

HSBC Holdings plc Annual Results 2007

Presentation to Investors and Analysts

128m
customers

Total 2007
dividends

up 11%

Earnings per share

83 countries and
territories

up 18%

New earnings high
in a challenging year

Profit

attributable to shareholders up

**Net operating
income up 13%**

21%

outstanding
emerging markets growth

HSBC 

The world's local bank

Forward-looking statements

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

Reported results

Profit before tax

Up 10% to US\$24.2bn

Earnings per share

Up 18% to US\$1.65

Dividends per share¹

Up 11% to US\$0.90

Attributable profit

Up 21% to US\$19.1bn

Return on total shareholders' equity

15.9%, up from 15.7%

Tier 1 capital

9.3% against 9.4% in 2006 (Basel 1)

Notes:

(1) In respect of 2007

Special factors

• Dilution gains ¹	+ US\$1.1bn
• Global Banking and Markets write-downs	- US\$2.1bn
• Fair value of own debt	
- change in credit spread	+ US\$3.1bn
• Profit on sale of 8 Canada Square	Not recognised in 2007
• Lower effective tax rate	

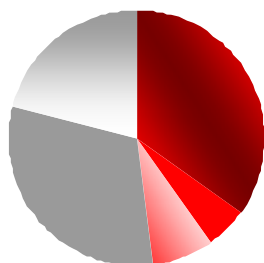
Notes:

(1) Gains arising from dilution of interests in Chinese and other associates

- **Record results in a challenging environment**
 - Exceptional strength in faster growing markets, particularly Asia
 - Very weak performance in the US driven by higher loan impairment charges
 - Strong performance from Global Banking and Markets despite write-downs
 - Record results from Commercial Banking and Private Banking
- **HSBC's signature strength in capital and liquidity continues**
- **Over 15 years of double-digit dividend growth**

- The world's leading international Emerging Markets bank

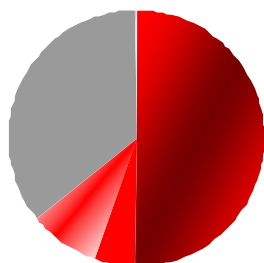
2006 Profit before tax



US\$22,086m

- Asia Pacific (34%)
- Middle East (5%)
- Latin America (8%)
- Europe (32%)
- North America (21%)

2007 Profit before tax



US\$24,212m

- Asia Pacific (50%)
- Middle East (5%)
- Latin America (9%)
- Europe (36%)
- North America (0%)

Investing primarily in faster growing and emerging markets

Mainland China

- Among first to incorporate locally in mainland China
- Built largest branch network of any international bank

Taiwan

- Acquired Chailease Credit Services
- Agreed to acquire The Chinese Bank

South Korea

- Agreed to acquire 51% of KEB
- Agreed to acquire almost 50% of Hana Life Insurance Company

Vietnam

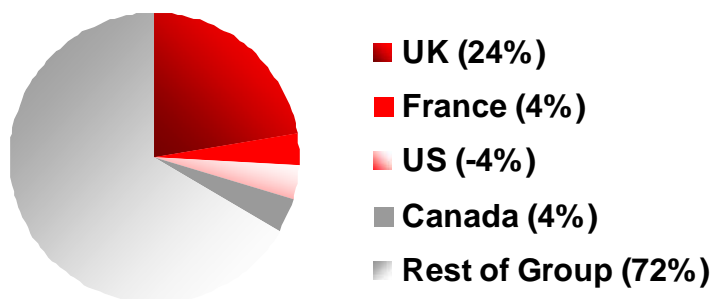
- Added further 5% to holding in Techcombank increasing it to 14%
- Acquired 10% interest in Bao Viet, the leading insurer

India

- Agreed to invest in a 26% interest in a new life insurance company

- Reshaping our operations in developed markets to focus on international connectivity

2007 Profit before tax



US\$24,212m

USA

- Closure and rundown of Mortgage Services businesses
- Restructuring HSBC Finance Corporation branch network

UK

- Disposal of non-core credit card portfolios
- Strategic alliance with Norwich Union in insurance and associated disposal of insurance subsidiaries

France

- Received firm offer for regional banks
- Took full ownership of HSBC Assurances, formerly Erisa

Canada

- Agreed to sell Invis, mortgage brokerage business

Douglas Flint
Financial performance in 2007

Summary of results

(US\$m)	2006	2007	% Change vs 2006
Net operating income before loan impairment charges	65,366	78,993	+21
Loan impairment charges	(10,573)	(17,242)	+63
Net operating income	54,793	61,751	+13
Total operating expenses	(33,553)	(39,042)	+16
Profit before tax	22,086	24,212	+10
Profit attributable to shareholders	15,789	19,133	+21
Cost efficiency ratio (%)	51.3	49.4	
Earnings per share (US\$)	1.40	1.65	+18
Dividends per share (US\$), in respect of the year	0.81	0.90	+11
Tier 1 ratio (%)	9.4	9.3	

Underlying growth

US\$m	2006 ¹ restated	2007	Acquisitions/ Disposals	Dilution Gains ²	Rest of HSBC	% Change
Net operating income before loan impairment charges	67,935	78,993	765	1,092	77,136	13.5
Loan impairment charges	(10,816)	(17,242)	(133)	-	(17,109)	58.2
Net operating income	57,119	61,751	632	1,092	60,027	5.1
Total operating expenses	(35,089)	(39,042)	(395)	-	(38,647)	10.1
Profit before tax	22,896	24,212	196	1,092	22,924	0.1

Notes:

(1) Restated for constant currency

(2) Gains arising from dilution of interests in Chinese and other associates are excluded from underlying movements

Special factors

• Dilution gains ¹	+ US\$1.1bn
• Global Banking and Markets write-downs	- US\$2.1bn
• Fair value of own debt	
- change in credit spread	+ US\$3.1bn
• Profit on sale of 8 Canada Square	Not recognised in 2007
• Lower effective tax rate	

Notes:

(1) Gains arising from dilution of interests in Chinese and other associates

Credit quality

Loan impairment charges	US\$millions		As a % of avg advances	
	2006	2007	2006	2007
Personal Financial Services				
Europe	1,838	2,044	1.39	1.37
Hong Kong	119	175	0.34	0.45
Rest of Asia-Pacific	545	552	1.91	1.75
North America	6,683	11,909	3.10	5.42
Latin America	764	1,492	6.63	7.80
Total	9,949	16,172	2.36	3.53

Credit quality

Loan impairment charges	US\$millions		As a % of avg advances	
	2006	2007	2006	2007
Commercial Banking				
Europe	386	515	0.54	0.57
Hong Kong	69	28	0.32	0.11
Rest of Asia-Pacific	(29)	61	(0.14)	0.23
North America	74	191	0.23	0.53
Latin America	197	212	2.50	1.61
Total	697	1,007	0.45	0.53

Loan impairment charges	US\$millions		As a % of avg advances	
	2006	2007	2006	2007
Global Banking and Markets - Total	(119)	38	(0.06)	0.02
Private Banking - Total	33	14	0.11	0.04

Writedowns in Global Banking and Markets

	Writedown (US\$bn)	Exposure at 31/12/07 (US\$bn)
Subprime mortgage related assets		
– Loan securitisation	0.53	2.0
– Credit trading	0.46	1.7
Other non-subprime assets		
– Credit trading (ABS/MBS/Preferred)	0.60	10.3
– Leveraged loans ¹	0.20	8.9
Derivative transactions with monolines		
– Investment grade counterparts ²	0.13	1.2
– Non-investment grade counterparts ²	<u>0.21</u>	0
	2.13	

No material holdings of CDO's backed by US subprime assets

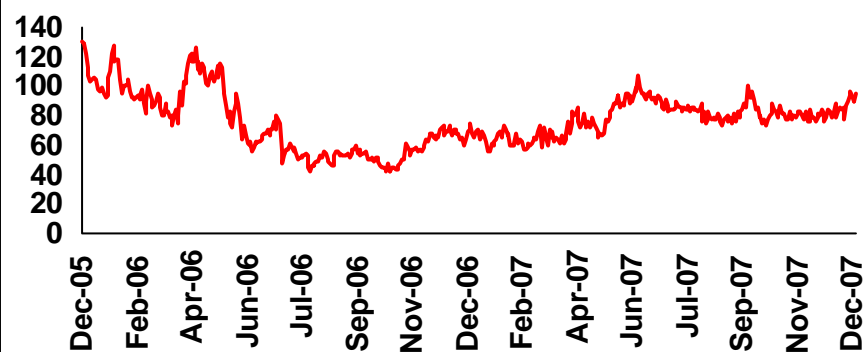
Notes:

(1) Of the US\$8.9bn in leveraged loans US\$6.0bn is funded and US\$2.9bn is awaiting syndication

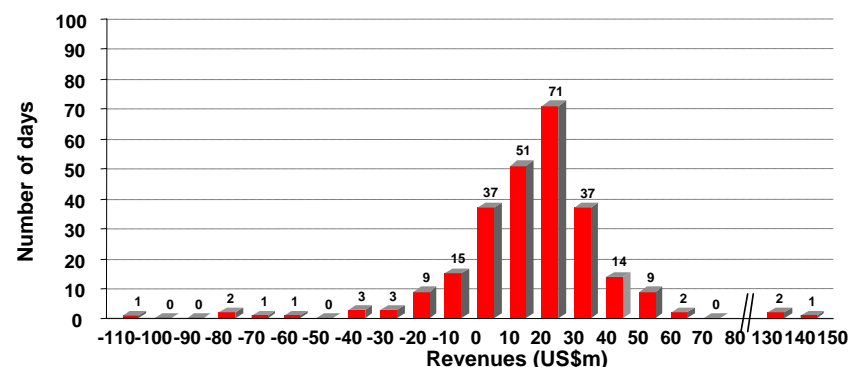
(2) Credit risk adjustment

Market risk management

Daily Group VAR (trading and non-trading) (US\$m)



Daily distribution of Global Markets' revenues



Value at risk for the Group¹ (US\$m)

	2006	2007
At 31 December	68.9	95.3
Average	74.5	78.4
Minimum	41.5	55.6
Maximum	128.8	107.0

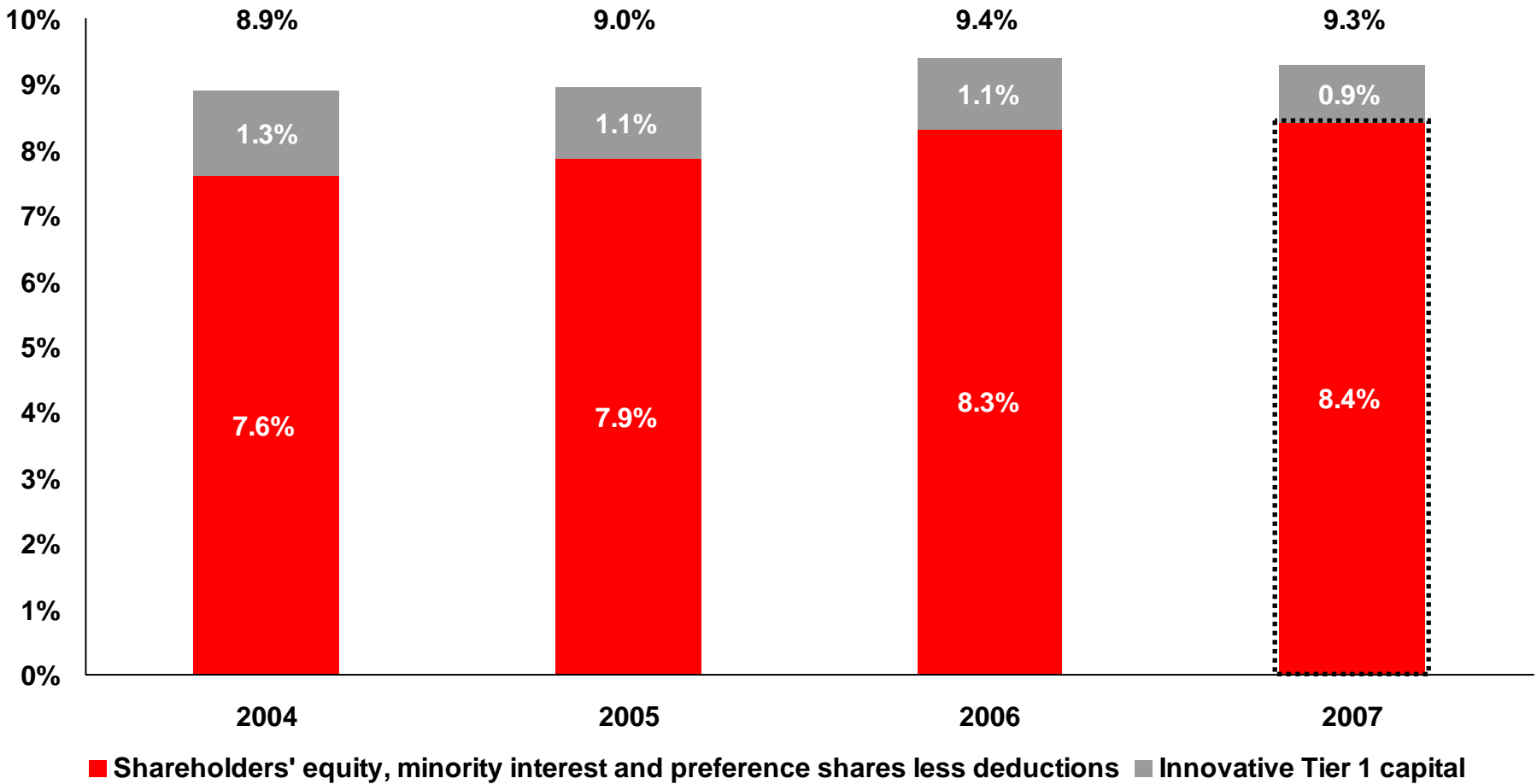
Bases for valuing trading assets

	2006	2007
	US\$328bn	US\$446bn
Quoted marked price	51%	47%
Valuation techniques		
– Using observable inputs	48%	50%
– With significant non-observable inputs	1%	3%

