2004

HSBC Holdings plc

Annual Review

The world's local bank

HSBC

HSBC

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises over 9,800 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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

HSBC provides a comprehensive range of financial services to more than 110 million customers: personal financial services; consumer finance; commercial banking; corporate, investment banking and markets; and private banking.

Contents

Illustrative Theme

Technology

As the world's local bank, HSBC relies on the most advanced communications and information systems to link its far-flung network of offices on six continents. Technology is deployed in virtually every activity to gain competitive advantage through product innovation, new delivery channels and better customer service in an evermore challenging market-place. Deploying technology effectively supports HSBC's key strategic objective of profitable growth.

To its users — customers and staff — technology must be efficient, fast, convenient, user friendly and secure, as the photographs on the cover and on the following pages show. The chapter on 'HSBC's Technology for Customers, Shareholders and Communities' on pages 23-27 sets out our approach in greater detail.

Cover picture:

Detail of a robot arm, with its red beam barcode reader, retrieving a tape cartridge containing up to 200 gigabytes of uncompressed customer data in a large, fully automated silo at HSBC's South Yorkshire Group Data Centre in the UK. Measuring only 12 centimetres by 10.7 centimetres by 2.5 centimetres, this is one of the centre's 70,000 tape cartridges that store back-up online customer data and scanned images of customers' documents used by branches and call centres to provide an efficient service.

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2004.* It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full *Annual Report and Accounts.* The 'Directors' Remuneration Report' in this Summary Financial Statement is the complete Report contained in the *Annual Report and Accounts.* The *Annual Report and Accounts 2004* also contains a description of the significant differences between corporate governance standards applicable to US companies listed on the New York Stock Exchange and the corporate governance practices followed by HSBC Holdings plc. The description is available at www.hsbc.com by selecting 'Investor Centre', then 'Differences in HSBC Holdings/New York Stock Exchange corporate governance practices'.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2004* from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC-North America, 2700 Sanders Road, Prospect Heights, Illinois 60070, USA; or from Direction de la Communication, CCF S.A., 109 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Computershare Hong Kong Investor Services Limited, Hopewell Centre, 46th Floor, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on the inside back cover.

The *Annual Report and Accounts 2004* may be viewed on our web site: www.hsbc.com.

Annual Review 2004

Financial Highlights

2003	Year ended 31 December	**2004**	*2004*	*2004*
US$m	For the year	**US$m**	*£m*	*HK$m*
	Excluding goodwill amortisation			
14,401	Profit before tax	**19,426**	10,607	151,309
10,359	Profit attributable	**13,658**	7,457	106,382
	After goodwill amortisation — reported earnings			
12,816	Profit before tax	**17,608**	9,615	137,149
8,774	Profit attributable	**11,840**	6,465	92,222
6,532	Dividends	**7,301**	3,986	56,867
	At year-end			
74,473	Shareholders' funds	**86,623**	44,784	673,321
74,042	Capital resources	**90,780**	46,933	705,633
643,556	Customer accounts and deposits by banks	**777,290**	401,859	6,041,876
1,034,216	Total assets	**1,276,778**	660,094	9,924,395
618,662	Risk-weighted assets	**759,210**	392,512	5,901,339
US$	**Per share**	**US$**	*£*	*HK$*
0.99	Earnings excluding goodwill amortisation	**1.25**	0.68	9.74
0.84	Basic earnings	**1.09**	0.60	8.49
0.83	Diluted earnings	**1.07**	0.58	8.33
	Dividends			
0.24	— first interim	**0.13**	0.07	1.01
0.12	— second interim	**0.13**	0.07	1.02
0.24	— third interim	**0.13**	0.07	1.01
–	— fourth interim[1]	**0.27**	0.14	2.10
6.79	Net asset value	**7.75**	4.01	60.24
	Share information			
10,960m	US$0.50 ordinary shares in issue	**11,172m**		
US$172b	Market capitalisation	**US$190b**		
£8.78	Closing market price per share	**£8.79**		
	Total shareholder return against peer index[2]	**HSBC**	**Benchmark**	
	— over 1 year	**105**	110	
%	**Ratios**	**%**		
13.0	Return on average shareholders' funds	**14.4**		
1.01	Post-tax return on average assets	**1.12**		
1.78	Post-tax return on average risk-weighted assets	**1.96**		
	Ratios — excluding goodwill amortisation			
24.7	Return on net tangible equity[3]	**25.4**		
1.21	Post-tax return on average tangible assets	**1.31**		
2.07	Post-tax return on average risk-weighted assets	**2.23**		
	Capital ratios			
8.9	— tier 1 capital	**8.9**		
12.0	— total capital	**12.0**		
51.3	**Cost:income ratio** (excluding goodwill amortisation)	**51.1**		

1 *The fourth interim dividend of US$0.27 per share is translated at the closing rate on 31 December 2004. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 25 April 2004.*

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

3 *Attributable profit excluding goodwill amortisation divided by average shareholders' funds after deduction of average purchased goodwill.*

Overview of Results

Geographical Distribution of Results

Figures in US$m	Year ended 31 December 2004		Year ended 31 December 2003	
Profit before tax — excluding goodwill amortisation		%		%
Europe	**6,172**	**31.7**	4,862	33.7
Hong Kong	**4,753**	**24.5**	3,730	25.9
Rest of Asia-Pacifc	**1,877**	**9.7**	1,426	9.9
North America	**6,180**	**31.8**	4,257	29.6
South America	**444**	**2.3**	126	0.9
	19,426	**100.0**	14,401	100.0
Goodwill amortisation	**(1,818)**		(1,585)	
Group profit before tax	**17,608**		12,816	
Tax on profit on ordinary activities	**(4,507)**		(3,120)	
Profit on ordinary activities after tax	**13,101**		9,696	
Minority interests	**(1,261)**		(922)	
Profit attributable	**11,840**		8,774	
Profit attributable — excluding goodwill amortisation	**13,658**		10,359	

Distribution of Results by Customer Group

Figures in US$m	Year ended 31 December 2004		Year ended 31 December 2003	
Profit before tax — excluding goodwill amortisation		%		%
Personal Financial Services	**5,377**	**27.7**	4,008	27.8
Consumer Finance[1]	**3,667**	**18.9**	2,225	15.5
Total Personal Financial Services	**9,044**	**46.6**	6,233	43.3
Commercial Banking	**4,169**	**21.5**	3,158	21.9
Corporate, Investment Banking and Markets	**5,196**	**26.7**	4,443	30.9
Private Banking	**693**	**3.6**	563	3.9
Other	**324**	**1.6**	4	—
Group profit before tax — excluding goodwill amortisation	**19,426**	**100.0**	14,401	100.0
Goodwill amortisation	**(1,818)**		(1,585)	
Group profit before tax	**17,608**		12,816	

1 *Comprises HSBC Finance Corporation's consumer finance business and the US residential mortgages and credit card portfolios acquired by HSBC Bank USA, N.A. from HSBC Finance Corporation and its correspondents since December 2003.*

Five-Year Comparison

	2004	2003	2002	2001	2000
	US$m	US$m	US$m	US$m	US$m
At year-end					
Share capital	**5,587**	5,481	4,741	4,678	4,634
Shareholders' funds	**86,623**	74,473	51,765	45,688	45,631
Capital resources	**90,780**	74,042	57,430	50,854	50,964
Customer accounts	**693,751**	573,130	495,438	449,991	427,069
Undated subordinated loan capital	**3,686**	3,617	3,540	3,479	3,546
Dated subordinated loan capital	**22,800**	17,580	14,831	12,001	12,676
Loans and advances to customers[1]	**669,831**	528,977	352,344	308,649	289,837
Total assets	**1,276,778**	1,034,216	758,605	695,545	673,503
For the year					
Net interest income	**31,024**	25,598	15,460	14,725	13,723
Other operating income	**19,563**	15,474	11,135	11,163	10,850
Operating profit before provisions	**22,898**	18,540	10,787	10,484	10,486
Provisions for bad and doubtful debts	**(6,357)**	(6,093)	(1,321)	(2,037)	(932)
Pre-tax profits	**17,608**	12,816	9,650	8,000	9,775
Profit attributable to shareholders	**11,840**	8,774	6,239	4,992	6,457
Dividends	**(7,301)**	(6,532)	(5,001)	(4,467)	(4,010)
	US$	US$	US$	US$	US$
Per ordinary share					
Earnings excluding goodwill amortisation	**1.25**	0.99	0.76	0.63	0.80
Basic earnings	**1.09**	0.84	0.67	0.54	0.74
Diluted earnings	**1.07**	0.83	0.66	0.53	0.73
Dividends	**0.66**	0.60	0.53	0.48	0.435
Net asset value	**7.75**	6.79	5.46	4.88	4.92
Share information					
US$0.50 ordinary shares in issue	**11,172m**	10,960m	9,481m	9,355m	9,268m
	%	%	%	%	%
Financial ratios					
Dividend payout ratio[2]	**52.7**	60.6	69.7	76.2	54.4
Post-tax return on average total assets	**1.12**	1.01	0.97	0.86	1.31
Return on average shareholders' funds	**14.4**	13.0	12.4	10.6	15.8
Average shareholders' funds to average total assets	**7.02**	7.06	6.91	6.87	6.64
Capital ratios					
Tier 1 capital	**8.9**	8.9	9.0	9.0	9.0
Total capital	**12.0**	12.0	13.3	13.0	13.3
Amounts in accordance with US GAAP[3]					
	US$m	US$m	US$m	US$m	US$m
Income statement for the year					
Net income available for ordinary shareholders	**12,506**	7,231	4,900	4,911	6,236
Other comprehensive income	**983**	7,401	5,502	(1,439)	(511)
Dividends	**(6,932)**	(6,974)	(4,632)	(4,394)	(3,137)
Balance sheet at 31 December					
Total assets	**1,266,365**	1,012,023	763,565	698,312	680,076
Shareholders' funds	**90,082**	80,251	55,831	48,444	48,072
	US$	US$	US$	US$	US$
Per ordinary share					
Basic earnings	**1.15**	0.69	0.52	0.53	0.71
Diluted earnings	**1.13**	0.69	0.52	0.53	0.70
Dividends	**0.63**	0.685	0.495	0.48	0.34
Net asset value at period end	**8.06**	7.32	5.89	5.18	5.19

1 *Net of suspended interest and provisions for bad and doubtful debts.*
2 *Dividends per share expressed as a percentage of earnings per share, (excluding goodwill amortisation).*
3 *Full details of the reconciliation to US GAAP are set out in the* Annual Report and Accounts 2004.

HSBC Group member CCF was the first French bank to use pioneering mobile phone technology to offer its most valuable personal customers secure, password-protected access to their accounts via the internet. Called CCF Mobile i-mode, the service includes viewing account details and carrying out routine transactions even when the customer is on the move and where there may be no internet access. This HSBC *Premier* customer — an executive with a French multinational — makes good use of his time on the platform at the Gare du Nord, Paris, while waiting to board a Eurostar train for a business meeting in London. He is using the i-mode network to check the balance on his credit card account, the shares he has ordered — and that the payment for his hotel booking at a French ski resort has been transferred.

Group Chairman's Statement

2004 was another good year for HSBC. The solid performance of the first six months continued and we were able to build on the record results of 2003.

During the last two years, we have also completed the integration of a major consumer finance business in the United States and a large commercial bank in Mexico, two of the most important and successful acquisitions in our recent history. In addition, we have strengthened the foundations for our future development in mainland China.

We grew profit attributable to shareholders by 35 per cent to US$11.8 billion. Excluding the amortisation of goodwill, which is the basis we use internally to measure our performance, profit attributable was US$13.7 billion. This represents US$1.25 per share, an increase of 26 per cent over 2003. Our earnings growth was well diversified across all our main geographical regions and our customer groups, all of which achieved record results. Overall, our performance was driven by broadly based revenue growth of 23 per cent and by improved credit conditions. These favourable conditions necessitated a lower level of new provisions for bad and doubtful debts in both the personal and corporate sectors and provided opportunities to recover provisions made previously.

In the light of this performance, and the Group's continuing capital strength, the Board has declared a fourth interim dividend of US$0.27 per share, bringing the total dividend for the year to US$0.66 per share, an increase of 10 per cent over 2003. The dividend is payable on 4 May 2005, with a scrip dividend alternative available for shareholders who prefer this option.

Strategy

2004 was the first year of our new strategic plan, 'Managing for Growth', which I described in last year's *Annual Review*. Stephen Green provides a detailed report on the progress we have made in implementing 'Managing for Growth' on pages 11 to 22.

Underpinning our strategy is our assessment of the major trends which are likely to affect the demand for financial services over the next quarter of a century. We believe that the regions of highest economic growth will be an American-led NAFTA on the one hand, and the emerging markets of Asia and South America on the other.

Demographic trends will be a major influence. Forecasts suggest that, in most of the developed world, populations will remain stable and ageing. As a result, there will be a growing demand for pensions (which cannot be funded wholly by governments), for retirement-related services, and for insurance and wealth conservation products. By contrast, the emerging markets will continue to experience the growth of their young populations.

Those countries whose populations are sufficiently large to generate internal demand, and which combine good government and rising standards of education, will attract work from higher cost countries elsewhere in the world, thus accelerating the creation of major new consumer markets and a demand for all kinds of financial services, including consumer finance. Many of these economies are deregulating, albeit at a pace with which, quite rightly, they feel comfortable. This will enable international banks to increase their participation and their contribution to economic development.

China, India and Brazil are all cases in point and, for HSBC, none is more important than China, where we have had a continuous presence since we were founded in 1865. Hence the significance of our investment in 2004, at a cost of approximately US$1.7 billion of a 19.9 per cent stake in Bank of Communications, China's fifth largest bank with over 2,700 branches. Combined with the steady expansion of our own branch network on the mainland and other strategic stakes in Bank of Shanghai and in Ping An Insurance, HSBC is laying the foundations of its future in China and investing in a country which, within a few decades, may well be the largest economy in the world.

HSBC has made a number of significant acquisitions in recent years and has access to the necessary resources to respond to any opportunities which may arise. It is important to note, however, that our strategy does not depend on acquisitions. When we consider the possibility of purchasing a business we do so according to a set of strict criteria. These include comparing the expected returns from

Group Chairman's Statement (continued)

an acquisition with those we might generate by using the same funds to build our business organically. We only proceed with acquisitions that we believe will deliver a superior return to our shareholders. When we feel the terms being offered to us are too stretching, we are quite prepared to stand aside.

Our Brand

Recognition of the HSBC brand continues to grow. During the course of 2004, Household International, Inc. adopted the HSBC name for much of its business. In France, CCF plans to follow suit with much of its operations later this year. According to Interbrand, a leading brand consultancy, the HSBC brand now ranks as the 33rd 'Best Global Brand' by value and first amongst British-based companies. We were delighted to receive a number of awards during the year, including being named 'Global Bank of the Year' by *The Banker* magazine for the third year in a row, and the world's 'Best Bank' of the year by *Euromoney* magazine. It is particularly gratifying to note that some of the citations highlight HSBC's overall conduct and commitment to good governance. It is our objective to make the HSBC brand synonymous with the highest standards of behaviour, fair value for customers, and corporate responsibility everywhere we operate.

Customers

It is a mark of confidence in our brand that we have been able to attract a significant number of new clients and to provide a wider range of services to many existing relationships. Customers lie at the heart of any business and, in financial services in particular, customer relationships are, above all, based on trust. Our customers range from young people learning to manage their money for the first time to the world's largest corporations with highly sophisticated financial needs. It is a fundamental principle of HSBC to treat all customers with the highest standards of integrity and to offer our products and services at a fair and transparent price. Many personal customers find financial services perplexing and there is ample scope in our industry as a whole to improve levels of transparency and simplicity. That is why, for example, HSBC in the UK has embarked upon a programme to rationalise its own personal finance range, offering customers clear and simple choices. It is also why HSBC in the United States has devoted significant resources to promoting financial literacy, an initiative we plan to extend to other parts of the world.

At the same time, technology is revolutionising our relationships with our customers, giving them greater information about, and more direct control over, their finances than ever before. We have chosen technology as the illustrative theme of this year's *Annual Review* and you can read more about what it means for our shareholders and customers in the article on pages 23-27.

Colleagues

A company is much more than a legal entity and HSBC is an organisation made up of 253,000 individuals, working in 77 countries and territories, serving the interests of our shareholders by serving our customers worldwide. Our success is a tribute to their talents, dedication and sheer hard work and I thank my colleagues, at all levels of HSBC, for their immense contribution to our performance. It seems that no year passes without presenting a special challenge to colleagues somewhere in the world. 2004 was the turn of the Cayman Islands, where Hurricane Ivan destroyed or damaged 95 per cent of the buildings. Many of our staff lost their homes and virtually all their possessions. Despite this, they showed an overwhelming commitment to HSBC and, with splendid support from colleagues overseas, ensured that our customers' business continued with as little interruption as possible. One young member of staff walked 15 miles through sand dunes to report for work and apologised for his late arrival. With colleagues such as this, our shareholders' funds and our customers' business are in safe hands.

