

2007

Annual Review
HSBC Holdings plc



The world's local bank

HSBC 

HSBC is the world's local bank. Around 128 million individuals and businesses around the world count on us to help them achieve their financial goals. They are served by our 330,000 employees, who work in 10,000 offices in 83 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 more than 200,000 shareholders in over 100 countries and territories.

Illustrative theme: long-term trends shaping the global economy

HSBC's strategy reflects our position as 'The world's local bank' and aligns with three fundamental long-term trends shaping the global economy:

- growth in the world's emerging markets is faster than in mature markets;
- world trade is growing faster than global GDP; and
- increased longevity around the world is leading our customers to rethink their financial needs.

Cover: The cover shows the regions that are of such vital importance to us as we increasingly target emerging markets – Asia, the Middle East and Latin America. The photos show Vietnam and China on the front, and the United Arab Emirates and Brazil on the back.



This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2007*. 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 2007*.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2007* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Internal Communications, HSBC-North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, 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, Rooms 1806-1807, 18th 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 2007* may be viewed on our web site: www.hsbc.com.

Contents

1	Highlights of 2007
2	Group at a Glance: Geography
4	Group at a Glance: Customers
6	Group at a Glance: Strategy
8	Group Chairman's Statement
12	Group Chief Executive's Business Review
22	Monitoring our Performance and Managing our Risk
24	Corporate Sustainability
26	Our Board: Promoting Your Interests
28	Our Leadership Team: Working for You
30	Summary Directors' Report
34	Summary Directors' Remuneration Report
41	Summary Consolidated Income Statement
42	Summary Consolidated Balance Sheet
43	Notes on the Summary Financial Statement
45	Independent Auditor's Statement
46	Shareholder Information
48	Addresses

Highlights of 2007

- ▶ Profit before tax rose to a record high of US\$24 billion.
- ▶ Strong performance in the emerging markets – Asia, the Middle East and Latin America – with pre-tax profits more than 60% of HSBC's total.
- ▶ Pre-tax profits exceeded US\$1 billion for the first time in China and France.
- ▶ Total operating income in Global Banking and Markets rose by 12% as businesses in which we have invested produced strong results.
- ▶ For the fourth year running, revenue growth was in double digits and return on average shareholders' equity exceeded 15%.
- ▶ Dividends per share in respect of 2007 up 11.1% to US\$0.90. Over 15 years of double-digit dividend growth.

Profit before tax

US\$24,212m

£12,106m, HK\$188,878m for 2007

Profit before tax

9.6%

Increase on 2006

Assets

US\$2,354b

£1,172b, HK\$18,359b at 31 December 2007

Market capitalisation

US\$198b

At 31 December 2007

Dividends per share

US\$0.90

£0.45, HK\$7.02 in respect of 2007

Capital strength

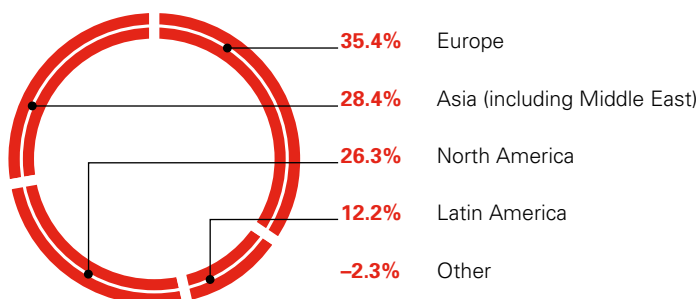
13.6%

Total capital ratio at 31 December 2007

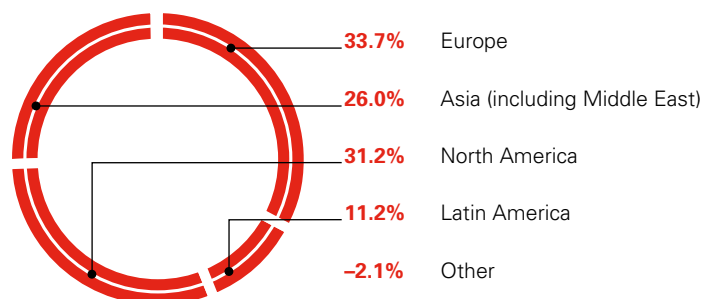
Group at a Glance: Geography

HSBC is 'The world's local bank', building on its global leadership in the emerging markets of Asia (including the Middle East) and Latin America while refining and focusing its business in the mature markets of Europe and North America.

2007 Total operating income by geographical region



2006 Total operating income by geographical region



Geographical regions

Europe

Our European operations make up more than 35 per cent of the Group's business, with the largest contribution coming from the UK where, during the year, we continued a major investment in new and refurbished branches. We saw strong growth in average savings balances over the year across our UK operations, which include 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 also have a large and rapidly growing business in Turkey where we extended our branch network and saw significant increases in customer numbers. We also continued our investment strategy for operations in Eastern Europe.

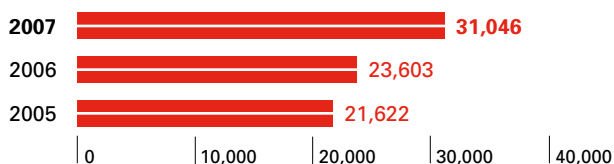
Asia (including the Middle East)

HSBC was founded in the Hong Kong SAR, and we remain the largest bank incorporated there. Hang Seng Bank Limited, a majority-owned subsidiary, is also based in Hong Kong. During 2007, we were among the first four foreign banks to incorporate in mainland China. We nearly doubled our branch network during the year and we are the leading international bank operating in China, both through our own network and through partnerships with several Chinese financial services companies. These include a 19 per cent stake in China's fifth largest bank, Bank of Communications, 12.8 per cent in Industrial Bank, and 16.8 per cent in one of China's largest insurers, Ping An Insurance. We are also the largest international bank in Asia, with operations in 23 countries and territories in the region and we agreed to make significant new investments in South Korea, Taiwan and Vietnam. We continued to grow our businesses in the Middle East, where the network of branches of HSBC Bank Middle East Limited and a Group associate, The Saudi British Bank, has the widest coverage in the region.

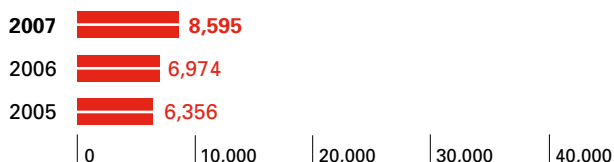
Total operating income

US\$31,046m

Total operating income: 3-year comparison (US\$m)



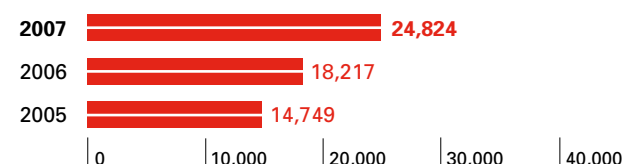
Pre-tax profit: 3-year comparison (US\$m)



Total operating income

US\$24,824m

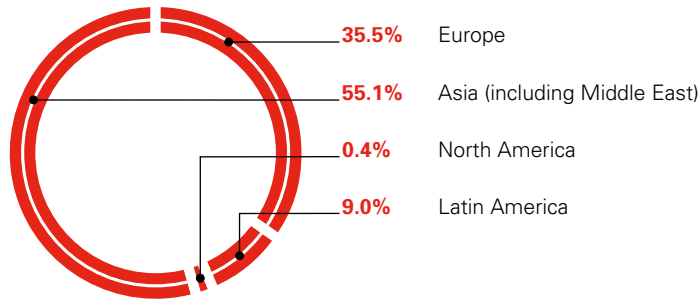
Total operating income: 3-year comparison (US\$m)



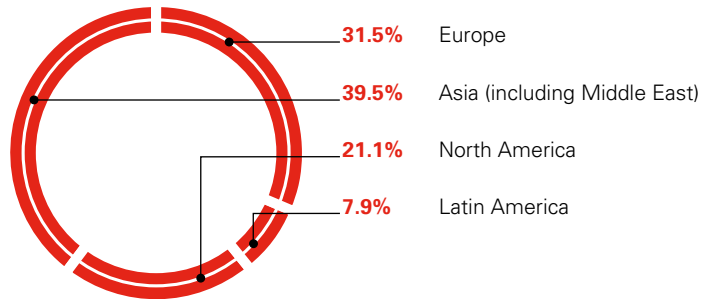
Pre-tax profit: 3-year comparison (US\$m)



2007 Pre-tax profit by geographical region



2006 Pre-tax profit by geographical region



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., headquartered 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 jurisdictions. HSBC Direct, the Group's online banking and savings offering launched in the US in 2005, continued to grow strongly in 2007 and was successfully launched in Canada during the year. However, our North American results continued to be affected by higher loan impairment charges as we work through the impact on our portfolio of credit deterioration related largely to housing market weakness in the US.

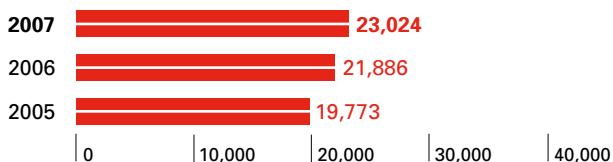
Latin America

We have built one of Latin America's largest financial services businesses in little more than a decade and now have major operations in Mexico, Brazil, Argentina and Panama. The acquisition of Grupo Banistmo, now HSBC Bank (Panama) S.A., in 2006 has also enabled us to expand into Costa Rica, Honduras, Colombia, Nicaragua and El Salvador. We made good progress in integrating these Latin American operations during 2007 and we saw particularly strong growth in market share in Brazil and Mexico.

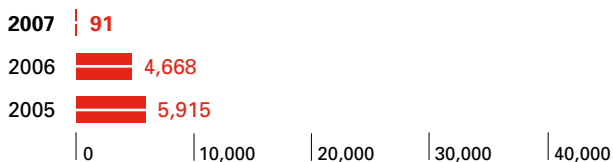
Total operating income

US\$23,024m

Total operating income: 3-year comparison (US\$m)



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



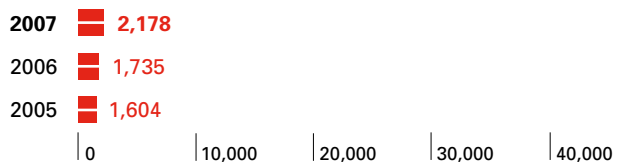
Total operating income

US\$10,692m

Total operating income: 3-year comparison (US\$m)



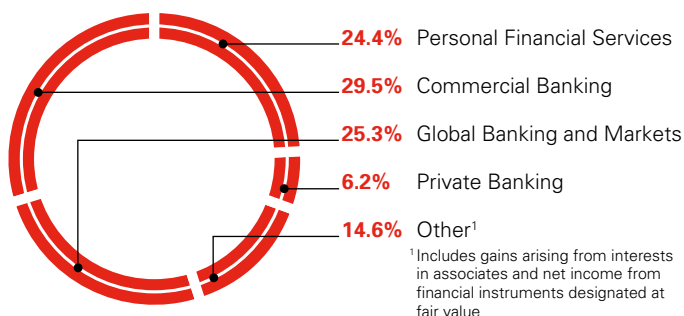
Pre-tax profit: 3-year comparison (US\$m)



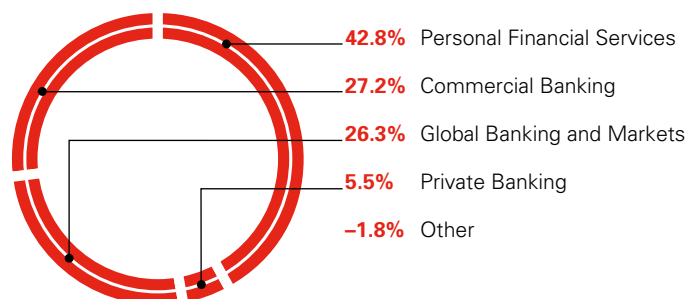
Group at a Glance: Customers

HSBC's business is made up of two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets (previously known as Corporate, Investment Banking and Markets), and Private Banking.

2007 Profit before tax by customer group and global business



2006 Profit before tax by customer group and global business



Customer groups and global businesses

Personal Financial Services (including Consumer Finance)

HSBC serves 125 million individual and self-employed customers with financial services in 57 countries and territories. We provide our customers with a wide range of banking and other financial services, selected to complement our strategy in each market. Where HSBC enjoys large scale – or, in the case of emerging markets, where scale can be built – we offer a full range of personal financial products. In other markets, we participate more selectively, meeting the needs of customers with strong international connections. Key areas of growth include our premium banking service for mass-affluent customers, HSBC Premier, which was successfully relaunched during the year, and our wealth management business. HSBC Direct, our online savings offering, continued to grow strongly in 2007 and was established in Taiwan, South Korea and Canada. We also continued to expand our insurance and consumer finance operations. In 2007, our pre-tax profits in Personal Financial Services fell by 38 per cent due to increased loan impairment charges, primarily as a result of the downturn in the US housing market.

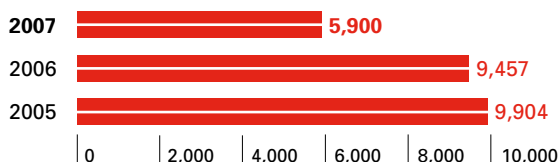
Profit before tax

US\$5,900m

Total assets

US\$588b

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



Commercial Banking

HSBC aims to be the world's leading international business bank, with 2.8 million Commercial Banking customers in 64 countries and territories. These customers include sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. Over recent years, we have seen an increase in the cross-border activities of these customers, and we are uniquely placed to help them by offering supply chain management, cash management and business introductions across the world. 2007 saw strong pre-tax profit growth in Commercial Banking, an increase of 19 per cent, based on expanding customer assets and liabilities and the success of our international services. In particular, we made good progress in increasing customer numbers in emerging markets and in expanding our services for small businesses.

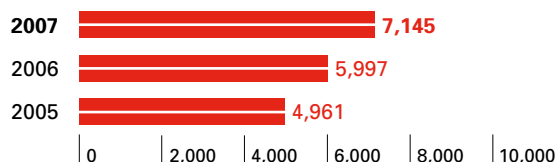
Profit before tax

US\$7,145m

Total assets

US\$262b

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



Global Banking and Markets

Our Global Banking and Markets business provides tailored financial solutions to major corporate, institutional and government clients worldwide. To be a leading wholesale bank, we focus on financing and emerging markets, and on building on the Group's unique international reach and heritage. During the year, we continued to build our capabilities in major hubs to support the delivery of an advanced suite of services to corporate, institutional and government clients across the HSBC network. The positive results of our strategy were seen in the strong performance for 2007 which, despite the challenging conditions in the market, showed pre-tax profits rise by 5 per cent.

Private Banking

We have a presence in all major regions of high wealth or high wealth creation, and this has allowed us to build one of the world's leading private banking groups. We use our global network and brand to meet the complex international needs of high net-worth individuals and their families from 90 locations in 37 countries and territories to help them manage and preserve their wealth. During the year, we launched a number of new investment products for these clients, with an emphasis on private equity in emerging markets and overall client assets grew by 26 per cent to US\$421 billion at 31 December 2007. This contributed to another very successful year for our private banking business, with pre-tax profit growing by over 20 per cent for the third year running.

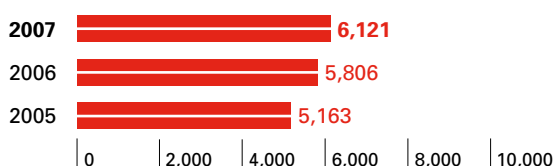
Profit before tax

US\$6,121m

Total assets

US\$1,375b

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



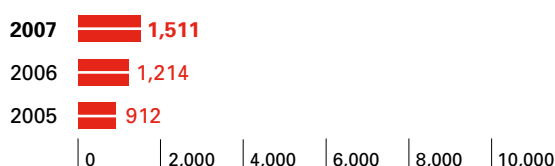
Profit before tax

US\$1,511m

Total assets

US\$89b

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



Group at a Glance: Strategy

HSBC's strategy is aligned with the fundamental long-term trends shaping the global economy, providing financial solutions for all types of customers and creating value for our shareholders.