Note:
(1) Trading and non-trading

Signature capital strength continues

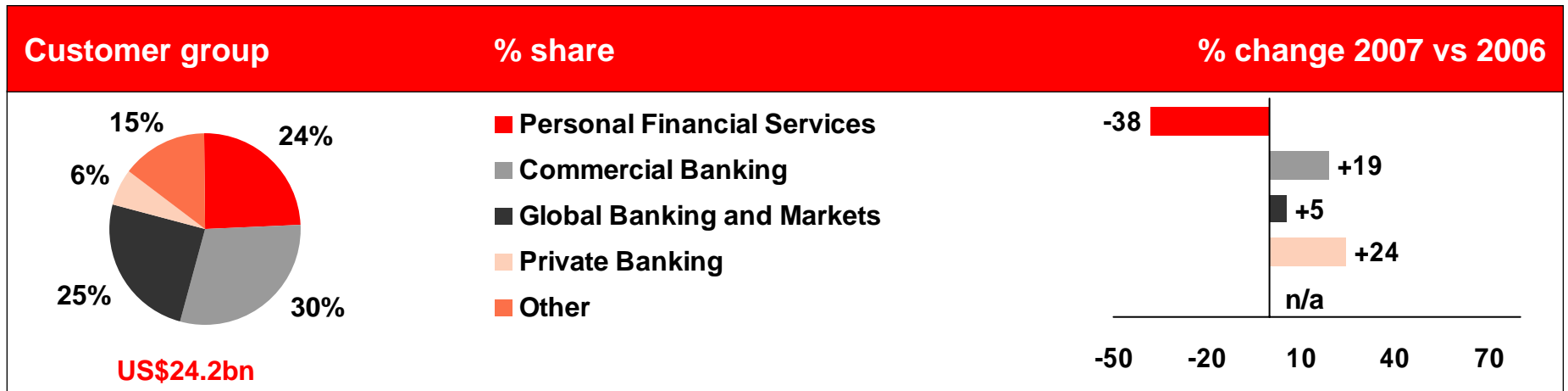
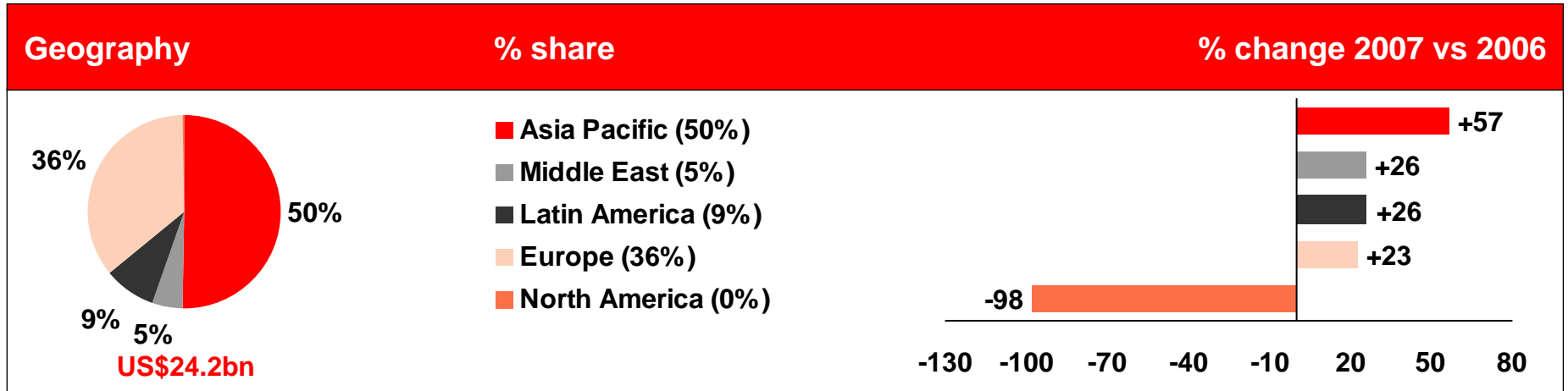
Tier 1 capital ratios (%)



Michael Geoghegan
Joining up the Company and progress - 2007

Results by geography and customer group

Profit before tax



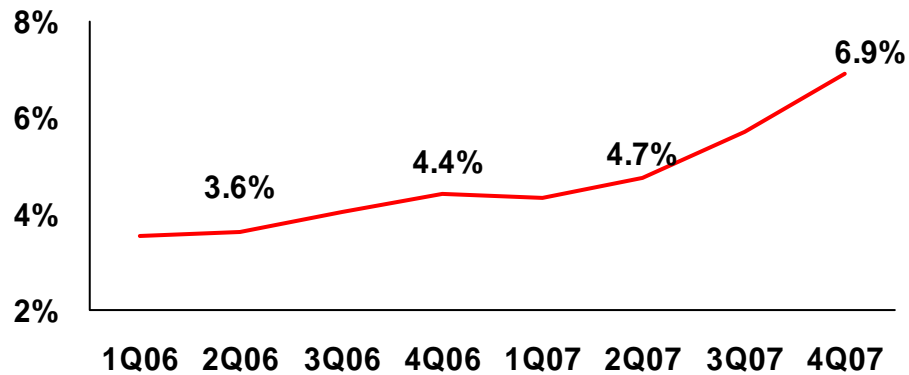
Consumer Finance offsets Strong Personal Financial Services growth

(US\$m)	2007	% chg
Net operating income before loan impairment charges	43,239	+14
Loan impairment charges	(16,172)	+63
Net operating income	27,067	-3
Total operating expenses	(21,757)	+16
Operating profit	5,310	-42
Associates and JVs	590	+55
Profit before tax	5,900	-38
Customer loans (US\$bn)	464.7	+4
Customer deposits (US\$bn)	450.1	+16

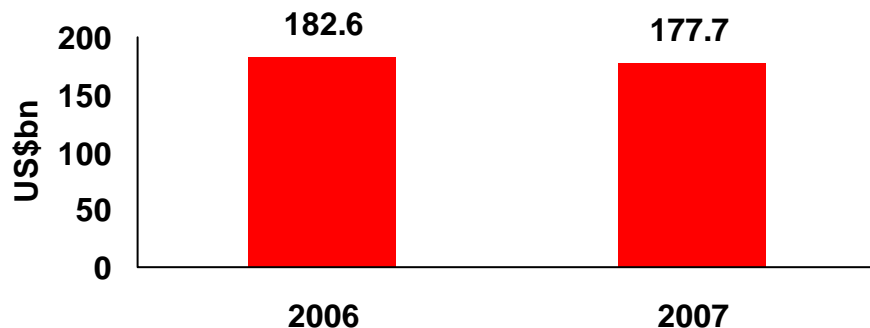
- 38% profit decline reflected exposure to US – excluding US consumer finance up 18%
- Strong 16% growth in deposit base well above customer loan growth (+4%)
- Strong growth in wealth management and sales in Hong Kong. Increased contributions from mainland China associates
- Cards in force grew strongly in emerging markets – now 26% of Group (20% in 2006)
- In UK, results affected by one-off charges. Adopted cautious stance in loan books

HSBC Finance Corporation Refocusing our business

2+ delinquency¹



Customer loans



Note:
(1) IFRS management basis which includes operations in UK and Canada

Credit environment

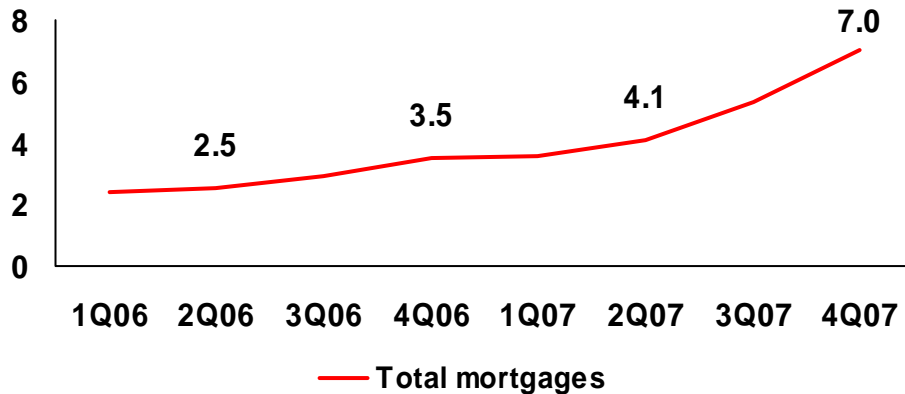
- Worsening economic environment
- Deteriorating trends in 2+ delinquency

Management action

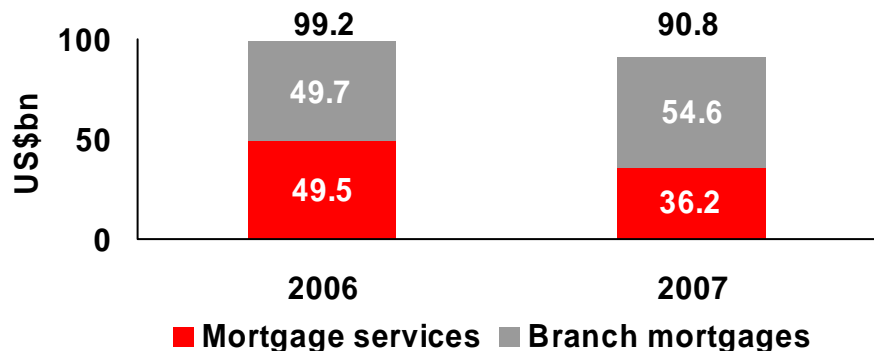
- Restructuring the business, protecting profitability and enhancing credit quality

HSBC Finance Corporation Mortgages¹

2+ delinquency %



Customer mortgage loans



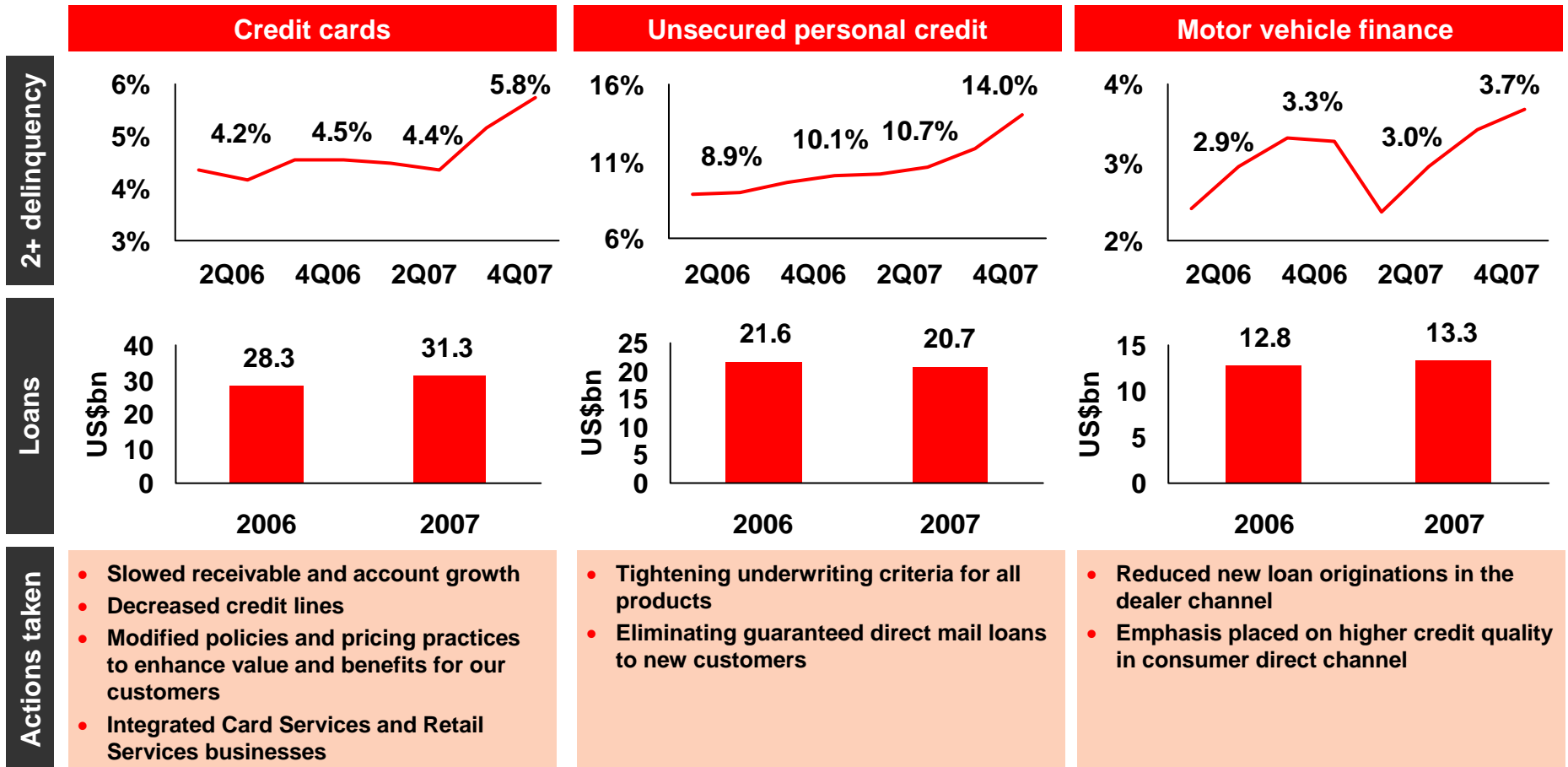
Note:
(1) IFRS management basis which includes operations in UK and Canada

Actions taken

- Reduced Mortgage Services portfolio from US\$49.5bn to US\$36.2bn
- Discontinued correspondent channel acquisitions
- Terminated “Decision One” wholesale business
- Conducted loan modification and foreclosure avoidance programme
- Restructured Consumer Lending branch network
- Tightened underwriting in Consumer Lending