One aspect of our internationalism and a great strength of HSBC is the diversity of our workforce. We have a very broad ethnic mix. Around a quarter of my colleagues are Asian, two out of ten Latin American and four out of ten Caucasian. However, we recognise that we still have work to do to improve the ethnic and gender mix of our senior management team and to ensuring that it fully reflects the diversity of our customer base. These issues are being addressed at Board level and reflect the importance we attach to making HSBC a place of opportunity for all our employees.

The Board

There have been a number of changes to the Board since the last *Annual Review* was published. We have announced that David Eldon, Chairman of The Hongkong and Shanghai Banking Corporation Limited since 1999 will retire at this year's AGM. In a career spanning 37 years, David has made an outstanding contribution to the HSBC Group. He has led the bank in Asia with great distinction and helped to secure strong foundations for our future in the region, including our growth in mainland China.

We have also announced that William Aldinger, Chairman and Chief Executive Officer of HSBC North America Holdings Inc., the holding company for our US and Canadian businesses, is retiring from HSBC on 29 April 2005. Bill Aldinger joined us in 2003 when we acquired Household International (now HSBC Finance Corporation) where he had served as Chairman and Chief Executive Officer since 1994. He agreed to stay on for three years to oversee the company's integration into the enlarged HSBC Group. It is a mark of Bill's energy and leadership that his task has been completed successfully and faster than expected and that he has established a talented management team to take our North American business to the next stage of its development.

We have appointed two new independent non-executive Directors. James Hughes-Hallett, Chairman of John Swire & Sons Limited, and John Coombe, an Executive Director and Chief Financial Officer of GlaxoSmithKline plc, have been appointed Directors of HSBC Holdings plc with effect from 1 March 2005.

HSBC's Board is a source of great strength and reflects its international outlook. Your Board is made up of seven executive Directors and 15 non-executive Directors who collectively have worked in many countries and have experience of many different industries. They play a vital role in ensuring that HSBC is managed to the highest possible standards as well as providing strategic advice on a broad range of issues.

Last year, we commissioned external consultants to undertake an independent performance evaluation of the Board and its Committees. The rigour of that process gave a robust quality assurance of the Board and of our corporate governance practices and procedures. This year, the Board asked me to undertake a review based on the same criteria used by the external consultants. This evaluation again covered Board structure, dynamics, capabilities and processes, corporate governance, strategic clarity and alignment and the performance of individual directors in a series of one-to-one interviews. The findings, which were positive and constructively self-critical, have been discussed in a meeting with non-executive Directors. Points for improvement are being actioned.

Your Board aspires to the highest standards of corporate governance. We are committed to complying with the Combined Code on corporate governance in the UK, except where we firmly believe that to do so would threaten the success of our business, and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. This year, we will also meet the additional requirements of the Sarbanes Oxley Act in the United States. We hope that, in the fullness of time, there will be a consolidation of the various codes in force.

Corporate Social Responsibility

HSBC has a long tradition of social responsibility. Indeed, good conduct is a deeply embedded part of our character. Nevertheless, as thinking on a wide range of social, ethical and environmental issues continues to evolve, we are grateful to the distinguished members of our Corporate Social Responsibility Committee for helping us shape and enact policies and programmes and for encouraging us to communicate these more effectively than in the past. Pages 28-31 of *this Annual Review* describe the progress we have made during 2004 and, in April, we shall publish a full *CSR Report*.

Sumatra Earthquake and Tsunami

We were all appalled by the disaster in South-East Asia which occurred on 26 December 2004. Although HSBC was extremely fortunate in not suffering any casualties amongst our staff, a number of my colleagues lost family members or friends. As part of the international community, we responded both locally and at Group level to the appeals for funds for relief and reconstruction. We continue to support these efforts in the affected countries. In addition to the catastrophic loss of human life, many communities in the region face an extremely challenging economic outlook, with traditional livelihoods and tourism badly disrupted. HSBC is determined to play its full part in helping a region with which we have such a long and close relationship.

Outlook

As we look forward, the external imbalances which have been a feature of the global economy in recent years remain a potential vulnerability for the financial markets. However, some of the concerns which made for an uncertain economic outlook in 2004 have been allayed to a degree. Despite the six interest rate increases in the United States since the beginning of last year, the outstanding level of consumer debt has proved manageable, largely because employment levels have remained high and long-term interest rates have fallen. The US economy has also improved its competitiveness through a weaker dollar without fuelling inflation or significantly disturbing the foreign capital inflows necessary to fund continuing current account deficits.


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Far left: At the HSBC Center in Buffalo, New York State, large cheque sorters use state-of-the-art imaging technology to process up to two million cheques a night. In one step, the machines capture financial data needed to update customer accounts, take digital images of cheques being processed, and then sort them out by destination. Before leaving for a football match on Sunday, this customer goes online *(left)* – in the comfort of his own home — to see which of his cheques have cleared to enable him to reconcile his account. The service is fast, less prone to error, saves postage, and also reduces paper usage.

Above: Combating plastic card fraud is a constant preoccupation. In the UK, HSBC is a leader in an industry-wide programme using the latest, secure 'chip and PIN' technology aimed at cutting losses by half. At this country restaurant in Hertfordshire, which banks with HSBC, paying for lunch with a credit card now involves keying in a secret personal identification number (PIN) when the card, with a microchip embedded, is inserted in a portable, hand-held terminal. HSBC has already upgraded all its 3,000 ATMs and will complete the reissuing of most of its 10.5 million credit and debit cards by September 2005.

Group Chairman's Statement (continued)

Although investment in China has slowed, the country's rate of real economic growth has remained strong. The world economy has withstood a significant period of high oil prices and volatility in future price expectations. Indeed, it has also shown an impressive resilience. The financial architecture, through which risks and potential shocks are managed and distributed to diversify their impacts, has proved robust.

As the Western world recognises the economic consequences of increasing longevity, it has become clear that there is a growing need for higher savings rates and for greater individual responsibility in funding personal retirement provisions. If the current savings rates in some of the world's most developed economies remain too low, the risk increases of a sharp adjustment to consumption patterns when significant numbers of people suddenly recognise the need to make provision for their retirement. Currently, the world's excess liquidity, caused in part by the recycling of Asian trade surpluses at low rates, is masking this possibility. Nevertheless, a sudden correction to the savings imbalance is, we believe, a major risk in the world economic outlook.

We continue to position HSBC to withstand sudden economic volatility and to respond to opportunities for profitable growth. We are investing increasingly in countries with comparative economic advantages including those where population growth is generating economic momentum, where social costs are manageable, and where savings rates will sustain self-financed expansion.

In particular, we see China's economy as the most significant driver of economic growth over the next decade. China's importance to the oil-producing and natural resource economies will increase. Our investments in China during 2004 reflect our confidence in the country's future. We also recognise the growth prospects of our operations in Brazil, India, Mexico, South Korea, Turkey and the Middle East and, for the same reasons, we continue to invest in them. The considerable financial strength of our businesses in the UK, the United States and Hong Kong allows us to afford such investment while maintaining a progressive dividend policy.

Our principal focus for 2005 is to achieve further revenue growth together with improved productivity. The opportunities available to HSBC to grow profitably have never been broader, either by geography or by customer group. The task before us now is to ensure that we respond in full and, with the talents and dedication of my colleagues around the world, I am confident that we shall. I believe that we are uniquely well placed to meet the requirements both of our shareholders and those of the wider communities we serve.

Sir John Bond, *Group Chairman*

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive

Managing for Growth

2004 was the first full year of our new five-year strategic plan, which is designed to build on HSBC's record of profitable growth. We are pleased with progress to date. We aim to be the world's leading financial services company. Our success will be measured by total shareholder return (TSR) — defined as the increase in share price and the value of dividends reinvested — and we also benchmark ourselves against a peer group of financial institutions over a three-year rolling period to measure our comparative success. The plan also calls for several major initiatives: growing revenues through a world-class, ethical sales and marketing culture; focusing relentlessly on customers' needs; increasing productivity and controlling costs effectively; and managing our people in a way that encourages and rewards strong performance.

In addition, we will continue to make HSBC and its hexagon symbol one of the world's leading brands; we will encourage the diversity of our staff so that it reflects more fully that of our customers; and we will seek to complement our peer group TSR targets by also challenging ourselves to reach the top 25 per cent in earnings per share growth and in terms of greater efficiency as measured by the cost:income ratio.

We recognise the growing importance of e-channels, above all the internet, as a means of interacting with our customers, and we have invested in developing and improving our services. The growing popularity of e-channels is reflected in the amount of online business conducted by all our customer groups in 2004 as the following pages show.

Personal Financial Services

More than 100 million personal customers worldwide use our products and services. Personal banking services are managed and sold by 100,000 people using sophisticated, computer-based relationship management systems, and are available through 8,000 branches and 16,500 self-service terminals. We aim to ensure that our products and services are good value and transparent, and that our product range is simplified so our customers are not confronted by a confusing array of complicated services. In 2004, the business reported a pre-tax profit before goodwill amortisation of US$5.4 billion, an increase of 34 per cent over 2003.

The number of customers using HSBC *Premier*, the banking service for our most valuable personal customers, continued to grow. In May, our one-millionth HSBC *Premier* customer signed up and, by the end of the year, the total stood at 1.14 million — an increase of 250,000 in 12 months. By December, HSBC *Premier* was available in 33 countries.

Introducing innovative products and constantly updating existing ones is vital in meeting the needs of our customers. We successfully introduced Smart Home Mortgage in India, Malaysia, Taiwan and Singapore. This is aimed at high net worth customers and offers them enhanced cash management flexibility. In Mexico, concerns about the risk of high interest rates led us to introduce a low priced, fixed-rate mortgage with the ability to reduce the interest rate, depending on the customer's servicing record.

Jersey-based HSBC Bank International Limited caters for the specialist needs of those with regular financial requirements in more than one country. It provides offshore banking services designed for professional or 'lifestyle' expatriates worldwide. Following strong growth in 2004, the company now serves nearly 150,000 customers resident in almost 200 countries.

The internet continues to grow in importance, registering 18.9 million personal and consumer finance customers in 39 countries by 31 December — an increase of 40 per cent over a year earlier. At First Direct, our UK direct bank, 40 per cent of customers actively use its online banking service, and over 65 per cent of contacts from its customers are over the internet. Globally, the number of internet sales grew by more than 30 per cent, with customers particularly interested in obtaining credit cards and personal loans. As a result, internet-generated sales revenue also grew by over 30 per cent.

Our new global internet banking system will cater for customers in the United Kingdom, North America, the Middle East, the Hong Kong SAR and other parts of Asia-Pacific by the end of 2005. This will offer new and enhanced online banking functions and security.

Convenience and user-friendliness are key considerations when HSBC introduces innovative delivery channels. At Hong Kong's futuristic Chek Lap Kok Airport, 17 interactive terminals advertise that 'instant' travel insurance is available if passengers have forgotten to take out cover before going on holiday. Linked to the hsbc.com.hk web site, the machines are easy to use and approval is granted within just 60 seconds. Remote channels are now so popular that, in 2004, some 35 per cent of customers' travel sales were made through them, double the figure for 2003.

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

The number of HSBC cards in circulation rose in all our main markets. We are now one of the world's top 10 credit card issuers, and one of the UK's top credit card issuers following the acquisition of M&S Money and the successful joint management with the John Lewis Partnership of the John Lewis, Peter Jones and Waitrose store card. The M&S transaction brings an additional 3.5 million customers and US$4.8 billion in loans.

Our main task in North America was to move our credit card operations onto our new standard global credit card issuing and processing system called Worldwide Household International Revolving Lending (WHIRL). Developed in-house, WHIRL is a best-in-class system capable of handling large volumes of transactions efficiently. This move enabled a restructuring of the credit card and select credit products. We are also using the skills of HSBC Finance Corporation (formerly Household International, Inc.) in risk-based pricing with regard to loans, and developing our ability to cross-sell bank products to the company's affiliates.

In Asia, HSBC and Bank of Communications, in which we have a 19.9 per cent stake, signed a credit card co-operation agreement to issue credit cards jointly across mainland China in the first quarter of 2005.

HSBC's insurance operations performed well, with total policies in force increasing by over a million. In some markets, these products are underwritten by HSBC; in others, we act as a distributor or broker. We have the leading position in the Hong Kong life insurance market, with more than 25 per cent of annualised new premiums. HSBC Life (UK) Limited was the largest provider of income protection products, held top 10 positions in critical illness and mortgage life business, and achieved a four per cent share in the stakeholder pension market and several awards for investment performance. Customers worldwide now hold some 2.8 million HSBC personal pension plans.

Group Investment Businesses, formerly Asset Management Services, launched a number of funds for our personal customers. We created a new 'Freestyle' concept for those seeking consistent returns from funds managed without reference to market indices. The first of its type, Asia Freestyle, was launched in the Luxembourg-based HSBC Global Investment Funds range and ended the year with US$363 million of client assets. This was followed by BRIC Freestyle, investing in the equity markets of Brazil, Russia, India and China, and we also launched a Brazil equity fund in the same range, marketed to clients worldwide.

HSBC continues to manage the world's largest dedicated equity funds investing in China and India with, respectively, US$1.6 billion and US$2.6 billion under management at the year-end. We achieved the fastest growth in assets in the Indian investment management sector and China is now one of the world's fastest-growing fund management markets and one in which we intend to be a major participant.

Through HSBC Multimanager, our personal customers in more than 20 countries have access to best-in-class investment funds. The HSBC Investment Fund of Funds range was one of the fastest growing in the UK. The HSBC Investment Solutions 'manager of managers' fund range in Dublin is being enhanced by HSBC Multimanager for affluent clients worldwide.

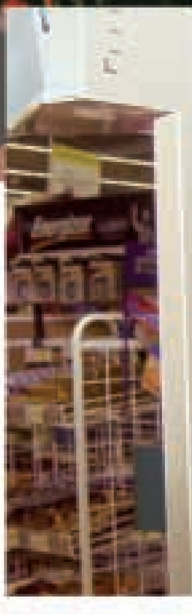
Islamic financial services are growing strongly. The market is estimated to be worth well over US$200 billion, with growth of around 15 per cent a year forecast. In HSBC Amanah, the Group's global Islamic financial services division, retail customer numbers grew by 43 per cent to some 165,000. Funds under management more than doubled to almost US$2 billion and HSBC became the first UK bank to offer a *shariah* (Islamic law)-compliant pension fund.

Our Personal Financial Services business was recognised by *Global Finance* magazine's 'Best Consumer Bank' award. In the UK, HSBC was named 'Best First Time Buyer Lender' by *Mortgage Magazine* and 'Best Value National Bank' over two, five and 10 years in the *What Mortgage* awards. *Euromoney* designated HSBC Amanah as the 'Best International Provider of Islamic Financial Services'. In France, HSBC Multimanager's Ethique Monde fund of funds was awarded first prize in the ethical category of the mutual fund Grand Prix 2004 by *Le Figaro* in association with *Le Journal des Finances*.

Consumer Finance

HSBC Finance Corporation's Consumer Finance business facilitates point-of-sale credit to consumers, and lends money and provides related services to meet the financial needs of everyday people. Typically, customers are in the middle to lower credit segments. In 2004, the first full year of ownership, HSBC Finance Corporation earned a pre-tax profit before goodwill amortisation of US$3.7 billion.

The integration of the former Household businesses into HSBC was completed in 2004. Initiatives included several joint products, implementing best practices and integration benefits in funding, purchasing, contract negotiations and technology. Non-funding-related benefits of the



Above: In one of our newer businesses, sending cross-border remittances electronically benefits both HSBC and the customer. HSBC Mexico's La Efectiva debit card allows Mexicans working in the United States to transfer funds back home to family members quickly, securely and without the recipient requiring formal banking facilities. This woman has just received on her card — via any one of the bank's 4,600 ATMs — a monthly allowance from her husband, and now joins her mother and son in Tlalpan plaza in Mexico City for an afternoon's shopping using La Efectiva. The data on customers' spending patterns can be used by HSBC to design better products and improve service. HSBC Mexico's market share of the remittance business has grown from 2 per cent in 2002 to 14 per cent today.

Right: HSBC is also expanding its cards business in the Middle East. Last August, it launched Géant La Carte, the first co-branded Visa credit card alliance with a hypermarket in the region. Part of a major French retailing chain, the Géant hypermarket in the Bahrain Mall — one of the kingdom's most popular shopping centres — now offers its customers the convenience of shopping with La Carte. This initiative is spearheading HSBC's drive to establish similar co-branded card partnerships with Géant in other parts of the Middle East.

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

integration reached more than US$200 million. Household's US businesses, apart from the HFC and Beneficial consumer lending branch networks, were rebranded to HSBC on 30 September.