Fundamental long-term trends shaping the world economy

Emerging markets

Emerging markets are growing at a faster rate than mature markets. Ten years ago, non-G7 countries made up 35 per cent of world GDP. Today, they account for 41 per cent, with projections that they will make up 50 per cent in 10 years' time. HSBC is the world's largest international emerging markets bank, bringing our expertise to Asia, the Middle East and Latin America.

About us

Largest international emerging markets bank

We are rebalancing HSBC's earnings by slanting investment towards high-growth emerging markets. Against the backdrop of the fundamental long-term trends shaping our world, we aim to deliver superior growth and earnings over time by building on the Group's international heritage and skills. Our origins in trade in Asia have given us deep roots and an unparalleled presence in many fast-growing markets – China, India and Vietnam, to name a few.

Widespread international network

Our extensive international reach helps our customers meet their cross-border business needs. Our International Banking Centres cover 54 countries and territories – and nearly all of our Commercial Banking customer base. HSBC uses its unique combination of global reach and local knowledge to help customers build business and revenues from trade and investment flows within and between mature and emerging markets. By having a presence at both ends of the world's trade flows – and at every point in-between – we are well-positioned to support our international customers wherever they do business.



World trade

World trade is growing faster than GDP. In fact, for the past 16 years, world trade has been growing at an annual rate of 10 per cent – almost double global GDP's average growth rate of 5.5 per cent. As the world's leading commercial bank, we finance trade to and from both established and emerging economies, helping our customers expand into new markets. Our Global Transaction Banking business helps our clients – whether corporations, small and medium-sized enterprises, financial institutions or governments – meet their international financial needs across the world.

Longevity

Longevity is increasing virtually everywhere. With more and more people entering their golden years, we see increased life expectancy around the globe – a predicted two billion-plus people over the age of 60 by 2050. HSBC is helping our customers meet their individual needs, by growing our retirement, insurance and wealth management businesses.

Uniquely international customer base

We have the privilege of serving a uniquely international customer base, ranging from governments and major multinational corporations, to around 125 million individuals. We aim to be the world's leading international commercial bank, supporting our customers as they trade, invest and do business globally. Our Global Banking and Markets business offers worldwide wholesale banking services. And our personal customers' needs are met no matter what their lifestyle – whether occasional travellers, mass-affluent customers with multi-country wealth management needs, or those relocating permanently to a new country.

Financial strength

We believe that HSBC's capital strength and liquidity are two of our key attributes, ensuring that we are positioned to seize new opportunities wherever they arise. In recent years, the balance of our earnings has increasingly reflected both the global nature of our business and the needs of our different customer groups. Earnings today are broadly distributed in Asia, the Middle East, Europe, North America and Latin America, balancing between mature and developing markets.





Group Chairman's Statement

"We believe that the global leadership we have built in emerging markets and in trade, and our international perspective are compelling advantages that set HSBC apart for our customers, our shareholders and our people."

Dear shareholder

2007 was a year when large parts of the international financial system came under extraordinary strain. For HSBC to achieve another new high in earnings, despite these conditions and the exceptionally weak performance of our US business, underscores the value of the strategic focus we announced early last year to drive sustainable growth by concentrating on the faster growing markets of the world.

Pre-tax profits in 2007 increased by 10 per cent to US\$24 billion and earnings per share rose by 18 per cent to US\$1.65. Excluding the dilution gains arising from our strategic investments in mainland China, which I highlighted at the interim stage, profits grew by 5 per cent. Consistent with our strategy of focusing on emerging markets where we are the world's leading international bank, profits from those businesses, excluding dilution gains, grew by 41 per cent to US\$15 billion.

Our return on shareholders' equity exceeded 15 per cent, revenue growth was in double digits for the fifth year running, our cost efficiency ratio improved, and our capital ratios remained strong. HSBC's financial strength in terms of both capital and liquidity is a powerful driver of sustainable growth and helps ensure continued resilience.

Strong operating performance in 2007

We produced exceptionally strong results in Asia-Pacific, Latin America and the Middle East while facing considerable business challenges in North America. In our customer groups, we also achieved record results in Commercial Banking and Private Banking, and a strong performance in Global Banking and Markets, despite write-downs arising from market turbulence in the second half of the year. In addition, Personal Financial Services produced record profits in emerging markets. Within these customer groups, our insurance operations made further progress.

Our North American results continue to be adversely affected by high loan impairment charges as we respond to the impact on our portfolio of credit deterioration arising largely from housing market weakness in the US. The management team has taken vigorous action to address and mitigate the problem. In Europe, excluding the positive effect of movements in the fair value of HSBC's own debt, performance was broadly in line with 2006. In the UK, Commercial Banking generated pre-tax profits of over US\$2 billion for the first time and, in Turkey, further expansion of the branch network helped drive strong organic growth in numbers of personal and business customers.

The 'Group Chief Executive's Business Review' on pages 12-21 examines our performance in more detail.

Financial strength underpins our progressive dividend policy

The Directors have declared a fourth interim dividend for 2007 of US\$0.39 per ordinary share (in lieu of a final dividend) which, together with the first three interim dividends for 2007 of US\$0.17 already paid, will make a total distribution in respect of the year of US\$0.90 per share (US\$0.81 per share in respect of 2006), an increase of 11.1 per cent. The dividend will be payable on 7 May 2008, with a scrip dividend alternative, to shareholders on the register on 25 March 2008. HSBC's dividend has increased by 10 per cent or more every year for 15 years.

A clear and compelling strategy playing to our strengths

At the beginning of 2007, we refreshed our strategy, considering how we should shape HSBC for the future. Our deliberations were influenced by some fundamental long-term trends that will shape tomorrow's world: emerging markets will continue to grow faster than mature ones; world trade will continue to grow faster than world output; and people are living longer than ever before, with all the implications that has for long-term savings and pensions.

Our thinking was also informed by a clear appreciation of HSBC's strengths. We believe that the global leadership we have built in emerging markets and in trade, and our international perspective are compelling advantages that set HSBC apart for our customers, our shareholders and our people.

As we explained in March 2007, our conclusion was that the Group should place renewed emphasis on investing in fast-moving emerging markets in Asia-Pacific, the Middle East and Latin America. We believe we can grow strongly and sustainably. We achieved our position as the number one international bank in Asia-Pacific and the Middle East over many years; by contrast, we have built one of Latin America's largest financial services businesses in little more than a decade.

In mature markets, we are determined to focus our businesses on areas where we can build on our unique global franchise, so as to benefit from the long-term trend of increasing international connectivity. We have international customer bases across many of our businesses, from the largest corporates, through to small or medium-sized enterprises, to the internationally mobile mass affluent and other personal customers with specific international requirements. We have developed a clear approach which is enabling our business to focus strongly on these groups of customers now and in the years ahead.

Where opportunities arise, we shall seek to redeploy capital towards emerging markets through divestment of assets of greater strategic value to others. In France, we have received a firm cash offer of US\$3.1 billion for our seven, separately branded, regional banks and have entered into exclusive discussions. This potential transaction, which is subject to necessary approvals and consultation, could complete in mid-2008. We remain committed to France through our HSBC-branded network serving retail and commercial customers and through our activities in Global Banking and Markets, Private Banking, asset management and insurance. During 2007, we acquired the 50 per cent of Erisa, our French insurance business, which we did not own.

We will also build businesses, in both our emerging and mature markets, that help our customers with their long-term savings needs, as demographics and wealth creation trends around the world make this ever more important to them.

Finally, we will shape our business operations so that we use our scale to deliver better, more efficient services to our customers. Their use of technology increasingly dictates how they interact with us. We increasingly employ technology to create better products which we can deliver globally at lower cost. As we grow our direct banking business, we will create opportunities to meet more of our customers' financial needs.

Building on our position as the world's leading international emerging markets bank

During 2007, we continued to build our businesses in emerging markets organically. For example, on a like-for-like basis, risk-weighted assets in these areas grew by 42 per cent compared with 16 per cent for the Group as a whole.

As the leading international bank in the country of our birth, China, we were delighted to be among the first to incorporate locally in the mainland. We have built the largest branch network of any international bank and we have significant and profitable strategic investments in our Chinese associates.

In mainland China, through our own businesses and in conjunction with our associates, we achieved for the first time in our history a profit before tax of over US\$1 billion, in addition to over US\$7 billion generated in Hong Kong.

As China continues to reshape itself as a 21st century powerhouse, HSBC seeks to play a constructive role in its continued progressive economic and social development. We were the first international bank to establish and open a rural bank. Hang Seng Bank has agreed to acquire 20 per cent of Yantai City Commercial Bank in the fast-growing Bohai region of China.

Elsewhere in Asia-Pacific, we have sought to further strengthen our position through a series of investments in faster-growing economies. In South Korea, we have agreed to acquire 51 per cent of Korea Exchange Bank for US\$6.5 billion, subject to regulatory approvals. In Taiwan, we acquired Chailase Credit Services, a factoring company serving commercial customers, and agreed to acquire the assets, liabilities and operations of The Chinese Bank, which will extend our network by 39 branches and bring us many new customers.

As foreign investment rules are eased, we have made significant investments to expand our business in Vietnam with the acquisition of a further 5 per cent interest in Techcombank, bringing our stake to 14.4 per cent, and the purchase for some US\$255 million of a 10 per cent interest in Bao Viet, the leading insurance company in the country.

The latter investment reflects our determination to increase the contribution of insurance to Group earnings. We also entered into agreements to invest in a 26 per cent interest in a new life insurance joint venture in India, in partnership with two of the larger state-owned banks, and to acquire just under 50 per cent of Hana Life Insurance Company in South Korea. We have entered a number of strategic alliances to ensure that we have the best products for our customers and the support to grow our activities.

A fifth consecutive year of rising oil prices facilitated growth in public and private investment in the Middle East. As a result, infrastructure development accelerated, and consumption and employment rose. Our businesses in the Middle East were well positioned to benefit from this and have had an excellent year.

Our acquisition of Grupo Banistmo in Central America and Banco Nazionale in Argentina in 2006 strengthened our existing business. 2007 has been a year of integrating these operations. It is a testimony to the strength of our Latin American businesses that we have been able to grow profits by 26 per cent to over US\$2 billion while investing in the integration, and despite the increase in loan impairment charges in Mexico as our loan portfolio began to mature.

A people business

It is people, of course, who define an organisation; and any business's success is dependent on the calibre of its staff. 2007 was a demanding year in many respects and it is testament to the talent and professionalism of my 330,000 colleagues around the world that HSBC successfully met its challenges and excelled in so many areas. I would like to take this opportunity to extend my personal thanks to my colleagues – their commitment and expertise have greatly benefited the Group and our shareholders.

Measuring the results of our strategy

We have published, for the first time, the key metrics which we will use to measure our performance in future. These include a number of measures that cover financial performance, customer recommendation and employee engagement.

In financial terms, we are aiming for a return on equity in a range over the investment cycle of 15-19 per cent; a cost efficiency ratio in the range of 48-52 per cent; Tier 1 capital under the Basel II framework of 7.5-9.0 per cent; and total shareholder return in the top half of that achieved by our peers.

Financial measures are important but not sufficient: it is our people and our relationship with customers that will drive our business and ultimately determine our success. For the first time, in 2007, 290,000 HSBC colleagues completed our new global people survey, allowing us to benchmark ourselves and, over time, raise our game. Similarly, we have established customer engagement metrics which enable us to measure and improve our service to them. We have set ourselves challenging targets to increase both employee and customer engagement. They will help us build on our position as the world's number one global banking brand.

Changes to your Board

Independent oversight of our company and of the execution of strategy is the responsibility of one of the most experienced and international Boards in the world. I am delighted that we will benefit from international business leaders of the calibre of José Luis Durán and Sam Laidlaw, who joined the Board as independent non-executive Directors on 1 January 2008. We also welcome two other global business leaders, Safra Catz and Narayana Murthy, who will join as independent non-executive Directors on 1 May 2008.



The Board will be further strengthened by the appointment of three executive directors: Vincent Cheng, effective 1 February 2008; and Sandy Flockhart and Stuart Gulliver, who will join the Board, effective 1 May 2008. These are three of our most talented and experienced executives – all emerging market specialists.

Baroness Dunn, Sir Brian Moffat and Lord Butler will retire as non-executive Directors at HSBC's Annual General Meeting on 30 May 2008 and will not seek re-election. I should like to pay tribute to their tremendous contribution to HSBC. We have been privileged to enjoy their counsel and stewardship for so many years.

HSBC's core strength in uncertain times

The outlook for the rest of 2008 is uncertain. The economic slowdown and the credit outlook in the US may well get worse before they get better. With significant parts of the international financial system in developed markets still in difficulty, HSBC's emphasis on faster growing emerging markets means that we are better positioned than many of our competitors.

Emerging markets have only partly decoupled from the US. Hence, while these economies are exhibiting more domestic momentum, they will not be entirely immune from the impact of a US slowdown. However, the major long-term trends are still intact. Emerging markets will continue to outperform mature economies; and world growth, even in this year of relative weakness for the US economy, will be reasonable – albeit slower than in 2007. Meanwhile, trade and investment patterns

will continue to evolve to reflect a more interconnected world, notwithstanding some signs of protectionist sentiment in several key mature markets. In particular, we will see further strategic investments from emerging markets into mature markets, as well as into other emerging markets, a trend from which we are well placed to benefit.

2008 is likely to be a year of caution in the financial sector until liquidity, transparency and the proper pricing of risk return to financial markets. We expect to be able to improve margins on the use of our capital and we will continue to invest in building market presence at a time when others with weaker capital positions are constrained.

The fundamentals of HSBC are very strong. The deleveraging of the financial system clearly plays to HSBC's strengths, given our conservative balance sheet and international presence. There can be few banks in the world that are better positioned to withstand market turbulence and grasp strategic opportunities. We will continue to focus HSBC on the parts of the global economy that promise the best prospects for higher growth over the long term. We will continue to invest for profitable growth in line with our strategy, and we will do so while maintaining HSBC's financial strength, which is at the heart of our success.

Stephen Green
Group Chairman



Emerging markets are growing faster than mature economies

Largest international network in China

(Far left) HSBC Bank (China) Company Limited is the largest international bank in the country. We were the first to offer rural services, one of the first to offer local currency renminbi services, and have received the highest possible credit rating for a locally incorporated bank. We are committed to growing our business there because no country is more important to HSBC than China.

Insurance in Vietnam

(Middle) Vietnam is one of Asia's fastest-growing economies, with an average GDP growth of 7 per cent in the past 10 years. Our strategic partnership with Vietnam's top insurer, Bao Viet, represents the largest insurance investment in the country. HSBC is growing its insurance business throughout Asia, including India, Taiwan, China and South Korea, and in the Middle East.

Trading in Hong Kong – and beyond

(Left) Hong Kong is one of HSBC's major international trading centres, along with London and New York. Its dealing room is the largest in Asia outside Japan, offering a wide range of products such as foreign exchange, interest rates and structured products. Our Asia-Pacific Global Markets division has over 12,000 active client relationships.



Group Chief Executive's Business Review

2007 was a year in which we reported record results in our Commercial Banking, Private Banking, and Global Banking and Markets businesses. Our Personal Financial Services business produced disappointing results because of the problems in the US consumer finance market. We produced a very strong performance in our emerging markets businesses where we continue to build for the future. Increasingly, we are connecting our unique network across emerging and mature markets for the benefit of both our customers and our shareholders.

A handwritten signature in black ink, appearing to read 'M. Geoghegan', written over a red background.

Michael Geoghegan
Group Chief Executive

“Our business highlights and results show that we had successes in both developed and developing markets in 2007. Our investments in 2008 will be consistent with our strategy.”