HSBC Finance Corporation

Other businesses



Note: (1) IFRS management basis which includes operations in UK and Canada

Commercial Banking

The leading international business bank

(US\$m)	2007	% chg
Net operating income before loan impairment charges	13,950	+23
Loan impairment charges	(1,007)	+44
Net operating income	12,943	+21
Total operating expenses	(6,252)	+26
Operating profit	6,691	+17
Associates and JVs	454	+58
Profit before tax	7,145	+19
Customer loans (US\$bn)	220.1	+27
Customer deposits (US\$bn)	238.0	+25

- Share of profits from fastest growing economies increased from 47% to 52%
- Leveraging global network:
 - Global Links referral system generated an increase of 125% in referrals with an aggregate transaction value of US\$6bn
 - Strong growth in Payments and Cash Management, and Trade and Supply Chain income (+18%)
- Building the best bank for small business
 - 24% increase in Business Internet Banking (“BIB”) customers. Largest internet commercial bank in UK

Global Banking and Markets

Strong performance despite write-downs

(US\$m)	2007	% chg
Net operating income before loan impairment charges	15,210	+12
Loan impairment charges	(38)	n/a
Net operating income	15,172	+11
Total operating expenses	(9,358)	+17
Operating profit	5,814	+2
Associates and JVs	307	+198
Profit before tax	6,121	+5

- Our new strategy is working
- Record revenues from equities, foreign exchange, securities services, payments and cash management and asset management
- 74% of profit before tax from Asia Pacific, Middle East and Latin America
- ¹Ranked 1st in Asian local currency bond league table, 1st in Sterling bond league table and 5th in the international bond league table
- Volatility continues: creating opportunities and risks

(1) Source: Bloomberg

Private Banking

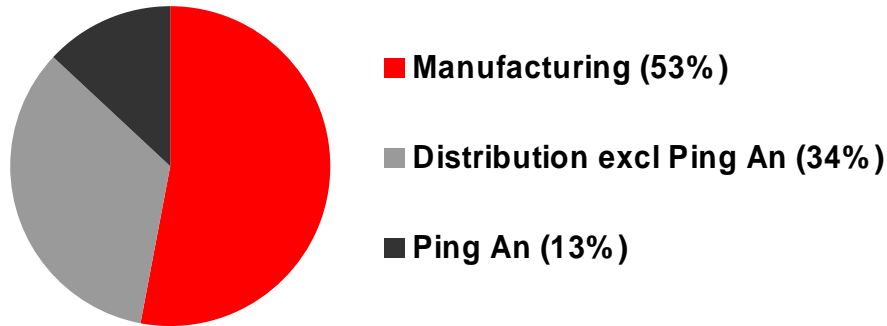
Record profits and building on Group relationships

(US\$m)	2007	% chg
Net operating income before loan impairment charges	3,548	+21
Loan impairment charges	(14)	-58
Net operating income	3,534	+22
Total operating expenses	(2,025)	+20
Operating profit	1,509	+24
Associates and JVs	2	+100
Profit before tax	1,511	+24
Client assets (US\$bn)		
At 1 January	333	+22
Net new money	36	+6
Value change	19	-10
Exchange and other	33	n/a
At 31 December	421	+26

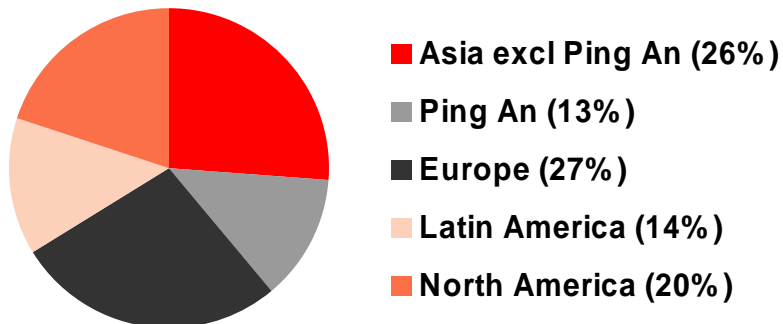
- Fastest growing business in the Group
- 24% increase in pre-tax profit reflected strong performance in Switzerland and growth in Asia
- US\$6bn of client assets from cross-referrals from other customer groups. 34 Global Banking and Markets transactions originated in Private Banking – earnings expected US\$70m
- Client assets increased by 26% to US\$421bn
- Expanded product offering including: Amanah Investment Solutions, Private Equity and Real Estate products
- HSBC Private Banking was ranked number 3 Global Private Bank (Euromoney survey), for the third year

Good progress in building our Insurance business

PBT by region, 2007



PBT by region, 2007

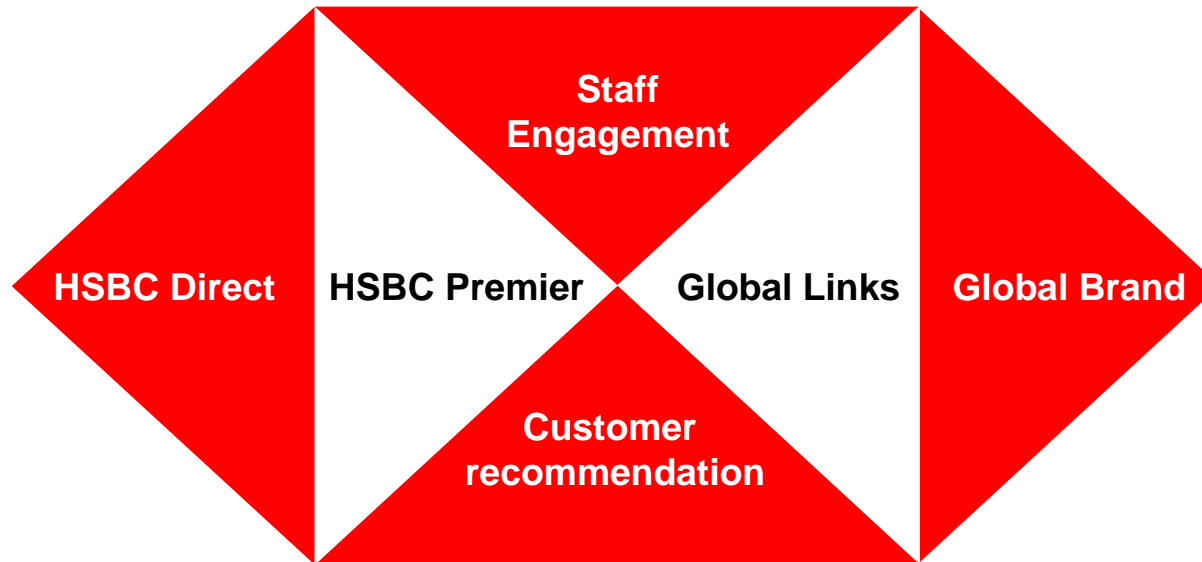


- Insurance contributed US\$3.1bn¹, 13% of Group profit before tax
- Strengthening links with Personal Financial Services and Commercial Banking together with leveraging global distribution network
- Five transactions initiated: acquired remaining 50% of life & general insurer Erisa in France; acquisition in South Korea; joint ventures initiated in India and mainland China; and a 10% share acquired in Bao Viet in Vietnam
- Established HSBC Insurance brand – with high quality ‘brand experience’

Note:

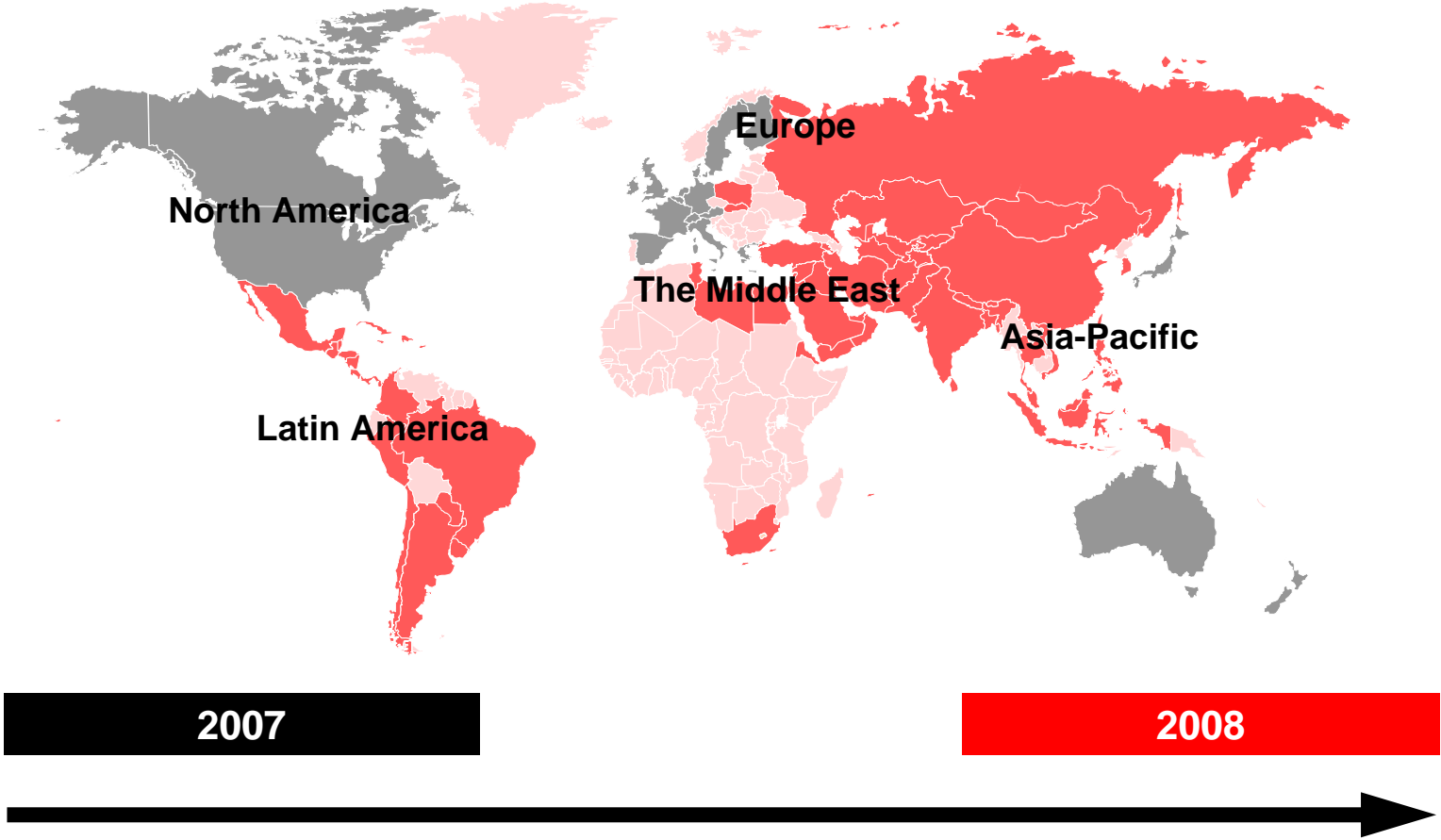
(1) Excludes the effect of the US\$485m Ping An Insurance dilution gain
The results of Insurance are reported within customer groups, primarily PFS

Joining up the Group



Progress in joining up the Company

Business priorities for 2008



Stephen Green

Measuring our success

Financial measures	Target range
Return on total shareholders' equity	15-19% through the cycle
Cost efficiency ratio	48-52%
Tier 1 capital (Basel 2)	7.5-9.0%
Total shareholder return	Above peer group average

The World

- Emerging markets; increasingly strong long term drivers for growth
- US economy likely to get worse before it gets better
- Deleveraging of the financial system
- Continuing illiquidity in financial services
- World economic growth and continued trends in globalisation and trade flows

HSBC

- Emphasis on Emerging Markets gives us a better position compared to many of our competitors
- We are underway in reconfiguring our US business to dovetail fully with our Group strategy
- Conservative balance sheet with strong capital base
- Strong asset-liability position and conservative advance-deposit ratio
- Leadership in servicing trade based on unique international connectivity

Appendix

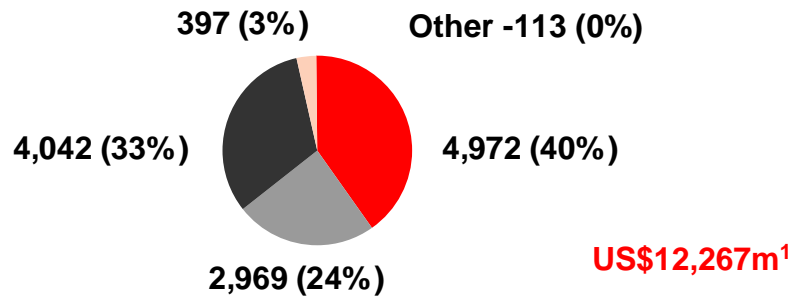
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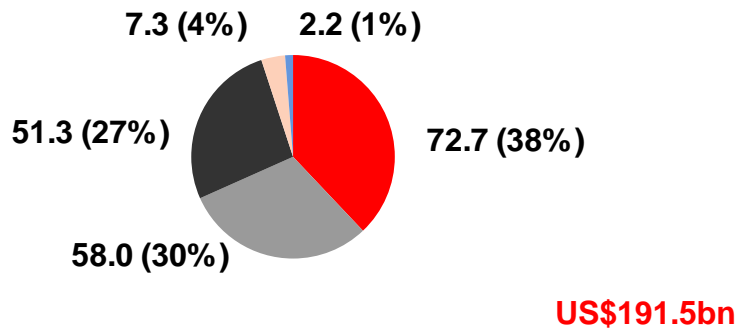
Asia