The Consumer Finance business utilises various delivery channels, such as face-to-face, point-of-sale, direct mail, and outbound and inbound telemarketing, to offer products and services to customers. In recent years, the internet has become more important in reaching new customers and in serving existing ones. In 2004, for example, new consumer finance loans worth over US$1.6 billion were generated online.

In North America, our Consumer Finance business is a data- and an analytically driven provider of products and services, analysing customer information to ensure the right product is offered to the right customer at the right time. HFC and Beneficial had a record year in loan volumes. We introduced several new products and enhanced existing ones, including near-prime mortgages, prime mortgages, car loans and the adjustable rate mortgage product.

We opened a new, prototype business, HSBC Credit Centers, to serve newer customer segments, particularly Hispanic customers, who are frequently under-served by conventional lenders. It offers innovative products, such as low-cost electronic money transmission between the United States and Mexico, where we are able to realise synergies between the two Group members concerned. Future products will include cross-border mortgages.

Household Mortgage Services became HSBC Mortgage Services on 1 October, triggering a new brand marketing campaign and product line. The result was record account acquisitions. Part of HSBC Mortgages Services, Decision One Mortgage Company absorbed more than 450 brokers from HSBC Mortgage Corporation (USA), who generated mortgage volume of US$400 million. Decision One's online pricing tool now accounts for nearly half of its mortgages in financial terms. Collections and servicing of mortgages through HSBC Mortgage Services also improved, significantly reducing the level of account delinquency.

HSBC Retail Services launched new financing programmes with high profile manufacturers and retailers. These included American Suzuki Corporation, Helzberg Diamonds and Liz Claiborne. In addition, HSBC Business Solutions, the business-to-business financial arm of Retail Services, became the commercial financing partner for Komatsu, Mac Tools and Northern Tool & Equipment Co. For the second time in three years, HSBC Retail Services was selected as electronics store Best Buy's top strategic partner in the service area.

Card Services reached an agreement with America's largest labour union federation, AFL-CIO, to extend the term of their successful affinity card programme. Card Services also added new affinity groups to its partnership programme and rolled out the 'Cards in Branches' scheme to HFC and Beneficial branches throughout the United States. More than 5.9 million enhancement service product memberships — which are value-added products such as debt cancellation, identity theft protection and credit bureau monitoring — are now held by cardholders. We also expanded our reach into the prime segment of the credit card market under the HSBC brand.

Technology plays a key role in sharing best practices across the Group. A number of HSBC-branded card accounts were converted to the WHIRL system in October. HSBC Mexico has also converted to WHIRL and other major markets will follow in 2005. The internet grew substantially as a means of attracting new credit card applications, accounting for 23 per cent of all approved applications. Internet sales increased significantly over 2003 and more cardholders were also managing their accounts online.

Taxpayer Financial Services, the leading US provider of tax-related financial products offered to consumers through professional tax preparers, served a record 8.2 million customers. To ensure responsible lending, Taxpayer Financial Services provides industry-leading compliance programmes for its tax preparer business partners.

Another ‘instant’ innovation to serve customers better is this touch-screen display kiosk offering up to US$7,500 of credit to shoppers at all the Wolf Furniture stores in two American states, Maryland and Pennsylvania. The third largest private label credit card provider in the US, HSBC Retail Services launched this instant credit kiosk — its first such service — last September. The service has just been extended to a furniture merchant. HSBC Retail Services works with more than 60 partners in 32,000 locations across the US to help them build customer loyalty and to attract new customers.

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

Our US and Canadian auto businesses capitalised on their membership of the HSBC Group to offer dealer customers a full range of loan products. The US business launched the 'Autos in Branches' programme in 800 HFC and Beneficial branches, including branches with Spanish-speaking staff to serve the growing Hispanic population.

Elsewhere in the world, we have identified markets in Asia, South America, Europe and the Middle East for initial Consumer Finance expansion. In 2005, we will introduce new products and develop new delivery channels. For example, we will develop private label credit card and instalment lending businesses; build on our relationships with local, regional and global retailers and manufacturers; and offer personal loan products through branches and e-channels. Our European initiatives included point-of-sale finance products at electronics store Dixon's retail outlets in Hungary and the Czech Republic.

Commercial Banking

HSBC is a leading provider of financial services to small, medium-sized and middle-market enterprises. We have over two million such customers, including sole proprietors, partnerships, clubs and associations, incorporated businesses and publicly quoted companies. In 2004, Commercial Banking earned a pre-tax profit before goodwill amortisation of US$4.2 billion, an increase of 32 per cent.

A customer relationship management pilot scheme in the Hong Kong SAR led to a big increase in net income and improved customer satisfaction. The scheme will now be rolled out to the middle market there. HSBC in the United States and Mexico launched new services for small businesses. In the US, current accounts with up to 300 free transactions a month and streamlined credit approval for small business loans led to a significant increase in branch sales. In Mexico, where HSBC's *Estímulo* is the only packaged service in the market for small and medium-sized enterprises (SMEs), we have included life insurance to complement our services for them. Nearly 250,000 companies worldwide now provide HSBC-managed occupational pension schemes for their employees.

In the UK, we launched 209 Commercial Centres to provide improved relationship management for our higher-value SME customers while, in Hong Kong, our Business Banking Centres in five key business districts were expanded to provide customers with one-stop service. Borrowing from the UK's experience in attracting start-up businesses, HSBC in the Hong Kong SAR increased new customer numbers by 48 per cent. In the United Arab Emirates, the number of new accounts trebled following the launch of a new SME-packaged product, and an acquisition programme was introduced in Brazil which attracted more than 33,000 new SME customers. Over 5,000 of these are retailers whose clients were provided with consumer finance through HSBC Group member Losango.

With HSBC in the UK emphasising simpler and easier-to-use products, we switched to straightforward business loans for small ticket, asset-based lending and introduced a new small business tariff. We also introduced the UK's most flexible commercial mortgage on the high street, offering the option to spread lending over a longer term than any of our competitors.

France increased investment sales through a series of capital-guaranteed products in conjunction with Sinopia, part of Group Investment Businesses. Three fund launches raised subscriptions from commercial investors in excess of €120 million. In the Hong Kong SAR, investment sales grew by 26 per cent, led by sales of innovative, longer-term guaranteed funds.

Technology continues to have a major impact. The number of business customers who deal with HSBC electronically increased by over 40 per cent over the year, from 540,000 to 780,000, and revenue earned directly from internet transactions and e-sales exceeded US$50 million.

HSBCnet, the new global e-banking system for corporate and middle-market customers, was launched, featuring a range of payments, trade and treasury services accessed via a single log-on. HSBC Bank Brasil S.A. transferred 8,000 customers to Connect Bank, its electronic banking system, which now has in excess of 30,000 registered users. Following successful pilots in the UK and Dubai, internet-based marine cargo insurance will be rolled out in the Hong Kong SAR in 2005.

Commercial Banking won a number of awards. In the UK, we were named 'Best Clearing Bank for Small Business' for the fourth consecutive time in a study by Nottingham University, and HSBC Invoice Finance won 'Best Factor' award for the third time from *Trade Finance* magazine. HSBC Bank Malaysia Berhad was voted Malaysia's 'Best Commercial Foreign Bank' by *FinanceAsia* magazine and we were named 'Best Corporate/Institutional Internet Bank in Hong Kong' by *Global Finance*.

Corporate, Investment Banking and Markets

Corporate, Investment Banking and Markets (CIBM) provides tailored financial services to corporate and institutional clients. Business lines

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

comprise Global Markets, Corporate and Institutional Banking, Global Transaction Banking and Global Investment Banking. CIBM contributed a pre-tax profit before goodwill amortisation of US$5.2 billion, an increase of 17 per cent over 2003.

Although it has offices in more than 50 countries and territories, CIBM is managed as a single global business. In 2004, we improved links between client relationship management, product specialists and our geographical network, and we created multi-disciplinary global client service teams. We boosted our sector and product specialisms by making a major investment in people, adding almost 2,000 new staff. At the same time, some 1,500 departed. The areas benefiting principally from the increased resource and capabilities were investment banking advisory, equities, research, asset-backed financing and structured solutions.

Global Markets includes our foreign exchange, fixed income, derivatives, equities and metals sales and trading businesses. In 2004, we extended our reach in offering derivative products used by clients in risk management. Foreign exchange revenues increased, partly as a result of the roll-out of our e-foreign exchange technology. The value of our online foreign exchange transactions reached US$1.3 trillion in 2004. We expanded our global foreign exchange options offering and started building our mortgage-backed securities, convertible securities and capital securities teams in the United States. We

Business internet banking has had a successful year, with many more of our small and medium-sized commercial banking customers opting for the service. Its convenience is illustrated by this owner of a small import-export business sending a documentary credit application form from his laptop while out fishing at the weekend in the ocean near Horseshoe Bay off Vancouver, Canada. Only 18 months after its launch in 2003, nearly 30 per cent of HSBC Bank Canada's commercial customers have already registered for internet banking. Every month, over 12,000 transactions are processed, including transfers, payments and trade-related activities.

created a client solutions group in Europe, strengthened our derivatives operations in Asia, and invested in our Global Markets operations in the Middle East and Mexico.

We were named 'Best at Treasury and Risk Management in Asia' by *Euromoney* for the seventh consecutive year. We ranked first overall in *AsiaRisk's* survey of derivatives end-users. *Risk* magazine named us first for euro-sterling foreign exchange options, and first in gold and in silver in its energy and commodity rankings.

Corporate and Institutional Banking, which covers our relationship management and lending activities, appointed new regional and business heads in several countries and made a number of important cross-functional appointments to improve our financing and advisory capabilities. We undertook several financing and advisory mandates for new clients and completed a number of landmark transactions for existing ones.

Global Transaction Banking includes our payments and cash management, trade services, supply chain, securities services and wholesale banknotes businesses. In 2004, we successfully rolled out our proprietary internet banking service, HSBCnet.

Our payments and cash management business continued to grow its market position globally and, in 2004, we launched a fully integrated payables/ receivables service in Asia to meet client needs. This service is now being deployed in other regions. In the United States, key receivables products were upgraded, making use of HSBC Finance Corporation's capabilities.

Demand increased for our trade services and we improved our market share. We developed a new service to support and improve supply chains for companies and their suppliers, and we further developed our structured trade finance business which enables customers in countries that would normally have difficulty accessing credit to obtain finance based on their ongoing exports. Both of these businesses typically connect multinationals with suppliers in Asia — an area where HSBC has particular expertise.

In Securities Services, we integrated Bank of Bermuda's alternative funds services, resulting in several new business wins. Securities Services also agreed a landmark seven-year deal with Gartmore to provide back office operations.

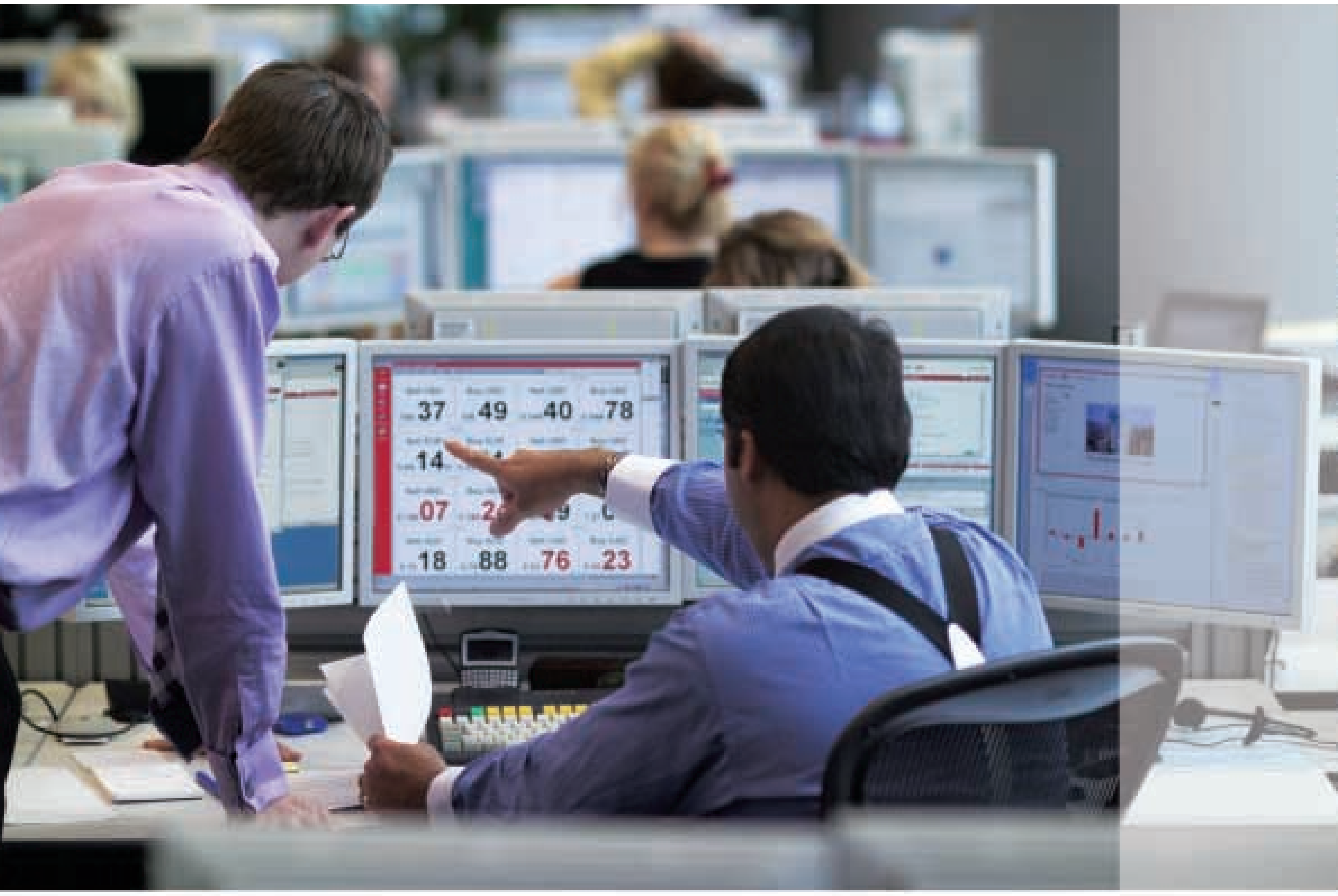
We were named 'Best Sub-Custodian' in Asia by *FinanceAsia* for the sixth consecutive year and 'Most Improved' global custodian in our peer group in a survey by *Global Investor*. *Global Custodian* named HSBC the 'Best Agent Bank in the UK'. We ranked first in Asia and the Middle East in *Euromoney*'s payments and cash management survey. We also ranked first in Asia and in the Hong Kong SAR in *Asiamoney*'s trade finance survey and were named 'Best Trade Finance Bank' by *FinanceAsia* for the eighth consecutive year.

Global Investment Banking is involved in investment banking advisory and investment banking financing activities. Investment banking advisory includes corporate finance and mergers and acquisitions advice and related services. In 2004, HSBC improved its position on 2003 as an adviser in the European and Asian mergers and acquisitions markets based on Thomson Financial's rankings of completed transactions. We also continued to build up our US advisory presence. Investment banking financing includes capital markets advice and services such as debt and equity capital markets, project and export finance and structured finance. In Asia, HSBC was ranked by Thomson Financial as the number one bookrunner for all-Asian currencies and for Hong Kong dollar bonds, both of which included certificates of deposit.

Major transactions in which HSBC acted as an adviser in 2004 included the US$72.6 billion purchase by Sanofi of France of Aventis; the acquisition by Aramco Overseas Company B.V. (a subsidiary of Saudi Aramco) of a stake in Showa Shell Sekiyu K.K. (Japan) from the Royal Dutch/Shell Group; and Neptune Orient Lines' US$2.8 billion takeover by Temasek Holdings in Singapore.

Investment banking financing performed well. Our share of international bond issuance rose to 4.9 per cent from 4.3 per cent in 2003. We participated in the Hong Kong SAR government's HK$20 billion global bond. Other notable transactions included the US$11.8 billion multi-tranche financing for Network Rail in the UK and the US$1.75 billion bond for Petroleos Mexicanos, which was named 'US Dollar Bond of the Year' and 'Emerging Markets Bond of the Year' by *International Financing Review*. In equity capital markets, we acted as joint global co-ordinator and joint bookrunner on the initial public offerings for Ping An Insurance (US$1.84 billion) and as sole global co-ordinator and joint bookrunner on the initial public offering for Autoroutes Paris-Rhin-Rhône (€1.3 billion).

Our Group Investment Businesses increased global collaboration with CIBM customers. This resulted in our Dublin-based institutional money market fund range growing by 41 per cent. We also had significant growth in our French money market funds, notably EOTOP, which increased by 200 per cent to reach US$4.4 billion of assets under management. Group Investment Businesses' total



Above: Leading edge technology underpins the operations of HSBC's Corporate, Investment Banking and Markets business in London as it does globally. Rolled out successfully in 2004, the HSBCnet platform provides a single point of entry to a sophisticated range of products and services tailored for large corporate and institutional clients worldwide. Award-winning economic research, treasury and capital markets services, cash management, cross-border payments, investment management and a foreign exchange tool set are all available in a format that can be personalised to meet clients' individual needs.

