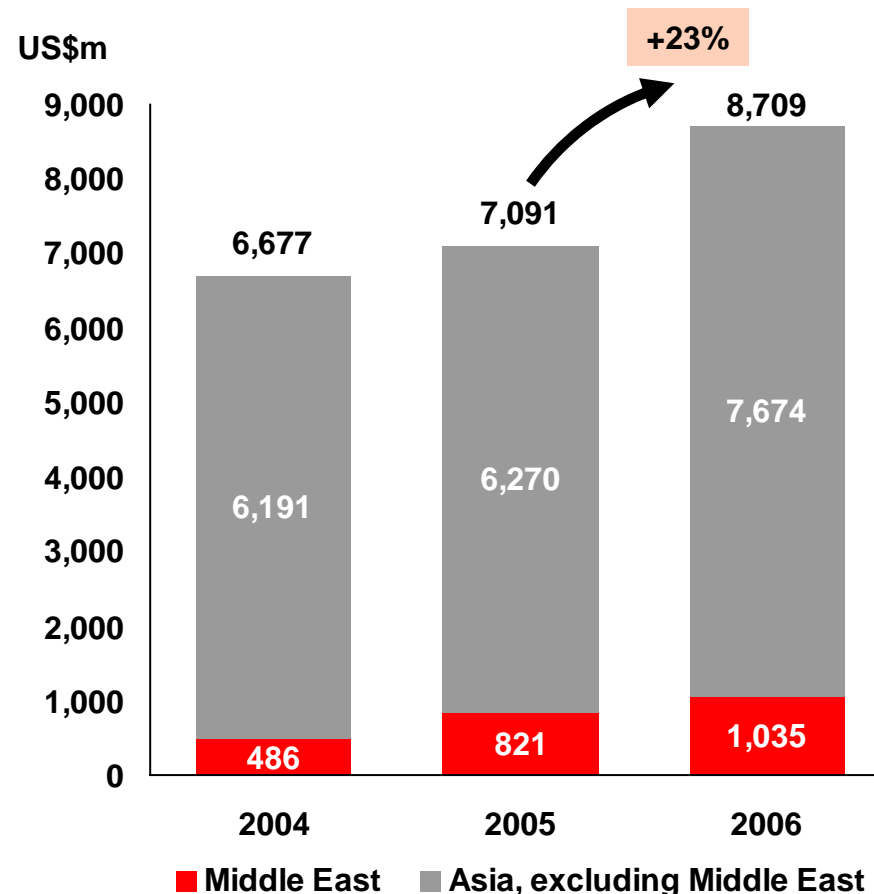
Asia – profits up 23%

- Dominant force in region
- Growth momentum
- Middle East and Commercial Banking, Rest of Asia each achieved US\$1bn profit
- Leading position in China

Key Investments

	Ownership	Acquisition Cost US\$m
Bank of Communications	19.9%	2,171
Ping An	16.8%	1,827
Industrial Bank	12.78%	208
Bank of Shanghai	8%	63