Business mix

Profit before tax, 2007¹, US\$m

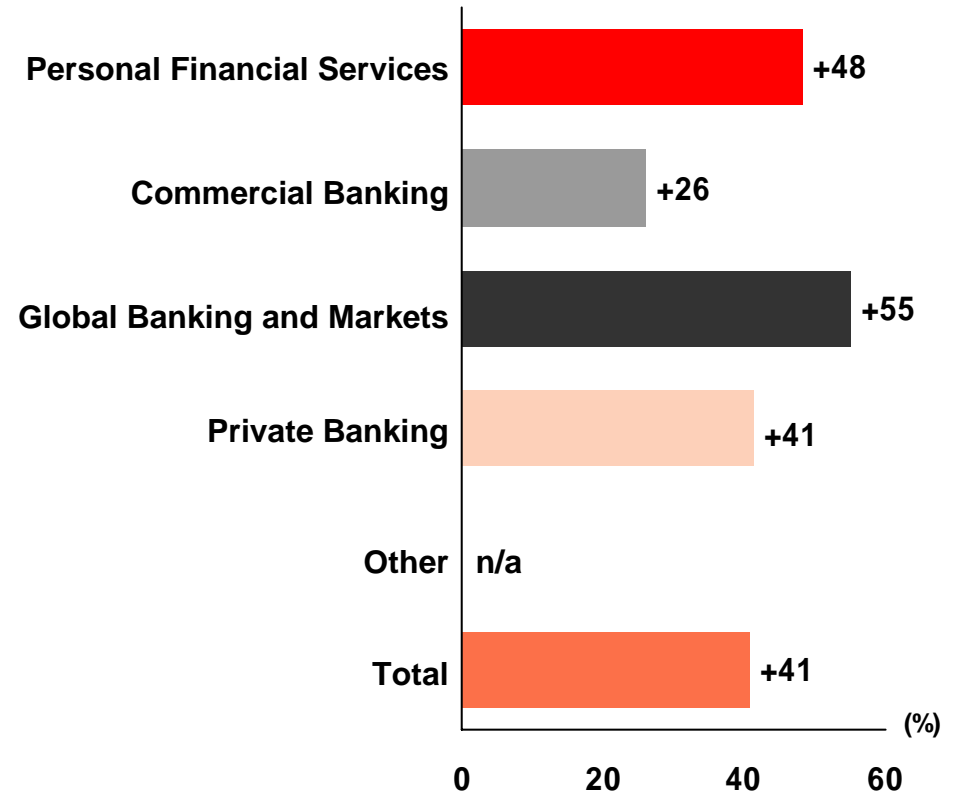


Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)¹

2007 v 2006

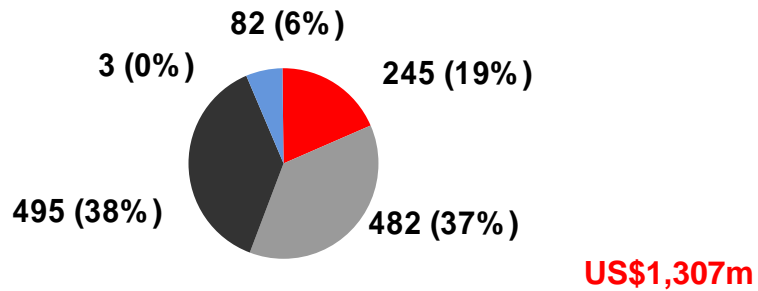


Note: (1) Excludes gains arising from dilution of interests in Chinese and other associates

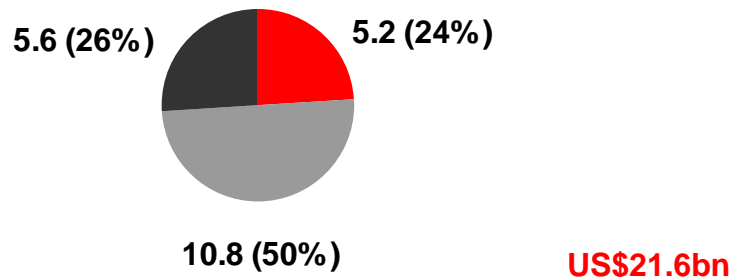
Middle East

Business mix

Profit before tax, 2007, US\$m

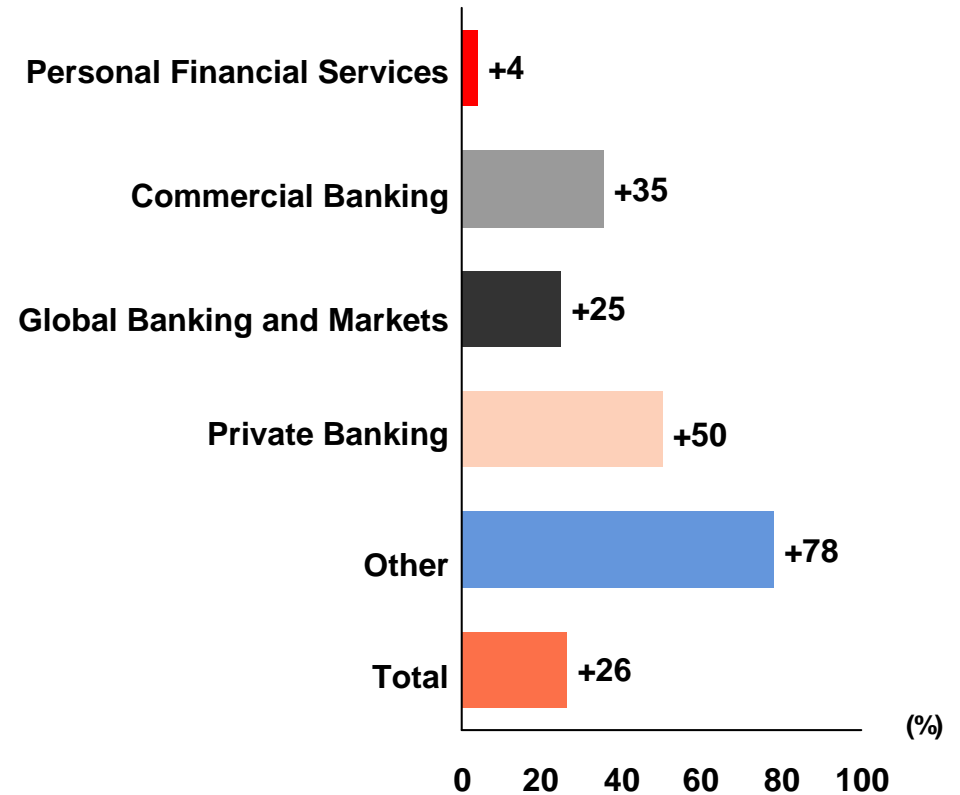


Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)

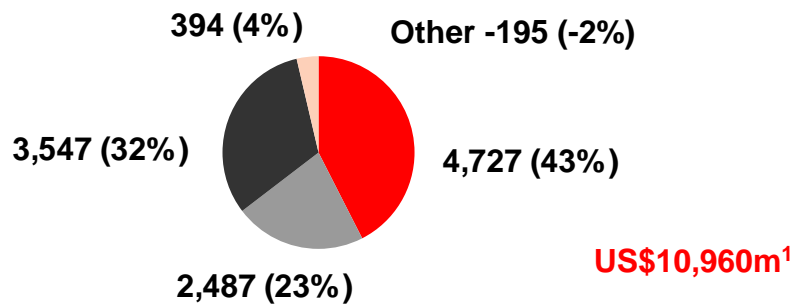
2007 v 2006



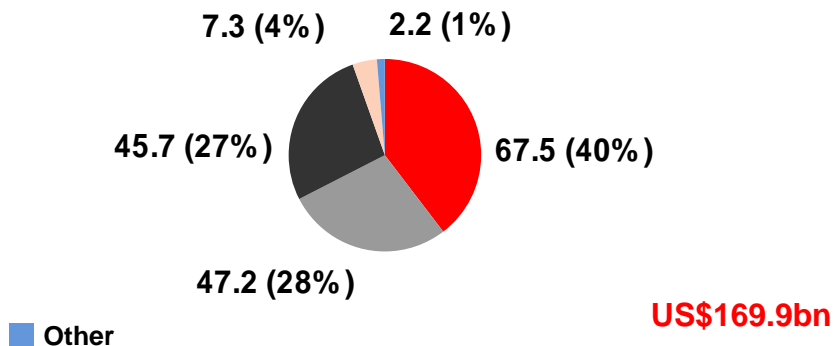
Asia-Pacific

Business mix

Profit before tax, 2007¹, US\$m



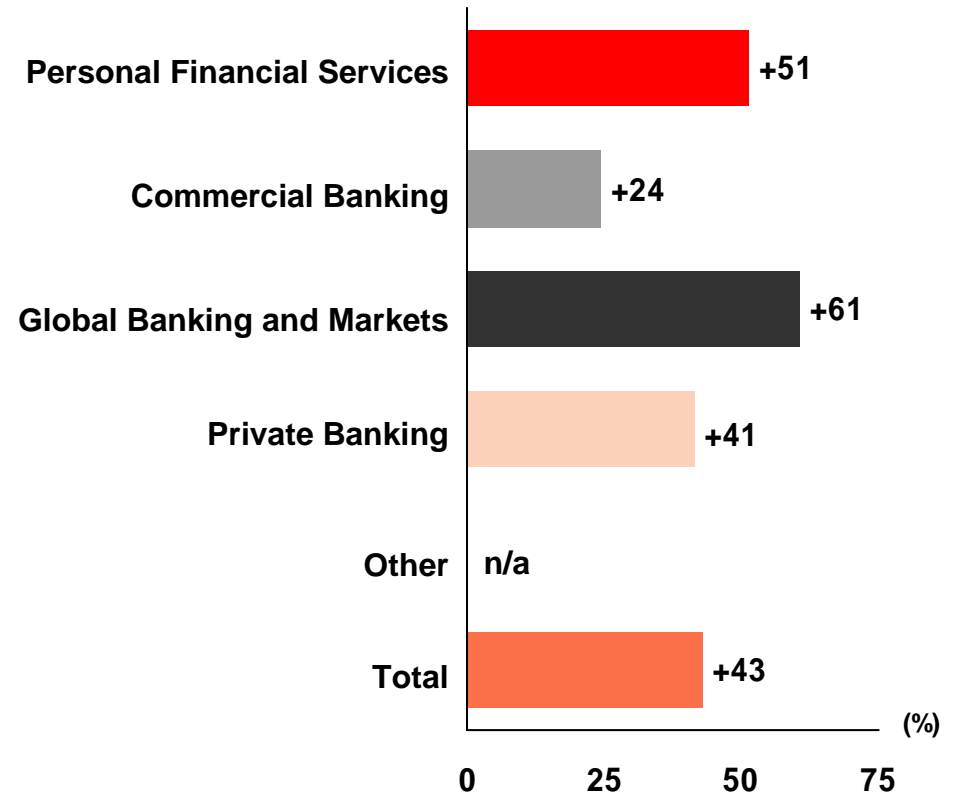
Customer lending, 31 December 2007, US\$bn



Note: (1) Excludes gains arising from dilution of interests in Chinese and other associates

Growth in profit before tax (%)

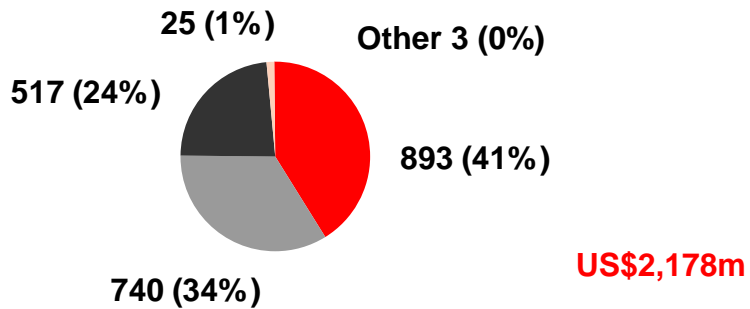
2007 v 2006



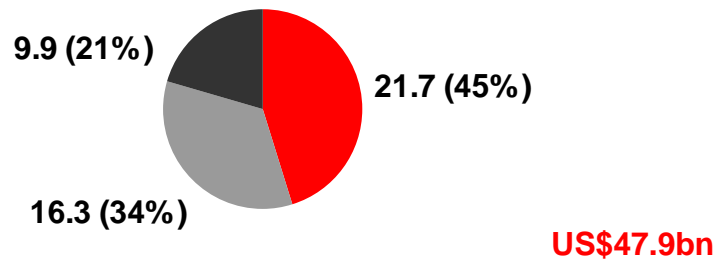
Latin America

Business mix

Profit before tax, 2007, US\$m

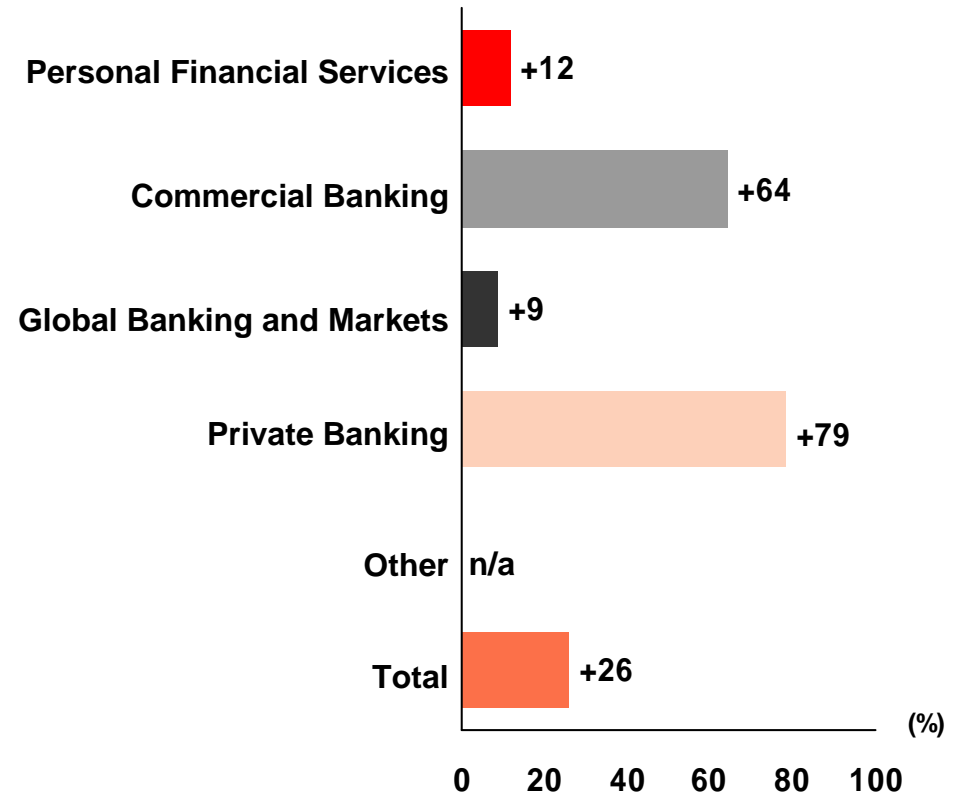


Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)