Above right: The acquisition of the Bank of Bermuda in 2004 has enabled HSBC to target more effectively the high tech, high volume global reinsurance business. At the bank's head office overlooking the harbour in Hamilton, the capital of Bermuda and the centre of the world's captive insurance business, a relationship manager demonstrates to a corporate client the benefits of automated cash management to his reinsurance business. The web-based service is able to transmit funds around the world, order bank drafts, transfer money between accounts, and make regular payroll payments — all from the convenience of the client's PC.

assets under management reached US$224 billion at year-end 2004, an increase of 27 per cent compared with a year earlier. HSBC as a whole had assets under management of US$476 billion compared with US$386 billion at 31 December 2003.

In the UK, we launched a new corporate pension for commercial and corporate customers, including a full range of mutual funds and, in France, the Fonds de Reserve des Retraites, the public pension scheme, awarded HSBC a €960 million mandate invested in active investment grade bonds.

The more complex insurance risks faced by our larger corporate customers are dealt with by our Lloyd's broker, HSBC Insurance Brokers, and its branches around the world. The company was appointed broker and adviser to a number of new customers including Invensys Rail, a global provider of rail safety automation and control systems; and Debenhams, one of the UK's largest high street retail chains.

Private Banking

HSBC has one of the world's top private banking businesses. Its 5,600 employees provide financial services to high net worth individuals and their families in 70 locations worldwide. Record pre-tax profit before goodwill amortisation of US$693 million in 2004 represents an increase of 23 per cent over 2003. Funds under management grew to US$178 billion and our lending portfolio increased to US$24 billion.

The main part of the business, HSBC Private Bank, strengthened our onshore operations

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

significantly in 2004. We increased our presence in the Philippines and Taiwan, and established a unit in Malaysia. We opened representative offices in Greece and Sweden while, in the UK, HSBC Private Bank worked with HSBC's personal and commercial clients to generate more business. We also increased our presence in the United Arab Emirates, Saudi Arabia and the Lebanon while, in the Americas, the alignment of the international, domestic banking and tax business continued, and a new onshore operation was launched in Mexico.

New initiatives included integrating Bank of Bermuda's operations under Global Wealth Solutions. In so doing, we became the largest provider of trust, fiduciary and insurance services outside the United States. Our Investment Group continued to develop tailored products, with investments in our Strategic Investment Solutions product growing to US$963 million. We maintained our leading position in the provision of hedge funds, with client assets invested in the funds exceeding US$23 billion, an increase of 63 per cent year-on-year.

We boosted our capability to deliver our Wealth Consolidation and Analysis Service, which packages and reports on a client's entire wealth position, including assets held with other institutions.

HSBC Private Bank worked with HSBC Amanah to deliver a wider range of *shariah*-compliant products and services globally. We are also building our business with high net worth individuals from the Middle East and North Africa, including the Levantine diaspora worldwide, through teams in 10 locations, and with clients from the Indian sub-continent and Sub-Saharan Africa, wherever they are based, through teams in seven locations.

Internet services had a successful year, with a 51 per cent increase in the number of registered users. After the telephone, the internet has become our most active channel for client communications.

HSBC Private Bank was recognised by *Euromoney* as 'Best Provider of Trust Services to High Net Worth Clients Globally' and, for the second year running, we were named 'Best European High Net Worth/Retail Hedge Fund of Fund Products Provider' in the European Fund of Hedge Fund Awards 2004.

The Way Ahead

We will press ahead towards our 'Managing for Growth' objectives in 2005.

Our 253,000-strong workforce is extremely diverse, with nationals from almost every country in the world contributing to the collective expertise within HSBC. We will continue to develop their skills as we become even more customer-focused and we will further promote diversity within our talent pool. The HSBC Holdings Board is already one of the most diverse among the FTSE 100 companies, but it is clear that in our middle levels of management and higher we still have much to achieve to reflect the diversity of our customers and our colleagues.

We have made good progress with the HSBC brand since we launched it worldwide in 1998. We will continue to invest in it, which will mean more marketing investment and more brand development. The way we conduct business is crucial. That is what gives the brand its value.

We will also continue to improve and expand our e-channels without compromising the high level of security we have built into them. The internet gives our customers the flexibility to interact with us when and where they want to. Consequently, its importance continues to grow rapidly.

Global resourcing is a fundamental component of our strategy, delivering shareholder value through efficient, cost-effective operations. These include

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

account administration, credit cards, payments and mortgages, and telephone enquiries for customers in Europe, North America, the Hong Kong SAR and other areas in Asia-Pacific. In 2004, we opened a second Group Service Centre in Guangzhou and new centres in Manila, Colombo and Visakhapatnam. These centres provide much needed jobs in the areas where they are located and, at the year-end, more than 12,500 people were employed in the network. Two further Group Service Centres will open in India in 2005 when total staffing levels are expected to rise to about 18,000.

HSBC has a broadly based business in 77 countries and territories serving more than 110 million customers. We have an excellent platform on which to build and our main focus going forward will be to grow our business organically. To be the best performer in financial services we must be the most productive, using our resources in the most skilful and ambitious way possible. Profitable growth is the only strategy that satisfies all our key constituencies — our customers, our shareholders and our employees.

Stephen Green, *Group Chief Executive*

The latest mobile technology is used to complement the highly personal service that is a byword for private banking. One of the world's top private banks, HSBC Private Bank ensures its executives and relationship managers can easily access real-time market information on the internet, communicate by e-mail and make appointments — even when they are on the move — in order to be more responsive to client needs. This senior executive checks his BlackBerry® — a wireless device that provides access to the phone, e-mail and the web — for the latest analysis of the bond and stock markets as he makes his way on Avenue d'Ostende along Monte Carlo's scenic harbour front for a meeting with a client.

HSBC's Technology for Customers, Shareholders and Communities

Each year, the HSBC Group processes about 13 billion financial transactions — more than 35 million every day of the week. Yet only about 10 per cent of them require action by a member of its 253,000-strong workforce or one of its 9,800 offices worldwide. The overwhelming majority of transactions are originated by automated requests, direct access by corporate clients, direct payments, the internet or ATMs. HSBC's proprietary worldwide telecommunications network transmits the necessary data for these transactions on their way around the world in less than one-third of a second. In an increasingly competitive environment, the ability to provide this backbone for HSBC's financial transactions will enable HSBC to maintain its leadership position.

HSBC's global telecommunications network consists of more than 200 host computers and over 10,000 servers connected by enough fibre optic cable to stretch past the moon. HSBC houses these computers in paired facilities, known as data centres, in North America, South America, Europe and Asia. These power the world's local bank in 77 countries and territories. Since 1996, HSBC Group members have integrated over 120 regional data centres into 16 robust facilities. In the coming few years, the Group will migrate to just four pairs of state-of-the-art centres, serving each major region. The level of security and reliability HSBC provides to its customers is top tier compared with its competitors. The costs associated with this are in the lowest 25 per cent of all global banks as a result of these economies of scale.

The HSBC global telecommunications network underpins almost every business activity that the Group engages in across the world. It supports and links together more than 18,000 ATMs used to perform over two billion transactions annually for people across the globe. It underpins the HSBC global IT infrastructure which provides internet banking for our almost 20 million registered users, processes the purchases of 78 million credit card holders, and provides up-to-the-minute information on accounts, mortgages, loans and investments for telephone banking customers. And it runs sophisticated banking systems, such as HSBCnet, the Group's worldwide internet banking product; and WHIRL (Worldwide Household International Revolving Lending). These have been designed and developed by HSBC's in-house teams to provide unique services that commercial and personal customers are able to customise to their own requirements.

HSBCnet provides commercial and corporate and investment banking customers with unparalleled access to HSBC's global cash management, treasury and capital markets products. Customers can personalise the internet site to suit their own requirements, giving them round-the-clock access to their accounts worldwide.

The WHIRL system is a state-of-the-art credit card, private label finance, corporate card and instalment lending system. It supports some of the world's largest co-branded credit cards as well as the biggest and most successful private label finance partnerships. This software, with its advanced underwriting and risk management features, enables HSBC to create credit programs that promote sales and provide information to improve customer contact for the Group's merchant and manufacturing partners.

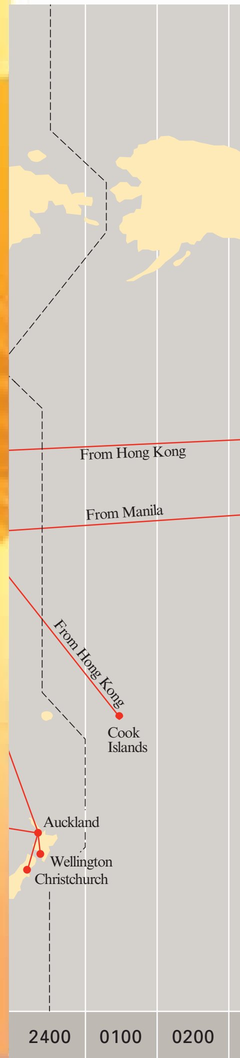
HSBC's annual technology spend of US$3.8 billion, together with a further US$670 million on IT capital expenditure, represents 15 per cent of the Group's total operating expenses. With data centres on four continents and software development teams in a dozen countries, HSBC provides employment for 20,000 IT professionals, two-thirds of whom work on developing new programs designed to make banking easier and more convenient for the Group's 110 million customers.

'Technology is a core competency of ours,' says Ken Harvey, HSBC's Group Chief Information Officer. 'Our technology enables us to do things on an international scale which most of our competitors cannot do, simply because they do not have the infrastructure and it would be too expensive for them to replicate it.'

The influence that technology continues to have on customer behaviour is profound. It makes possible banking activities that were inconceivable just a few years ago. As Alan Jebson, the Group Chief Operating Officer, puts it: 'Our technology allows our more sophisticated customers to do things they have not been able to do until now. On an international scale, we are better at this than anyone else.'

HSBC uses its technological investments to bring world class products and services to all its markets. Take, for instance, a simple credit card application in Mexico. A decision is forthcoming in less than two seconds after the button is pressed — and that includes the time taken by a computer in the UK to process the information.

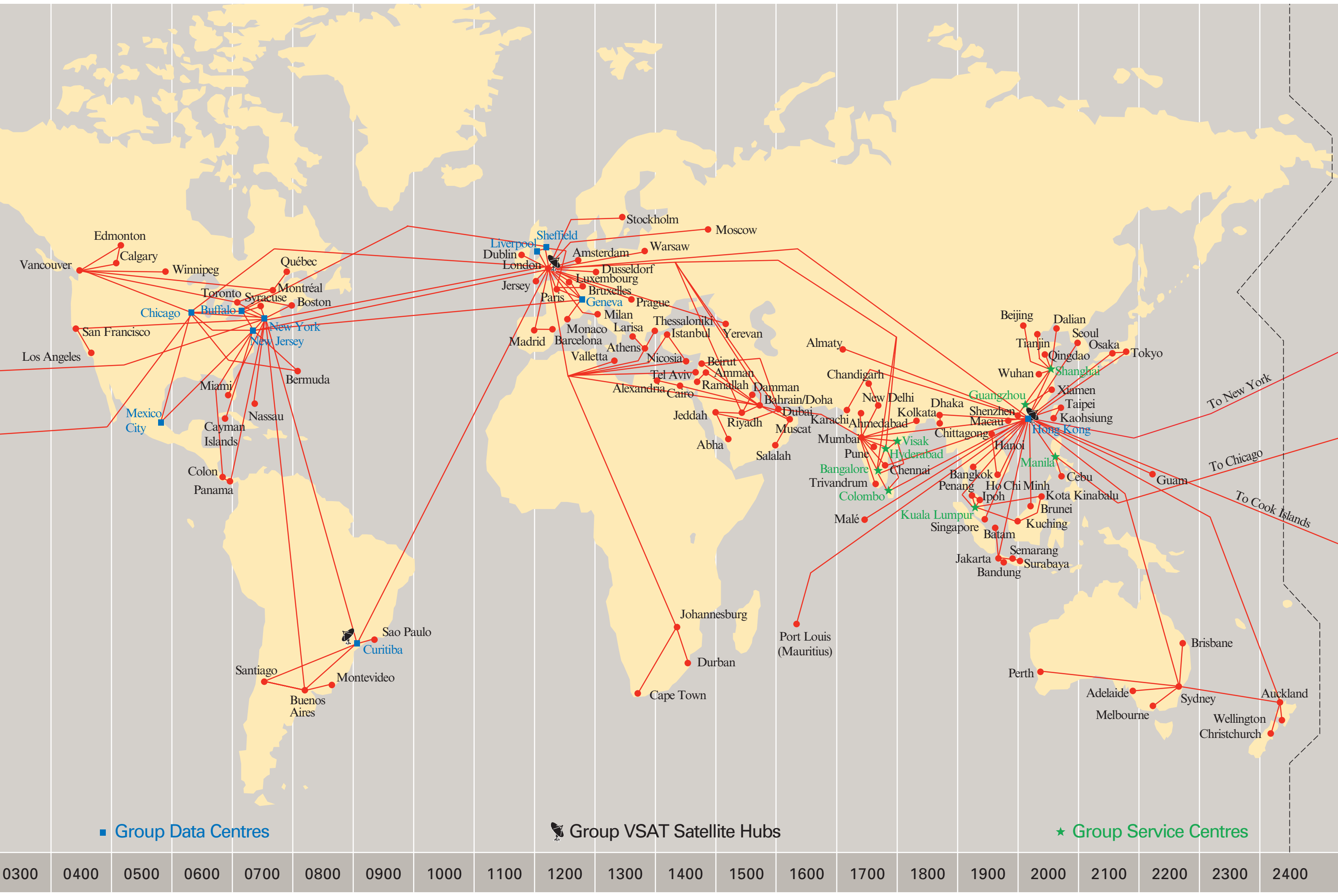
On the other hand, an international businessman with bank accounts in New York, London, Paris and Hong Kong can use the internet to obtain real-time information on all four accounts, move money



Above: Back office operations support the high standards of customer service to which HSBC aspires around the world. HSBC's first Group Service Centre opened in 1996 in Guangzhou, southern China. HSBC Electronic Data Processing (Guangdong) Limited has just expanded to a second site nearby to cope with 4.8 million transactions each month and transactions growing in volume by some 135 per cent every year. Around 2,100 employees provide data processing and voice services, such as account maintenance, credit card and loan applications, and payments to HSBC branches in Hong Kong, the UK, Canada and the Philippines.

Inset: A satellite dish on the roof of a small island branch in Mauritius in the Indian Ocean provides a vital communications link to the bank's regional head office in Hong Kong, some 7,745 kilometres away. The dish transmits data to run all of HSBC's domestic and offshore banking operations in Mauritius. The largest on the island, HSBC's offshore banking unit provides its 4,800 customers located in over 50 countries around the world with foreign exchange, treasury, cross-border transfers, term deposits, trade finance and other services — via the satellite dish.

HSBC's Technology for Customers, Shareholders and Communities (continued)



For a group of HSBC's size, with operations spanning the globe, an advanced global telecommunications network is key. The map shows the major arterial network routes linking important Group centres to support, among other things, counter service for customers in branches, self-service terminals, and back office processing or call centres. In essence, the inter-regional and international circuits of the network — comprising over 230,300 miles of mainly submarine fibre-optic cables — convey voice, data and video traffic worldwide.

between them, and conduct foreign currency transactions from anywhere in the world.

HSBC *Premier*, the internationally uniform service for the Group's most valuable personal customers, many of whom have financial interests in more than one country, offers them seamless access to banking services wherever they transact. Beyond foreign exchange and payments, HSBC provides credit, investments and banking services based on the knowledge the Group has accrued about customers in their home markets.

HSBC's extensive data about its customers' financial needs enables the Group to identify products and services that are most likely to be of interest to them. The CDU (Customer Data Utility) system, currently being introduced throughout the Group, is already operating in the UK, the United States and Brazil. It tracks virtually every HSBC banking transaction undertaken. With more than 20 million separate records, the UK CDU is accessed about 120 million times a day by the Group's many other IT systems to improve service to the customer. It means that HSBC staff are fully informed about the status of every transaction, regardless of whether customers have telephoned, visited branches or browsed online.

The acquisition of Household International, Inc. (now called HSBC Finance Corporation) in 2003 not only introduced consumer finance to the HSBC Group, it also brought with it formidable expertise in database analysis which has helped to make HSBC North America the industry leader in consumer credit modelling. This ability, coupled with the huge

HSBC's Technology for Customers, Shareholders and Communities (continued)

databases that HSBC owns, is used to find customers, match them with the right products and approve sales, all within a few seconds, using a process known as 'real-time decisioning'. For example, HSBC in the United States searches the entire adult population to match its products and services with appropriate customers. This precise targeting benefits the consumer and the bank as only those who would benefit are approached to bank with HSBC.