Robust performance in a challenging year

The ‘Group Chairman’s Statement’ sets out the clear and compelling strategy for HSBC, and one which very much plays to our strengths. It is my job to lead the senior management team in executing that strategy. 2007 was a year in which we made significant progress in shaping and building our existing businesses for the future, while managing through the particular challenges arising in global financial markets. Our profits of US\$24 billion demonstrate the resilience of our business model which, notwithstanding the continuing disappointing results from our US operations, generated a broad spread of earnings by customer group – Commercial Banking (30 per cent), Personal Financial Services (24 per cent), Global Banking and Markets (25 per cent), Private Banking (6 per cent), and others (15 per cent).

We are well-diversified by geography, with a broad spread of earnings coming from developing markets in Asia-Pacific, the Middle East and Latin America, and from mature markets in Europe and North America. Our investment approach is a balance between growing our physical presence with investing to increase efficiency in our existing operations. In support of our strategy to increase earnings from developing markets, we continued to invest significantly in existing businesses where we saw opportunities to grow, for instance with new branch programmes in mainland China, Turkey, Indonesia and India. In developed markets, we invested in technology-led initiatives to grow in our targeted customer segments. Our business highlights and results show that we had successes in both developed and developing markets in 2007. Our investments in 2008 will be consistent with our strategy.

Taking each of our customer groups and global businesses in turn:

Delivering a global and technology-driven offering to our Commercial Banking clients

Commercial Banking had another strong year with a profit before tax of US\$7.1 billion, an increase of 19 per cent over 2006. This growth was powered by very strong results in Asia-Pacific, the Middle East and Latin America. As a result, the proportion of Commercial Banking’s profits arising in faster-growing economies increased from 47 per cent in 2006 to 52 per cent in 2007.

Who we are

Worldwide

1st

the world’s most valuable banking brand
(*The Banker* magazine, March 2008)

128m

customers

Emerging markets

Leading

international bank in Asia and Middle East

China

Among the 1st

to incorporate locally

Latin America

Building

one of the largest financial services businesses

USA

Top 10

financial services company

Commercial banking

Leading

international business bank

“Premier customers represent a valuable client base, each averaging over US\$2,000 of revenue annually. We will continue to expand Premier in target markets in 2008, with a focus on wealth management...”

Our focus is twofold: to be the world's leading international business bank and working to become the best bank for small businesses in target markets. This is supported by our continued investment in both technology and people. HSBC's technology and global network are key to our position as the leading international business bank.

In 2007, we extended our network of International Banking Centres – which help customers expand their international businesses – across a further 38 countries, bringing the total to 54. These services are now available to 99 per cent of HSBC's commercial customers. Our Global Links referral system is now available to Relationship Managers in 63 countries. We launched our new SmartForms initiative in 16 countries, making cross-border account opening easier for our customers.

We experienced strong growth in our payments and cash management, and trade and supply chain businesses, with income growth of 18 per cent,

and in receivables financing, where we increased the number of operating countries from 12 to 19. Cross-sales of Global Markets' foreign exchange products also grew very strongly, particularly in emerging markets.

HSBC delivered technology-led banking for business, winning awards in both the Hong Kong SAR and the UK for Business Internet Banking. Almost a quarter of new customers in the UK came to us through our Business Direct proposition. We invested to expand our receivables financing and business cards platforms, and continue to grow by building on existing relationships – over 50 per cent of new customers in the first half of 2007 in key markets had existing Personal Financial Services relationships.

In total, our Commercial Banking customer base grew by 8 per cent to 2.8 million in 2007, with particular growth in small businesses in Hong Kong, the UK and Turkey, where we have been investing.

Consumer Finance challenges offset Personal Financial Services growth

Our Personal Financial Services business achieved profit before tax of US\$5.9 billion, a decline of 38 per cent from 2006. This was largely driven by exposure in the US. However, we experienced strong Asian and Latin American growth of 48 per cent and 12 per cent, respectively. Excluding US consumer finance, profit before tax in our Personal Financial Services business grew by 18 per cent.



Personal Financial Services

125m

customers worldwide

340,000

new HSBC Premier customers

120 million

cards in circulation worldwide

Elsewhere, we have had success with three key offerings where our global scale gives us real competitive advantage.

First, we have seen solid growth in the market-leading HSBC Premier offering. Premier is designed for mass-affluent customers who are often internationally mobile. In 2007, we had a very successful international relaunch of HSBC Premier that incorporated a number of truly global, joined-up features. These included worldwide customer recognition, a single emergency help line, a unified view of all accounts, and a single worldwide Premier brand. We added a net 340,000 new Premier customers of whom more than 50 per cent were new to the bank, for a total of over 2.1 million. Premier customers represent a valuable client base, each averaging over US\$2,000 of revenue annually. We will continue to expand Premier in target markets in 2008, with a focus on wealth management, which has already worked so successfully in Hong Kong. We believe that we can increase our Premier customer base to six million over the next four years.

Second, our global card platform, One HSBC Cards, continues to grow, with a specific focus on developing markets. With three quarters of cards in force on a single platform, we can use scale to reduce costs. In 2007, we launched new card businesses in Vietnam and Pakistan, while growing in other markets, including India and the United Arab Emirates. With over 120 million cards in force, including those with Bank of Communications in China, 26 per cent are now in developing markets, up from 20 per cent in 2006.



World trade is growing faster than GDP

There at the beginning...

(Far left) For HSBC client LG Electronics – one of the world's biggest consumer electronics manufacturers – up to 80 per cent of revenue comes from exports. HSBC connects businesses around the world, seamlessly combining local knowledge with global reach to serve our customers' import and export needs and help them to grow their business.

...the middle...

(Middle) HSBC's Trade and Supply Chain business has grown at a year-on-year rate of 14 per cent in terms of revenue, making particular strides in the Middle East and Asia-Pacific. As the practice of supply chain finance has grown in popularity, HSBC has used its international reach to broker trade arrangements between buyers and sellers around the world.

...and the end of the process

(Left) HSBC's 15-year partnership with US-based Best Buy, the biggest consumer electronics store in the world, has helped Best Buy expand into other markets. This includes a private label credit card agreement in Canada and supporting Best Buy's expansion into China with a Bank of Communications credit card for their new Shanghai store.

“We are putting the entire HSBC Direct offering onto a common transaction platform and intend entering new markets in 2008.”

Third, we continue to grow our HSBC Direct business. In 2007, US deposits reached US\$11.5 billion with 620,000 customers, and Asian deposits reached US\$1.2 billion with more than 240,000 customers in Taiwan and South Korea. HSBC Direct most recently launched in Canada in June 2007, with an enhanced local online savings account. Some 45,000 customers, three quarters of whom were new to HSBC, had deposited over US\$800 million by the end of the year. We are putting the entire HSBC Direct offering onto a common transaction platform and intend entering new markets in 2008.

Repositioning in the US consumer finance market

We continue to face challenges as a result of the deterioration of the US housing market; loan impairment charges and other credit risk provisions rose by 79 per cent to US\$11.7 billion in our Personal Financial Services business. We were one of the first to highlight the problem and we have actively managed our business to mitigate our position. Our actions

Commercial Banking

2.8m

customers worldwide

1st

'Best Bank' in Hong Kong
(*Euromoney* magazine awards)

24%

increase in Business Internet Banking customers



have shown our commitment to deal responsibly and resolutely with the issues. We will continue to manage this business so as to preserve the long-term value of our consumer finance platform, which we will use to grow profitable businesses in developing markets.

Our US-based consumer finance business comprises four key portfolios: mortgages, credit cards, vehicle finance and other personal loans. In 2007, we saw a progressive decline in profitability across all portfolios as the housing market suffered from slower appreciation (and, in some markets, depreciation) and unemployment increased. While we have a geographically diverse book, with no single area over-represented across our key portfolios, most markets are experiencing some decline in credit quality. However, those states in which house prices have declined are experiencing a faster deterioration in delinquency levels.

In our mortgage business, we have a retail branch-based origination channel and a wholesale portfolio, mortgage services, which is running off. This higher risk mortgage services portfolio has been reduced from US\$49.5 billion to US\$36.2 billion in the last 12 months. In the second half of 2007, we also began to see deterioration in the performance of our retail branch-based consumer lending portfolio as credit availability through equity withdrawal was no longer available to deal with unforeseen financial needs.

Global Banking and Markets

48%

increase in profits from emerging markets

1st

'Middle East Mergers and Acquisitions Adviser of the Year' (*Acquisitions Monthly*)

1st

'Best Risk Management House in Asia' for 10 years running (*Euromoney* magazine awards)



Longevity is increasing virtually everywhere

'Future of Retirement'

(Far left) People aren't just living longer; they're living better. The longevity of the world's population is an opportunity for HSBC Insurance to expand our range of products that help governments, businesses and individuals meet retirement, wealth management and insurance needs, to enable our customers to get the most out of their finances through their golden years.

Keeping it in the family

(Middle) Our private banking clients want to ensure their legacy is passed down the generations, to their children and grandchildren. HSBC Private Bank assists families around the world by working closely with their representatives to transfer their wealth in the most effective way. Careful planning and advice from our Private Bank help ensure the transition of the family's investments, business interests, real estate and assets for generations to come.

A new generation of savers

(Left) Longevity is not just about an older population – it is also about the young. Saving early is increasingly important for the younger generation, but so are savings vehicles that adapt to their needs. HSBC Direct is a convenient and flexible online proposition for savers who wish to manage their money from anywhere – home, on the move, or even when relaxing in the park.

We have taken vigorous action to position our business for the current environment. We have discontinued mortgage services correspondent and broker originations. We have restructured our retail operations in the US, closing about 400 branches and leaving a network of approximately 1,000. We have tightened our lending criteria, tailored our credit appetite in specific geographies, reduced product offerings and eliminated the small volume of adjustable-rate mortgage products we offered. We have also strengthened our risk management and controls. We shall continue to develop strategic responses to changes in market conditions.

We continue to work responsibly with customers, governments and community leaders to implement loan modifications and foreclosure avoidance programmes. We have improved our collections programme so that we can work to help our customers. In 2007, we modified more than 8,500 loans with an aggregate balance of US\$1.4 billion.

In 2007, we took the decision to integrate retail and credit card services to provide a single management structure. In 2007, we saw a rise in overall delinquency rates among credit card customers, in part due to a change in product mix and historically low levels of bankruptcies in 2006. We modified fee practices in our cards portfolio, which reduced income by approximately US\$55 million in 2007, and is expected to have a full-year effect of approximately US\$250 million in 2008. In addition, to improve the profitability of the credit card business in the long term, we slowed loan and account growth by decreasing credit lines and tightening the criteria for authorising initial credit lines.

Overall delinquency rates in vehicle finance also rose as the US economy weakened. We are taking steps to improve the profitability of new originations and have already seen reduced volume from the dealer channel. We expect this lower origination activity to continue in 2008 as we seek higher credit quality.

Our continued focus for 2008 is on strengthening the HSBC Finance business, paying particular attention to the core consumer lending and cards businesses in order to preserve the long-term value of the platform. We will continue to evaluate our product set and make adjustments in product type and qualification criteria, consistent with our desired risk profile. We will position the business so that when the environment improves we will be well positioned, particularly as many players have exited the market.

Strong Global Banking and Markets performance

Despite severe disruption in global credit markets, pre-tax profits for Global Banking and Markets rose by 5 per cent to US\$6.1 billion. Performance was driven by strong revenue growth in equities, foreign exchange, securities services, payments and cash management, and asset management.

In 2007, we absorbed a total of US\$2.1 billion of write-downs on asset-backed securities and credit trading positions, leveraged and acquisition financing positions, and monoline credit exposures resulting from unprecedented disruption and deterioration in the credit markets. In North America, the mortgage-backed securities operation was closed to new business and downsized.

Strong growth from Asia-Pacific and the Middle East contributed over half of Global Banking and Markets' 2007 pre-tax profits. Our outstanding performance in Asia reflected continued success in providing our clients with financing, structuring and hedging solutions.

Private Banking

US\$421b

client assets

24%

rise in pre-tax profit – our fastest-growing business

1st

Best private bank in the Middle East
(Euromoney survey)

“The strength of Global Banking and Markets' emerging markets-led and financing-focused strategy was illustrated by HSBC's senior role in large, cross-border transactions.”

We maintained a solid position in mature markets as well, with robust financing and advisory revenues in Europe, and strong growth in Global Banking deposits and fee income.

The strength of Global Banking and Markets' emerging markets-led and financing-focused strategy was illustrated by HSBC's senior role in large, cross-border transactions. We advised Borse Dubai on its acquisition of OMX of Sweden and related share exchange agreement with Nasdaq. HSBC was lead arranger of US\$9.2 billion of facilities for Saudi Basic Industries' acquisition of GE Plastics. In early 2008, HSBC was mandated as financial adviser and lead arranger to BHP Billiton on its US\$174 billion offer for Rio Tinto, the largest mining sector deal announced to date. HSBC also advised on high-profile cross-border transactions that illustrated the growing linkages between emerging markets regions, including Singapore Telecommunications on its US\$758 million acquisition of a 30 per cent stake in Warid Telecom of Pakistan, and Dubai Drydocks' S\$650 million acquisition of Pan-United Marine of Singapore.

HSBC won numerous industry awards for its emerging markets and financing strength. These included *Acquisitions Monthly's* 'Middle East Mergers and Acquisitions Adviser of the Year' and *International Financing Review's* 'Middle East Loan House of the Year'.

HSBC was designated global 'Best Risk Management House', 'Best Foreign Exchange House in Asia' and, for the 10th consecutive year, 'Best Risk Management House in Asia' in the *Euromoney* 2007 Awards for Excellence. HSBC was named in five of *LatinFinance's* Deals of the Year, including 'Best Syndicated Loan', 'Best Financing Innovation', and 'Best Local Currency Deal'. In debt capital markets, HSBC ranked first in the Bloomberg Asian local currency bond league table, first in sterling bonds and fifth in international bonds.

Global Banking and Markets continued to refine its IT development strategy, delivering a cost-effective system platform to support HSBC's global product reach. Barracuda is our award-winning, front-end trading system that enhances straight-through processing, by automating trade bookings and back-to-back trades. Barracuda has processed over one million trades and 240 million transactions since its launch, and won the 2007 Banking Technology award for 'Best Trading System in Europe' and the 2007 American Financial Technology award for 'Best Cross-Asset Trading System in the US'.

Using Group relationships to grow our Private Bank

In Private Banking, our fastest-growing business, profit before tax increased by 24 per cent over 2006 to US\$1.5 billion, with exceptional performance in Asia and record results in Switzerland, among others. HSBC Private Bank retained its number three ranking in the *Euromoney* Annual Private Banking Survey, which covers excellence across its business model, client segment, geography, product focus and consistency of investments in growth.

Our ability to match developed market expertise with developing market insights helped generate US\$36 billion in net new client assets. Of that, US\$6 billion was directly referred from other HSBC customer groups. As a result, client assets grew by 26 per cent to US\$421 billion. We saw a sharp increase in client demand for alternative assets and emerging market investments, aided by the growth in our hedge funds, and several new private equity and emerging market funds. These included new private client offerings in mainland China and Latin America. Our Global Wealth Solutions business, providing trust and family office services, also benefited from relatively buoyant markets, with client assets increasing by 38 per cent to US\$79 billion.

Building our insurance business

Our insurance business is spread across our customer groups and, in 2007, generated profit before tax of US\$3.1 billion, a contribution of 13 per cent of the Group pre-tax profit. We believe there is an opportunity to increase insurance's contribution to the Group to 20 per cent over time.

Insurance is now an integral part of the new HSBC Premier proposition and we are using the world-class 'Future of Retirement' research we commissioned to design innovative new products and services.

We launched HSBC's first environmentally friendly motor and house insurance in Brazil and, in Mexico, we developed an innovative new motor insurance product. We consolidated our position in Hong Kong as a leading provider of Mandatory Provident Funds, with a 33 per cent share of funds under management. In France, sales of life-wrapped investment products increased by 9 per cent. In Saudi Arabia, a joint venture with The Saudi British Bank established a *takaful* (Islamic insurance) business. In the UK, M&S Money was voted 'Life Insurance Provider of the Year' and, due to the success of the Sterling Reserve

Insurance

13%

contribution to Group profits

US\$72b

assets of insurance manufacturing subsidiaries, up from US\$40b in 2006

33%

market share of Mandatory Provident Funds in Hong Kong

"To meet growing customer demand for insurance products, we are strengthening our underwriting, broking and agency businesses with proposed strategic investments in mainland China, India, South Korea and Vietnam."