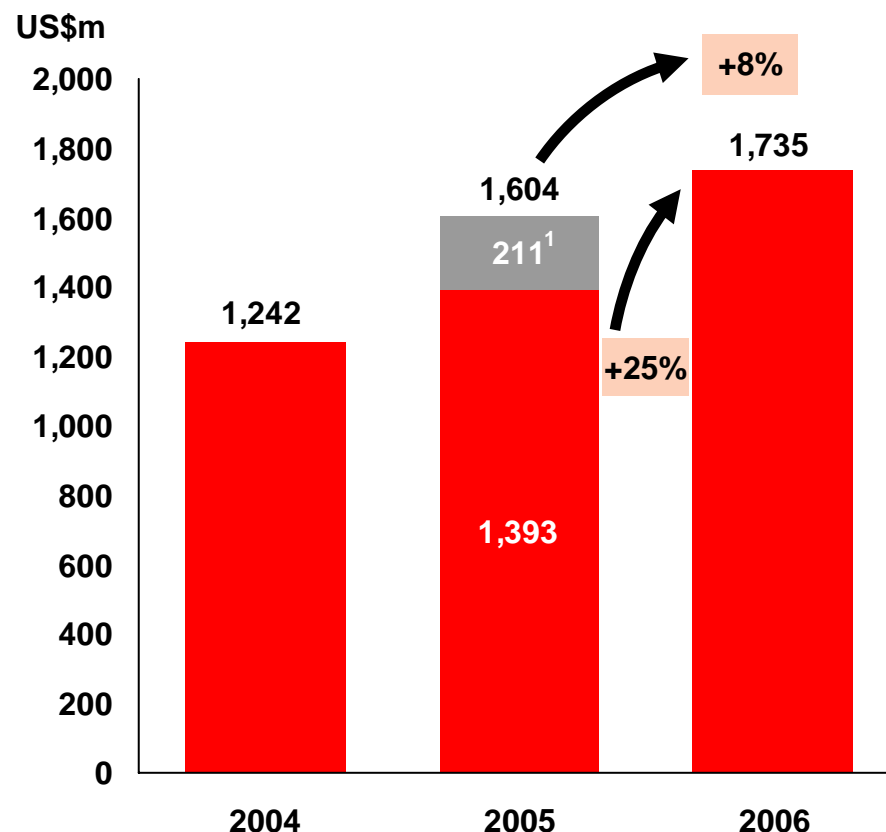
Asia, Profit before tax



Latin America – profits rise to US\$1.7bn

- Strong growth
- Mexico profit exceeds US\$1bn
- Integrated acquisition in Argentina
- Opened in Peru
- Purchased Banistmo

Latin America, profit before tax

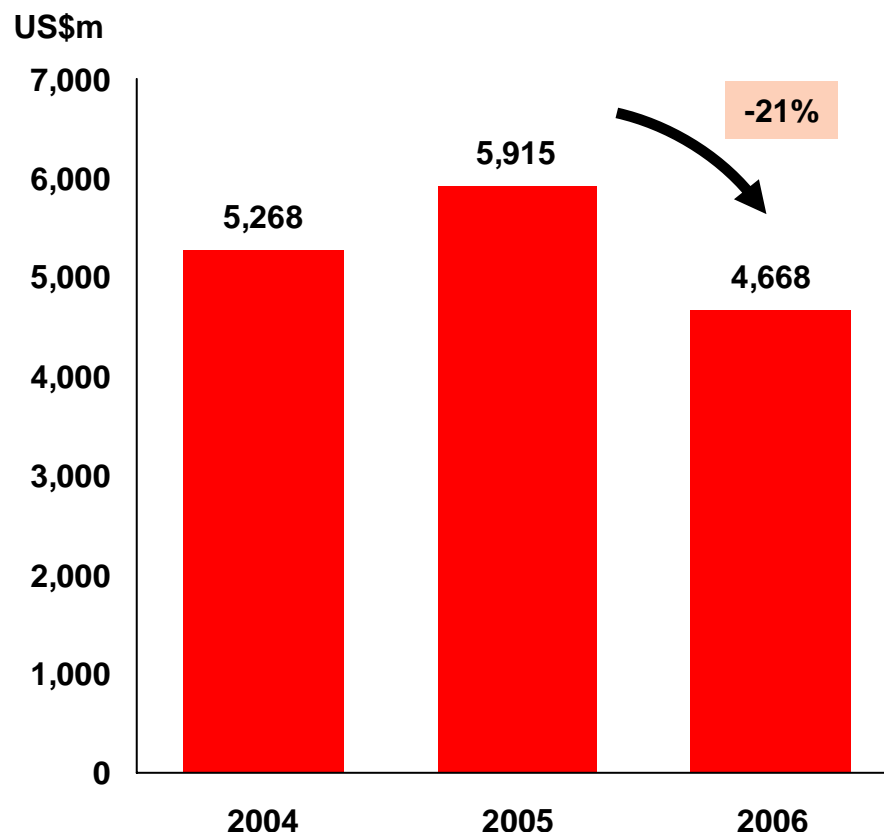


(1) Gain on sale of Property and Casualty insurance business in Brazil and one-off coverage bond receipts in Argentina

North America – profits fell but still a US\$4.7bn business

- Reorganised operations
- Restructured Mortgage Services
- Aligned Corporate, Investment Banking and Markets with other Group businesses
- Leveraging our regional Latin American and Emerging Market footprint