Commercial customers have benefited the most from HSBC's technological advancement. It has revolutionised the way many of them do business. Innovations have included FDOR (Futures Direct Order Routing), which currently enables clients to trade on 10 major futures exchanges from anywhere in the world. HSBC's newest product is an internet-based payments and cash management system that leads the industry in value and services. This system is in operation throughout Asia and is currently being introduced to European clients.

Major IT investment in the capital markets area of the business in 2005 and 2006 will see the implemention of the latest global systems in fixed income, equities, derivatives, settlement and e-commerce. This will lead to significantly improved, seamless customer service across the full range of HSBC's investment banking activities.

Not only is the HSBC global telecommunications network one of the largest of its kind, Alan Jebson believes that it is also one of the least expensive to operate, contributing in a real sense to the profitability of the Group.

'There has been a global decline in telephony costs,' Ken Harvey adds. 'The cost of long-distance data lines has decreased dramatically over the past seven years. While this trend has started to stabilise, we at HSBC will continue to show cost reductions as a leader in converging voice and data traffic. As more customers migrate to broadband internet access in their homes, they can take advantage of our internet services and simultaneously talk to a customer service agent through the net.'

Along with the many benefits brought by advances in technology came the new threat of computer crime. HSBC's own data centres in North America, South America, Europe and Asia are highly resilient to attack, but nowhere is the threat of computer crime perceived to be greater than on the internet. The growing importance of the internet is reflected by the number of registered users of HSBC's online banking services across the world, which increased six-fold in the 30 months to the end of 2004. The total number of HSBC customer log-ons in 2005 is likely to exceed one billion. Banks, in particular, have spent hundreds of millions of dollars to combat internet fraud. Beyond having one of the lowest loss rates of a major bank, HSBC's customers are assured that the Group has put measures in place to protect their information and assets.

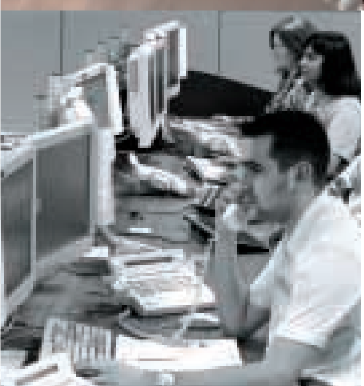
'HSBC is diligent in providing a high level of security for our customers,' says Ken Harvey. 'We deploy the latest fraud detection and authentication technology available. This can occasionally frustrate customers and we have to be careful to balance security requirements against user friendliness, but the end result is that we have suffered smaller losses from internet and credit card fraud than our major competitors.'

Yet the battle goes on to find new and innovative ways to thwart the fraudster. For instance, HSBC is moving towards two-factor authentication in which access to online financial information will depend on something a customer knows, such as a password, and something he or she possesses, such as a liquid crystal display (LCD) token which will be tested in Hong Kong next June. Internet log-on will depend on entering the correct password along with a unique number displayed on the LCD token. However, this number changes every 60 seconds, rendering the password useless should it fall into the wrong hands.

A variation of this two-factor authentication, currently in use by HSBC in Brazil where mobile phones are particularly prevalent, involves the use of SMS (Short Message Service) texts as an additional security measure. During high-risk internet transactions, such as third party payments, the online banking system will send a PIN or password by text message to the mobile phone of the logged-on user, enabling the customer to confirm that the transaction is authentic.

The importance of technology to HSBC is immeasurable and growing. Technology delivers more control to customers who increasingly want the ability to manage their own financial affairs.

'In an increasingly competitive market-place, only those who can maintain the highest quality levels and achieve optimal scale will prosper,' says Ken Harvey. 'HSBC invests to deliver this scale and service to all our corporate and personal customers. All our products and services will be available to customers in the channel they choose — internet, branch, ATM or call centre. We value the customers for their global business and serve them with complete knowledge of the business they have entrusted to us.'



The South Yorkshire Group Data Centre is one of HSBC's most important nerve centres, supporting banking operations not only in the UK but also in continental Europe, the Middle East, Asia-Pacific, North and South America, and Africa — 24 hours a day, 365 days a year. Over 500 employees work at the 200,000 square foot, high security facility to run TV, internet and telephone banking, ATM networks, card services, First Direct and the UK branch network. At the heart of the nerve centre is 'the bridge' where a large, high tech 'video wall' *(top)* tracks statistics on telephone banking calls, flashes colour-coded system alerts to warn of problems, and monitors the status of HSBC web sites worldwide.

Corporate Social Responsibility Progress Report

HSBC has long recognised that good corporate behaviour is vital to our long-term success. Consequently, our Group strategic plan, 'Managing for Growth', aims to make HSBC one of the world's leading brands for corporate social responsibility (CSR). Under the guidance of a new Board committee overseeing CSR, we made further progress in building social, ethical and environmental considerations into our decision-making. In particular, a range of initiatives on issues including climate change and forest stewardship reinforced our responsible attitude towards the environment.

CSR Governance

The Corporate Social Responsibility Committee was established by the Board of HSBC Holdings plc in September 2003 and met four times during 2004. It focused on several key areas which are explained in the following sections of this report. The Committee, chaired by Lord Butler, comprises four independent non-executive Directors of HSBC Holdings plc and three co-opted non-Director members.

Principles and Compliance

Strict compliance with the letter and spirit of laws and industry regulations, the voluntary codes that we have adopted, and the Group's own business principles and values provide the starting point for our approach to CSR. We continued to develop our policies and procedures during the year.

- The Board of HSBC Holdings decided to express the Group's support for the UN Universal Declaration of Human Rights.
- As a supporter of the UN Global Compact, HSBC declared its backing for the addition of a principle on overcoming corruption and, consequently, we have reinforced our anti-bribery and corruption policy.
- We reviewed and reissued our anti-money laundering policy, applied as a Group-wide minimum standard, to ensure that it is consistent with emerging best practice.
- The Group's 'Statement of Business Principles and Values', first published in 1999, has been revised to bring it up to date and to reflect developments in the business environment.
- We introduced an Employee Helpline throughout the Group in response to the 'whistle blowing' requirements of the US Sarbanes-Oxley Act.

CSR and Customers

One of our most important responsibilities concerns the impact that the financial services we provide to our customers has on people and the planet. We take a risk-based approach, concentrating especially on key sectors with potentially high environmental and social impacts, to reduce as far as possible the risks of lending and investment while recognising the opportunities. Examples can be found among all our customers, from large corporations to private individuals.

Responsible finance

Within our Group Credit and Risk function, we established an Environmental Risk Unit with regional managers covering the Group's operations around the world.

As part of implementing the Equator Principles, which govern the financing of projects larger than US$50 million, all worldwide teams involved in financing projects — 155 managers and 24 senior executives — underwent special training during the year. The *CSR Report 2004* includes further details on how these principles have been put into practice.

The unit also developed guidelines covering our involvement in forestry and related industries. The *Forest Land and Forest Products Sector Guideline* outlines how the Group will work with its customers to promote sustainable forestry practices. Following the launch of this guideline, and with the support of both WWF and the Tropical Forest Trust, we started training our managers involved in financing the forestry sector. A copy of the guideline can be found in the CSR section of our web site, www.hsbc.com/csr. The guideline is the first of a number that are being developed for environmentally sensitive sectors. More will follow during 2005, including one on freshwater infrastructure. In support of the Roundtable on Sustainable Palm Oil, a multi-stakeholder initiative that we joined in 2004, HSBC is co-funding research into developing principles of best practice for sustainability in this sector.

Social and environmental responsibility is not confined to our dealings with corporate clients. The following examples from the Hong Kong SAR and the United States come from the commercial banking and personal financial services sectors.

Living Business

HSBC in Hong Kong, with support from the Business Environment Council, launched a programme aimed at small and medium-sized enterprises (SMEs) called 'Living Business'. This was developed to help companies become more profitable and productive by implementing socially and environmentally responsible business practices. The Living Business web site, www.hsbc.com.hk/livingbusiness, provides simple advice on workplace issues to help companies save money while protecting the environment. The programme also features free seminars and the SME Living Business Awards. Four seminars have been conducted so far and, in June 2005, the winners of the SME Living Business Awards 2005 will be announced.

Your Credit Counts

Managing credit wisely is increasingly dependent on understanding your credit score, how it is used and how it can be improved. Yet a survey in the United States by HSBC Finance Corporation (formerly Household International, Inc.) found that seven out of 10 consumers do not know their score. To help close the knowledge gap and highlight the importance of credit awareness, HSBC ran its second annual 'Your Credit Counts' financial education campaign during the fourth quarter of 2004. News stories drew attention to the need for credit education and promoted HSBC's financial education web site, YourCreditCounts.com, as a valuable way of learning about a variety of money-management topics. More than 132,000 people visited the site during the 12-week campaign, viewing more than 960,000 pages of articles, calculators and online tools.

Workplace and Employees

Our employee policies are geared towards attracting, developing and motivating talented people. We want HSBC to be a great company to work for by demonstrating a responsible approach to our people in a number of ways.

We want HSBC to be a safe and healthy place in which to work. As part of our programme to develop a global safety management system, we held a Group conference in March 2004 to promote fire and safety initiatives worldwide. Reportable accidents in the UK continued to decline during the year, showing a reduction of 30 per cent against the 2001 baseline.

We devoted more resources in 2004 to targeting and differentiating HSBC's top talent and to managing these people as a valuable asset. For instance, we held two Group Chairman's strategic forums for members of the Group's talent pool. These two-day residential programmes included half a day on CSR-related issues. We want to do more to develop and retain these key people, to meet their individual career and personal development aspirations, and to meet our needs for sound succession planning.

The Preet Mandir home for homeless children in Pune, India, illustrates HSBC's commitment to the education of disadvantaged young people including, in an age of extraordinary technological progress, to computer education. HSBC's Global Technology Centre in Pune has 'adopted' the home, setting up a computer-based learning centre where children aged between three and 10 are taught how to use educational CDs to develop a range of skills such as logical thinking, story writing, and the learning of English and mathematics. HSBC's support takes the form of donations in cash and in kind, and staff voluntary work at the home.

Corporate Social Responsibility Progress Report (continued)

We believe our diversity profile at all levels of the business should reflect that of our customers. Last year, we carried out a global survey of the barriers to women reaching senior management positions and possible remedies. The action plans which resulted will help us to tackle these issues during the years ahead. To help colleagues across the Group develop diversity policies and practices and assist in sharing best practice around the world, we developed a Global Diversity Toolkit which we published on our intranet.

We continue to place great emphasis on the development of our people. In the United States, HSBC Finance Corporation was listed by *ComputerWorld* magazine as one of the '100 Best Places to Work in IT' and was named one of the best companies for African-Americans in technology by Black Data Processing Association and WorkplaceDiversity.com. Other awards for our people management policies are listed on our web site at www.hsbc.com/csr. Given the importance to our strategy of growing revenues, we are placing particular emphasis on helping our people further improve their sales and relationship management skills.

Environmental Responsibility

HSBC's Corporate Real Estate, Purchasing and IT functions have taken action on the environmental impacts of our operations around the world. Corporate Real Estate expanded the coverage of its environmental reporting system from 67 per cent to over 90 per cent of the Group's worldwide workforce and set targets for improvements in the environmental impacts of our operations. Corporate Real Estate also established a new team to implement an Environmental Management System across the Group. Purchasing extended its integration of social, ethical and environmental issues into the management of its supply chain. As a major purchaser of paper, for example, the Group will increasingly switch to more sustainable sources. Further deployment of its e-procurement system will also allow HSBC to reduce the paper it uses for ordering and invoicing. Forest Stewardship Council-certified paper is being used for the printing of this *Annual Review* for the first time.

HSBC took a strong position on climate change, an issue described by Group Chairman Sir John Bond at the launch of The Climate Group as 'the largest single environmental challenge this century…truly the invisible enemy.' Launched in London in April 2004, The Climate Group is a non-profit organisation supported by governments and companies, including HSBC, in its work to accelerate action to cut greenhouse gas emissions. HSBC marked the start of the Tenth Conference of the Parties of the UN Framework Convention on Climate Change in December by announcing its plans to become the world's first major bank to achieve carbon neutrality. This is expected to cost up to US$7 million in the first year and will involve reducing energy use, buying green electricity and offsetting the remaining carbon dioxide emissions by investing in carbon credit or allowance projects. The Group's entire electricity requirements in the UK will be 'green electricity' obtained from renewable sources in 2005.

Also in December, HSBC announced the 'HSBC Partnership in Environmental Innovation', a three-year, £650,000 joint venture with Newcastle University and the University of East Anglia. It will research climate change and society's awareness of the issues involved, and aims to develop technologies to overcome some of the problems identified.

HSBC in the Community

HSBC has a tradition of supporting the communities in which we operate, both through the involvement of our employees and through philanthropic donations. The Group made charitable donations totalling US$69.2 million in 2004. Our policy is to focus our efforts on the education of disadvantaged young people and on environmental projects.

Support for education

HSBC is involved in a wide range of projects and initiatives to help raise the academic achievement of young people and improve their vocational skills through formal and informal learning. This support falls into five main areas: scholarships for gifted and talented students; voluntary work by HSBC staff; projects with sufficient initial funding to ensure secure and rapid progress; projects concerned with attitudinal education; and projects designed specifically to respond to local needs.

Many talented young people never get the chance to fulfil their potential, which is a lost opportunity not only for them but also for their families and the wider community. HSBC aims to make a difference to the lives of some of them by providing practical and financial support to give young people the education they need. Globally, we provide over 5,000 scholarships a year to young people. World-class scholars from disadvantaged backgrounds in the UK attend top independent schools, for example, while students from India attend UK universities, unemployed workers in China benefit from retraining programmes and 27 Chevening scholars from 14 countries attend 19 UK universities. In the United

States, HSBC has established scholarship grants and financial empowerment programmes at Bennett College, one of just two women-only historically African-American colleges and universities in the United States, and at the University of Maryland, University College which serves the needs of students from outside the usual mainstream of education.

In 2003, HSBC Education Trust supported a three-year partnership called ‘Global Teachers’ with Link Community Development, a UK-registered charity. This enabled 47 UK teachers (including 12 headteachers) to teach for five weeks during their summer holidays in Uganda and South Africa. These placements focus on school leadership, management, literacy teaching and learning, as well as HIV/AIDS action planning. Permanent links are formed between UK and African schools. When these teachers return to their UK schools, their remarkable stories help rejuvenate their work and inspire their pupils. The programme will continue in 2005 and 2006.

Support for the environment

HSBC’s support for environmental projects around the world is dominated by our US$50 million, five-year environmental partnership, ‘Investing in Nature’, which we launched in 2002. Now at the half-way mark, we have achieved a number of key goals and continue to work closely with our three partners Earthwatch, Botanic Gardens Conservation International (BGCI) and WWF.

To date, 1,000 HSBC employees from 45 countries have joined Earthwatch scientists in the field, contributing nearly 50 years’ worth of vital environmental research to 62 research projects. These employees, whom we call HSBC Environmental Fellows, each go on to involve an average of 66 more people in environmental issues and to give 52 hours of additional voluntary work — 60 per cent more than they did before they took part. Earthwatch and HSBC have also trained more than 90 scientists in developing countries, providing them with the research skills they need to manage local environmental issues.

Our work with BGCI aims to protect 20,000 plant species from extinction. HSBC’s contribution has enabled almost 400 botanic gardens from 78 countries to take on key conservation roles as participants in the International Agenda for Botanic Gardens.

WWF and HSBC are working to breathe new life into three of the world’s major rivers. Work on the Yangtze, Amazon and Rio Grande concentrates on developing sustainable river management involving stakeholder groups at a national and local level. As a result of the campaign in Brazil, a judge has decreed that fines levied for environmental abuses should be used to improve water quality in local springs.

As the world’s local bank, we try to respond to other needs as well as to education and the environment. The plight of families and communities shattered by the Indian Ocean tsunami in December 2004 was one that touched the hearts of people around the world. US$1 million was donated by the Hongkong Bank Foundation in the immediate aftermath of the disaster and was followed by further support in cash and in kind from our local operations in the affected countries. We established efficient channels for our customers to make donations and we set up schemes to encourage contributions from our employees. The Group pledged to match the donations of thousands of HSBC colleagues and, as a result, we will give a further US$1 million for long-term rebuilding efforts around the region.

Measuring and Reporting our Progress

So how are we doing overall? One of the ways we track our progress is through independent benchmarking surveys and the assessments of the ethical investment community. The CSR Committee has closely followed HSBC’s performance in the three benchmarking indices in which we participate — the Dow Jones Sustainability Index (DJSI), FTSE4Good and the Business in the Community Environment Index — and has set a broad objective for HSBC to be listed among the top 25 per cent of companies taking part. We are particularly proud of our position within the DJSI World Index, which ranks HSBC among the world’s top five per cent of banks for sustainability. But we also know we have some way to go to convince all socially responsible investors that we are doing enough.