Bond, HSBC Life in the UK is becoming one of the market's leading providers of life investment products. In 2007, we launched credit protection products and product enhancements in 12 new markets.

Our new insurance brand, HSBC Insurance, which was launched in 2007, will increase customer awareness of our growing insurance capability.

To meet growing customer demand for insurance products, we are strengthening our underwriting, broking and agency businesses with proposed strategic investments in mainland China, India, South Korea and Vietnam. To complement growth in our own businesses, we launched a Preferred Strategic Partner programme to provide products in markets where we decide not to manufacture. To strengthen our position in France, we acquired the remaining 50 per cent of HSBC Assurances (formerly Erisa S.A.) for US\$304 million, which added US\$23 billion of assets.

Customer access to products has been made easier and more efficient through direct distribution channels and, in 2007, we sold 2.9 million policies over the telephone, online and through other direct channels.

Strong liquidity and capital strength

HSBC has maintained its traditional financial strength in terms of capital, liquidity and breadth of earnings. This is reflected in the Group's

“Our strategy gives us a clear road-map for progress. It highlights the competitive advantages in each of our customer groups, our emerging markets strength, and our international connectivity which so benefits our customers.”

tier 1 capital ratio of 9.3 per cent and total capital ratio of 13.6 per cent as at the year-end compared with 9.4 per cent and 13.5 per cent, respectively, at the end of 2006. Our strong capital position provides comfort for customers placing deposits with HSBC, and attracts institutional balances, which means that we benefit from a strong and well-diversified funding base. It also means that we are well-positioned to fund our growth plans and selectively to take advantage of opportunities at a time when many others are unable to do so.

Since volatility in the financial markets began in August 2007, there has been a movement of deposits to well-capitalised financial institutions such as HSBC.

‘Joining up the company’

The results we have announced are a reflection of the rolling out of our ‘Joining up the company’ strategy. Put simply, ‘Joining up’ is about using common products and common systems to deliver an increasingly cohesive service to our customers. This is more than business as usual: HSBC is transforming its business through this strategy, be it the relaunch of Premier in 35 countries, the rollout of Global Links for Commercial Banking, the move to the One HSBC suite of Group systems or the consolidation of our banking systems to the HSBC Universal Banking system.

‘Joined up’ resonates with our customers and our staff, and demonstrating its impact will add value to our shareholders. Our brand recognition is rising in line with our progress: in March 2008, *The Banker* magazine named HSBC as the world’s most valuable banking brand. This follows Interbrand’s 2007 ranking of HSBC’s brand as the 23rd most valuable in the world, up from 27th in 2006.

As our brand value increases, so we must ensure we deliver our global brand promise to our customers and employees through continued investment in ‘Joining up’. For example, we shall continue to launch Premier in our target markets. We shall significantly grow our Global Transaction Banking business, continuing our investment in global talent, infrastructure expansion and product development. Our success in developing HSBC Amanah was recognised by the *Euromoney* award for ‘Best International Islamic Bank’.

We are also connecting the Group by moving to a common human resource platform, continuing our common Group-wide employee engagement surveys, and aligning objectives, performance and pay globally. Our people will always be our most important asset. The 330,000 people who work for HSBC across the world demonstrate the shared values, the strength and the resilience of the HSBC Group which will sustain our business in the long term. I would like to record my strong appreciation and thanks for their energy and commitment to our business throughout 2007.

We will continue to measure and report on our progress on key financial, customer and employee metrics, available in our *Annual Report and Accounts*.

Our strategy gives us a clear road-map for progress. It highlights the competitive advantages in each of our customer groups, our emerging markets strength, and our international connectivity which so benefits our customers. We will continue to build on our strengths and position HSBC for future growth.



International reach

The internationalist

(Top left) Some of our clients have an international reach almost as extensive as our own. HSBC Premier offers seamless, cross-border banking with a global support network spanning 35 countries and territories, allowing customers from Brazil to Brunei to set up and manage multiple overseas accounts from a single internet log-in.

The accidental tourist

(Top right) You don't have to leave home to receive the benefits of HSBC's international reach. Our cards incorporate the latest high-tech security features, offering protection around the world. With 75 per cent of HSBC cards in force on a single platform, we benefit from global scale in reducing costs within the business.

Relocation service

(Bottom left) A more interconnected world means increased movement across borders. Starting life in a new country can be a challenging experience, so HSBC's Passport offers a unique, tailored relocation service to ease customers into their new lives, whether they are moving from Poland to the UK or Pakistan to Canada.

Monitoring our Performance and Managing our Risk

Caution is likely to be the watchword in the financial sector until liquidity, transparency and the proper pricing of risk return to financial markets. We monitor our performance and manage our risks accordingly, using techniques which are described briefly below.

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 satisfaction. 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.

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.

Return on average total shareholders' equity measures the return on average shareholders' investment in the business.

Non-financial key performance indicators

The link between **employee engagement** and customer satisfaction is well established, which is why we track employee engagement. In 2007, we conducted our first Global People Survey, covering our entire permanent workforce. Some 290,000 employees participated, a response rate of 88 per cent. Of the 12 dimensions surveyed, HSBC rated above external global norms in all 12, with two dimensions at or very close to the best in class.

Customer satisfaction is key to the development of our business. We regularly conduct customer satisfaction surveys around the world using independent organisations. The 2007 customer recommendation score for Personal Financial Services was ahead of the competitor average by 1 point on a 100-point scale. The 2008 target is to increase that gap to 2.5 points.

HSBC's **brand** is now one of the strongest financial services brands in the world. Surveys conducted in 2007 by third party organisations recorded scores of 6 and 7 ahead of the competitor average for Personal Financial Services and Commercial Banking, respectively, with targets of 9 and 8 for 2008.

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 in terms of service availability targets. In 2007, our IT services met or exceeded targets between 96.5 per cent and 99.9 per cent of the time across our various geographical regions.

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 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 Sustainability

Corporate sustainability means delivering sustainable profit growth for the long-term benefit of our shareholders, building sustainable customer relationships, and demonstrating to stakeholders that our business contributes to the environmental, social and economic well-being of the world at large.

The world we live in is undergoing rapid change: increasing human longevity, population growth, the rise of the emerging markets, climate change, and the shift towards a low-carbon economy. We believe companies that manage their business in a sustainable way are better placed to compete in such a world. We want HSBC to be one of the world's leading brands in corporate sustainability.

Reducing direct impacts

We aim to reduce HSBC's direct environmental impact in energy and water consumption, waste production, carbon dioxide emissions and business travel. For example, to reduce our carbon footprint to net zero, we measure and reduce energy consumption across the Group, source renewable energy where possible, and offset any remaining emissions by purchasing high quality verified emission reductions.

For 2005-07, we set environmental targets for energy, water, waste and carbon dioxide. The targets covered 82 per cent of the countries that report environmental data and 77 per cent of HSBC's full-time employees. We had set reduction targets of 8 per cent for waste and 5 per cent for carbon dioxide, but we achieved cuts of 18 per cent for waste and 27 per cent for CO₂. A reduction of 6 per cent in energy use and 6.8 per cent in water consumption was achieved against targets of 7 per cent for each. We are setting new targets for 2008-11 which will be included in the performance objectives of the Group Management Board.

We launched a US\$90 million, five-year Global Environmental Efficiency Programme to reduce the environmental footprint of our office buildings around the world. HSBC seeks to achieve by 2011 the Leadership in Energy and Environmental Design gold certification or equivalent in 50 of its major buildings.

Managing indirect impacts

HSBC's main sustainability impacts arise as a result of our financial services business. To minimise them, we have developed policies and standards to assess business proposals that inherently have high sustainability risks.

HSBC was one of the first banks to adopt the Equator Principles whose guidelines address the environmental and social issues that arise in financing projects. We have also issued policies to guide financing for the Forest Land and Forest Products, Freshwater Infrastructure, Chemicals, Energy, and Mining and Metals industry sectors. In 2007, our Group Head Office reviewed 335 transactions under the Equator Principles and sector policies, 55 of which were considered to have high sustainability risks. We declined 15 of them where, in our view, their impacts would not be managed by the clients to the standards required by our policies. For the remainder, we were satisfied that they were compliant with our policies and are subject to ongoing monitoring.

Business opportunities in a changing world

We have developed products and services with the environment in mind, such as our annual 'green sales' for retail customers in the UK, United States and Asia, and provided financial advice to the Dongtan eco-city in Shanghai. Our involvement in the microfinance sector provides access to financial services to those without such access. We are

developing pilot projects in India, the Philippines, China, Mexico and Sri Lanka.

Climate change is the single biggest economic, environmental and social challenge facing the planet this century. To exploit the opportunities presented by this challenge, we launched the HSBC Global Climate Change Indices, together with the HSBC GIF Climate Change Fund for investors.

'The best place to work'

Our success would not have been possible without our employees. We aim to make HSBC the best place to work. HSBC's first Global People Survey was launched in 2007, providing a common questionnaire for every permanent employee throughout the Group to share their opinions with senior management. Some 290,000, or 88 per cent, of all HSBC employees completed the survey.

HSBC aims to create a diverse and inclusive work environment that represents its customer base, international workforce and communities where it operates.

Investing in the community

HSBC believes that education is the key to success, and that a healthy environment contributes to the stability necessary for continued economic growth. For these reasons, education and the environment are the focus of our community investment, which totalled US\$101 million in 2007. Where possible, employee engagement in these programmes is encouraged to develop stronger ties to local communities.

HSBC gives over 5,000 educational awards and scholarships worldwide each year. These include 27 'HSBC Chevening Scholars' from around the world to pursue master's degrees at British universities; support for gifted individuals at independent schools and universities who would not otherwise have been able to pursue higher education; and 86 Chinese teachers funded annually through the British Council to teach Mandarin in UK schools.

In 2007, HSBC's 'Future First' initiative supported 80 projects in 30 countries, benefiting some 37,000 children. Launched in 2006 by the HSBC Global Education Trust, the five-year US\$10 million Future First programme provides education, healthcare, counselling and shelter to street children, children in care and foster children.

Last year, we launched the HSBC Climate Partnership, which commits US\$100 million over five years to four leading environmental organisations: The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF. Their work involves the conservation of the world's major rivers and tropical forests, the 'greening' of large cities, and training HSBC employees in research projects worldwide to become 'Climate Champions'.

The challenges ahead

HSBC is committed to being a carbon neutral business. We believe that developing first-hand knowledge of the issues involved in carbon management allows us to understand the issues facing our customers and suppliers, so enabling us to support them better as we move to a low-carbon economy. We will continue to embed sustainability into our business, improve our reporting on sustainability issues, and strengthen our engagement with stakeholder groups. We believe that doing so will strengthen the HSBC brand, ultimately helping to deliver long-term value to our shareholders.

The economics of climate change

It gives me great pleasure to address you for the first time as Special Adviser on Economic Development and Climate Change to the Group Chairman. HSBC stood out as a leader on climate change issues in 2007, and I am excited about the opportunities that lie ahead for the Group.

Climate change is driving a fundamental shift in the global economy. The scientific evidence is now overwhelming and 'business as usual' is no longer viable. The impact of global warming is likely to be disastrous and potentially irreversible unless the world cuts greenhouse gas emissions by 50 per cent by 2050. The challenge becomes greater still with world energy demand expected to double by this date.

How has this situation arisen? Greenhouse gas emissions represent the biggest market failure the world has seen. People do not pay for the damage caused by their greenhouse gas emissions. Around the world, people are suffering from past emissions and future generations will suffer, potentially catastrophically, from current emissions. Climate change implies great risks for all business, including HSBC's, but also opportunities, both from adapting to a changing climate, and from actions and policies to reduce emissions.

What we can do

The scale of the problem will affect all parts of the economy, from agriculture and health to population displacement and, thus, so must adapting to climate change. In developing countries, the impacts will be the greatest and capital reallocation will be the most pronounced. However all countries, rich and poor, will suffer the consequences.

I have argued that strong action can be achieved at manageable costs. This means adopting ambitious emission-reduction targets; encouraging effective market mechanisms; supporting programmes to combat deforestation; promoting rapid technological progress to mitigate the effects of climate change; and honouring aid commitments to the developing world.

The 2007 G8 summit in Heiligendamm agreed that a 50 per cent global emission reduction by 2050 was required. Rich countries should take the lead in setting ambitious targets to achieve these reductions. California has a target to reduce emissions by 80 per cent by 2050. France aims to achieve a reduction of 75 per cent by 2050. Europe has set targets of 20 per cent cuts by 2020, and 30 per cent in the context of a global agreement.

Governments, industry and consumers are escalating their response to climate change and the transition to a low-emission economy will open many new opportunities across a range of industries. Those who respond quickly, effectively and imaginatively will see great returns.



HSBC and the finance sector's role

Climate change is about managing risks and opportunities. This gives banks a unique advantage. It is necessary to understand the potential impacts, and the commercial, political and social implications of both adaptation and mitigation. Banks will face changes in the regulatory environment and new risks to assets, investments and insurance practices. The way in which they react to these risks will have a significant impact on their reputation and their capacity to maintain leadership positions.

The opportunities will also be many. Banks are waking up to new investments and to the development of new financial instruments including carbon trading, financing clean energy, greater energy efficiency, and insurance. Financial innovation will drive the way forward and, increasingly, banks will recognise the potential for differentiation in order to attract and retain clients and employees. Climate change will become a key dimension of competition in a low-carbon economy.

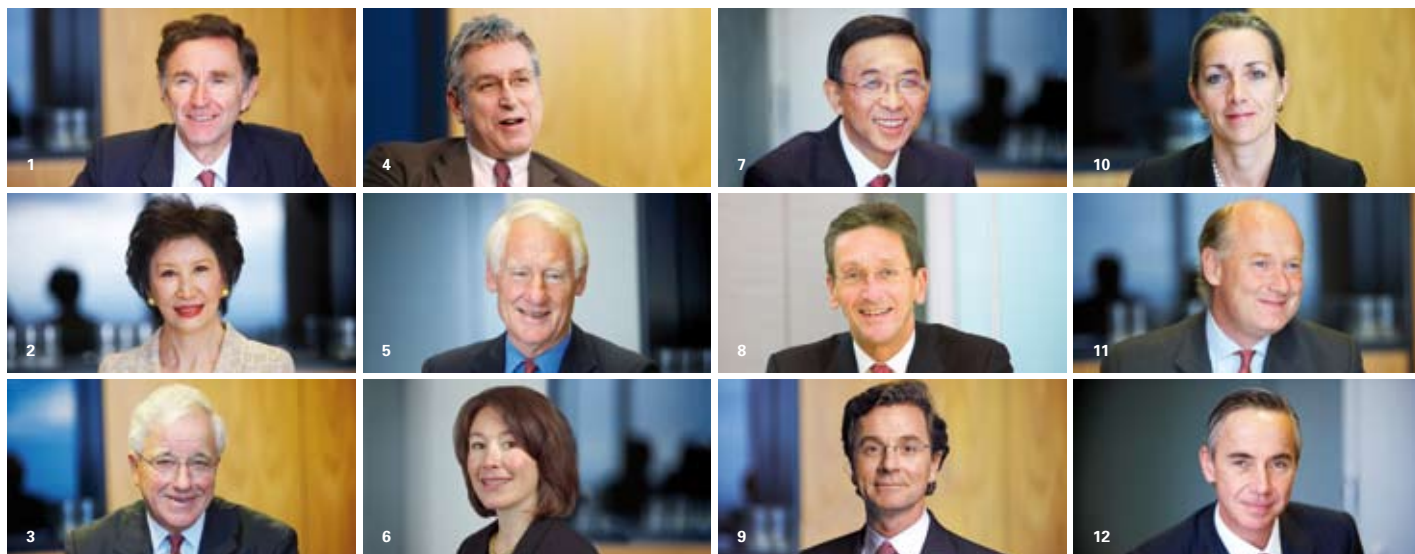
Climate change presents risks and thus will have an impact across HSBC's business lines and geographical regions. Looking beyond its direct impact, HSBC's *Energy Sector Policy* and Carbon Finance Strategy, along with its Climate Change Centre of Excellence in Bangalore, will enable the Group to develop its capability on many levels. HSBC's response in emerging markets – where it has strong businesses – will be vital. The causes and consequences of climate change are a global problem. As a global bank, HSBC's role will be critical in shaping the market response.