North America, profit before tax



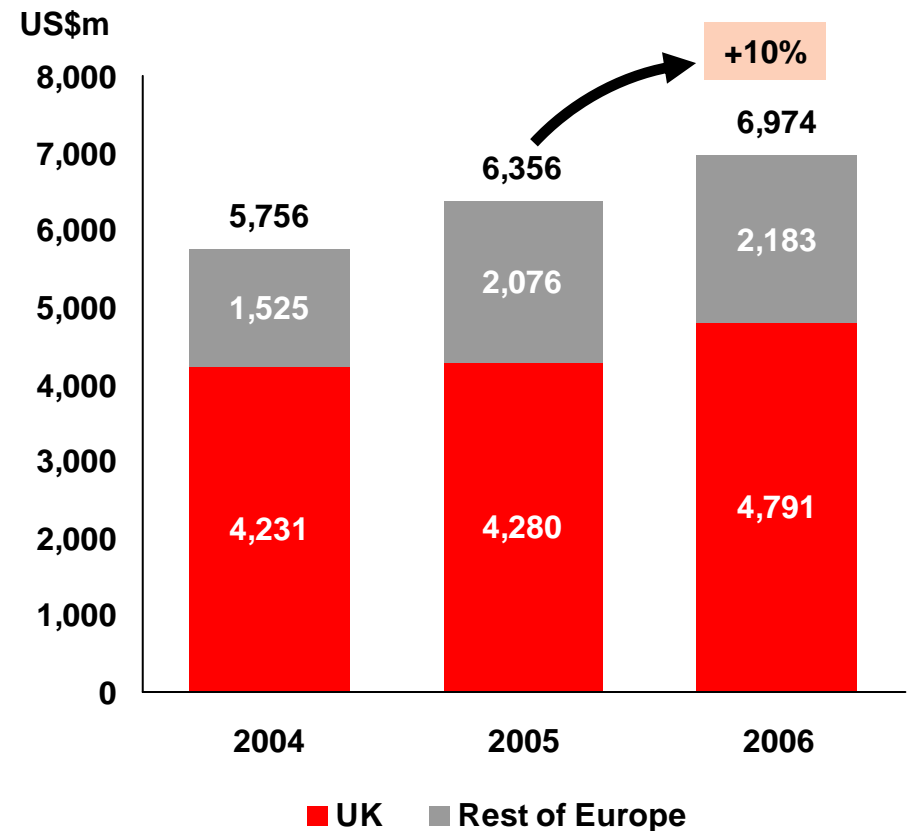
US Mortgage Services: Actions Taken

- **Curtailed production of thinly priced correspondent packaged loans**
- **Aligning our broker ('D1') channel to CIBM**
- **Repackaging assets for disposal**
- **Significantly stepped up our collections activity**
- **Strengthened credit oversight**
- **Increased customer contact**
- **Running down the book**
- **Reducing costs in line with reduction in revenues**

Europe – profits up 10%

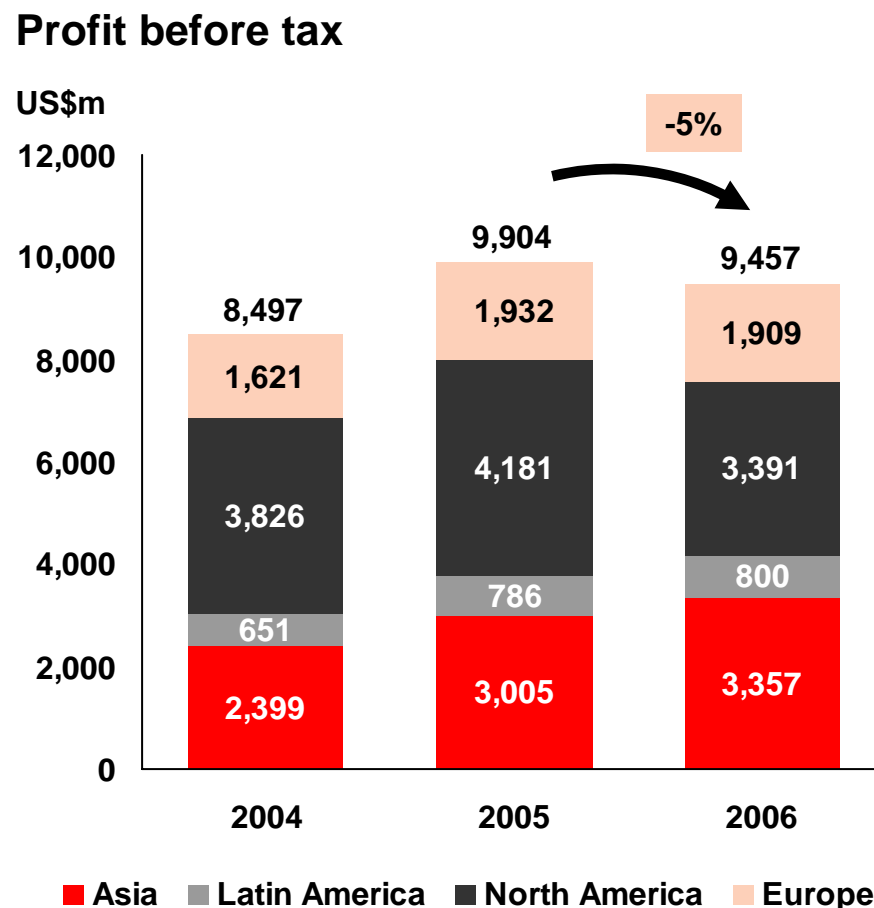
- Adopted retail approach
- first direct leading the way
- Stability in UK personal credit quality
- Build out Commercial and Private Banking capabilities