HSBC discussed corporate responsibility issues with a number of our major institutional shareholders to understand their expectations better and to explain how we are responding. Our meeting with a number of socially responsible investors, for instance, provided feedback on how our CSR reporting could be improved. These views were reported back to the HSBC Holdings Board and have been taken into account, along with other comments, while producing our *CSR Report 2004*.

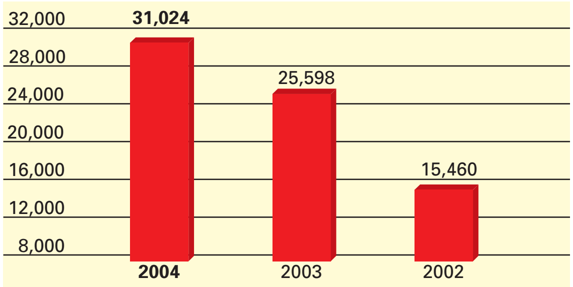
In CSR, as in many aspects of business, more always needs to be done. We will continue the journey and report regularly on our progress.

HSBC’s Corporate Social Responsibility Report 2004, *available from late April 2005, includes more information on these and other initiatives. Further details can also be found on our CSR web site: www.hsbc.com/csr.*

Financial Review

Net Interest Income

Net interest income (US$m)



Net interest income was US$5,426 million, or 21 per cent higher than 2003, at US$31,024 million. US$2,745 million of this increase was attributable to an additional quarter of HSBC Finance compared with 2003, while Bank of Bermuda contributed US$154 million in the ten months since acquisition. On an underlying basis and in terms of constant currency, net interest income increased by 5 per cent, as the impact of strong growth in interest-earning assets was partly offset by continuing margin compression in major markets and lower returns on treasury assets.

In Europe, net interest income was US$1,522 million, or 20 per cent, higher than in 2003, with US$158 million of the increase coming from an additional quarter of HFC Bank in the UK and US$35 million from the acquisition of M&S Money in November 2004. On an underlying basis and expressed in constant currency, net interest income increased by 6 per cent, reflecting strong growth in mortgages and consumer lending (funded by corresponding growth in lower-costing deposits and current accounts), particularly in the UK. This was partly offset by competitive pricing pressure, particularly in UK mortgages, and the redeployment of liquidity at lower yields as assets matured.

In North America, net interest income increased by US$3,136 million, with HSBC Finance contributing US$2,587 million of the increase. On an underlying basis, the rise was US$393 million, or 3 per cent, primarily from a strong performance in Mexico, which benefited from growth in low cost deposits. In the US, an increase in mortgage lending flowed through to net interest income, though the benefit was partly offset by competitive pressure on pricing, a change in asset mix towards lower yielding but higher quality assets, and the effect of funding costs on larger trading positions.

In Hong Kong, net interest income declined by 7 per cent, largely due to spread compression on the value of deposits and pressure on lending margins, particularly in mortgages. Foreign funds investing in the buoyant stock market, and inflows from investors anticipating an upward realignment of the currency as US dollar weakened, boosted liquidity in the market, depressing Hong Kong dollar interest rates and reducing spreads on deposits. Net interest income was further reduced by competitive pressure on mortgage yields and corporate spreads, a fall in average mortgage balances and the run-off of higher yielding treasury assets with less attractive reinvestment opportunities, given the flat Hong Kong dollar yield curve. These adverse developments were partly offset by a 10 per cent rise in average interest-earning assets, and continued growth in customer deposits.

In the Rest of Asia-Pacific, net interest income increased by 18 per cent. In constant currency terms, the rise was 15 per cent, driven by growth in mortgages, consumer lending and international trade across the region, offset partly by competitive pressure on pricing.

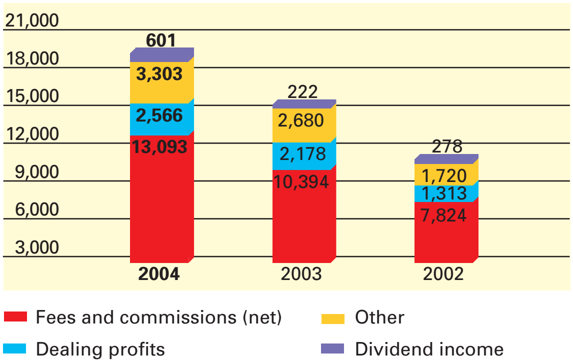
In South America, net interest income rose sharply, reflecting the full-year benefit of acquiring Losango in December 2003 and the effect of falls in Brazilian interest rates in the latter part of 2003 and early 2004 which translated into lower funding costs on large fixed rate positions, and widening spreads on deposits. The effect was accentuated by strong growth in both personal and commercial lending in Brazil. Argentina similarly benefited from growth in consumer lending as the economy grew and the outcome of the external debt restructuring became increasingly apparent.

Overall, average interest-earning assets increased by US$185.9 billion, or 24 per cent, compared with 2003. At constant exchange rates, underlying average interest-earning assets increased by 13 per cent. This growth was driven principally by higher mortgage balances and personal lending in the US, the UK, and across Asia-Pacific.

HSBC's net interest margin was 3.22 per cent in 2004, compared with 3.29 per cent in 2003.

Other Operating Income

Other operating income (US$m)



Other operating income of US$19,563 million, was US$4,089 million, or 26 per cent, higher than in 2003. Of this increase, US$836 million was attributable to an additional quarter from HSBC Finance while Bank of Bermuda contributed US$325 million. On an underlying basis, and at constant exchange rates, growth in other operating income was 12 per cent, driven principally by strong growth in fee and commission income across all operations.

Net fees and commissions rose by US$2,699 million, or 26 per cent, with the additional quarter of HSBC Finance and acquisitions accounting for US$1,003 million of this increase. On a constant currency basis, the underlying increase of 10 per cent was underpinned by lending fees from strong growth in consumer lending in the UK and the US, sales of investment products in Asia and a general upturn in funds management income.

In Europe, fee income increased by US$1,103 million, or 21 per cent, of which US$107 million came from an extra quarter's result from HFC Bank and the acquisitions of Bank of Bermuda and M&S Money. At constant currencies, fee income rose by 8 per cent driven by strong growth in funds under management in Private Banking, and by the strength of both mortgage and consumer lending, particularly in the UK where growth in loan fees and cards income was augmented by sales of credit protection products. The increase in loan fee income also reflected strong demand for commercial lending products in the UK.

Excluding the US$617 million contribution from an additional quarter of HSBC Finance and US$126 million from Bank of Bermuda, fees and commissions in North America increased by US$324 million, or 4 per cent. On a comparable basis, HSBC Finance saw strong growth in fees from loan sales and sales of credit protection policies. In Mexico, strong growth in the Afore pension funds business complemented higher fee income from credit cards, deposit services and international remittances.

In Hong Kong, fee income rose strongly as a rise in stock market activity sparked demand for investment products. Unit trust, custody and broking income all benefited from strong customer demand, while strong growth in funds under management was reflected in a sharp rise in discretionary mandate fees. An improvement in consumer confidence in the second half of the year flowed through to a rise in cardholder spending, and credit card fee income rose by 13 per cent.

HSBC's operations in the rest of Asia-Pacific similarly benefited from an upturn in regional financial markets, with strong sales of investment products reflected in growth in fees from funds under management and global custody. Further growth came from an expansion of HSBC's credit card base in the region, where cards in issue grew by 929,000 or 25 per cent and from strong growth in trade related income, particularly in the Middle East, where the benefit of higher oil prices boosted local economies. Overall, fee income rose by 26 per cent at constant currencies.

In South America, net fees and commissions were 42 per cent higher than in 2003. The bulk of the increase came in Brazil, which benefited both from the integration of Losango, and strong organic growth in consumer and commercial lending.

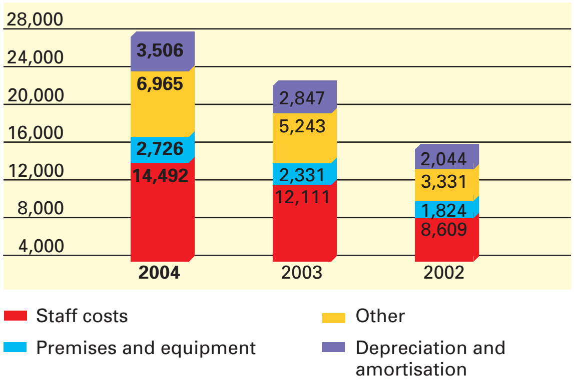
Dealing profits of US$2,566 million were US$388 million, or 18 per cent, higher than in 2003 with US$49 million of the increase coming from acquisitions. Strong growth in foreign exchange and interest rate derivatives trading offset lower income from debt securities, while dealing losses on equity swaps trading were offset by the related dividend income. Customer flows were strongly ahead of 2003, driven largely by the expansion of business capabilities during the year. This was reflected in increases in both foreign exchange trading and derivatives income, particularly in Europe and Hong Kong, while retail sales of structured products further boosted income in Hong Kong and Singapore. However, fixed income revenues fell, particularly in the UK, Brazil, Mexico and the US, as movements in credit spreads adversely affected debt trading income.

Other operating income benefited from an expansion of HSBC's insurance business in the UK and Hong Kong and growth in the asset finance business in the UK.

Financial Review (continued)

Operating Expenses

Operating expenses (US$m)



Staff numbers (full-time equivalent)

	As at 31 December		
	2004	2003	2002
Europe	**74,861**	73,943	72,260
Hong Kong	**25,552**	23,636	23,786
Rest of Asia-Pacific	**41,031**	31,827	28,630
North America	**69,781**	65,021	34,207
South America	**32,108**	28,292	25,522
Total staff numbers	**242,333**	222,719	184,405

Operating expenses increased by US$5,157 million, or 23 per cent, with an additional quarter's costs in HSBC Finance accounting for US$1,302 million and acquisitions US$745 million of the increase. Excluding these acquisitions and expressed in terms of constant currency, operating expenses, excluding goodwill amortisation, were 8 per cent higher than in 2003. Staff costs, which, on the same basis, rose by 7 per cent, accounted for less than half of the increase, and largely reflected restructuring and expansion costs in Corporate Investment Banking and Markets, higher performance-related bonuses, and growth in staff numbers in support of rising business volumes. Higher advertising and marketing costs to stimulate product sales, and expenditure on IT infrastructure, largely accounted for the US$1,020 million, or 11 per cent, increase in non-staff costs. HSBC's cost:income ratio excluding goodwill amortisation fell to 51.1 per cent in 2004 from 51.3 per cent in 2003, reflecting the inclusion of an additional quarter's result of HSBC Finance Corporation. Excluding this effect, the cost:income ratio increased to 52.5 per cent.

In Europe, costs excluding goodwill amortisation increased by US$2,041 million compared with 2003, of which the additional quarter's costs in HSBC Finance and acquisitions accounted for US$270 million. On an underlying basis and at constant exchange rates, expenses were US$766 million, or 7 per cent, higher than in 2003. Higher marketing and IT infrastructure costs added US$169 million while staff costs rose by US$245 million, reflecting restructuring and incentive compensation within Corporate Investment Banking and Markets, higher performance-related remuneration and staff pay increments.

Operating expenses in Hong Kong, excluding goodwill amortisation, rose by US$312 million, 14 per cent higher than in 2003, with US$56 million of the increase attributable to acquisitions. On an underlying basis staff costs rose by 9 per cent, largely due to higher performance-related bonuses, reflecting improved results in a number of businesses, and increased headcount in support of business expansion across a number of business segments. Marketing expenses also rose, particularly in Personal Financial Services, in contrast to the significant cut back in 2003 following the outbreak of SARS.

In the Rest of Asia-Pacific, costs excluding goodwill amortisation increased by US$339 million, or 19 per cent, compared with 2003, with acquisitions accounting for US$10 million of the increase. At constant exchange rates, the increase was 15 per cent, as staff were recruited to support business expansion in most business segments across the region and additional marketing costs were incurred to support business growth. Incentive-based staff costs also rose in line with improved business performance. The continued migration of processing activities from other regions to the Group Service Centres meant additional staff and IT infrastructure costs were incurred.

In North America, operating expenses, excluding goodwill amortisation, increased by US$1,940 million, or 28 per cent, with acquisitions and an additional quarter's costs from HSBC Finance contributing US$1,301 million of the increase. The underlying rise of 9 per cent largely reflected a significant expansion in Corporate Investment Banking and Markets in the US, where some 300 staff were added during the year and staff and incentive-based compensation saw significant increases. Investment was also made in a number of related technology projects. Staff were recruited for the branch networks in both Mexico and the US to support business growth, and marketing costs rose by US$93 million in support of a number of personal banking and consumer finance products.

In South America, operating expenses, excluding goodwill amortisation, rose by US$369 million, or 34 per cent. US$189 million of this increase related to acquisitions in 2004, and the underlying rise in cost at constant currencies was 12 per cent. Staff costs increased by 2 per cent, with higher levels of performance-related bonuses, particularly in Corporate, Investment Banking and Markets and higher social taxes. Transactional taxes in Brazil increased sharply and additional processing, communications and outsourcing costs were incurred to support business growth.

Bad and Doubtful Debts

	Year ended 31 December					
	2004		2003		2002	
	US$m	**%**	US$m	%	US$m	%
By geographical region:						
Europe	**1,025**	**16.1**	874	14.3	569	43.1
Hong Kong	**(223)**	**(3.5)**	400	6.6	246	18.6
Rest of Asia-Pacific	**100**	**1.6**	85	1.4	89	6.7
North America	**5,186**	**81.6**	4,676	76.7	300	22.7
South America						
— normal	**269**	**4.2**	58	1.0	313	23.7
— additional[1]	**–**	**–**	–	–	(196)	(14.8)
Total charge for bad and doubtful debts	**6,357**	**100.0**	6,093	100.0	1,321	100.0

1 *Additional general provisions against Argentine exposures.*

At 31 December 2004, 78 per cent of customer lending was located in Europe and North America, with 12 per cent in Hong Kong. Personal lending accounted for 57 per cent of the customer loan portfolio, a marginal increase on the position at 31 December 2003.

Excluding the effect of foreign exchange translation, over 70 per cent of loan growth in 2004, excluding the financial sector, was generated in personal lending, with particularly strong growth in mortgages and consumer lending.

Over 100 per cent of the net charge for bad and doubtful debts in 2004 related to lending to the personal sector, including consumer finance, compared with 90 per cent in 2003. Similarly, some 95 per cent of the charge related to lending in the US and Europe, compared with 88 per cent in 2003.

The charge for specific bad and doubtful debts adjusts the specific balance sheet provisions to the level that management deems adequate to absorb actual and inherent losses in the Group's loan portfolio from homogeneous portfolios of assets and individually identified customer loans. The majority of specific provisions are determined on a portfolio basis employing statistical calculations using roll rate methodology to determine specific provisions for bad and doubtful debts. There were no significant changes to the procedures used by HSBC in determining the various components of the charge for specific bad and doubtful debts during the year. The charge for specific provisions in 2004 was US$6,793 million compared with US$6,214 million in 2003, an increase of US$579 million. With the additional quarter's charge from HSBC Finance and the acquisitions during the year together adding US$1,433 million to the overall charge, the underlying movement at constant currencies was a decrease of US$979 million. New specific provisions increased by US$1,212 million, reflecting the additional quarter's charge for HSBC Finance of US$1,367 million and the US$205 million effect of acquisitions during the year. Excluding these and at constant currencies, new specific provisions fell by US$537 million, or 7 per cent, compared with 2003 with lower new provisions in Hong Kong and the US combined with higher releases and recoveries in Europe, North America and South America.

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be individually identified as such until some time in the future. In determining the level of general provisions, management takes account of historical loss experience, the estimated period between a loss occurring and that loss being identified and use their judgement to decide whether current economic conditions are likely to produce credit default rates and loss severity in line with historical precedent. There was a net general provision release of US$436 million in 2004, US$315 million greater than the net release of US$121 million in 2003. Releases increased in all geographical regions except South America. This reflected improved underlying economic conditions, driving lower loss expectations, and progress made with refinancing and restructuring problem credits.

The aggregate customer bad and doubtful debt provisions at 31 December 2004 of US$12.7 billion represented 1.98 per cent of gross customer advances (net of suspended interest, reverse repos and settlement accounts) compared with 2.65 per cent at 31 December 2003. As in 2003, HSBC's cross-border exposures did not necessitate significant provisions.

Non-performing loans (net of suspended interest) were US$13.3 billion at 31 December 2004. At constant exchange rates, there was a decrease in the level of non-performing loans (net of suspended interest) in 2004 compared with 2003, with falls in all geographical regions. Hong Kong and North America experienced a substantial fall in the level of loans categorised as non-performing.