A handwritten signature in black ink that reads "Nicholas Stern". The signature is fluid and cursive.

Lord Stern

Special Adviser on Economic Development and Climate Change to the Group Chairman, and author of the influential *Stern Review on the Economics of Climate Change*

Our Board: Promoting Your Interests



Directors

1. Stephen Green, Group Chairman

Age 59. An executive Director since 1998; Group Chief Executive from 2003 to May 2006. Joined HSBC in 1982. Chairman of HSBC Bank plc and HSBC North America Holdings Inc. and HSBC Private Banking Holdings (Suisse) SA. A Director of HSBC France and The Hongkong and Shanghai Banking Corporation Limited. Group Treasurer from 1992 to 1998. Executive Director, Global Banking and Markets from 1998 to 2003. Chairman of The British Bankers' Association.

2. The Baroness Dunn, DBE, Deputy Chairman* (Retiring 30 May 2008)

Age 68. 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 Hong Kong Association and the Asia Task Force. A former Senior Member of the Hong Kong Executive Council and Legislative Council.

3. Sir Brian Moffat, OBE, Deputy Chairman* (Retiring 30 May 2008)

Age 69. A non-executive Director since 1998 and a non-executive Deputy Chairman since 2001. A member 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 54. An executive Director since 2004. Joined HSBC in 1973. Chairman of the Group Management Board. Chairman of HSBC Bank USA, N.A., HSBC USA Inc. and HSBC Bank Canada. Deputy Chairman of HSBC Bank plc. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC France, HSBC National Bank USA and HSBC North America Holdings Inc. 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 March 2006. A non-executive Director and Chairman of Young Enterprise.

5. The Rt Hon the Lord Butler of Brockwell, KG, GCB, CVO (Retiring 30 May 2008)

Age 70. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Sustainability Committee and the HSBC Global Education Trust. 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. A non-executive Director of Imperial Chemical Industries plc from 1998 to 2 January 2008.

6. Safra Catz* (Appointed 1 May 2008)

Age 46. A non-executive Director with effect from 1 May 2008. President and Chief Financial Officer of Oracle Corporation. Managing Director of Donaldson, Lufkin & Jenrette from 1997 to 1999. Joined Oracle in 1999 and appointed to the Board of Directors in 2001.

7. Vincent Cheng, OBE

Age 59. Chairman of The Hongkong and Shanghai Banking Corporation Limited. An executive Director since 1 February 2008. Chairman of HSBC Bank (China) Company Limited and HSBC Investments (Hong Kong) Limited and a Director of HSBC Bank Australia Limited. Joined HSBC in 1978. Appointed a Group General Manager in 1995 and a Group Managing Director in 2005. A Director of Great Eagle Holdings Limited and a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. Vice Chairman of the China Banking Association from 10 December 2007. Appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference ('CPPCC'), and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. Deputy Chairman and Chief Executive Officer of Hang Seng Bank Limited from 1998 to 2005. A Director of Swire Pacific Limited from 2005 to January 2008.

8. John Coombe*

Age 62. Chairman of Hogg Robinson plc. A non-executive Director since 2005. A member of the Group Audit Committee and of the Remuneration Committee. A non-executive Director of Home Retail Group plc. A trustee of the Royal Academy Trust. Former executive Director and Chief Financial Officer of GlaxoSmithKline plc and a former member of the Supervisory Board of Siemens AG. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

9. José Luis Durán†

Age 43. Chief Executive of Carrefour SA and Chairman of its Management Board of Directors. A non-executive Director since 1 January 2008. Joined Carrefour SA in 1991. Chief Financial Officer and Managing Director, Organisation and Systems of Carrefour SA from 2001 to 2005.

10. Rona Fairhead†

Age 46. Chief Executive Officer and Director of the Financial Times Group Limited and a Director of Pearson plc. Chairman of Interactive Data Corporation. A non-executive Director since 2004. Chairman of the Group Audit Committee. A non-executive Director of The Economist Newspaper Limited. Finance Director of Pearson plc from 2002 to June 2006. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

11. Douglas Flint, CBE, Group Finance Director

Age 52. 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 & 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.

12. Sandy Flockhart, CBE

(Appointed 1 May 2008)
Age 56. Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited and Global Head of Commercial Banking. An executive Director with effect from 1 May 2008. Joined HSBC in 1974. A Director of Hang Seng Bank Limited, HSBC Bank Australia Limited, HSBC Bank (China) Company Limited, and Chairman of HSBC Bank Malaysia Berhad. 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. Chief Executive Officer, Mexico from 2002 to October 2006. President and Group Managing Director Latin America and the Caribbean from October 2006 to 20 July 2007. Appointed a Group General Manager in 2002 and a Group Managing Director in 2006.

13. William Fung, OBE*

Age 59. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Corporate Sustainability



Committee. Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited. A Director of King Lun Management 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 Cooperation Council.

14. Stuart Gulliver (Appointed 1 May 2008)

Age 48. Head of Global Banking and Markets and HSBC Global Asset Management. An executive Director with effect from 1 May 2008. Joined HSBC in 1980. A Director of HSBC Bank plc, HSBC Private Banking Holdings (Suisse) SA, HSBC USA Inc. and The Hongkong and Shanghai Banking Corporation Limited. A member of the Supervisory Board of HSBC Trinkaus & Burkhart AG. 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 Global Banking and Markets from 2003 to May 2006. Appointed a Group General Manager in 2000 and a Group Managing Director in 2004.

15. James Hughes-Hallett^{*}

Age 58. Chairman of John Swire & Sons Limited. A non-executive Director since 2005. A member of the Group Audit Committee and 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 and the Esmée Fairbairn Foundation. A member of the Hong Kong Association and of the Governing Body of the School of Oriental and African Studies, University of London.

16. Sam Laidlaw^{*}

Age 51. Chief Executive Officer of Centrica plc. A non-executive Director since 1 January 2008. A Trustee of RAFT, a medical charity for burns and reconstructive surgery. A member of the Business Council for International Understanding. President and Chief Operating Officer of Amerada Hess Corporation from 1995 to 2001. Chief Executive Officer of Enterprise Oil plc from 2001 to 2002.

Executive Vice President of Chevron Corporation from 2003 to 2006, and a non-executive Director of Hanson PLC from 2003 to 24 August 2007.

17. Sir Mark Moody-Stuart, KCMG[†]

Age 67. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Sustainability Committee. A non-executive Director of Accenture Limited, Saudi Aramco, 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.

18. Gwyn Morgan^{*}

Age 62. A non-executive Director since October 2006. A member of the Remuneration Committee. Non-executive chairman of SNC-Lavalin Group 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 from 1996 until April 2006. Former Founding President, Chief Executive Officer and Vice Chairman of EnCana Corporation. A former Director of Alcan Inc.

19. Narayana Murthy, CBE[†] (Appointed 1 May 2008)

Age 61. A non-executive Director with effect from 1 May 2008. Chairman and Chief Mentor and former Chief Executive Officer of Infosys Technologies Limited. An independent non-executive Director of Unilever plc and New Delhi Television Limited and a Director of the United Nations Foundation. An independent non-executive Director of DBS Bank Limited until 2 April 2008.

20. Stewart Newton^{*}

Age 66. Chairman of The Real Return Group Limited. A non-executive Director since 2002. A member of the Group Audit Committee. A member of the Investment Committee of The Wellcome Trust, and the Investment Board of Cambridge University. A Council Member of Imperial College, London, and Chairman of the committee advising the Council on the College Fund. An adviser to the Investment Committee of the Royal Marsden NHS Foundation Trust.

21. Simon Robertson, Senior Independent Non-Executive Director^{*}

Age 66. Non-executive Chairman of Rolls-Royce

Group plc and the founder member of Simon Robertson Associates LLP. A non-executive Director since January 2006 and senior independent non-executive Director since 25 May 2007. 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 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.

22. Sir Brian Williamson, CBE^{*}

Age 63. Chairman of Electra Private Equity plc. A non-executive Director since 2002. Chairman of the Nomination Committee. A non-executive Director of Resolution plc. A member of the Supervisory Board of Euronext NV. A Director of Climate Exchange plc. 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

23. David Shaw

Age 61. 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. A non-executive Director of Kowloon Development Company Limited and Shui On Land Limited.

Secretary

24. Ralph Barber

Age 57. Group Company Secretary. Appointed a Group General Manager in October 2006. Joined HSBC in 1980. Company Secretary of HSBC Holdings plc since 1990. Chairman of the Disclosure Committee. A member of the Listing Authority Advisory Committee of the Financial Services Authority and of the Primary Markets Group of the London Stock Exchange. 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. Ann Almeida

Age 51. Group Head of Human Resources. A Group Managing Director since 25 February 2008. Joined HSBC in 1992. Appointed a Group General Manager on 18 June 2007. Global Head of Human Resources for Global Banking and Markets, Group Private Banking, Global Transaction Banking and HSBC Amanah, from 1996 to June 2007.

2. Clive Bannister

Age 49. Group Managing Director, Insurance. A Group Managing Director since 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 1997 and Chief Executive Officer, Group Private Banking from 1998 to November 2006.

Sandy Flockhart, CBE

Appointed an executive Director with effect from 1 May 2008. See page 26.

Stuart Gulliver

Appointed an executive Director with effect from 1 May 2008. See page 27.

3. David Hodgkinson

Age 57. Group Chief Operating Officer. A Group Managing Director since May 2006 and Director of The Bank of Bermuda Limited since May 2006. Chairman of HSBC Bank Middle East Limited since 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.

4. Alex Hungate

Age 41. Global Head of Personal Financial Services and Marketing. Joined HSBC as a Group Managing Director on 3 September 2007. Formerly Managing Director, Asia Pacific at Reuters. Worldwide Chief Marketing Officer of Reuters between 2002 and 2005.

5. Dyfrig John

Age 57. Chief Executive, HSBC Bank plc. A Group Managing Director since 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 2005 and Deputy Chief Executive from 2005 to March 2006.

6. Brendan McDonagh

Age 49. Chief Executive Officer, HSBC North America Holdings Inc. A Group Managing Director since 21 February 2008. Joined HSBC in 1979. Appointed a Group General Manager in 2005. Chief Executive Officer, HSBC Finance Corporation and Chief Operating Officer, HSBC North America Holdings Inc. from 2007 to 21 February 2008. Chief Operating Officer, HSBC Bank USA from 2004 to 2006.

7. Youssef Nasr

Age 53. Deputy Chairman and Chief Executive of HSBC Bank Middle East Limited since 22 May 2007. A Group Managing Director since 2004. Joined HSBC in 1976. Deputy Chairman of HSBC Bank Egypt S.A.E. since 31 May 2007. A Director of HSBC Private Banking Holdings (Suisse) SA since September 2006. 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 2003 to October 2006.

8. Brian Robertson

Age 53. Group Chief Risk Officer. A Group Managing Director since 25 February 2008. Joined HSBC in 1975. A Group General Manager since 2003. Head of Global Banking and Markets for North America from 2003 to 2005. Group General Manager, Group Credit and Risk from 2005 to September 2007.

Group General Managers

Emilson Alonso

Age 52. Co-Head of Latin America and President and Chief Executive Officer, HSBC Bank Brasil S.A.-Banco Múltiplo and South America. Joined HSBC in 1997. Appointed a Group General Manager in October 2006.

Piraye Antika

Age 47. Chief Executive Officer, HSBC Turkey. Joined HSBC in 1990. Appointed a Group General Manager in 2005.

Richard Bennett

Age 56. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

Niall Booker

Age 49. Chief Operating Officer, HSBC Finance Corporation and Chief Operating Officer, HSBC North America. Joined HSBC in 1981. Appointed a Group General Manager in 2004.

Peter Boyles

Age 52. Chief Executive Officer, HSBC France. Joined HSBC in 1975. Appointed a Group General Manager in January 2006.

David Budd

Age 54. Director, International, HSBC Bank plc. Joined HSBC in 1972. Appointed a Group General Manager in 2005.

Zed Cama

Age 60. Group General Manager International, HSBC Holdings plc. Joined HSBC in 1968. Appointed a Group General Manager in 2001.

Thomas Detelich

Age 51. President, Consumer and Mortgage Lending, HSBC Finance Corporation. Joined HSBC Finance Corporation in 1976. Appointed a Group General Manager in October 2006.

Irene Dorner

Age 53. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad. Joined HSBC in 1986. Appointed a Group General Manager in June 2007.

Joe Garner

Age 38. Group General Manager, Personal Financial Services and Direct Businesses, HSBC Bank plc. Joined HSBC in 2004. Appointed a Group General Manager in October 2006.

Lindsay Gordon

Age 55. President and Chief Executive Officer, HSBC Bank Canada. Joined HSBC in 1987. Appointed a Group General Manager in 2005.

Ken Harvey

Age 47. Group General Manager and Group Chief Information Officer. Joined HSBC Finance Corporation in 1989. Appointed a Group General Manager in 2004.

Alan Keir

Age 49. Global Co-Head Commercial Banking. Joined HSBC in 1981. Appointed a Group General Manager in October 2006.

Naina Lal Kidwai

Age 50. Chief Executive Officer, HSBC India. Joined HSBC in 2002. Appointed a Group General Manager in October 2006.

Matthew King

Age 51. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in 2002.

Paul Lawrence

Age 46. Head of Global 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 2005.

Margaret Leung

Age 55. Global Co-Head Commercial Banking. Joined HSBC in 1978. Appointed a Group General Manager in 2005.

Tony Mahoney

Age 45. Group General Manager and Head of Personal Financial Services Distribution. Joined HSBC in 1983. Appointed a Group General Manager in November 2006.

Chris Meares

Age 50. Chief Executive Officer, Group Private Banking. Joined HSBC in 1980. Appointed a Group General Manager in November 2006.

Walter Menezes

Age 62. Group Executive, Card Services, HSBC Finance Corporation. Joined HSBC in 1996. Appointed a Group General Manager in October 2006.

Kevin Newman

Age 50. Senior Executive Vice President, Personal Financial Services, HSBC Bank USA, N.A. Joined HSBC in 1989. Appointed a Group General Manager in October 2006.

Raymond Or

Age 58. 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 59. Group General Manager, Chief Executive Officer, Africa. Joined HSBC in 1984. Appointed a Group General Manager in 2000.

Russell Picot

Age 50. Group Chief Accounting Officer. Joined HSBC in 1993. Appointed a Group General Manager in 2003.

Chris Spooner

Age 57. Head of Group Financial Planning and Tax. Joined HSBC in 1994. Appointed a Group General Manager in June 2007.

Paul Thurston

Age 54. Co-Head of Latin America and President of HSBC Mexico and Central America. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

Peter Wong

Age 56. Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 2005. Appointed a Group General Manager in 2005.

Summary Directors' Report

Results for 2007

HSBC reported pre-tax profit of US\$24,212 million. Profit attributable to shareholders of HSBC Holdings transferred to retained earnings was US\$19,133 million, a 15.3 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 some 10,000 properties in 83 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 24 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 289 to 333 of the *Annual Report and Accounts 2007*.

The Board

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 operating plans presented by management for the achievement of the strategic objectives. The 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 operating 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.

The Directors who served during the year were 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, Sir Brian Moffat, Sir Mark Moody-Stuart, G Morgan, S W Newton, S M Robertson, H Sohmen and Sir Brian Williamson. J F Gil Diaz was appointed a Director on 2 January 2007 and resigned on 5 March 2007.