Europe, profit before tax



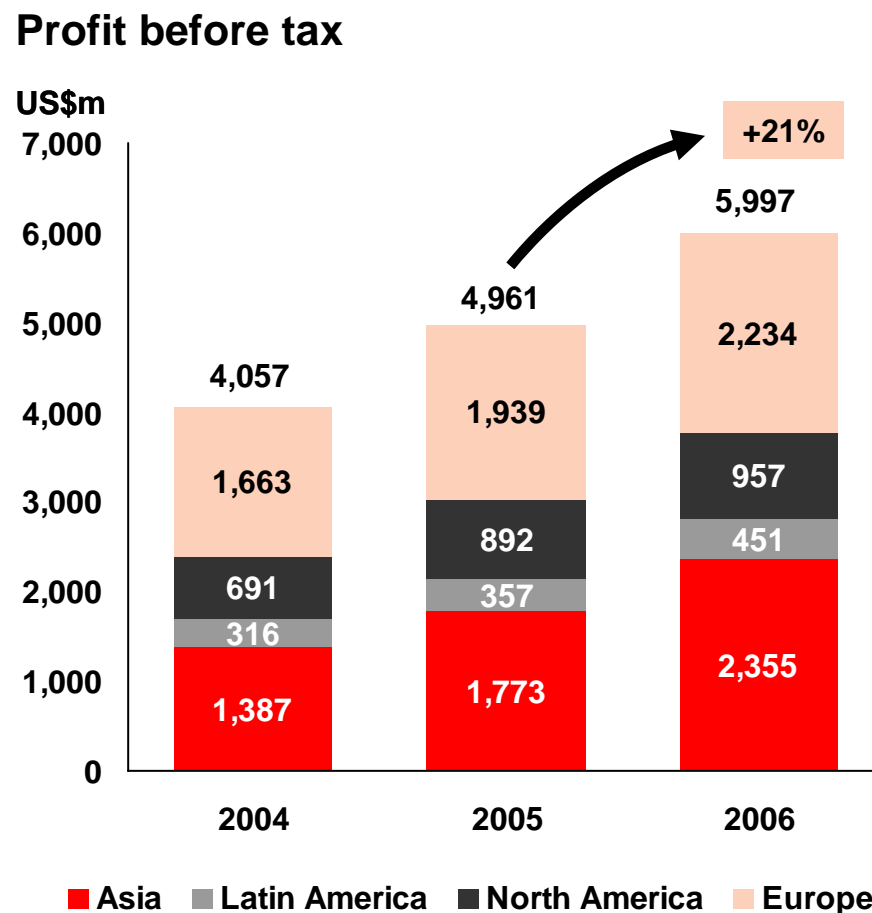
Personal Financial Services – broadening relationships with 120m customers

- Over 120 million customers
 - Extended franchise through acquisition in Central and Latin America
- Strong growth in Emerging Markets
- Invested in ‘Direct’ banking propositions