2007 v 2006



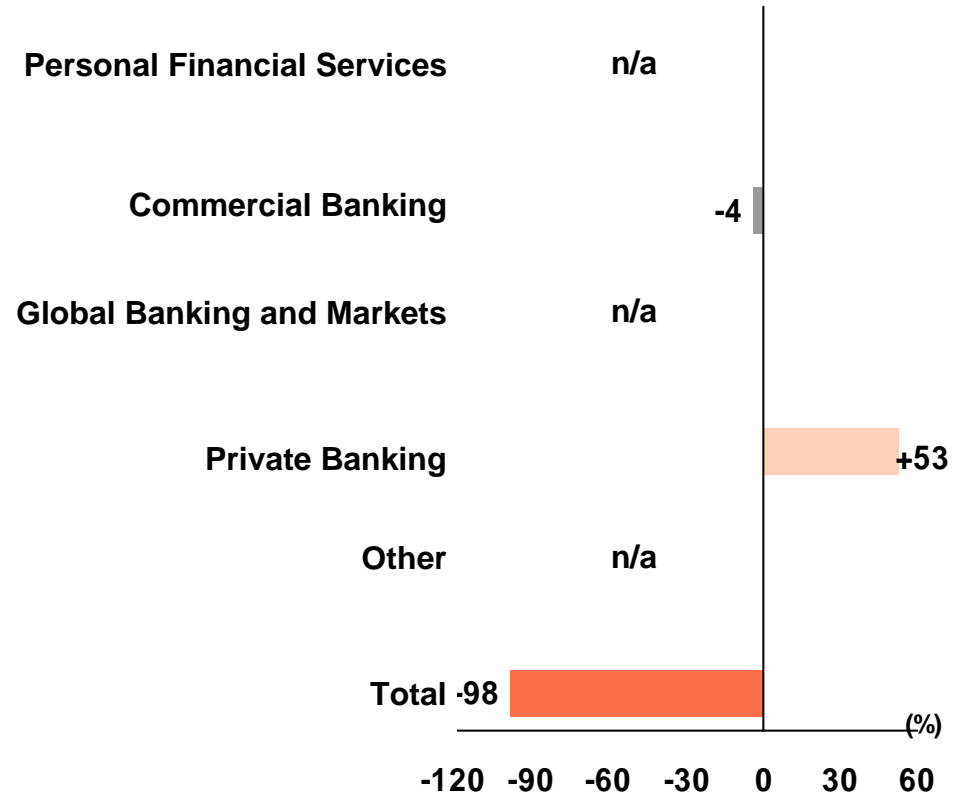
North America

Business mix

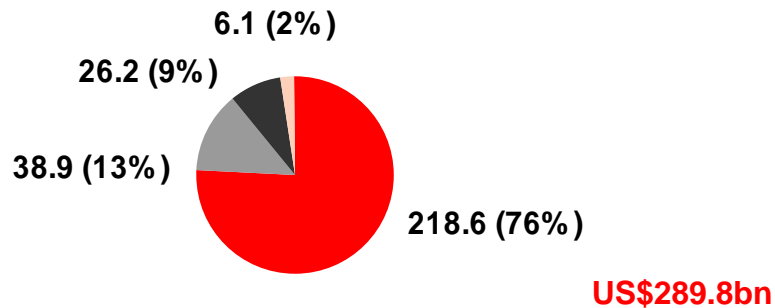
Profit before tax, 2007, US\$m	2006	2007
Personal Financial Services	3,391	(1,546)
Commercial Banking	957	920
Global Banking and Markets	423	(965)
Private Banking	114	174
Other	(217)	1,508
Total	4,668	91

Growth in profit before tax (%)

2007 v 2006



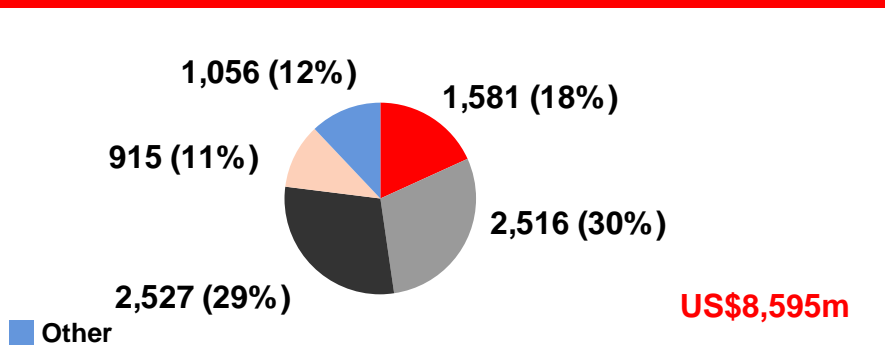
Customer lending, 31 December 2007, US\$bn



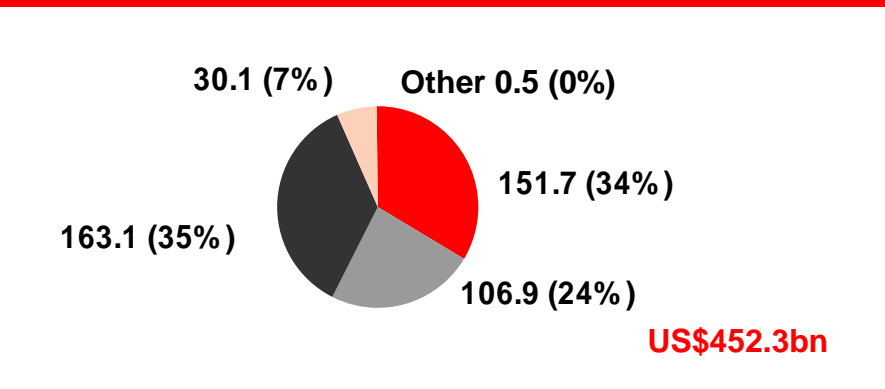
Europe

Business mix

Profit before tax, 2007, US\$m

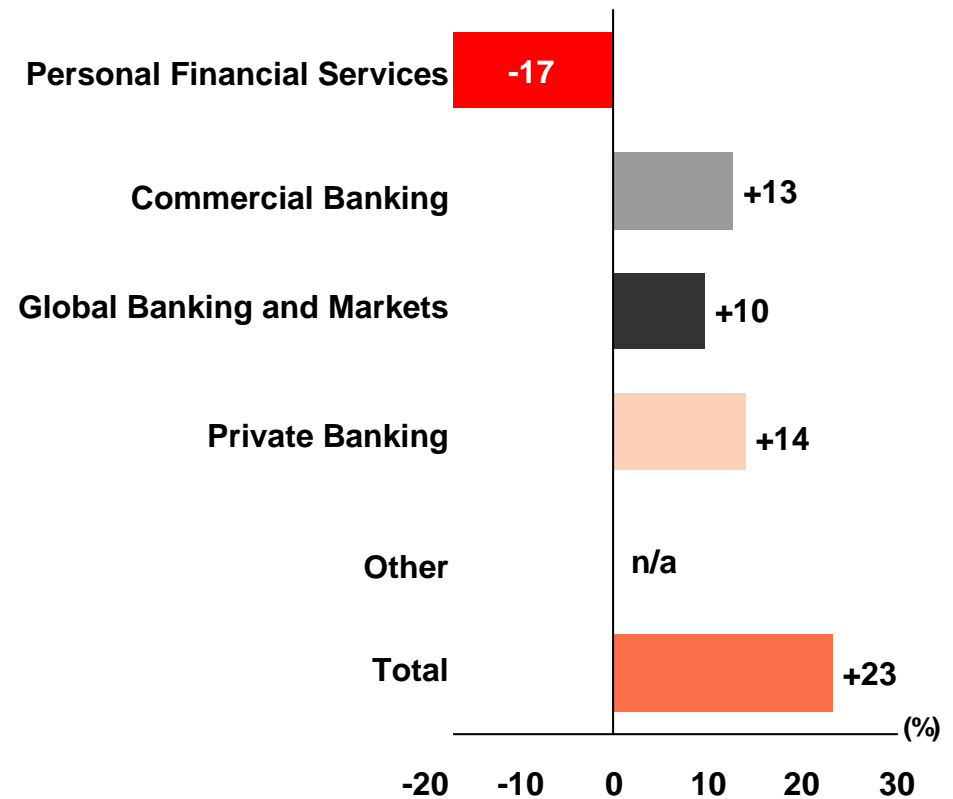


Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)

2007 v 2006



Profit by country

Profit before tax, US\$m	2006	2007	% chg
Hong Kong	5,182	7,339	+42%
Rest of Asia Pacific	3,527	6,009	+70%
Australia	154	124	-19%
India	393	529	+35%
Indonesia	71	104	+46%
Japan	123	43	-65%
Mainland China	708	2,361	+233%
<i>Mainland China associates</i>	575	2,180	+279%
<i>Other Mainland China</i>	133	181	+36%
Malaysia	274	330	+20%
Middle East	1,035	1,307	+26%
<i>Egypt</i>	111	153	+38%
<i>United Arab Emirates</i>	425	617	+45%
<i>Other Middle East</i>	194	300	+55%
<i>Total Middle East (excl. Saudi Arabia)</i>	730	1,070	+47%
<i>Total Saudi Arabia</i>	305	237	-22%
Singapore	365	550	+51%
South Korea	59	123	+108%
Taiwan	(23)	123	+635%
Other	368	415	+13%

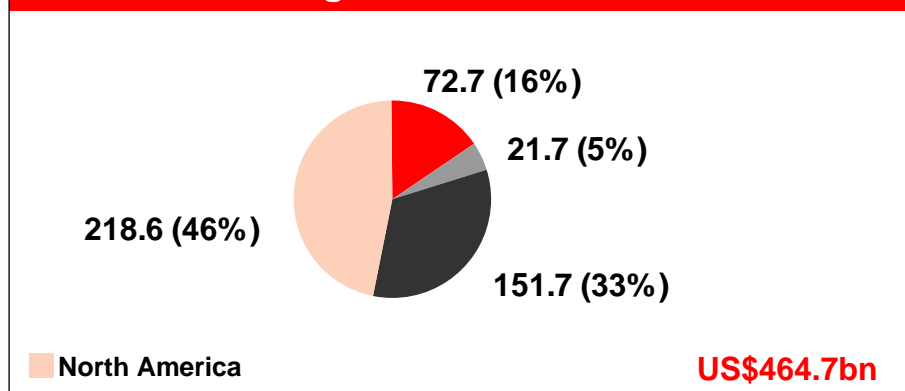
Profit before tax, US\$m	2006	2007	% chg
Latin America	1,735	2,178	+26%
Mexico	1,009	980	-3%
Brazil	526	879	+67%
Argentina	157	201	+28%
Panama	39	86	+121%
Other	4	32	+700%
North America	4,668	91	-98%
United States	3,612	(1,066)	-130%
Total Canada	896	983	+10%
Bermuda	155	173	+12%
Other	5	1	-80%
Europe	6,974	8,595	+23%
United Kingdom	4,791	5,792	+21%
France	870	1,033	+19%
Germany	200	295	+48%
Malta	121	157	+30%
Switzerland	305	475	+56%
Turkey	217	336	+55%
Other	470	507	+8%

Personal Financial Services

Regional mix

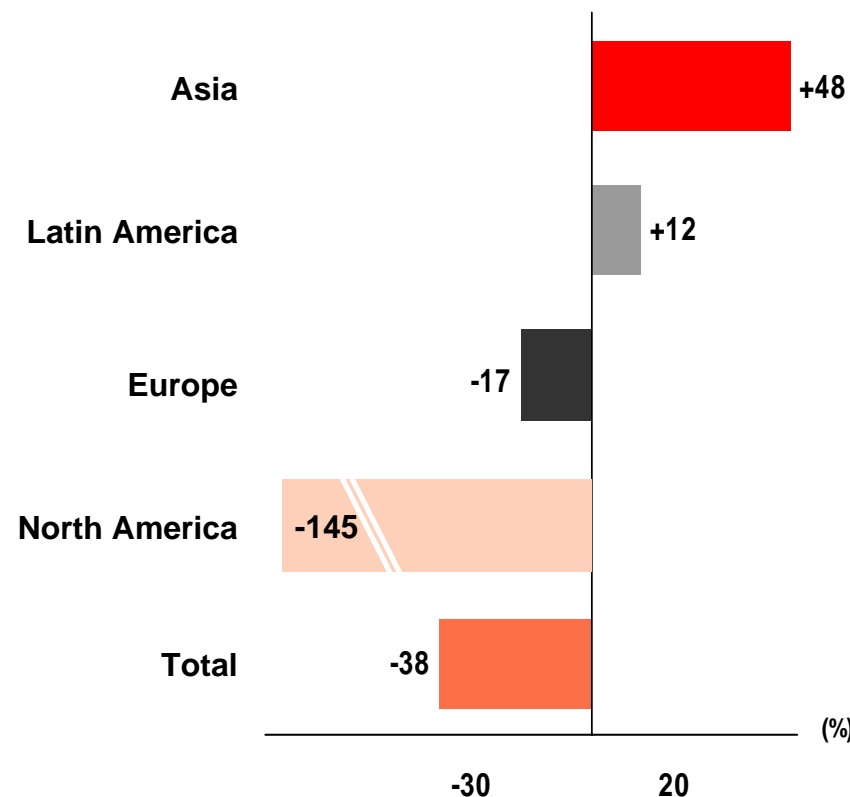
Profit before tax, 2007, US\$m		2006
Asia	3,357	4,972
Latin America	800	893
Europe	1,909	1,581
North America	3,391	(1,546)
Total	9,457	5,900

Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)

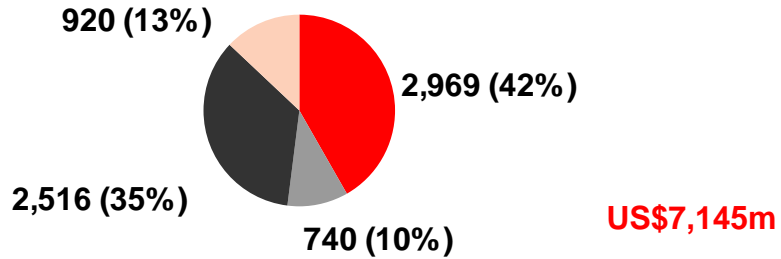
2007 v 2006



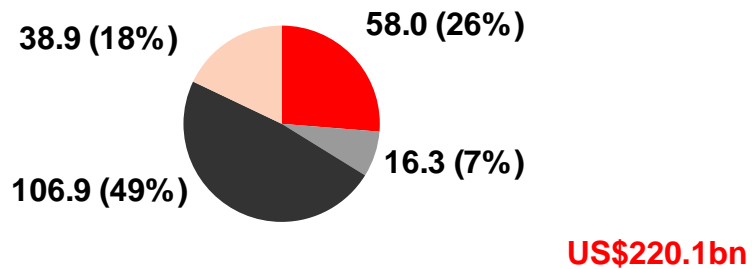
Commercial Banking

Regional mix

Profit before tax, 2007, US\$m

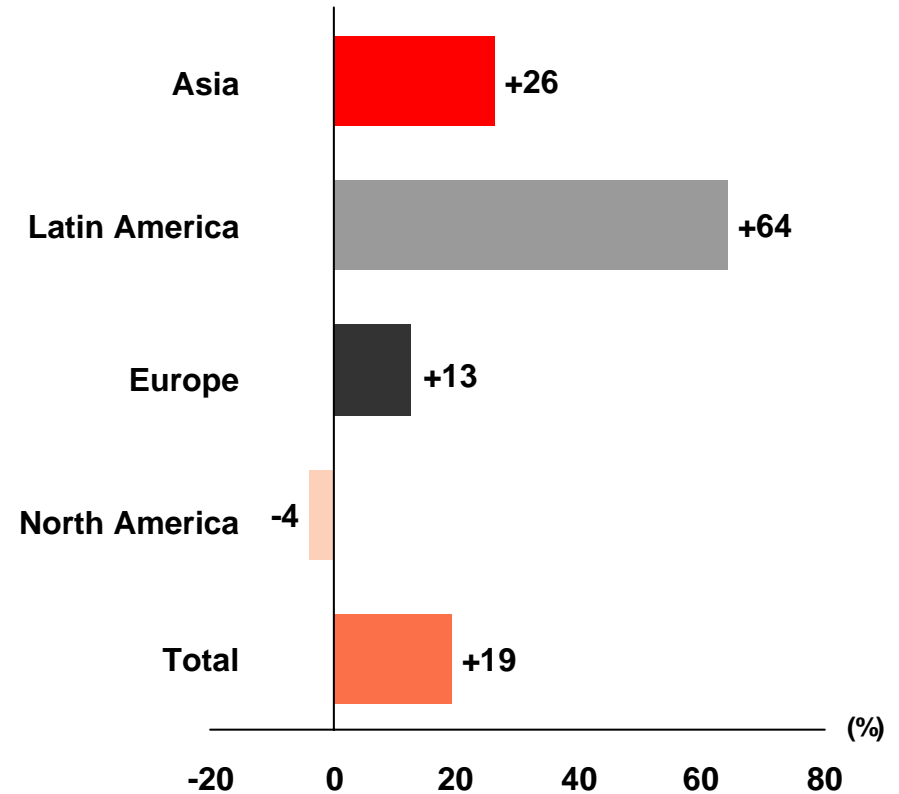


Customer lending, 31 December 2007, US\$bn



Growth in profit before tax (%)

2007 v 2006



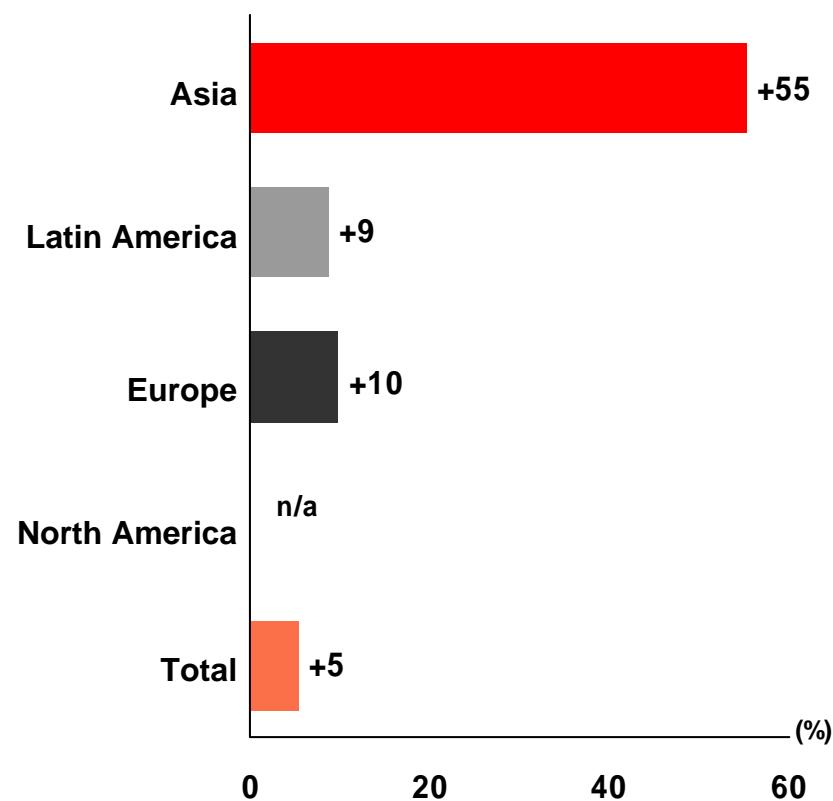
Global Banking and Markets

Regional mix		
Profit before tax, 2007, US\$m	2006	2007
Asia	2,604	4,042
Latin America	475	517
Europe	2,304	2,527
North America	423	(965)
Total	5,806	6,121

Management view of total operating income 2007, US\$m		
	2006	2007
Global Markets	5,533	5,074
Global Banking	3,907	4,836
Balance Sheet Management	713	1,226
HSBC Global Asset Management	1,066	1,336
Principal Investments	686	1,253
Other	1,732	1,555
Total	13,637	15,280

Growth in profit before tax (%)

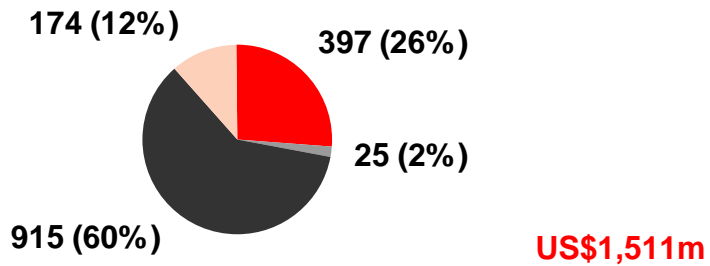
2007 v 2006



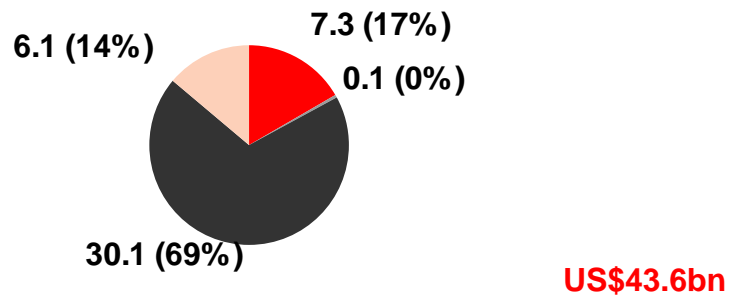
Private Banking

Regional mix

Profit before tax, 2007, US\$m

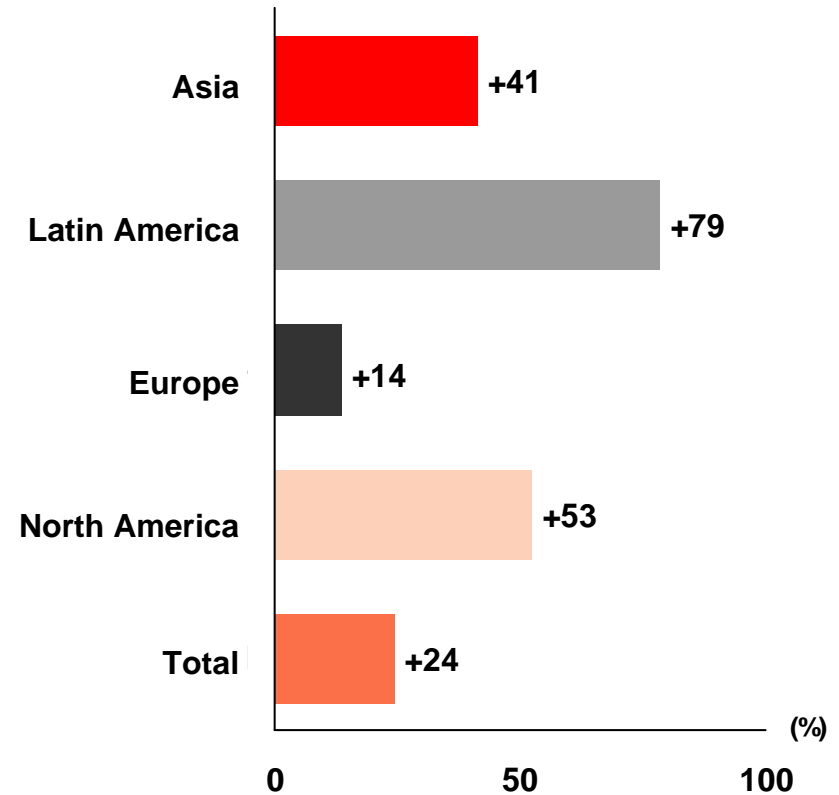


Customer lending, 31 December 2007, US\$bn

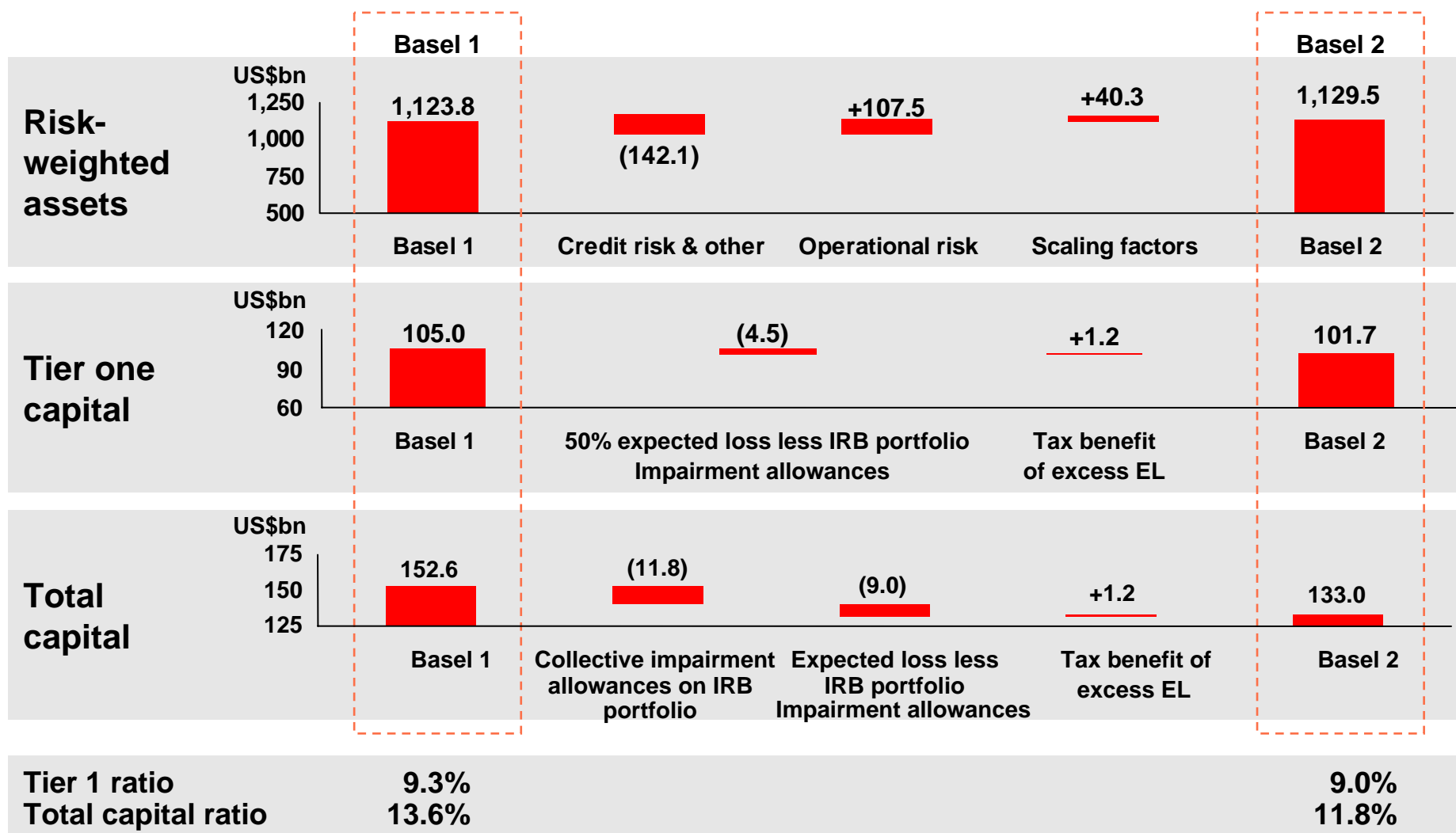


Growth in profit before tax (%)