Eight Board meetings were held during 2007. The table that follows gives details of Directors' attendance at meetings of the Board, Group Audit Committee, Nomination Committee and Remuneration Committee during 2007.

	Board meetings		Group Audit Committee meetings		Nomination Committee meetings		Remuneration Committee meetings	
	Attended	Possible ¹	Attended	Possible	Attended	Possible	Attended	Possible
Lord Butler	7	8	—	—	—	—	—	—
Baroness Dunn	8	8	—	—	2	2	—	—
R K F Ch'ien	5	5 ²	2	3 ²	—	—	—	—
J D Coombe	8	8	7	7	—	—	8	8
R A Fairhead	6	8	7	7	—	—	—	—
D J Flint	8	8	—	—	—	—	—	—
W K L Fung	6	8	—	—	—	—	4	4 ³
M F Geoghegan	8	8	—	—	—	—	—	—
J F Gil Diaz ⁴	—	3	—	—	—	—	—	—
S K Green	8	8	—	—	—	—	—	—
S Hintze	5	5 ²	—	—	—	—	3	4 ²
J W J Hughes-Hallett	7	8	6	7	2	2	—	—
Sir Brian Moffat	7	8	3	3 ³	2	2	—	—
Sir Mark Moody-Stuart	8	8	—	—	—	—	8	8
G Morgan	6	8	—	—	—	—	4	4 ⁵
S W Newton	8	8	4	4 ⁵	—	—	—	—
S M Robertson	7	8	—	—	1	2	—	—
H Sohmen	4	5 ²	—	—	—	—	—	—
Sir Brian Williamson	8	8	—	—	2	2	—	—

1 Includes a meeting called at short notice in February 2007 to discuss a trading update about the mortgage services operation in HSBC Finance Corporation.

2 Retired as a Director on 25 May 2007.

3 Ceased to be a member on 25 May 2007.

4 Retired as a Director on 5 March 2007.

5 Appointed a member on 25 May 2007.

Summary Financial Statement

Group Chairman and Group Chief Executive

The roles of Group Chairman and Group Chief Executive are separated and held by experienced full-time Directors.

There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for running HSBC's business. The Group Chairman's responsibilities include the long-term strategic development of HSBC, the development of relationships with governments and other significant external parties and performance appraisal of the Group Chief Executive. The Group Chairman also monitors the performance of the Group Finance Director and, subject to the Group Chief Executive's recommendation, approves risk, capital allocation and capital investment decisions within authorities delegated by the Board. The Group Chief Executive has responsibility for developing business plans and delivering performance against these.

S K Green became 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. The appointments were made after consulting with representatives of major institutional investors and explaining the succession planning and independent external search process undertaken. 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.

Board balance and independence of Directors

The balance of the Board includes a strong presence of both executive and non-executive Directors such that no individual or small group can dominate the Board's decision making. Following the 2008 Annual General Meeting, the Board will comprise 19 Directors, 12 of whom are independent non-executive Directors. The size of the Board is appropriate given the complexity and geographical spread of HSBC's business and the significant time demands placed on the non-executive Directors, particularly those who serve as members of Board committees.

The Board has appointed S M Robertson as the senior independent non-executive Director. The principal role of the senior independent non-executive Director is to support the Group Chairman in his role, to lead the non-executive Directors in the oversight of the Group Chairman and to ensure there is a clear division of responsibility between the Group Chairman and Group Chief Executive. The senior independent non-executive Director is also available to shareholders for concerns which the normal channels have failed to resolve or are inappropriate.

The Board considers all of the non-executive Directors to be independent in character and judgement. Baroness Dunn, Sir Brian Moffat, Lord Butler and W K L Fung have served on the Board for more than nine years, however, and in that respect only, do not meet the usual criteria for independence set out in the UK Combined Code on Corporate Governance. The Board has therefore determined S A Catz, J D Coombe, J L Durán, R A Fairhead, J W J Hughes-Hallett, W S H Laidlaw, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, 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.

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.

Information, induction and ongoing development

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.

Performance evaluation

In November 2007, ICSA Corporate Services Limited was commissioned to undertake an evaluation of the effectiveness of the Board. This was to investigate the performance of the Board as a whole and, in that context, the main Board committees and individual Directors. The evaluation examined whether eight key areas met the Board's needs and expectations: Board responsibilities; oversight; Board meetings; information received; support for the Board; Board composition; working together; and outcome and achievements. The report on the evaluation has been reviewed by the Board and has been used by the non-executive Directors, led by the senior independent non-executive Director, in their evaluation of the performance of the Group Chairman. The review concluded that the Board and its committees were functioning effectively. It is the intention of the Board of HSBC Holdings to continue to review its performance and that of its Directors annually.

Appointment, retirement and re-election of Directors

R K F Ch'ien, S Hintze and H Sohmen retired as Directors at the conclusion of the Annual General Meeting held on 25 May 2007. J L Durán and W S H Laidlaw were appointed non-executive Directors on 1 January 2008. V H C Cheng was appointed an executive Director on 1 February 2008. A A Flockhart and S T Gulliver have been appointed executive Directors, and S A Catz and N R N Murthy have been appointed non-executive Directors with effect from 1 May 2008.

S A Catz, V H C Cheng, J L Durán, A A Flockhart, S T Gulliver, W S H Laidlaw and N R N Murthy, having been appointed since the Annual General Meeting in 2007, will retire at the forthcoming Annual General Meeting and offer themselves for re-election.

Lord Butler, J D Coombe, Baroness Dunn, D J Flint, W K L Fung, J W J Hughes-Hallett, Sir Brian Moffat and S W Newton will retire by rotation at the forthcoming Annual General Meeting. With the exception of Lord Butler, Baroness Dunn and Sir Brian Moffat, who are to retire, they offer themselves for re-election.

Summary Financial Statement

Summary Directors' Report (continued)

Following the performance evaluation of the Board, the Group Chairman has confirmed that the non-executive 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 throughout the year with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council and the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board of HSBC Holdings has adopted a code of conduct for transactions in HSBC Group securities by Directors that complies with The Model Code in the Listing Rules of the Financial Services Authority and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong 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 appointed a number of committees.

The **Group Management Board** meets regularly and operates as a general management committee under the direct authority of the Board. The objective of the Group Management Board is to maintain a reporting and control structure whereby all of the line operations of HSBC are accountable to individual members of the Group Management Board who report to the Group Chief Executive who in turn reports to the Group Chairman. The Board has set objectives and measures for the Group Management Board. These will align senior executives' objectives and measures with the strategy and operating plans throughout HSBC. The members of the Group Management Board are M F Geoghegan (Chairman), V H C Cheng and D J Flint, who are executive Directors, and A Almeida, C C R Bannister, A A Flockhart, S T Gulliver, D H Hodgkinson, A Hungate, D D J John, B P McDonagh, Y A Nasr and B Robertson, all of whom are Group Managing Directors.

The Group Management Board exercises the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of HSBC Holdings in accordance with such policies and directions as the Board may from time to time determine.

Following each meeting the Group Chief Executive reports to the Board on the Group Management Board's activities.

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, compliance and risk management. The members of the Group Audit Committee throughout 2007 were R A Fairhead (appointed Chairman on 25 May 2007), J D Coombe and J W J Hughes-Hallett. S W Newton was appointed a member of the Committee on 25 May 2007. Sir Brian Moffat ceased to be Chairman and a member of the Committee on 25 May 2007. R K F Ch'ien retired as a Director of HSBC Holdings and ceased to be a member of the Committee on 25 May 2007. All members of the Committee are independent non-executive Directors.

The Board has determined that R A Fairhead, J D Coombe, J W J Hughes-Hallett and S W Newton are independent according to SEC criteria, and that R A Fairhead, J D Coombe, 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.

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 9 on page 377 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts 2007*.

The Group Audit Committee is accountable to the Board and assists it in meeting its responsibilities for maintaining an effective system of internal control and compliance and for meeting its external financial reporting obligations. The Committee undertakes an annual review of the effectiveness of HSBC's system of internal control, which is described on page 304 of the *Annual Report and Accounts 2007*, and reviews the Company's financial statements before they are considered by the Board.

The Group Audit Committee has recommended to the Board that KPMG Audit Plc be reappointed auditor at the forthcoming Annual General Meeting.

Further information about the Group Audit Committee is given on pages 301 to 303 of the *Annual Report and Accounts 2007*.

The role of the **Remuneration Committee** and its membership are set out in the 'Summary Directors' Remuneration Report' on page 34.

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. In accordance with the Articles of Association all Directors are subject to election by shareholders at the Annual General Meeting following their appointment by the Board and to re-election at least every three years. The members of the Nomination Committee throughout 2007 were Sir Brian Williamson (appointed Chairman on 25 May 2007), Baroness Dunn and Sir Brian Moffat. J W J Hughes-Hallett and S M Robertson were appointed members of the Committee on 25 May 2007. Lord Butler ceased to be a member on 25 May 2007.

Summary Financial Statement

The appointments of J F Gil Díaz, J L Durán and W S H Laidlaw as non-executive Directors and V H C Cheng as an executive Director were made on the advice and recommendation of the Nomination Committee. J F Gil Díaz, former Secretary of Finance and Public Credit in Mexico, was identified by the Nomination Committee and so neither an external consultancy nor open advertising was used in connection with his appointment. An external consultancy was used in connection with the appointments of J L Durán and W S H Laidlaw.

Further information about the Nomination Committee is given on page 303 of the *Annual Report and Accounts 2007*.

Donations

During the year, HSBC made charitable donations totalling US\$101 million (2006: US\$86.3 million). Of this amount, US\$36.8 million (2006: 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 2007, shareholders renewed the authorities 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 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 and will expire on the conclusion of the Annual General Meeting to be held in 2008.

Dividends

First, second and third interim dividends for 2007, each of US\$0.17 per ordinary share, were paid on 5 July 2007, 4 October 2007 and 16 January 2008 respectively. On 3 March 2008, the Directors declared a fourth interim dividend for 2007 of US\$0.39 per ordinary share in lieu of a final dividend, which will be payable on 7 May 2008 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 28 April 2008, with a scrip dividend alternative. As the fourth interim dividend for 2007 was declared after the balance sheet date it has not been included as a creditor at 31 December 2007. The reserves available for distribution at 31 December 2007 are US\$15,551 million. The key dates for the payment of the fourth interim dividend for 2007, and the proposed timetables for the interim dividends in respect of 2008 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, 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 has bought, sold or redeemed any securities of HSBC Holdings during the year ended 31 December 2007.

Auditors' report

The auditors report on the full accounts for the year ended 31 December 2007 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

Directors' Remuneration Report

The information contained on pages 34 to 40 and information incorporated by reference, is a summary of the 'Directors' Remuneration Report' dated 3 March 2008 contained on pages 322 to 332 of the *Annual Report and Accounts 2007*.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration and retirement benefits. 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.

The members of the Remuneration Committee throughout 2007 were Sir Mark Moody-Stuart (Chairman) and J D Coombe. At the conclusion of the Annual General Meeting on 25 May 2007 W K L Fung and S Hintze retired as members of the Committee and G Morgan became a member of the Committee.

There were eight meetings of the Remuneration Committee during 2007. The table on page 30 gives details of Directors' attendance at these meetings.

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 a focus on 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.

The Committee also considers corporate performance on environmental, social and governance factors when determining the executive Directors' remuneration. In addition, the Remuneration Committee has oversight that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

Executive Directors

Proposed changes to remuneration arrangements from 2008

In July 2007, the Remuneration Committee requested that Mercer conduct a comprehensive assessment of the remuneration arrangements of the executive Directors and other senior executives. The objective was to ensure close alignment with HSBC's business strategy, taking into account competitive market practice.

As part of this review, the Committee updated the remuneration comparator group to reflect more accurately the market in which the Company competes for executive talent. This group will comprise nine global financial services companies, namely Banco Santander, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, Royal Bank of Scotland, Standard Chartered and UBS. These companies were selected on the basis of their broadly similar business coverage, size and international scope.

While in general HSBC salaries for executive Directors were in the upper quartile of this comparator group, total cash (base salary and bonus) and total compensation (base salary, cash bonus and the expected value of long-term incentive awards) were generally at the lower quartile.

The Committee concluded that while the overall remuneration principles described above remain appropriate, the remuneration strategy should be refined by targeting base salary at the market median of the comparator group, while providing an opportunity for top quartile total compensation for higher levels of performance. At the same time, a greater proportion of total compensation will be share-based, and shareholding requirements will be increased.

In order to achieve this, the following steps are proposed:

- For the executive Directors in place at the end of 2007, where base salaries are above market median no increases are being made in 2008. This applies to the Group Chairman, Group Chief Executive and Group Finance Director;
- The maximum annual bonus opportunity will be increased from 250 to 400 per cent of salary for the Group Chief Executive and Group Finance Director, with the criteria for bonus awards being made more specific and 40 per cent of any award being deferred into HSBC Restricted Shares;
- The performance measures and vesting conditions attached to long-term incentive awards of Performance Shares under The HSBC Share Plan will be amended in order to further align the reward of senior executives to the achievement of HSBC's strategy and the interests of its shareholders; and
- The required shareholding of senior executives under the share ownership guidelines will be increased to the equivalent of four to five times base salary to demonstrate further alignment with shareholders.

This proposed policy would generally apply to all executive Directors from 2008 onwards. Under the proposed arrangements, the performance-related proportion of the remuneration package will increase with the performance-related elements making up around 80 per cent of the remuneration package. Under the current arrangements, the performance-related proportion of the remuneration package is typically around 70 per cent of total compensation.

The arrangements for S T Gulliver, who has been appointed a Director with effect from 1 May 2008, will reflect the market practice in the Global Banking and Markets sector where a greater performance-related element is typical.

Summary Financial Statement

The net effect of these changes would mean, for example, that the Group Chief Executive's total compensation, on an expected value basis, would be at market median of the comparator group, but with a significantly higher proportion of share-based compensation than the group.

As part of the Company's ongoing commitment to shareholder engagement, the largest institutional shareholders, representing approximately 50 per cent of the share capital of HSBC Holdings, the Association of British Insurers and the National Association of Pension Funds, are being consulted on these proposals. The planned implementation of these changes will be as follows:

Salary

As stated above, in 2008, in view of the current competitive positioning of base salaries, the Remuneration Committee will not increase base salaries for the executive Directors in place at the end of 2007.

The base salaries for executive Directors appointed to the Board after the 2007 financial year will be set in light of the overall remuneration principles set out above.

Any future salary increases will be considered in the light of the remuneration strategy, which targets base salary at market median, and the market data from the remuneration comparator group.

A similar approach has been adopted for other senior executives across the Group.

Annual bonus

From the 2008 performance year, objectives will be set and assessed using a 'balanced scorecard'. This will include financial and non-financial performance measures, with an emphasis on tangible, measurable targets to ensure the appropriate alignment with HSBC's strategy in the assessment of annual bonus awards. Example measures for the Group Chief Executive are set out below:

Financial

- Earnings per share
- Return on equity
- Cost efficiency ratio

Customer

- Customer recommendation
- Brand health

Process

- Operational losses
- Regulatory relationship

People

- Employee engagement
- Leadership

The Committee intends to provide significantly greater transparency in subsequent Reports regarding both the performance measures and the achievement against performance targets, together with a commentary on the resulting levels of bonus awards.

Long-term incentive plan

The long-term incentive plan ('LTIP') was last reviewed in 2005 when, with the adoption of The HSBC Share Plan, a growth in earnings per share measure ('EPS') was introduced alongside Total Shareholder Return ('TSR') relative to a peer group of 28 banks.

The Committee is proposing changes to the performance measures and vesting conditions of the long-term incentive awards of Performance Shares under The HSBC Share Plan, the details of which will be described in the circular containing the *Notice of the 2008*

Annual General Meeting, which is expected to be sent to shareholders in April 2008, and submitted to shareholder vote at that Meeting.