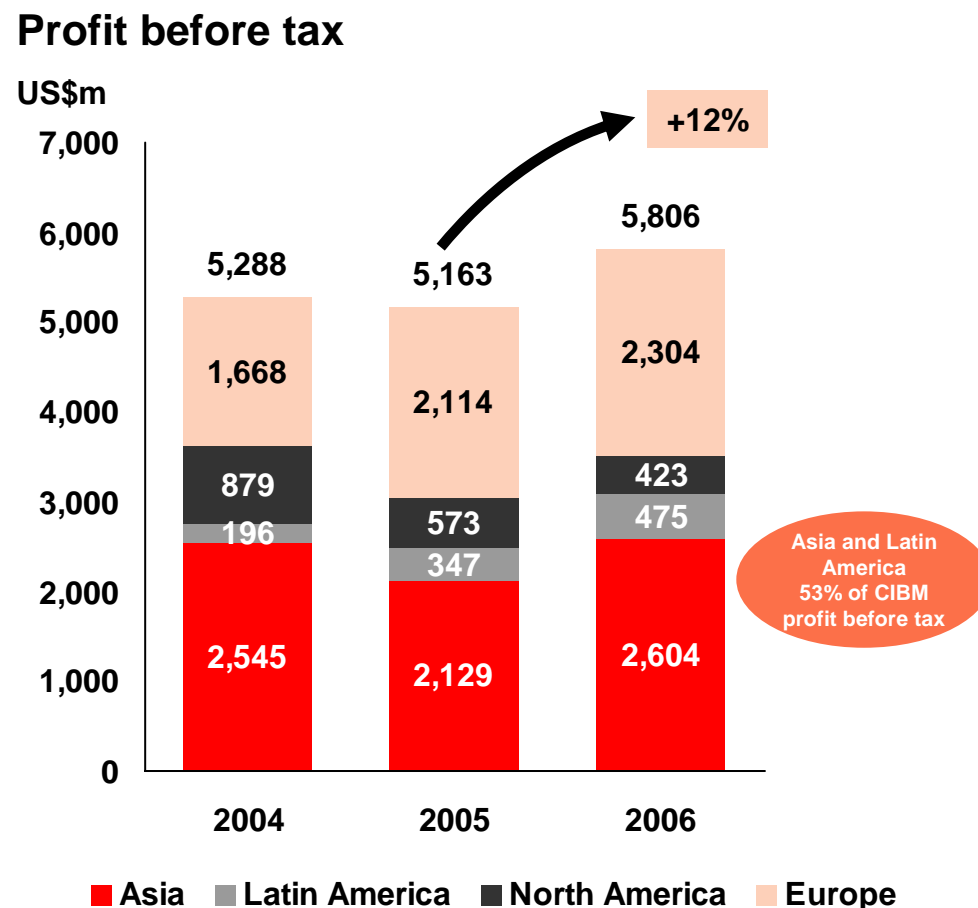
Commercial Banking – up 21%, an unsung success

- Core business at the heart of Group's distribution network
- Global links to facilitate customer cross-border business
- Rest of Asia, Commercial Banking exceeded US\$1bn profit



Corporate, Investment Banking and Markets – success in areas of investment

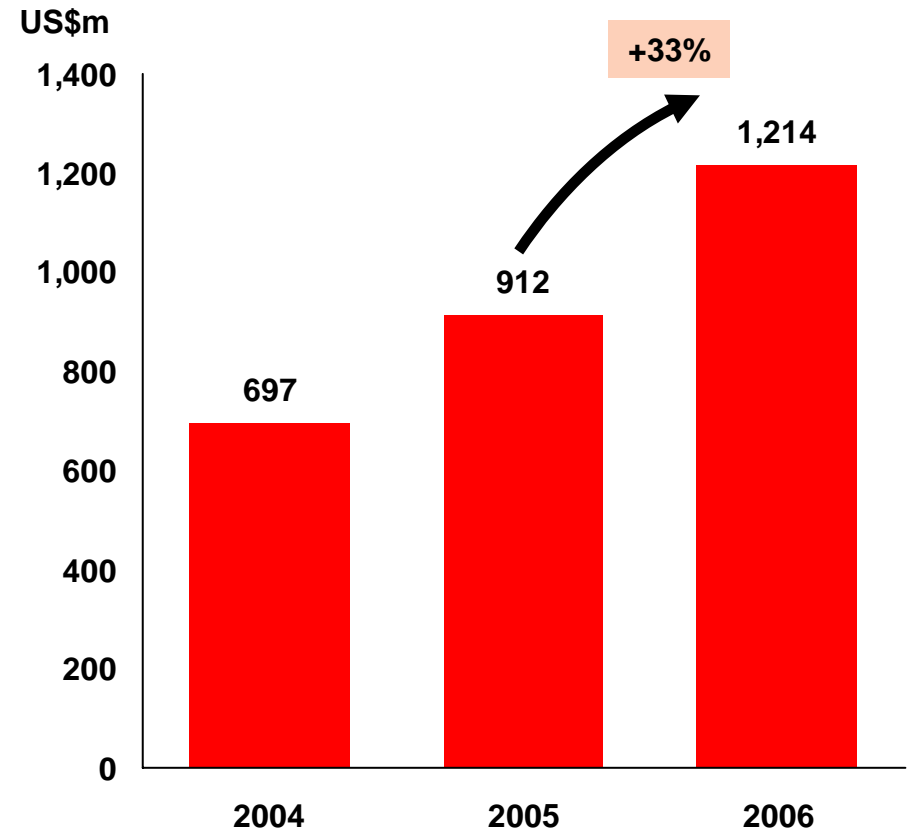
- Strong growth, excluding Balance Sheet Management
- Success in product areas in which HSBC has invested
- Plays key role in joining up HSBC's distribution network