Financial Review (continued)

Gains on Disposal of Investments

During the year, HSBC made 15 business acquisitions and completed 13 business disposals. HSBC's profit on disposal of investments was US$770 million, US$319 million higher than in 2003. The gain on disposal of associates included a gain on the exchange of HSBC's interest in World Finance International Limited for a 7 per cent interest in Bergesen Worldwide.

The substantial increase in other disposals comprises the sale of venture capital investments in France and the US and the disposal of an investment in NYCE Corporation in the US. Realised gains on the sale of debt and equity investment securities during the year were 24 per cent higher than in 2003.

Taxation

	Year ended 31 December		
Figures in US$m	**2004**	2003	2002
UK corporation tax charge	**716**	547	684
Overseas taxation	**2,856**	2,590	1,217
Joint ventures	**3**	1	(6)
Associates	**42**	19	17
Current taxation	**3,617**	3,157	1,912
Origination and reversal of timing differences	**981**	(5)	615
Effect of decreased tax rate on opening asset	**(15)**	(7)	–
Adjustment in respect of prior years	**(76)**	(25)	7
Deferred taxation	**890**	(37)	622
Total charge for taxation	**4,507**	3,120	2,534
Effective taxation (per cent)	**25.6**	24.3	26.3
Standard UK corporation tax rate (per cent)	**30.0**	30.0	30.0

Analysis of overall tax charge

	Year ended 31 December		
Figures in US$m	**2004**	2003	2002
Taxation at UK corporate tax rate of 30% (2003: 30% and 2002: 30%)	**5,282**	3,845	2,895
Effect of differently taxed overseas profits in principal location	**(347)**	(366)	(472)
Tax free gains	**(64)**	(17)	(19)
Goodwill amortisation	**579**	476	261
Acquisition accounting adjustments	**(253)**	(331)	–
Prior period adjustments	**(229)**	(230)	(90)
Tax deduction on innovative tier 1 capital	**(192)**	(117)	(99)
Low income housing credits	**(95)**	(72)	–
Other items	**(174)**	(68)	58
Overall tax charge	**4,507**	3,120	2,534

HSBC Holdings and its subsidiary undertakings in the UK provided for UK corporation tax at 30 per cent, the rate for the calendar year 2004 (2003: 30 per cent).

HSBC's effective tax rate of 25.6 per cent in 2004 was lower than the corporation tax rate of 30 per cent. The main factors which reduced the rate were: the geographical mix of profits and, in particular, the lower rate of tax on profits generated in Hong Kong; fair value accounting adjustments, which under UK GAAP affect pre-tax profits but are ignored for tax purposes; the tax-deductibility of the cost of servicing the Group's innovative Tier 1 capital, which under UK GAAP is shown as a minority interest; and prior period adjustments, which by definition are unrelated to earnings in the current year. These were partially offset by the effect of goodwill amortisation, which is also ignored for tax purposes and therefore increases the effective tax rate.

Overseas tax included Hong Kong profits tax of US$539 million (2003: US$483 million) provided at a rate of 17.5 per cent (2003: 17.5 per cent) on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates.

Profits arising in North America represented a higher percentage of HSBC's profits in 2004 than in 2003, largely because of the effect of an additional quarter's results of HSBC Finance Corporation. US profits are taxed at a higher rate than the average for the rest of the Group and this change in mix raised the effective tax rate.

A number of fair value acquisition accounting adjustments relating to HSBC Finance Corporation and HSBC Mexico resulted in net credits to the profit and loss account with no corresponding tax charge. A more detailed explanation of the acquisition accounting adjustments is disclosed in Note 7 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts*.

Certain prior period adjustments arose in 2004 which reduced HSBC's overall tax charge. These related to the recognition of deferred tax assets on losses, which became more likely to be utilised. The Group also reached agreement on a number of settlements in respect of outstanding matters on prior year computations at a lower cost than had originally been estimated in establishing provisions.

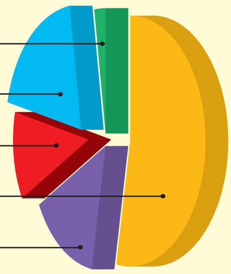
Goodwill amortisation was higher than in the previous year, mainly due to an additional three months charge for HSBC Finance Corporation.

At 31 December 2004, there were potential future tax benefits of US$973 million (2003: US$963 million). The potential benefits are in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowable for tax, and capital losses which have not been recognised because realisation of the benefits is not considered more likely than not.

Assets

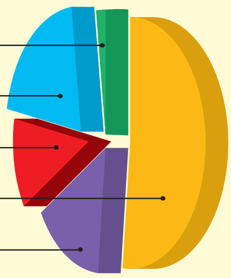
Assets 2004 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Treasury and other eligible bills	2.4	30
Debt securities	19.1	241
Loans and advances to banks	11.3	143
Loans and advances to customers	52.9	670
Other	14.3	181
Total	100.0	1,265



Assets 2003 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Treasury and other eligible bills	2.0	20
Debt securities	20.1	206
Loans and advances to banks	11.5	117
Loans and advances to customers	51.6	529
Other	14.8	151
Total	100.0	1,023



HSBC's total assets (excluding Hong Kong Government certificates of indebtedness) at 31 December 2004 were US$1,264.9 billion, an increase of US$241.7 billion or 24 per cent since 31 December 2003. At constant exchange rates, total assets grew by US$203.8 billion or 19 per cent.

At 31 December 2004, HSBC's balance sheet remained highly liquid, reflecting strong growth in customer deposits. The proportion of assets deployed in customer advances rose to 53 per cent. Customer advances increased by 27 per cent, marginally higher than the growth in total assets, driven essentially by lending to finance consumer spending and strong growth in mortgage financing, reflecting the buoyant housing markets in the US, the UK and parts of Asia-Pacific. Growth in corporate lending was concentrated in the Commercial Banking customer group, while increased financial lending largely reflected expansion of the euro government bond trading portfolios in France.

At constant exchange rates, gross loans and advances to customers (excluding loans to the financial sector) were US$101.4 billion higher than at the end of December 2003. US$50.5 billion of this increase related to mortgages, with strong growth in the US and the UK. At constant exchange rates, other personal lending increased by US$22.9 billion or 17 per cent compared with December 2003, mainly as a result of strong growth in credit card and other unsecured personal lending in all of HSBC's markets, particularly in the UK. Underlying commercial and corporate lending, excluding lending to governments, grew by 14 per cent, with notable growth in Hong Kong and in the Rest of Asia-Pacific on the back of higher trade volumes.

In Europe, growth in assets was driven by increased mortgage and consumer lending in the UK and demand from private banking clients for secured funding to finance investment activity. Lending to small and middle market companies also increased, although lending to major corporate customers remained subdued.

In Hong Kong, lending to commercial customers improved as Hong Kong's economy recovered from the impact of SARS and trade flows with mainland China increased. Competition in the mortgage market remained intense and the portfolio declined slightly. Surplus funds from increased customer deposits were deployed in investment securities to enhance HSBC's yields.

In the Rest of Asia-Pacific, the increase in assets was driven by higher mortgage, consumer lending and strong regional trade flows.

The rise in assets in North America was driven substantially by strong growth in mortgage lending and demand for consumer credit.

In South America, growth was concentrated in consumer lending in Brazil, which also benefited from an expansion in lending to the Brazilian retail sector.

At 31 December 2004, assets held by HSBC as custodian amounted to US$2,819 billion. Custody is safekeeping and administration of securities and financial instruments on behalf of others, and the inclusion of Bank of Bermuda was responsible for much of the increase.

Funds under management

Funds under management of US$476 billion were US$57 billion, or 14 per cent, higher than at 30 June 2004 and US$90 billion, or 23 per cent, higher than at the end of 2003. The inclusion of US$22 billion of funds relating to Bank of Bermuda, and continued strong funds inflows from both the asset management and private banking businesses, were responsible for the increase. The weakening of the US dollar benefited the translation of sterling and euro-denominated funds, and contributed to the positive market performance. At 31 December 2004, HSBC's asset management business, including affiliates, reported funds under management of US$224 billion, and the private banking business reported funds under management of US$178 billion.

Board of Directors and Senior Management

Directors

Sir John Bond, *Group Chairman*
Age 63. An executive Director since 1990; Group Chief Executive from 1993 to 1998. Joined HSBC in 1961; a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, having been an executive Director from 1988 to 1992. A Director of HSBC Bank plc from 1993 to 1997 and Chairman from 1998 to 2004. A non-executive director of Ford Motor Company and of Vodafone Group Plc.

*The Baroness Dunn,** DBE, *Deputy Chairman and senior non-executive Director*
Age 64. 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 former non-executive Director of Marconi p.l.c. and a former Senior Member of the Hong Kong Executive Council and Legislative Council.

†**Sir Brian Moffat,** OBE, *Deputy Chairman and senior independent non-executive Director*
Age 66. Former Chairman of Corus Group plc. A non-executive Director since 1998 and a non-executive Deputy Chairman since 2001. Chairman of the Group Audit Committee and of the Nomination Committee. A member of the Court of the Bank of England. A non-executive Director of Macsteel Global BV.

S K Green, *Group Chief Executive*
Age 56. An executive Director since 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Bank plc, HSBC Bank Middle East Limited and HSBC Private Banking Holdings (Suisse) S.A. A Director of The Bank of Bermuda Limited, CCF S.A., The Hongkong and Shanghai Banking Corporation Limited, Grupo Financiero HSBC, S.A. de C.V., HSBC North America Holdings Inc. and HSBC Trinkaus & Burkhardt KGaA.

A W Jebson, *Group Chief Operating Officer*
Age 55. An executive Director since 2000. Group IT Director from 2000 to 2003. Group General Manager, Information Technology from 1996 to 2000. Joined HSBC in 1978. A Director of HSBC Finance Corporation.

W F Aldinger, *Chairman and Chief Executive Officer, HSBC North America Holdings Inc.*
Age 57. An executive Director since 2003. Joined HSBC Finance Corporation in 1994. Chairman and Chief Executive Officer of HSBC Finance Corporation. Chairman, President and Chief Executive Officer of HSBC North America Inc. Chairman of HSBC Bank USA, N.A. and HSBC USA Inc. A non-executive Director of MasterCard International, Inc., Illinois Tool Works, Inc., AT&T Corp., and the combined board of the Children's Memorial Medical Center/Children's Memorial Hospital and the Children's Memorial Foundation. Former Vice Chairman of Wells Fargo Bank.

†The Rt Hon the Lord Butler of Brockwell, KG, GCB, CVO
Age 67. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Social Responsibility Committee, a member of the Nomination Committee and Chairman of the HSBC Education Trust. A non-executive Director of Imperial Chemical Industries plc. Chaired the UK Government Review of Intelligence on Weapons of Mass Destruction. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

†R K F Ch'ien, CBE
Age 53. Executive Chairman of chinadotcom corporation and Chairman of its subsidiary, hongkong.com Corporation. A non-executive Director since 1998. A member of the Group Audit Committee. Non-executive Chairman of HSBC Private Equity (Asia) Limited, and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997. Non-executive Chairman of MTR Corporation Limited and a non-executive Director of Convenience Retail Asia Limited, Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited.

†J D Coombe
Age 59. Executive Director and Chief Financial Officer of GlaxoSmithKline plc, from which he will retire on 31 March 2005. Appointed a non-executive Director with effect from 1 March 2005 and a member of the Group Audit Committee with effect from 1 July 2005. A non-executive Director of the Supervisory Board of Siemens AG and appointed a non-executive Director of GUS plc with effect from 1 April 2005. A member of The Code Committee of the Panel on Takeovers and Mergers. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

D G Eldon, *Chairman, The Hongkong and Shanghai Banking Corporation Limited*
Age 59. An executive Director since 1999. Joined HSBC in 1968. Appointed an executive Director of The Hongkong and Shanghai Banking Corporation Limited in 1994, Chief Executive Officer in 1996 and Chairman in 1999. Non-executive Chairman of Hang Seng Bank Limited and a non-executive Director of Swire Pacific Limited and MTR Corporation Limited.

†R A Fairhead
Age 43. Finance Director of Pearson plc. A non-executive Director since 1 March 2004. A member of the Group Audit Committee. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

D J Flint, *Group Finance Director*
Age 49. Joined HSBC as an executive Director in 1995. Director of HSBC Bank Malaysia Berhad. A non-executive Director of BP p.l.c. Chairman of 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.

Board of Directors and Senior Management (continued)

†W K L Fung, OBE
Age 56. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Remuneration Committee and of the Corporate Social Responsibility Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1995. Former Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Co-operation Council.

M F Geoghegan, CBE, *Chief Executive, HSBC Bank plc*
Age 51. An executive Director since 1 March 2004. Joined HSBC in 1973. Appointed a Director and Chief Executive of HSBC Bank plc in January 2004. A Director of CCF S.A. and HSBC Private Banking Holdings (Suisse) S.A. President of HSBC Bank Brasil S.A.-Banco Múltiplo from 1997 to 2003 and responsible for all of HSBC's business throughout South America from 2000 to 2003. A non-executive Director of Young Enterprise.

†S Hintze
Age 60. Former Chief Operating Officer of Barilla S.P.A. A non-executive Director since 2001. A member of the Corporate Social Responsibility Committee and of the Remuneration Committee. A non-executive Director of Premier Foods plc and the Society of Genealogists, a registered charity. A former Senior Vice President of Nestlé S.A. With Mars Incorporated from 1972 to 1993, latterly as Executive Vice President of M&M/Mars in New Jersey. A former non-executive Director of Safeway plc.

†J W J Hughes-Hallett
Age 55. Chairman of John Swire & Sons Limited. Appointed a non-executive Director with effect from 1 March 2005. 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.

†Sir John Kemp-Welch
Age 68. Former Joint Senior Partner of Cazenove & Co and former Chairman of the London Stock Exchange. A non-executive Director since 2000. A member of the Remuneration Committee and of the Group Audit Committee. A Deputy Chairman of the Financial Reporting Council and a member of the Panel on Takeovers and Mergers from 1994 to 2000.

†Sir Mark Moody-Stuart, KCMG
Age 64. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee. A Director and former 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. A non-executive Director of Accenture Limited, a Governor of Nuffield Hospitals, President of the Liverpool School of Tropical Medicine and Chairman of the Global Business Coalition on HIV/AIDS.

†S W Newton

Age 63. Chairman of The Real Return Holdings Company Limited. A non-executive Director since 2002. A Member of the Advisory Board of the East Asia Institute at Cambridge University. Founder of Newton Investment Management, from which he retired in 2002.

***H Sohmen,** OBE

Age 65. Chairman and President of World-Wide Shipping Group Limited and Chairman of Bergesen d.y. ASA and Bergesen Worldwide Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1984 and Deputy Chairman since 1996.

†C S Taylor

Age 59. Chair of Canadian Broadcasting Corporation. A non-executive Director since 2002. A member of the Corporate Social Responsibility Committee. Appointed a non-executive Director of HSBC North America Holdings Inc. with effect from 1 March 2005. A former non-executive Director of HSBC Bank Canada, HSBC Bank USA, N.A. and HSBC USA Inc. A non-executive Director of Fairmont Hotels and Resorts from 2001 to February 2005. Chair of Vancouver Board of Trade from 2001 to 2002.

†Sir Brian Williamson, CBE

Age 60. Chairman of Electra Investment Trust plc and Resolution Life Group Limited. A non-executive Director since 2002. A member of the Nomination Committee. A member of the Supervisory Board of Euronext NV. Senior adviser to Fleming Family and Partners. Former Chairman of London International Financial Futures and Options Exchange and Gerrard Group plc. A former non-executive Director of the Financial Services Authority and of the Court of The Bank of Ireland.

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

Adviser to the Board

D J Shaw

Age 58. An Adviser to the Board since 1998. Solicitor. A partner in Norton Rose from 1973 to 1998. A Director of The Bank of Bermuda Limited and HSBC Private Banking Holdings (Suisse) S.A.

Secretary

R G Barber

Age 54. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

Board of Directors and Senior Management (continued)

Group Managing Directors

C-H Filippi
Age 52. A Group Managing Director and Chairman and Chief Executive Officer of CCF S.A. since 1 March 2004. A Director of HSBC Bank plc. Joined CCF S.A. in 1987 having previously held senior appointments in the French civil service. Appointed a Group General Manager in 2001 as Global Head of Corporate and Institutional Banking.

S T Gulliver
Age 45. A Group Managing Director since 1 March 2004. Co-Head Corporate, Investment Banking and Markets since 2003. Joined HSBC in 1980. Appointed a Group General Manager in 2000. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002 and Head of Global Markets from 2002 to 2003.

Y A Nasr
Age 50. A Group Managing Director since 1 March 2004. President, HSBC Bank Brasil S.A.-Banco Múltiplo since 2003. Joined HSBC in 1976. Appointed a Group General Manager in 1998. President and Chief Executive Officer of HSBC USA Inc. and HSBC Bank USA from 1999 to 2003. President and Chief Executive Officer of HSBC Bank Canada from 1997 to 1999.