Awards will be granted to executive Directors and other senior executives shortly after the Meeting. These will be made under the amended Plan subject to the proposed changes to the Plan receiving shareholder approval.

Current arrangements

Salary

The Committee reviews salary levels for executive Directors each year.

As described above, the Remuneration Committee will not increase base salaries for current executive Directors in 2008.

	2008 £000	2007 £000
D J Flint	700	700
M F Geoghegan	1,070	1,070
S K Green	1,250	1,250

Annual cash bonus

The annual cash bonus for executive Directors is based upon individual performance as well as performance measured against a number of key financial targets for the Group, including financial (e.g. revenue growth, economic profit and cost efficiency). Annual bonus payments are not pensionable.

The Committee took into account the Group's absolute performance and relative performance compared to its peers in a challenging operating environment, in setting the overall bonus payment levels.

There were significant increases in profit before tax, earnings per share and improvements in cost efficiencies during 2007. During that year management moved effectively to resolve the issues identified in late 2006 in the United States in relation to consumer lending, and to anticipate and respond to the sector-wide liquidity crisis.

On this basis, the Remuneration Committee approved annual bonus payments for the following executive Directors in 2008 in respect of 2007 performance (payments made in 2007 in respect of 2006 performance are shown for reference):

	2008 £000	2007 £000
D J Flint	800	500
M F Geoghegan	2,140	1,750

Chairman's variable compensation

The Committee has determined, at the request of the Chairman, that future variable compensation payments to the Chairman will be delivered exclusively through Performance Share awards given the key focus of the role of the Chairman in the formation and management of Group strategy.

The Remuneration Committee approved an annual bonus payment for the Chairman for 2008, in respect of 2007 performance, that was unchanged from the prior performance year as indicated in the table below (the payment made in 2007 in respect of 2006 performance is shown for reference):

Summary Financial Statement

Summary Directors' Remuneration Report (continued)

	2008 £000	2007 £000
S K Green	1,750	1,750

Long-term incentive plan

Under The HSBC Share Plan, executive Directors, as with other participants in the Plan, are eligible to receive awards of Performance Shares with a face value at grant of up to a maximum of seven times salary. The individual awards received in any one year are based on market competitive information and individual performance. The face and expected values of individual awards made in 2007 are set out in the table below (awards made in 2006 are shown for reference).

2007 awards	Face value		Expected value ¹	
	2007 £000	2006 £000	2007 £000	2006 £000
D J Flint	2,200	1,600	968	704
M F Geoghegan ²	5,000	2,000	2,200	880
S K Green ³	3,750	2,500	1,650	1,100
Total	10,950	6,100	4,818	2,684

1 44 per cent of the face value.

2 M F Geoghegan's 2006 award relates to his position as Chief Executive of HSBC Bank plc, prior to his current role as Group Chief Executive of HSBC Holdings.

3 S K Green's 2006 award relates to his position as Group Chief Executive.

Vesting of the awards is subject to the performance conditions described in the next section being met. Shares released will include additional shares equivalent to the value of the dividends payable on the vested shares over the performance period.

Performance conditions

Arrangements from 2005 to 2007

Vesting of the awards of Performance Shares under The HSBC Share Plan is based on two independent measures, relative TSR and growth in EPS. The performance conditions are measured over a three-year performance period and awards forfeited to the extent that they have not been met. The vesting of 50 per cent of the awards is based on TSR and the remaining 50 per cent on growth in EPS.

TSR award

The comparator group of 28 banks for the TSR award comprises the largest banks in the world, on the basis of their market capitalisation, their geographic spread and the nature of their activities:

ABN AMRO	Mitsubishi Tokyo Financial Group
Banco Santander	Mizuho Financial Group
Bank of America	Morgan Stanley
Bank of New York	National Australia Bank
Barclays	Royal Bank of Canada
BBVA	Royal Bank of Scotland
BNP Paribas	Société Générale
Citigroup	Standard Chartered
Crédit Agricole	UBS
Credit Suisse Group	UniCredito Italiano
Deutsche Bank	US Bancorp
HBOS	Wachovia
JP Morgan Chase	Wells Fargo
Lloyds TSB	Westpac Banking Corporation

The extent to which the TSR award will vest will be determined on a sliding scale based on HSBC's relative TSR ranking, measured over the three years, against the comparator group as shown below:

If HSBC's performance matches	Proportion of TSR award vesting ¹
Banks ranking 1st to 7th	100%
Bank ranking 8th	90%
Bank ranking 9th	80%
Bank ranking 10th	70%
Bank ranking 11th	60%
Bank ranking 12th	50%
Bank ranking 13th	40%
Bank ranking 14th	30%
Banks ranking below 14th	nil

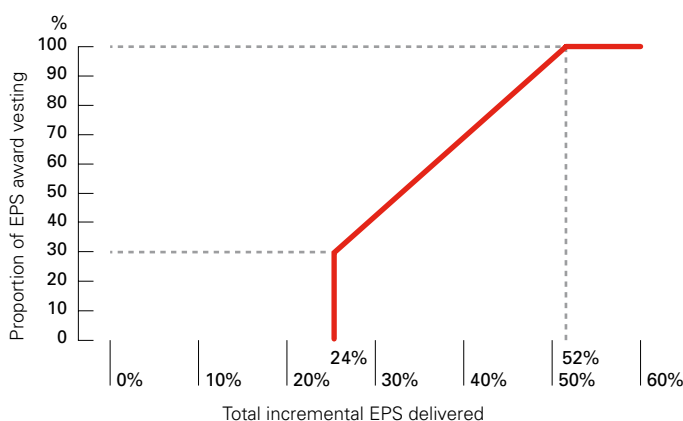
1 Vesting will occur in a straight line where HSBC's performance falls between these incremental steps.

EPS award

The method for calculating EPS growth has been summarised in narrative form in the 2005 and 2006 'Directors' Remuneration Reports', as well as in the circular containing the *Notice of Annual General Meeting* for 2005.

This year's Report sets out more information (including a graph and an example) on the method of calculation of EPS growth in light of some questions from shareholders on the operation of this element. The Committee regrets if there has been any misunderstanding, but wishes to reassure shareholders that the method of calculation, which is set out in the rules of The HSBC Share Plan, has remained unchanged since the Plan was adopted. Further, before introducing the Plan in 2005, the Committee consulted extensively with major shareholders and their representative bodies in line with best practice, and the rules of the Plan including worked examples of the EPS calculation were available for inspection at the time.

The percentage of the conditional award vesting will depend upon the absolute growth in EPS achieved over the three years ('the performance period'). 30 per cent of the conditional shares will vest if the incremental EPS over the performance period is 24 per cent or more of EPS in the base year. The percentage of shares vesting will rise on a straight line proportionate basis to 100 per cent if HSBC's incremental EPS over the performance period is 52 per cent or more of EPS in the base year. In the interests of clarity, this has been set out in graphical form in the chart below.



Summary Financial Statement

For the EPS element of the award, the base measure shall be EPS for the financial year preceding that in which the award is made ('the base year'). Absolute growth in EPS will then be compared with the base year over three consecutive financial years commencing with the year in which the award is made. Incremental EPS will be calculated by expressing as a percentage of the EPS of the base year the difference each year of the three-year performance period between the EPS of that year and the EPS of the base year. These percentages will then be aggregated to arrive at the total incremental EPS for the performance period. As illustrated in the table below, an incremental EPS of 51 per cent over three years would equate to a compound annual growth rate of 8 per cent.

Illustration of incremental earnings per share of 51 per cent over three years

Percentage difference between:				Total incremental EPS for the performance period
Year 1 EPS and base year EPS	Year 2 EPS and base year EPS	Year 3 EPS and base year EPS		
8%	17%	26%	=	51%

If EPS in any of the Years 1, 2 or 3 is below the base year, then the percentage difference between that particular year and the base year is negative.

For this purpose, EPS means the profit attributable to the shareholders (expressed in US dollars), excluding goodwill amortisation, divided by the weighted average number of Ordinary Shares in issue and held outside the Group during the year in question. In the event that the published EPS for the base year is restated during the performance period to adjust for changes in accounting standards, that restated EPS will be used for the purposes of the EPS performance condition.

In addition, awards will not vest unless the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the award date. In determining whether HSBC Holdings has achieved a sustained improvement in performance the Remuneration Committee will take account of all relevant factors but in particular comparisons against the comparator group in areas such as revenue growth and mix, cost efficiency, credit performance, cash return on cash invested, dividend performance and TSR.

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

Arrangements from 2002 to 2004

Between 2002 and 2004, awards of Performance Shares were made under the HSBC Holdings Restricted Share Plan 2000. Vesting was based on HSBC's relative TSR performance over a three-year period from the date of the award, with full vesting of awards and transfer of shares to participants being no earlier than the fifth anniversary of the date of award.

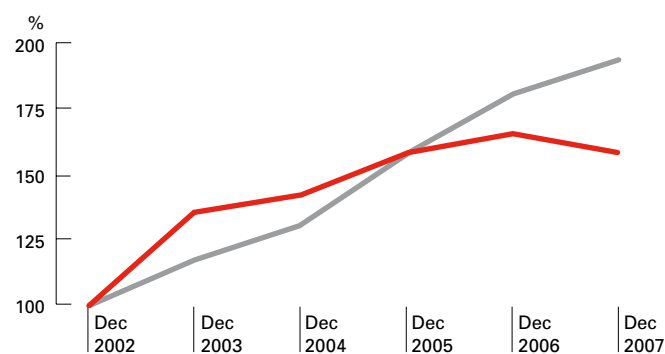
The initial performance period was three years from the date of award. Prior to 2004, awards were subject to re-testing on the fourth and fifth anniversaries of the date of award if the performance target was not met at the third anniversary. The awards made in 2004 had a three-year performance period with no re-testing. The table below describes the outcome of the performance tests for the 2002, 2003 and 2004 awards:

	2002 award	2003 award	2004 award
First test (third anniversary)	March 2005, performance target met, awards vested in 2007	March 2006, performance target not met	March 2007, performance target not met and therefore award forfeited
First re-test (fourth anniversary)	Already vested	March 2007, performance target not met	No re-test
Second test (fifth anniversary)	Already vested	March 2008	No re-test

In addition to these performance conditions, none of the outstanding awards will vest unless the Remuneration Committee is satisfied that, during the performance period, HSBC Holdings has achieved sustained growth. The Remuneration Committee retains discretion to recommend early release of shares awarded in certain circumstances, for example, retirement, redundancy or ill health. When events occur which cause the Remuneration Committee to consider that the performance conditions have become unfair or impractical, the right is reserved for the Committee to amend or substitute the performance conditions.

Total shareholder return

Pursuant to the Directors' Remuneration Report Regulations 2002, the graph below shows HSBC's TSR performance against the FTSE 100 Index, for the five-year period ended 31 December 2007. 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 39.

Summary Financial Statement

Summary Directors' Remuneration Report (continued)

Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 2007 were as follows:

	Fees £000	Salary £000	Allowance ¹ £000	Benefits in kind ² £000	Bonuses ³ £000	Total 2007 £000	Total 2006 £000
Executive Directors							
D J Flint	–	679	374	25	800	1,878	1,355
M F Geoghegan ⁴	–	1,040	520	61	1,915	3,536	2,868
S K Green	–	1,250	–	12	1,750	3,012	2,934
Non-executive Directors							
Lord Butler	103	–	–	–	–	103	115
R K F Ch'ien ^{5,6}	79	–	–	–	–	79	200
J D Coombe	105	–	–	–	–	105	97
Baroness Dunn	85	–	–	–	–	85	85
R A Fairhead	103	–	–	–	–	103	85
W K L Fung ⁷	122	–	–	–	–	122	136
J F Gil Díaz ⁸	–	–	–	–	–	–	–
S Hintze ⁵	44	–	–	–	–	44	105
J W J Hughes-Hallett	97	–	–	–	–	97	77
Sir Brian Moffat	110	–	–	–	–	110	145
Sir Mark Moody-Stuart	125	–	–	–	–	125	125
G Morgan	77	–	–	–	–	77	16
S W Newton	77	–	–	–	–	77	65
S M Robertson	94	–	–	–	–	94	65
H Sohmen ^{5,9}	–	–	–	–	–	–	–
Sir Brian Williamson	91	–	–	–	–	91	85
Total ¹⁰	1,312	2,969	894	98	4,465	9,738	11,485
Total (US\$000) ¹⁰	2,626	5,943	1,790	196	8,938	19,493	21,139

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 2007. See page 35 for comparison with 2006.

4 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 £225,000 (2006: £215,000) which would otherwise have been paid.

5 Retired as a Director on 25 May 2007.

6 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.

7 Includes fees as a non-executive Director of The Hongkong and Shanghai Banking Corporation.

8 Appointed as a Director on 2 January 2007 and retired as a Director on 5 March 2007. J F Gil Díaz elected to waive any fees payable to him by HSBC Holdings (£10,833).

9 H Sohmen elected to waive any fees payable to him by HSBC Holdings (2007: £27,083; 2006: £65,000).

10 Total emoluments for 2006 include the emoluments of Directors who retired in that year.

Non-executive Directors

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at Annual General Meetings. Non-executive Directors have no service contract and are not eligible to participate in HSBC's share plans.

Current non-executive Directors' terms of appointment will expire as follows: in 2008, Lord Butler, Baroness Dunn and Sir Brian Moffat; in 2009, W K L Fung, S W Newton, S M Robertson and Sir Brian Williamson; in 2010, R A Fairhead, Sir Mark Moody-Stuart and G Morgan; and in 2011, J D Coombe, J L Durán, J W J Hughes-Hallett and W S H Laidlaw. S A Catz and N R N Murthy were appointed non-executive Directors with effect from 1 May 2008. Subject to their re-election by shareholders at the Annual General Meeting in 2008, their terms of appointment will expire in 2011.

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.

A fee of £30,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors receive the following fees for service on Board Committees:

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

During 2007, seven meetings of the Group Audit Committee were held.

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

During 2007, eight meetings of the Remuneration Committee were held.

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

During 2007, two meetings of the Nomination Committee were held.

Summary Financial Statement

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

During 2007, five meetings of the Corporate Sustainability Committee were held.

Pensions

S K Green is entitled to receive benefits from an Employer-Funded Retirement Benefits Scheme (EFRBS). The benefits to which he is entitled from the HSBC Bank (UK) Pension Scheme but in respect of which he ceased membership on 5 April 2006, 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 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.

For M F Geoghegan an employer contribution was made to the HSBC Asia Holdings Pension Plan in respect of 2007 of £225,000 (2006: £215,000) arising entirely from a bonus sacrifice. There were no other employer contributions made to this plan. Mr Geoghegan receives an executive allowance of 50 per cent of annual basic salary to fund personal pension arrangements.

D J Flint receives an executive allowance of 55 per cent of annual basic salary to fund personal pension arrangements.

	Accrued annual pension at 31 December 2007 £000	Increase in accrued pension during 2007 £000	Increase in accrued pension during 2007, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2006 ¹ £000	Transfer value of accrued pension at 31 December 2007 ¹ £000	Increase of transfer value of accrued pension (less personal contributions) in 2007 ¹ £000	Transfer value (less personal contributions) at 31 December 2007 relating to increase in accrued pensions during 2007, excluding any increase for inflation ¹ £000
S K Green	628	42	19	11,082	12,780	1,698	383

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.

Summary Financial Statement

Summary Directors' Remuneration Report (continued)

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 2007	Awards made during year ¹	Monetary value of awards made during year £000	Awards at 31 December 2007 ²
D J Flint	27 May 2005	2008	185,821	–	–	194,796
	6 Mar 2006	2009	167,220	–	–	175,296
	5 Mar 2007	2010	–	246,185	2,200	256,029
M F Geoghegan	27 May 2005	2008	247,761	–	–	259,728
	6 Mar 2006	2009	209,025	–	–	219,121
	5 Mar 2007	2010	–	559,513	5,000	581,884
S K Green	27 May 2005	2008	309,701	–	–	324,659
	6 Mar 2006	2009	261,280	–	–	273,900
	5 Mar 2007	2010	–	419,635	3,750	436,413

Vesting of these Performance Share awards is subject to the performance conditions described on pages 36 and 37 being satisfied.