Private Banking – profits up 33%

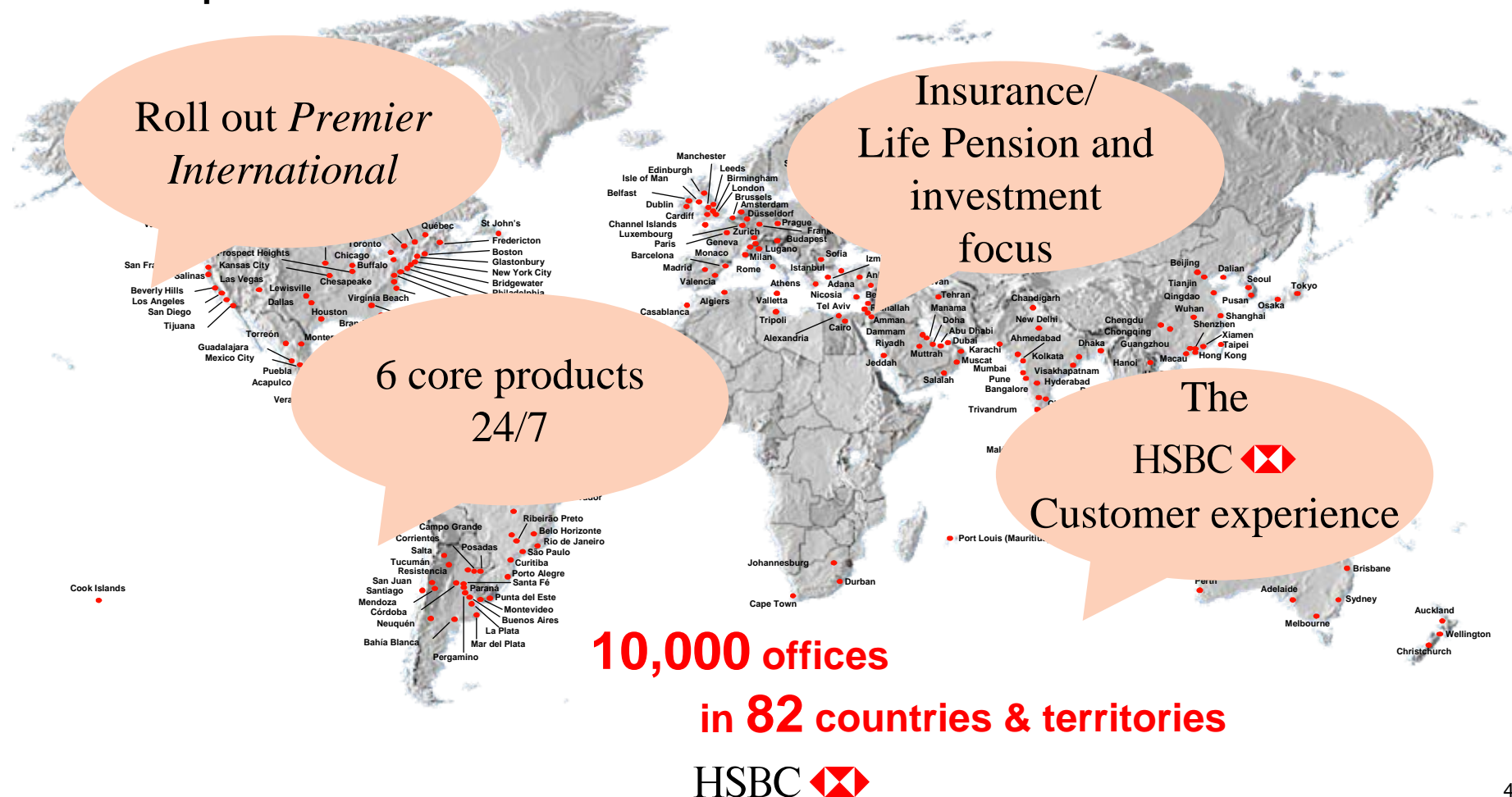
- Growth to a leading global position
- Group's global network and franchise provides strong growth opportunity
- Achieved more than US\$1bn profit
- Rated top 3 global Private Bank by Euromoney