2007 v 2006



Capital on Basel 1 and 2 bases



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Key developments

- Increased delinquencies at December 2007 compared with June 2007 and December 2006 across all domestic portfolios as a result of the weak housing and mortgage industry, rising unemployment rates in certain markets and the impact of a weakening U.S. economy
 - Balance sheet loan impairment allowances for domestic real estate secured receivables increased US\$2.6 billion at 31 December 2007 compared with 31 December 2006
 - Increased balance sheet loan impairment allowances of US\$0.8 billion at 31 December 2007 for unsecured loans within US Retail Branch business, US\$0.8 billion for MasterCard/Visa cards and US\$0.3 billion for private label credit cards compared with 31 December 2006
- Continued decisive actions to right-size and recalibrate our businesses
 - Proactively reducing risk through refined product offerings in Retail Branch business
 - Reduced branch network to approximately 1,000 branches at 31 December 2007 from 1,382 at 31 December 2006 to align with forecasted demand and reduced credit risk appetite
 - Closed wholesale broker mortgage origination business in 3Q07
 - Ceased correspondent mortgage originations during 1H07
 - Reducing Mortgage Services (MS) portfolio (US\$5.3 billion reduction since 30 June 2007 and US\$13.4 billion from 31 December 2006)
 - Continued focus on strengthening businesses for the future
- Continued outreach and assistance to our mortgage customers
 - Contacted over 41,000 customers and modified more than 10,300 loans ahead of adjustable rate mortgages (ARM) resets (since October 2006)
 - Refinanced more than 4,000 ARM customers of our Mortgage Services business with adjustable rate mortgages to fixed rate mortgages
 - Restructured loan volume up significantly as we continue to work with our customers who, in our judgment, evidence continued payment probability
- Continued effort to enhance customer value, service and experience
 - Credit Card business implemented certain changes related to fee and finance charge billings as a result of continuing reviews to ensure our practices reflect our brand principles
- Actions taken highlight HSBC's commitment to our stakeholders and businesses
 - Maintained strong liquidity during recent credit market conditions
 - Capital infusions from HSBC Holdings plc totaled US\$950 million in 2007
 - Additional capital infusion of US\$1.6 billion from HSBC Holdings plc in 1Q08
- As a result of business climate and strategic changes to product offerings and business strategies, we determined that goodwill balances of approximately US\$5.9 billion were impaired related to our Mortgage Services, Retail Branch, Motor Vehicle Finance and UK businesses during 2007. This charge is not applicable at the HSBC Holdings plc level.

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Financial results

US\$m				% Better/(Worse)	
	1H06	1H07	2H07	versus 2H06	versus 1H07
Net operating income before loan impairment charges ⁽¹⁾	7,793	8,227	9,311	19.5%	13.2%
Loan impairment and other related charges	(4,772)	(4,073)	(8,107)	(69.9%)	(99.0%)
Net operating income	3,021	4,154	1,204	(60.1%)	(71.0%)
Total operating expenses excluding goodwill impairment	(3,003)	(3,040)	(2,951)	1.7%	2.9%
Profit (loss) before goodwill impairment	18	1,114	(1,747)	n/a	n/a
Goodwill impairment	-	-	(5,959)	n/a	n/a
Profit (Loss) before tax ⁽²⁾	18	1,114	(7,706)	n/a	(791.7%)
Cost efficiency ratio ⁽³⁾	38.5%	37.0%	31.7%	680 bps	530 bps
Cost efficiency ratio – normalized ⁽⁴⁾	38.4%	37.7%	37.4%	100 bps	30 bps
Customer Loans & Advances (as at period end)	182,644	178,222	177,732	(2.7%)	(0.2%)

Note: The figures above are presented on an IFRS Management Basis

See Note 21 'Business Segments' of Form 10-K for the period ended 31 December 2007 for a reconciliation of IFRS to US GAAP

(1) Includes fair value option income/(loss) of US\$(32) million, US\$161 million, and US\$1,422 million for 2H06, 1H07, and 2H07, respectively

(2) 2H07 loss before tax excluding goodwill impairment impact (US\$1,343 million relating to Mortgage Services, including Decision One business, US\$3,730 million relating to Retail Branch business, US\$476 million related to Motor Vehicle Finance business and US\$410 million relating to the UK business) is US\$(1,747) million

(3) Cost efficiency ratio excluding the impact of the goodwill impairment charge of US\$5,959 million in 2H07

(4) Cost efficiency ratio excluding the impact of the goodwill impairment charge of US\$5,959 million in 2H07, also normalized to exclude the impact of fair value option income/(loss) of US\$(32) million, US\$161 million, and US\$1,422 million for 2H06, 1H07 and 2H07, respectively

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Financial results

US\$m	2006	2007	% Better/(Worse) versus 2006
Net operating income before loan impairment charges ⁽¹⁾	15,763	17,538	11.3%
Loan impairment and other related charges	(7,022)	(12,180)	(73.5%)
Net operating income	8,741	5,358	(38.7%)
Total operating expenses, excluding goodwill impairment	(5,922)	(5,991)	(1.2%)
Profit (loss) before goodwill impairment	2,819	(633)	n/a
Goodwill impairment	-	(5,959)	n/a
Profit (Loss) before tax ⁽²⁾	2,819	(6,592)	(333.8%)
Cost efficiency ratio ⁽³⁾	37.6%	34.2%	340 bps
Cost efficiency ratio – normalized ⁽⁴⁾	37.6%	37.5%	10 bps
Customer Loans & Advances (as at period end)	182,644	177,732	(2.7%)

Notes:

- (1) Includes fair value option income/(loss) of US\$(4) million and US\$1,583 million for 2006 (YTD) and 2007 (YTD), respectively
- (2) 2007 YTD profit before tax excluding the goodwill impairment impact (US\$1,343 million relating to Mortgage Services, including Decision One business, US\$3,730 million relating to Retail Branch business, US\$476 million related to the Motor Vehicle Finance business and US\$410 million relating to the UK business) is US\$(633) million
- (3) Cost efficiency ratio excluding the impact of the goodwill impairment charges of US\$5,959 million in 2007
- (4) Cost efficiency ratio excluding the impact of the goodwill impairment charges of US\$5,959 million in 2007, also normalized to exclude the impact of fair value option income/(loss) of US\$(4) million and US\$1,583 million for 2006 (YTD) and 2007 (YTD), respectively

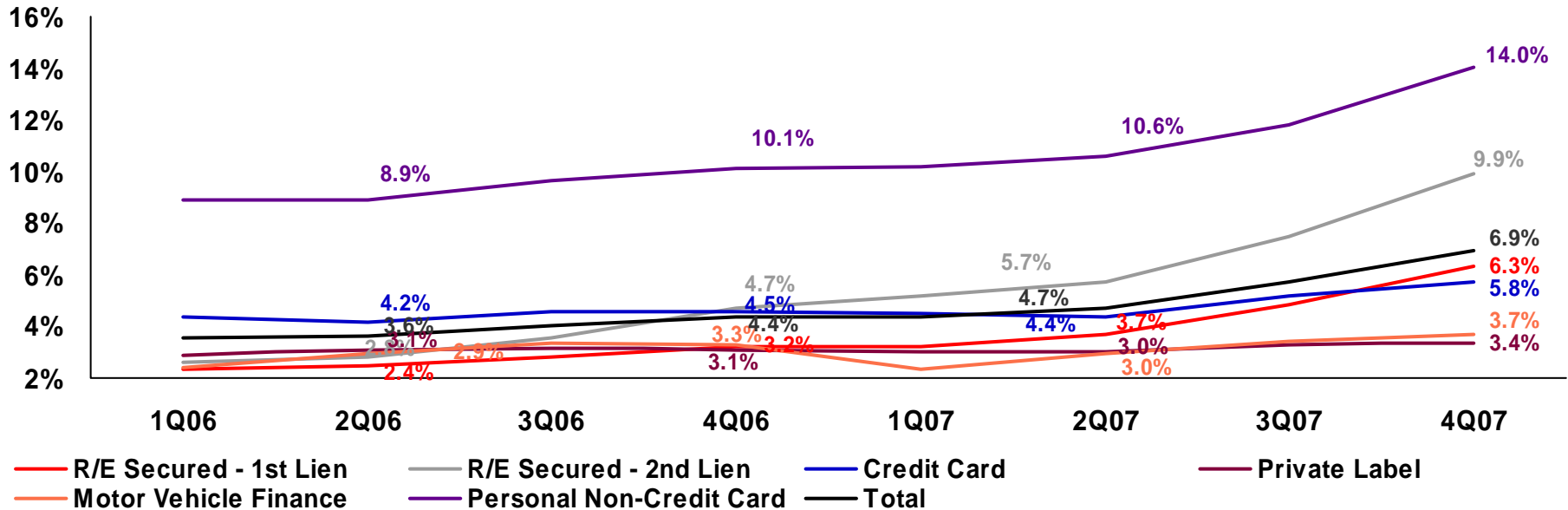
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Financial results

- **2007 loss before tax of US\$6.6 billion was US\$9.4 billion below prior year due to higher loan impairment charges of US\$5.2 billion and goodwill impairment of approximately US\$5.9 billion (US\$1.3 billion in 3Q07 at the Mortgages Services business and 4Q07 charges of US\$3.7 billion at the Retail Branch business, US\$0.5 billion at Motor Vehicle Finance business and US\$0.4 billion at the UK business), partially offset by fair value option income on debt market valuation. Excluding the impact of the goodwill impairment, the 2007 loss before tax of US\$633 million was US\$3.5 billion below the prior year**
- **Higher net operating income before loan impairment charges primarily driven by income from fair value option of debt issued as 2007 was impacted by widening of credit spreads (US\$1.6 billion) and higher revenues from the Credit Card business (US\$1.0 billion), partly offset by lower Mortgage Services revenues from a declining portfolio**
- **2007 loan impairment charges increased US\$5.2 billion (or 73.5 percent) from prior year largely driven by increases in our domestic real estate loan portfolio (US\$2.2 billion), personal non-credit card loan portfolio (US\$1.1 billion) and card and retail loan portfolios (US\$1.7 billion)**
 - **A marked increase in delinquency within the Retail Branch business as the U.S. residential market further deteriorated, credit conditions continued to tighten for a broad segment of customers, removing refinancing alternatives and slowing portfolio run-off**
 - **Mortgage Services continued to experience higher loan impairment charges and delinquencies as portions of this portfolio purchased in 2005 and 2006 continued to season. In addition, this portfolio has also been impacted by worsening industry trends and slower receivable run-off, particularly in the second lien portfolio**
 - **It is now generally believed that the deterioration in the housing market will be deeper in terms of its impact on housing prices and the duration will extend at least through 2008**
 - **Credit Card business experienced higher loan impairment charges (US\$1.2 billion) from higher delinquencies due to receivable growth, mix changes, portfolio seasoning and an increase in bankruptcy filings. Also, in the fourth quarter of 2007, Credit Card began to experience increases in delinquency in all vintages, particularly in the markets experiencing the greatest home value depreciation and rising unemployment rates**
 - **Private Label business experienced higher loan impairment charges (US\$0.5 billion) from higher delinquencies, particularly in the power sports portfolio, an increase in bankruptcy filings and the effect from a weakening U.S. economy**

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2+ delinquency ratio

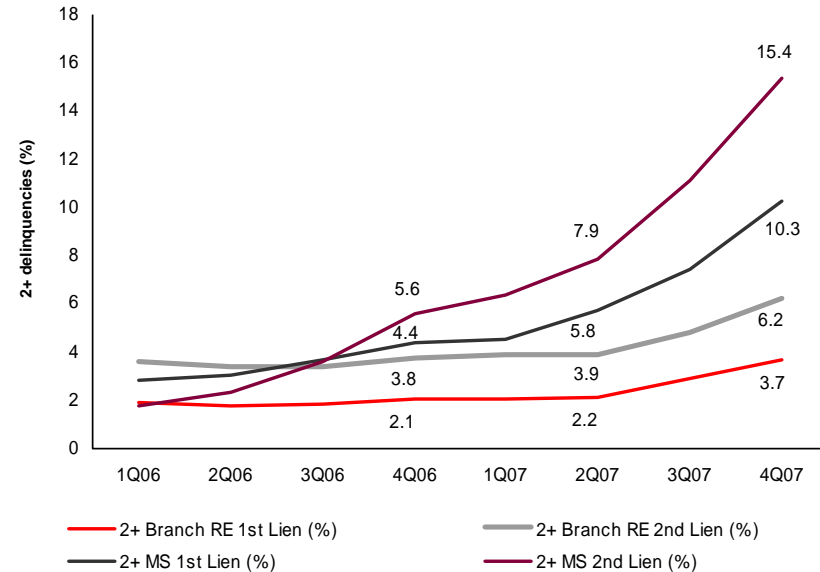
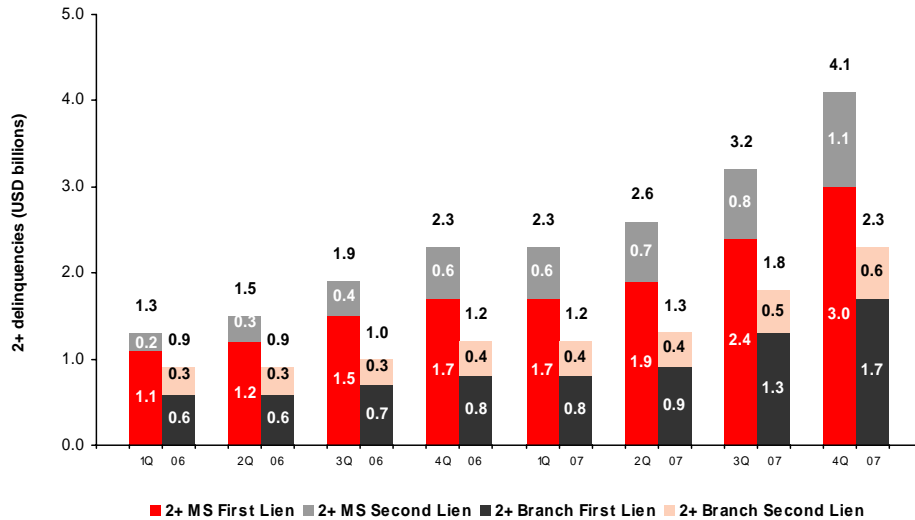