1 At the date of the award, 5 March 2007, the market value (closing price) per share was £8.96. The Trustee of the Plan purchased the shares at a price of £8.936358.

2 Includes additional shares arising from scrip dividends.

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 2007	Awards vested during year ¹	Monetary value of awards vested during year £000	Awards at 31 December 2007 ¹
D J Flint	8 Mar 2002	2007	90,176	90,897 ²	830	–
	5 Mar 2003	2008	129,917	–	–	136,192
	4 Mar 2004	2009	136,357	–	–	– ³
M F Geoghegan	8 Mar 2002	2007	45,089	45,449 ²	414	–
	5 Mar 2003	2008	60,630	–	–	63,558
	4 Mar 2004	2009	102,268	–	–	– ³
S K Green	8 Mar 2002	2007	112,720	113,621 ²	1,036	–
	5 Mar 2003	2008	129,917	–	–	136,192
	4 Mar 2004	2009	187,490	–	–	– ³

Vesting of these Performance Share awards is subject to the performance conditions summarised on page 37 and as described in full on pages 331 to 332 of the *Annual Report and Accounts 2007* being satisfied.

1 Includes additional shares arising from scrip dividends.

2 The performance conditions have been met and the shares have vested. At the date of vesting, 8 March 2007, the market value per share was £9.12. At the date of the award, 8 March 2002, the market value per share was £8.34.

3 The performance conditions for awards made in 2004 were not met and, under the rules of the Plan, the awards held by D J Flint (137,447 shares), M F Geoghegan (103,086 shares) and S K Green (188,990 shares) were forfeited on 4 April 2007.

Summary Financial Statement

Summary Consolidated Income Statement

2006 US\$m	Year ended 31 December 2007	2007 US\$m	2007 £m	2007 HK\$m
75,879	Interest income	92,359	46,180	720,493
(41,393)	Interest expense	(54,564)	(27,282)	(425,654)
34,486	Net interest income	37,795	18,898	294,839
21,080	Fee income	26,337	13,169	205,455
(3,898)	Fee expense	(4,335)	(2,168)	(33,817)
17,182	Net fee income	22,002	11,001	171,638
5,619	Trading income excluding net interest income	4,458	2,229	34,777
2,603	Net interest income on trading activities	5,376	2,688	41,938
8,222	Net trading income	9,834	4,917	76,715
657	Net income from financial instruments designated at fair value	4,083	2,042	31,851
969	Gains less losses from financial investments	1,956	978	15,259
–	Gains arising from dilution of interests in associates	1,092	546	8,519
340	Dividend income	324	162	2,528
5,668	Net earned insurance premiums	9,076	4,538	70,802
2,546	Other operating income	1,439	719	11,224
70,070	Total operating income	87,601	43,801	683,375
(4,704)	Net insurance claims incurred and movement in liabilities to policyholders	(8,608)	(4,304)	(67,151)
65,366	Net operating income before loan impairment charges and other credit risk provisions	78,993	39,497	616,224
(10,573)	Loan impairment charges and other credit risk provisions	(17,242)	(8,621)	(134,504)
54,793	Net operating income	61,751	30,876	481,720
(18,500)	Employee compensation and benefits	(21,334)	(10,667)	(166,427)
(12,823)	General and administrative expenses	(15,294)	(7,647)	(119,308)
(1,514)	Depreciation of property, plant and equipment	(1,714)	(857)	(13,371)
(716)	Amortisation of intangible assets	(700)	(350)	(5,461)
(33,553)	Total operating expenses	(39,042)	(19,521)	(304,567)
21,240	Operating profit	22,709	11,355	177,153
846	Share of profit in associates and joint ventures	1,503	751	11,725
22,086	Profit before tax	24,212	12,106	188,878
(5,215)	Tax expense	(3,757)	(1,878)	(29,309)
16,871	Profit for the year	20,455	10,228	159,569
15,789	Profit attributable to shareholders of the parent company	19,133	9,567	149,257
1,082	Profit attributable to minority interests	1,322	661	10,312
US\$		US\$	£	HK\$
1.40	Basic earnings per ordinary share	1.65	0.83	12.87
1.39	Diluted earnings per ordinary share	1.63	0.82	12.72
0.76	Dividends per ordinary share	0.87	0.44	6.79

Summary Financial Statement

Summary Consolidated Balance Sheet

2006 US\$m		2007 US\$m	2007 £m	2007 HK\$m
Assets				
12,732	Cash and balances at central banks	21,765	10,839	169,723
14,144	Items in the course of collection from other banks	9,777	4,869	76,241
13,165	Hong Kong Government certificates of indebtedness	13,893	6,919	108,339
328,147	Trading assets	445,968	222,092	3,477,658
20,573	Financial assets designated at fair value	41,564	20,699	324,116
103,702	Derivatives	187,854	93,551	1,464,885
185,205	Loans and advances to banks	237,366	118,208	1,850,980
868,133	Loans and advances to customers	981,548	488,811	7,654,111
204,806	Financial investments	283,000	140,934	2,206,834
8,396	Interests in associates and joint ventures	10,384	5,171	80,974
37,335	Goodwill and intangible assets	39,689	19,765	309,495
16,424	Property, plant and equipment	15,694	7,816	122,382
29,823	Other assets	39,493	19,668	307,969
380	Current tax asset	896	446	6,984
3,241	Deferred tax asset	5,284	2,632	41,205
14,552	Prepayments and accrued income	20,091	10,005	156,670
1,860,758	Total assets	2,354,266	1,172,425	18,358,566
Liabilities				
13,165	Hong Kong currency notes in circulation	13,893	6,919	108,338
99,694	Deposits by banks	132,181	65,826	1,030,747
896,834	Customer accounts	1,096,140	545,878	8,547,700
12,625	Items in the course of transmission to other banks	8,672	4,319	67,624
226,608	Trading liabilities	314,580	156,661	2,453,095
70,211	Financial liabilities designated at fair value	89,939	44,790	701,344
101,478	Derivatives	183,393	91,330	1,430,099
230,325	Debt securities in issue	246,579	122,796	1,922,823
5,555	Retirement benefit liabilities	2,893	1,441	22,560
28,019	Other liabilities	35,013	17,436	273,031
1,805	Current tax liability	2,559	1,274	19,955
17,670	Liabilities under insurance contracts	42,606	21,218	332,242
16,310	Accruals and deferred income	21,766	10,839	169,731
1,763	Provisions	1,958	975	15,268
1,096	Deferred tax liability	1,859	926	14,496
22,672	Subordinated liabilities	24,819	12,360	193,539
1,745,830	Total liabilities	2,218,850	1,104,988	17,302,592
Equity				
5,786	Called up share capital	5,915	2,946	46,125
7,789	Share premium account	8,134	4,051	63,429
29,380	Other reserves	33,014	16,441	257,443
65,397	Retained earnings	81,097	40,386	632,395
108,352	Total shareholders' equity	128,160	63,824	999,392
6,576	Minority interests	7,256	3,613	56,582
114,928	Total equity	135,416	67,437	1,055,974
1,860,758	Total equity and liabilities	2,354,266	1,172,425	18,358,566

S K Green

Group Chairman

Summary Financial Statement

Notes on the Summary Financial Statement

1 Basis of preparation

Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB') if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2007, there were no unendorsed standards effective for the year ended 31 December 2007 affecting these consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC's financial statements for the year ended 31 December 2007 are prepared in accordance with IFRSs as issued by the IASB.

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:

	2007 US\$000	2006 US\$000	2005 US\$000
Fees	2,626	2,660	2,100
Salaries and other emoluments	7,929	7,774	12,869
Bonuses	8,938	10,705	13,264
	19,493	21,139	28,233
Gains on the exercise of share options	13	3	17
Vesting of Long-Term Incentive awards	4,563	18,975	24,221

In addition, there were payments under retirement benefit agreements with former Directors of US\$1,183,960 (2006: US\$996,098). The provision at 31 December 2007 in respect of unfunded pension obligations to former Directors amounted to US\$18,491,117 (2006: US\$17,759,454).

During the year, aggregate contributions to pension schemes in respect of Directors were US\$545,854 (2006: US\$889,241), including US\$460,564 (2006: US\$395,740) arising from a Director's waiver of bonus.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee. Details of Directors' remuneration, share options and conditional awards under the Restricted Share Plan 2000 and The HSBC Share Plan are included in the 'Summary Directors' Remuneration Report' on pages 38 to 40.

3 Related party transactions

Transactions, arrangements and agreements involving Directors and others

Particulars of transactions, arrangements and agreements entered into by subsidiaries 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:

	2007		2006	
	Number of persons	Balance at 31 December US\$000	Number of persons	Balance at 31 December US\$000
Directors and connected persons and companies controlled by them	94		85	
Loans		534,227		407,176
Credit cards		300		317
Guarantees		27,044		21,751
Officers	12		12	
Loans		19,041		16,706
Credit cards		206		687
Guarantees		25		23

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 2007 and 2006 was US\$7,500 million divided into 15,000 million ordinary shares of US\$0.50 each.

At 31 December 2007 and 2006, 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 2007 and 2006, 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 2007	11,572,207,735	5,786
Shares issued under HSBC Finance share plans	685,005	–
Shares issued under HSBC employee share plans	32,620,922	17
Shares issued in lieu of dividends	223,538,655	112
At 31 December 2007	11,829,052,317	5,915

HSBC Holdings non-cumulative preference shares of US\$0.01 each	Number	US\$m
At 1 January 2007 and 31 December 2007	1,450,000	–

HSBC Holdings non-voting deferred shares

The 301,500 non-voting deferred shares were in issue throughout 2006 and 2007 and are held by a subsidiary of HSBC Holdings. Holders of the non-voting deferred shares are not entitled to receive dividends on these shares. In addition, on winding-up or other return of capital, holders are entitled to receive the amount paid up on their shares after distribution to ordinary shareholders of £10 million in respect of each ordinary share held by them.

5 Foreign currency amounts

The sterling and Hong Kong dollar equivalent figures in the consolidated income statement and balance sheet are for information only. These are translated at the average rate for the period for the income statement and the closing rate for the balance sheet as follows:

		Year ended 31 December 2007	2006
Closing :	HK\$/US\$	7.798	7.776
	£/US\$	0.498	0.509
Average :	HK\$/US\$	7.801	7.769
	£/US\$	0.500	0.543

6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2007*. 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 2007*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2007* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Internal Communications, HSBC-North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; 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 2007* may be obtained from Computershare Hong Kong Investor Services Limited, Hopewell Centre, Rooms 1806-1807, 18th 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 2007* may be viewed on the HSBC Group web site: 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.

Independent Auditor's Statement 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, the '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 2007 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 (3 March 2008) and the date of this statement.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

14 March 2008

Shareholder Information

Fourth interim dividend for 2007

The Directors have declared a fourth interim dividend for 2007 of US\$0.39 per ordinary share. 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 2008. The timetable for the dividend is:

	2008
Shares quoted ex-dividend in London, Hong Kong and Bermuda	19 March
ADSs quoted ex dividend in New York	20 March
Record date and closure of Hong Kong and Bermuda Overseas Branch Registers of shareholders for one day	25 March
Shares quoted ex-dividend in Paris	26 March
Mailing of <i>Annual Report and Accounts 2007</i> and/or <i>Annual Review 2007</i> , <i>Notice of Annual General Meeting</i> and dividend documentation	3 April
Final date for receipt by registrars of forms of election, Investor Centre electronic instructions and revocations of standing instructions for scrip dividends	24 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	28 April
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	7 May

Annual General Meeting

The 2008 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on 30 May 2008 at 11 am.

Interim results

The interim results for the six months to 30 June 2008 will be announced on 4 August 2008.

Interim dividends for 2008

The Board has adopted a policy of paying quarterly interim 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 2008 will be US\$0.18 per ordinary share. The proposed timetables for the dividends in respect of 2008 are:

Interim dividends for 2008	First	Second	Third	Fourth
Announcement	6 May 2008	4 August 2008	3 November 2008	2 March 2009
ADSs quoted ex-dividend in New York	21 May 2008	20 August 2008	19 November 2008	18 March 2009
Shares quoted ex-dividend in London, Hong Kong and Bermuda	21 May 2008	20 August 2008	19 November 2008	18 March 2009
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	23 May 2008	22 August 2008	21 November 2008	20 March 2009
Shares quoted ex-dividend in Paris	26 May 2008	25 August 2008	24 November 2008	23 March 2009
Payment date	9 July 2008	8 October 2008	14 January 2009	6 May 2009

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.

If you have been nominated to receive general shareholder communications directly from HSBC Holdings it is important to remember that your main contact in terms of your investment remains as it was (so the registered shareholder, or perhaps custodian or broker, who administers the investment on your behalf). Therefore any changes or queries relating to your personal details and holding (including any administration thereof) must continue to be directed to your existing contact at your investment manager or custodian. HSBC Holdings cannot guarantee dealing with matters that are directed to us in error.

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

Investor Relations Officer
HSBC North America Holdings Inc.
26525 N Riverwoods Boulevard
Mettawa, Illinois 60045
USA

Senior Manager External Relations
The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Telephone: 44 020 7991 8041

Facsimile: 44 020 7991 4663

E-mail: investorrelations@hsbc.com

1 224 544 4400

1 224 552 4400

investor.relations.usa@us.hsbc.com

852 2822 4929

852 2845 0113

investorrelations@hsbc.com.hk

Annual Review 2007

Further copies of this *Annual Review* 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 Communications (Asia)
The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

For those in the Americas:

Internal Communications
HSBC-North America
26525 N Riverwoods Boulevard
Mettawa
Illinois 60045
USA

Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive a notification of its availability on HSBC's web site. To receive future notifications of the availability of a corporate communication on HSBC's web site by e-mail, or revoke or amend an instruction to receive such notifications by e-mail, go to www.hsbc.com/ecomms. If you received a notification of the availability of this document on HSBC's web site and would like to receive a printed copy, or would like to receive future corporate 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 of this *Annual Review* is available upon request after 3 April 2008 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
Hopewell Centre
Rooms 1806-1807, 18th Floor
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 2008
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 Limited, Crayford, UK, on Revive 50:50 Silk paper using vegetable oil-based inks. Made in Italy, the paper comprises 50% virgin fibre, 25% de-inked post-consumer waste and 25% pre-consumer waste. 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.



Mixed Sources

SGS-COC-1732

© 1996 Forest Stewardship Council A.C.

Photography

Cover (front): Ho Chi Minh City, Vietnam	Hoang Dinh Nam/AFP/Getty Images
Wuhan, China	Philip Gostelow
Cover (back): Dubai, United Arab Emirates	Adam Hinton
Rio de Janeiro, Brazil	Ary Diesendruck/Getty Images
Page 6 (left): Dubai, United Arab Emirates	Insy Shah/Getty Images
Page 7 (left), 21 (top left): Curitiba, Brazil	Jacob Langvad
Page 7 (right), 11: Hong Kong	Josiah Leung
Page 8: Group Chairman	Niall McDiarmid
Page 10: Wuhan, China; Hanoi, Vietnam	Philip Gostelow
Page 12: Group Chief Executive	Ho Pak Kei
Page 14 (left): Gumi City, South Korea	Philip Gostelow
(right): Los Angeles, USA	Siri Stafford/Getty Images
Page 15: Richfield, Minnesota, USA	Tim Klein
Page 16 (left): 'Future of retirement'	Adam Tolner
(right): New York, USA	Courtesy of HSBC Private Bank, a division of HSBC Bank USA, N.A.
Page 17: Taipei, Taiwan	Philip Gostelow
Page 21 (top right): Tewkesbury, UK	Barry Lewis
(bottom left): Warsaw, Poland	Andreas Pohlmann
Pages 25, 26-28: Lord Stern, Directors (except M F Geoghegan, S A Catz, J L Durán, W S H Laidlaw and N R N Murthy) and senior management	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