Profit before tax



Our Global Distribution – a competitive advantage

HSBC Group International Network



Outlook for 2007

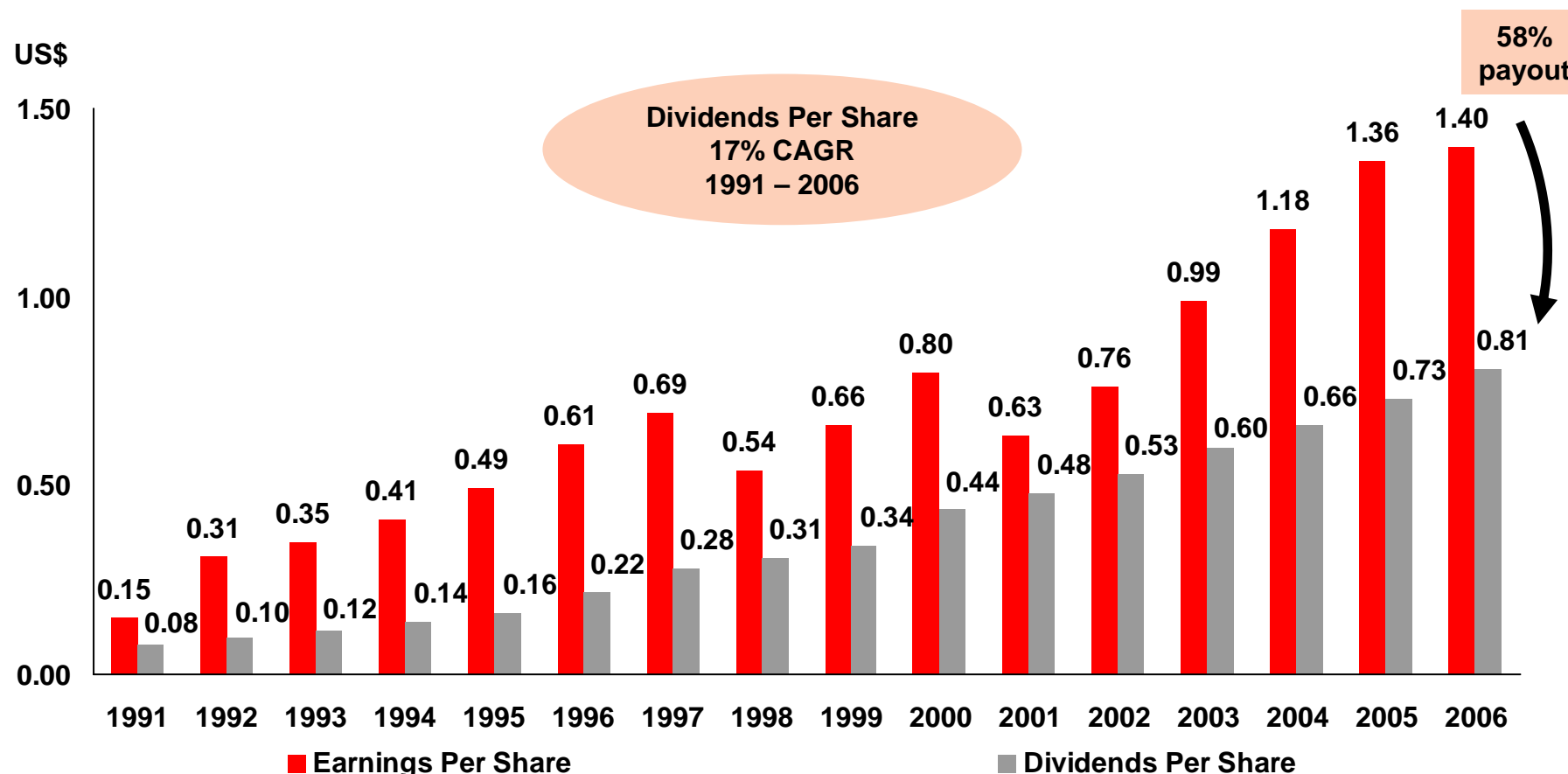
- **Stable outlook for global economy in 2007, although growth expectations in the US are moderating**
- **Asian, Middle Eastern, Latin American and other Emerging Markets operations well placed to grow**
- **Stability in UK consumer credit**
- **US credit quality dependent on levels of interest rates, unemployment and the housing market**