- Magnitude of the total 2+ delinquency ratio increase (57 percent over 4Q06) reflects the weak housing and mortgage industry and rising unemployment rates in certain markets as well as the impact of a weakening U.S. economy
- First and second lien real estate secured 2+ delinquencies were also negatively impacted by the discontinuation of new correspondent channel acquisitions as well as product changes in the US Retail Branch business, which reduced the outstanding principal balance of the portfolios
- Delinquencies in the Credit Card portfolio were also impacted by seasoning and a higher mix of near prime and non-prime balances
- Personal non-credit card 2+ delinquencies increased due to seasoning of portfolio and a deterioration of 2006 and 2007 vintages in certain geographic regions

Note: See 'Credit Quality' in the MD&A of Form 10-K for the period ended 31 December 2007 for delinquency information reported on a US GAAP basis

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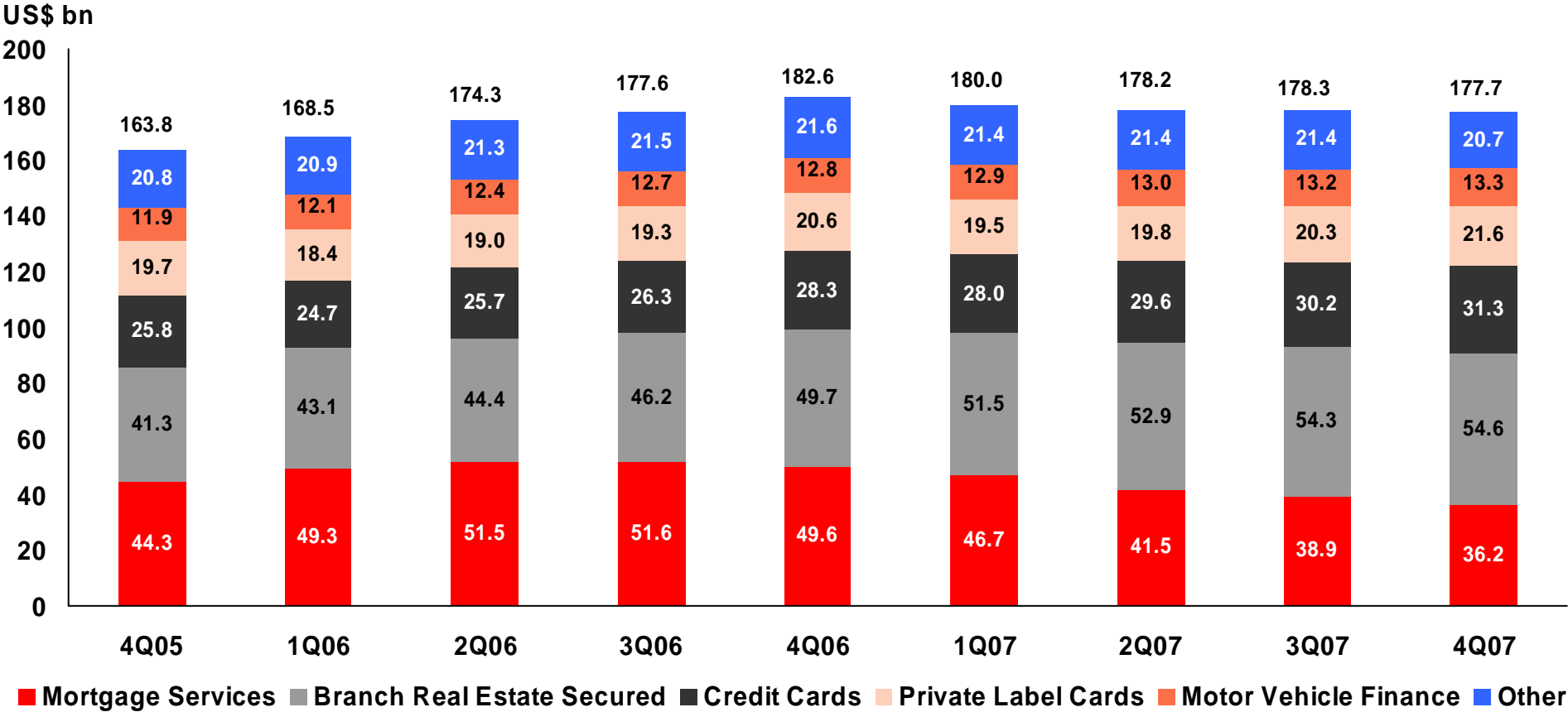
Real estate secured 2+ delinquency



- 2005 and 2006 vintages in Mortgage Services continue to season. As the portfolio continues to decline, the delinquency ratio will continue to increase
- Increase in 2+ delinquencies for Retail Branch real estate secured due to industry-wide worsening of credit environment and broad based deterioration of the U.S. residential property market during 2007

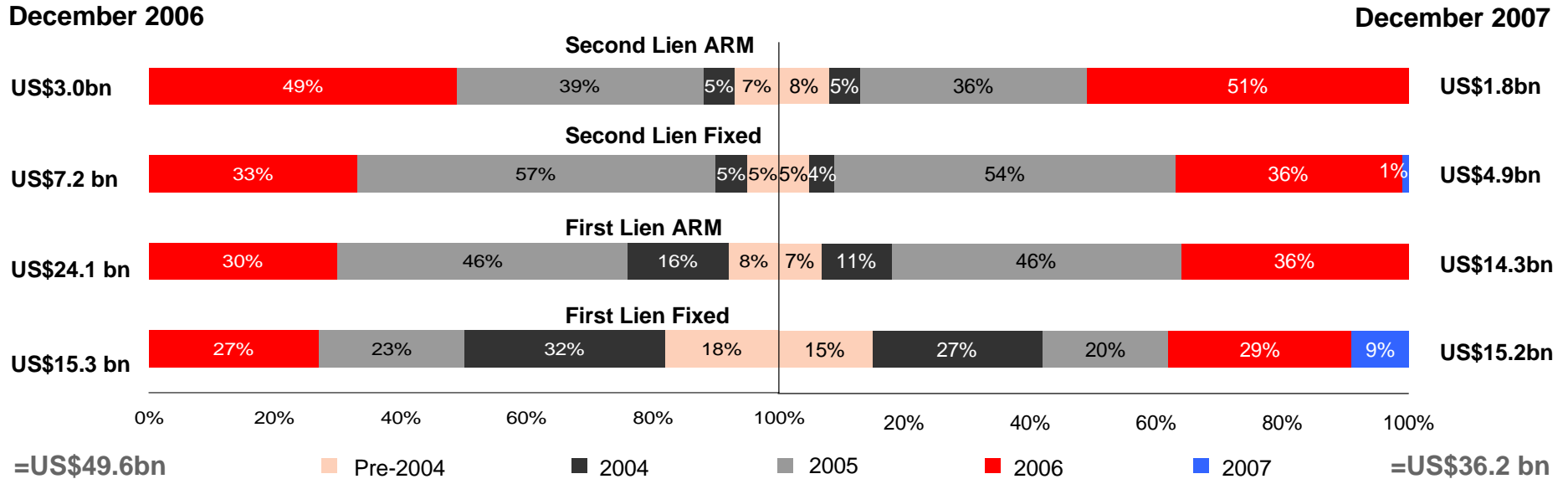
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Customer loans and advances



Mortgage Services

Mortgage loans by vintage and type

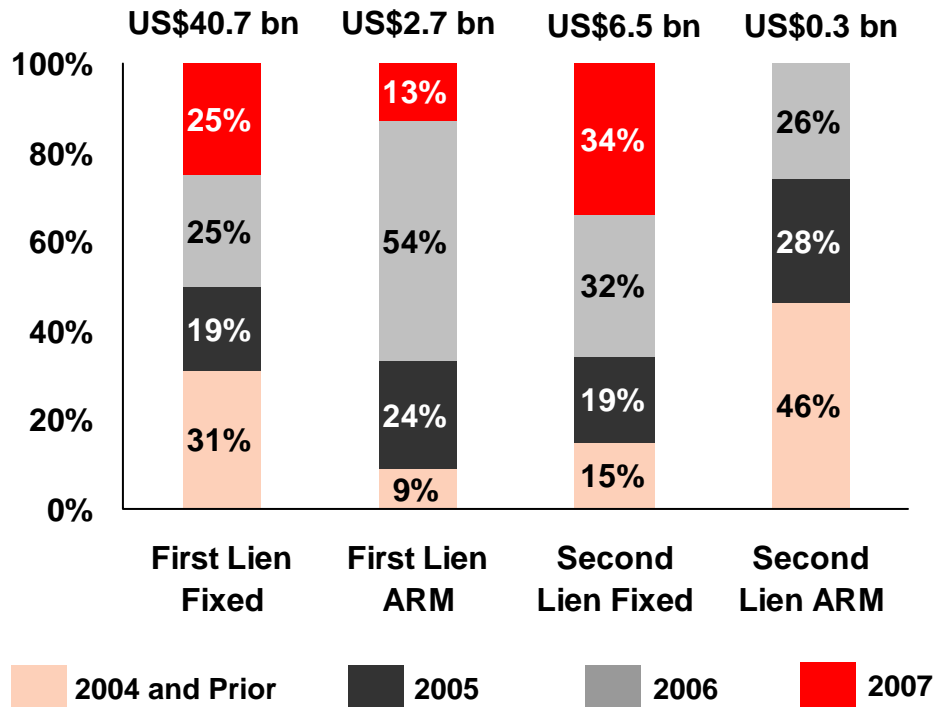


Vintages (US\$bn)	December 2006	December 2007
2007		1.5
2006	15.2	12.2
2005	19.9	12.9
2004	9.3	5.9
Pre-2004	5.2	3.7
	49.6	36.2

US Retail Branch Loans by vintage and type

December 2007

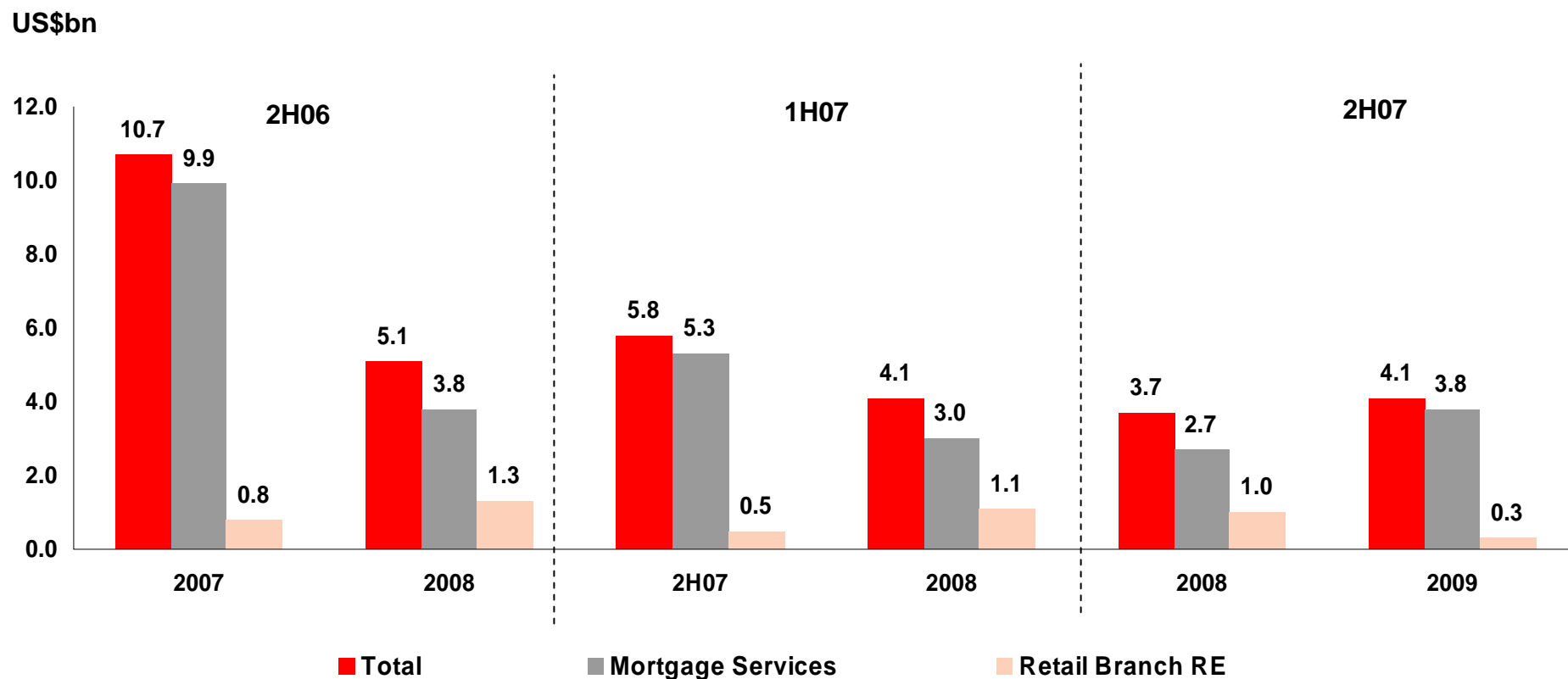
Vintages (US\$ bn)



December 2007	
2007	12.9
2006	13.6
2005	9.9
2004 and Prior	13.8
Total	50.2

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Adjustable rate mortgages – ARM resets



Note:

The reset volumes above do not reflect loans that were previously modified, that will reset in the specified period. Unless customers who have benefited from a loan modification are able to obtain other financings, those loans will also be subject to an interest rate reset at the end of the modification period. In 2008 we anticipate approximately US\$1.3 billion of these modified loans will experience their first rate reset