Stephen Green

Group strategy going forward

Where we have come from

Financial performance over 15 years

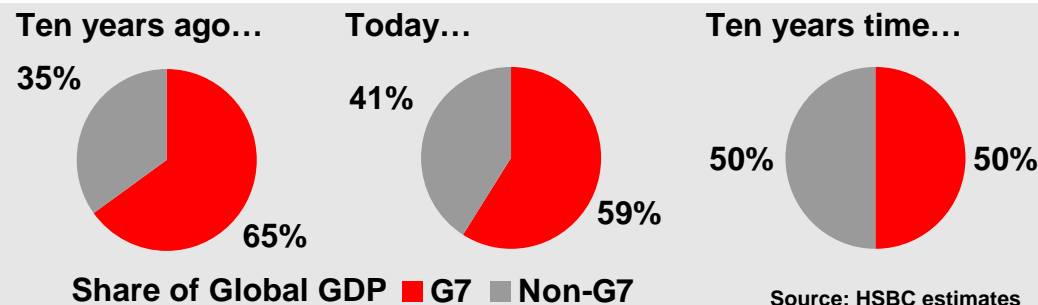


(1) UK gaap to 2003, IFRS basis from 2004

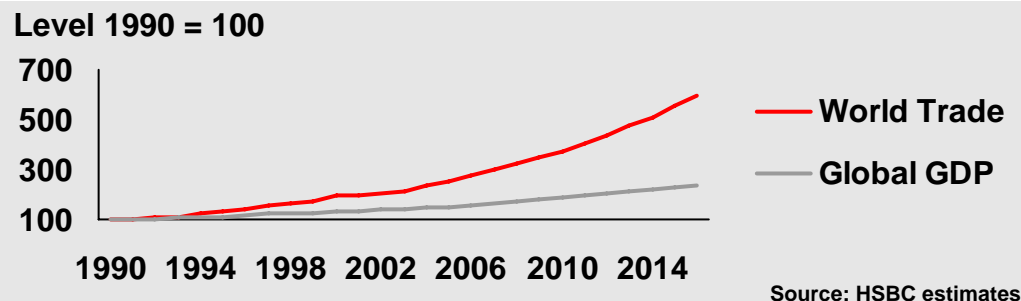
(2) Dividends per share in respect of each year

The world as we see it evolving

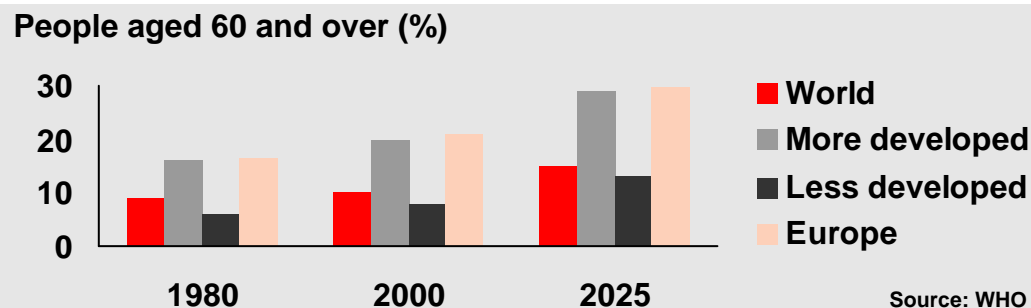
1. Emerging markets growing faster than rich countries...



2. World trade growing faster than GDP...



3. Longevity increasing virtually everywhere...



Going forward we will focus more on emerging markets business, building on the huge strengths of the HSBC franchise

- **Asia, Middle East, Latin America and other Emerging Markets will be over half of Group profit and trend upwards over next five years**
- **Specifically, Hong Kong and mainland China will be increasingly managed as a seamless business**
- **Incremental investment to be weighted towards Emerging Markets**

In mature markets, we will focus on

- **Diasporas, especially those with Emerging Market connections**
- **Customers with international connectivity**
- **Tight cost control based on technology**
- **Re-engineering and/or disposal of businesses where not core to strategy**

We will remain a broad-based universal bank, with four strategic businesses

Personal Financial Services

Consumer finance will remain a core competence

Commercial Banking

International franchise and connectivity is a unique platform

Corporate Investment Banking and Markets

Emerging Markets-led and financing-focussed

Private Banking

Powerful international network and connectivity with the rest of the Group's business

Across all these businesses, we will meet our customers' protection, investment and insurance needs

Capital strategy

We will

- **Maintain strong capital position**
- **Maintain scrip dividend scheme**
- **Maintain strong return on capital**
- **Focus on economic profit**
- **Envisage 2007 fixed dividend for first three quarters at 17c per share (up from 15c)**

**2006 dividends per
share 81c**

58% payout

Record results, despite US mortgage issue

Revenue

US\$65bn

(up 13%)

Profit before tax

US\$22.1bn

(up 5%)

Strong capital

9.4%

(Tier 1)

Revenue growth

Double digit

(third year running)

Cost efficiency

51.3%

(maintained flat ratio)

Earnings per share

US\$1.40

(up 3%)

Joined \$bn club

US\$1bn +

(PBT over US\$1bn for first time in Mexico, Middle East, Private Banking, Commercial Banking in Asia, ex HK)

Added extra

US\$1bn

(Commercial Banking globally)

Dividends

US\$0.81

(per share, up 11 per cent in respect of 2006)