J J Studzinski
Age 48. A Group Managing Director since 1 March 2004. Co-Head Corporate, Investment Banking and Markets since 2003. Joined HSBC in 2003 having previously been with Morgan Stanley from 1980 to 2003 most recently as Deputy Chairman of Morgan Stanley International. Appointed a Group General Manager in 2003.

Group General Managers

R J Arena
Age 56. Group General Manager, Global e-business. Joined HSBC in 1999. Appointed a Group General Manager in 2000.

C C R Bannister
Age 46. Chief Executive Officer, Group Private Banking. Joined HSBC in 1994. Appointed a Group General Manager in 2001.

R E T Bennett
Age 53. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

N S K Booker
Age 46. Group General Manager and Chief Executive Officer, India. Joined HSBC in 1981. Appointed a Group General Manager in January 2004.

G P S Calvert, OBE
Age 52. Group General Manager and Managing Director, The Saudi British Bank. Joined HSBC in 1974. Appointed a Group General Manager in June 2004.

Z J Cama
Age 57. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad. Joined HSBC in 1968. Appointed a Group General Manager in 2001.

V H C Cheng, OBE
Age 56. Executive Director and Chairman designate, The Hongkong and Shanghai Banking Corporation Limited and Chief Executive Officer, Hang Seng Bank Limited. Joined HSBC in 1978. Appointed a Group General Manager in 1995.

A A Flockhart
Age 53. Group General Manager, Chief Executive Officer and Chairman HSBC, Grupo Financiero HSBC, S.A. de C.V. and HSBC Mexico S.A. Joined HSBC in 1971. Appointed a Group General Manager in 2002.

M J G Glynn
Age 53. Group General Manager, President and Chief Executive Officer, HSBC Bank USA, N.A. Joined HSBC in 1982. Appointed a Group General Manager in 2001.

K M Harvey
Age 44. Group General Manager and Group Chief Information Officer. Joined HSBC Finance Corporation in 1989. Appointed a Group General Manager in August 2004.

D H Hodgkinson
Age 54. Group General Manager, Chief Executive Officer and Deputy Chairman, HSBC Bank Middle East Limited. Joined HSBC in 1969. Appointed a Group General Manager in 2003.

A P Hope
Age 58. Group General Manager, Insurance. Joined HSBC in 1971. Appointed a Group General Manager in 1996.

D D J John
Age 54. Chief Operating Officer and Director, HSBC Bank plc. Joined HSBC Bank plc in 1971. Appointed a Group General Manager in 2000.

M J W King
Age 48. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in 2002.

R C F Or
Age 55. Executive Director, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in 2000.

K Patel
Age 56. Group General Manager and Head of Corporate, Investment Banking and Markets, Emerging Europe & Africa. Joined HSBC in 1984. Appointed a Group General Manager in 2000.

R C Picot
Age 47. Group Chief Accounting Officer. Joined HSBC in 1993. Appointed a Group General Manager in 2003.

J C S Rankin
Age 63. Group General Manager, Human Resources. Joined HSBC in 1960. Appointed a Group General Manager in 1990.

B Robertson
Age 50. Group General Manager, Credit and Risk. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

M R P Smith, OBE
Age 48. President and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1978. Appointed a Group General Manager in 2000.

I A Stewart
Age 46. Group General Manager and Head of Transaction Banking, Corporate, Investment Banking and Markets. Joined HSBC in 1980. Appointed a Group General Manager in 2000.

P E Stringham
Age 55. Group General Manager, Marketing. Joined HSBC in 2001. Appointed a Group General Manager in 2001.

P A Thurston
Age 51. Group General Manager, Personal Financial Services, Asia-Pacific. Joined HSBC in 1975. Appointed a Group General Manager in 2003.

Results for 2004

HSBC reported operating profit before provisions of US$22,898 million. Profit attributable to shareholders of HSBC Holdings was US$11,840 million, a 14.4 per cent return on shareholders' funds. The retained profit transferred to reserves was US$4,539 million.

Principal Activities and Business Review

Through its subsidiary and associated undertakings, HSBC provides a comprehensive range of banking and related financial services. HSBC operates through long-established businesses and has an international network of over 9,800 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa, and serves over 110 million customers.

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 5 to 37.

Dividend

First, second and third interim dividends, each of US$0.13 per ordinary share were paid on 7 July 2004, 6 October 2004 and 20 January 2005 respectively. The Directors have declared a fourth interim dividend of US$0.27 per ordinary share in lieu of a final dividend, making a total distribution for the year of US$7,301 million. The fourth interim dividend will be payable on 4 May 2005 in cash in United States dollars, or in sterling or Hong Kong dollars, or a combination of these currencies, at exchange rates to be determined on 25 April 2005, with a scrip dividend alternative. A financial calendar, including the key dates for payment of the fourth interim dividend for 2004, is on pages 70 to 71.

Corporate Governance Report

The information set out on pages 186 to 234 of the *Annual Report and Accounts* and information incorporated by reference constitutes the Corporate Governance Report of HSBC Holdings. HSBC is committed to high standards of corporate governance. HSBC Holdings complied throughout the year with the code provisions of the Combined Code on corporate governance appended to the Listing Rules of the Financial Services Authority and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited was substantially revised during 2004. The new provisions of Appendix 14 will apply for subsequent reporting periods.

Board of Directors

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

The Board sets the strategy for HSBC through the five-year strategic plan and approves the annual operating plans presented by management for the achievement of the strategic objectives. The annual operating plans ensure the efficient disposition of HSBC's resources for the achievement of these objectives. The Board delegates the management and day to day running of HSBC to the Group Management Board but retains to itself approval of certain matters including annual plans and performance targets, procedures for monitoring and control of operations, specified senior appointments, acquisitions and disposals above predetermined thresholds and any substantial change in balance sheet management policy.

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

HSBC Holdings has a unitary Board of Directors. The authority of each Director is exercised in Board meetings where the Board acts collectively as a unit. At 1 March 2005, the Board will comprise seven executive and 15 non-executive Directors. The roles of Group Chairman and Group Chief Executive are separated and held by experienced executive Directors. The division of responsibilities between the Group Chairman and the Group Chief Executive is clearly established, set out in writing and agreed by the Board. Before assuming the role of Group Chairman in 1998, Sir John Bond had been the Group Chief Executive for five years. The Group Chairman's knowledge of HSBC's complex and widespread geographical business from his previous service as Group Chief Executive has been a considerable benefit to HSBC.

Executive Directors are employees who carry out executive functions in HSBC in addition to their duties as Directors. Non-executive Directors are not HSBC employees and do not participate in the daily business management of HSBC. Non-executive Directors constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. Non-executive Directors serve as members of Board committees. It is estimated that non-executive Directors spend 24 days per annum on HSBC business after an induction phase, with committee members devoting significant additional time. The names and brief biographical particulars of the Directors are listed on pages 38 to 41.

The Board considers all of the non-executive Directors to be independent in character and judgement. Baroness Dunn and H Sohmen have served on the Board for more than nine years, however, and in that respect only, do not meet the usual criteria for independence set out in the UK Combined Code on corporate governance. The Board has therefore determined Lord Butler, R K F Ch'ien, J D Coombe, R A Fairhead, W K L Fung, S Hintze, J W J Hughes-Hallett, Sir John Kemp-Welch, Sir Brian Moffat, Sir Mark Moody-Stuart, S W Newton, C S Taylor 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 the Director's judgement and any relationships or circumstances which could appear to do so were considered not to be material. In accordance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange each non-executive Director determined by the Board to be independent has provided confirmation of his or her independence to HSBC Holdings.

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

C F W de Croisset retired as a Director on 27 February 2004 and W R P Dalton and Lord Marshall retired as Directors on 28 May 2004. R A Fairhead and M F Geoghegan were appointed Directors with effect from 1 March 2004.

J D Coombe and J W J Hughes-Hallett have been appointed Directors with effect from 1 March 2005. Having been appointed since the Annual General Meeting in 2004, they will retire at the forthcoming Annual General Meeting and offer themselves for re-election.

W F Aldinger is to retire as a Director on 29 April 2005.

Sir John Bond, R K F Ch'ien, Baroness Dunn, D G Eldon, D J Flint, Sir Brian Moffat, S W Newton and H Sohmen will retire by rotation at the forthcoming Annual General Meeting. With the exception of D G Eldon, who is to retire, they will offer themselves for re-election.

The Board has undertaken an evaluation of its performance and that of its committees. This evaluation covered board structure; dynamics; capabilities and processes; corporate governance; strategic clarity and alignment; and the performance of individual Directors. In undertaking this review the Group Chairman held structured meetings with each Director using a similar framework to that employed by MWM Consulting, who prepared an independent performance evaluation of the Board and its committees in January 2004. The report on the evaluation of the Board and its committees has been reviewed by the Board and has been used by the non-executive Directors, led by Sir Brian Moffat, in their evaluation of the performance of the Group Chairman. The Group Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility Committee have also each undertaken a review of their terms of reference and their own effectiveness during 2004.

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

Directors' Interests

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

HSBC Holdings ordinary shares of US$0.50

		At 31 December 2004							
	At 1 January 2004	*Beneficial owner*	*Child under 18 or spouse*	*Trustee*	*Jointly with another person*	*Other*	*Equity derivatives*[1]	*Total interests*[2]	*Percentage or ordinary shares in issue*
W F Aldinger	1,378,974	212,785	–	15,125[3]	–	–	1,363,849	1,591,759	0.01
Sir John Bond	404,602	385,096	3,604	–	62,831	–	–	451,531	0.00
R K F Ch'ien	45,860	47,796	–	–	–	–	–	47,796	0.00
Baroness Dunn	154,362	135,761	–	–	–	28,650[3]	–	164,411	0.00
D G Eldon	47,094	–	942	–	98,904	–	–	99,846	0.00
D J Flint	51,928	52,318	1,953	27,000	–	–	–	81,271	0.00
W K L Fung	328,000	328,000	–	–	–	–	–	328,000	0.00
M F Geoghegan	–[4]	37,795	–	–	–	–	–	37,795	0.00
S K Green	198,758	182,616	15,688	–	45,355	–	–	243,659	0.00
S Hintze	2,037	2,037	–	–	–	–	–	2,037	0.00
A W Jebson	57,794	83,628	–	–	–	–	–	83,628	0.00
Sir John Kemp-Welch .	411,800	60,000	5,000	31,800[3]	–	–	–	96,800	0.00
Sir Brian Moffat	10,746	–	–	–	11,157	–	–	11,157	0.00
Sir Mark Moody-Stuart	5,840	5,000	840	5,000[3]	–	–	–	10,840	0.00
S W Newton	5,000	5,170	–	–	–	–	–	5,170	0.00
H Sohmen	2,941,440	–	1,252,274	–	–	2,017,873[5]	–	3,270,147	0.03
C S Taylor	10,000	9,500	–	–	–	–	500	10,000	0.00
Sir Brian Williamson	15,222	15,865	–	–	–	–	–	15,865	0.00

1 *Under the Securities and Futures Ordinance of Hong Kong, interests in listed American Depositary Shares are categorised as equity derivatives.*
2 *Details of executive Directors' other interests in HSBC Holdings ordinary shares of US$0.50 arising from share option plans and the Restricted Share Plan are set out in the Directors' Remuneration Report on pages 62 to 64.*
3 *Non-beneficial.*
4 *Interests at 1 March 2004 – date of appointment.*
5 *Interests held by private investment companies.*

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

D G Eldon has an interest as beneficial owner in 300 Hang Seng Bank ordinary shares of HK$5.00 each, which he held throughout the year.

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

H Sohmen has a corporate interest in £1,200,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005 which he held throughout the year. During the year, his spouse ceased to have an interest in US$3,000,000 of HSBC Bank plc Senior Subordinated Floating Rate Notes 2009.

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

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

At 31 December 2004, the aggregate interests of the executive Directors in HSBC Holdings ordinary shares of US$0.50 (each of which represents less than 0.005 per cent of the shares in issue, unless otherwise stated) under the Securities and Futures Ordinance of Hong Kong, including interests arising through share option plans, the Restricted Share Plan and, in the case of W F Aldinger, through an employee benefit trust as detailed in the Directors' Remuneration Report on pages 48 to 64, are: W F Aldinger – 16,324,412 (0.15 per cent of shares in issue); Sir John Bond – 1,194,046 (0.01 per cent of shares in issue); D G Eldon – 441,417; D J Flint – 511,862; M F Geoghegan – 300,775; S K Green – 771,599 (0.01 per cent of shares in issue); and A W Jebson – 533,659.

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

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

HSBC Holdings ordinary shares of US$0.50

	Beneficial owner	*Child under 18 or spouse*	*Jointly with another person*	*Beneficiary of a trust*
W F Aldinger	–	–	–	8,031[1]
Sir John Bond	65[2]	25[3]	–	6,448[4]
R K F Ch'ien	365[5]	–	–	–
Baroness Dunn	1,038[5]	–	–	–
D G Eldon	–	7[5]	756[5]	2,610[1]
D J Flint	427[6]	14[3]	–	3,273[1]
M F Geoghegan	289[5]	–	–	2,007[1]
S K Green	33[7]	120[5]	–	4,013[1]
A W Jebson	640[5]	–	–	3,441[1]
Sir Brian Moffat	–	–	85[5]	–
S W Newton	39[5]	–	–	–
Sir Brian Williamson	121[5]	–	–	–

1 *Scrip dividend on awards held under the Restricted Share Plan.*
2 *Comprises the automatic reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan manager (32 shares), the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through regular monthly contributions (28 shares) and the automatic reinvestment of dividend income on shares held in the plan (5 shares).*
3 *The automatic reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan manager.*
4 *Comprises scrip dividend on awards held under the Restricted Share Plan (5,658 shares) and on shares held in a Trust (790 shares).*
5 *Scrip dividend.*
6 *Comprises scrip dividend on shares held as beneficial owner (360 shares), the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through regular monthly contributions (28 shares), the automatic reinvestment of dividend income on shares held in the plan (5 shares) and the automatic reinvestment of a cash dividend by an Individual Savings Account and Personal Equity Plan manager (34 shares).*
7 *Comprises the acquisition of shares in the HSBC Holdings UK Share Ownership Plan through normal monthly contributions (28 shares) and the automatic reinvestment of dividend income on shares held in the plan (5 shares).*

There have been no other changes in Directors' interests from 31 December 2004 to the date of this Report. Any subsequent changes up to the last practicable date before the publication of the 'Notice of Annual General Meeting' will be set out in the notes to that Notice.

At 31 December 2004, Directors and Senior Management held, in aggregate, beneficial interests in 23,699,031 HSBC Holdings ordinary shares (0.2 per cent of the issued ordinary shares).

Dealings in HSBC Holdings Shares

Except for the dealings as intermediaries by HSBC Bank plc, HSBC CCF Financial Products (France) SNC and The Hongkong and Shanghai Banking Corporation Limited, which are members of a European Economic Area exchange in market-making and other dealing activities, neither HSBC Holdings nor any subsidiary undertaking has bought, sold or redeemed any securities of HSBC Holdings during the year ended 31 December 2004.

Donations

During the year, HSBC made charitable donations totalling US$69.2 million. Of this amount, US$21.1 million was given for charitable purposes in the United Kingdom.

No political donations were made during the year.

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

Auditors' Report

The auditors' report on the full accounts for the year ended 31 December 2004 was unqualified and did not include a statement under sections 237(2) (inadequate accounting records or returns or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

On behalf of the Board
R G Barber, *Secretary* 28 February 2005

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning. The Remuneration Committee seeks to respond to the variety of environments and circumstances which are faced by different businesses in different markets at different times and has in place appropriate policies and procedures to monitor the size of potential remuneration awards. The members of the Remuneration Committee throughout 2004 were Sir Mark Moody-Stuart (Chairman), W K L Fung and Sir John Kemp-Welch. S Hintze was appointed a member of the Committee on 30 January 2004.

There were seven meetings of the Remuneration Committee during 2004. Sir Mark Moody-Stuart and Sir John Kemp-Welch attended all of these meetings, W K L Fung attended five meetings and S Hintze attended five of the six meetings following her appointment. Following each meeting, the Committee reports back to the Board on its activities. The terms of reference of the Committee are available on www.hsbc.com by selecting 'Investor Relations', then 'Corporate Governance', then 'Board Committees'.

Towers Perrin, a firm of specialist human resources consultants, has been appointed by the Committee to provide independent advice on executive remuneration issues. As a global firm, Towers Perrin also provides other remuneration, actuarial and retirement consulting services to various parts of HSBC. Other than the provision of expert advice in these areas to the Remuneration Committee and to HSBC, Towers Perrin have no connection with HSBC. Other consultants are used from time to time to validate their findings. The Remuneration Committee also receives advice from the Group General Manager, Group Human Resources, J C S Rankin, and the Senior Executive, Group Reward Management, P M Wood.

General Policy on Employees

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

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

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

Within the authority delegated by the Board of Directors, the Remuneration Committee is responsible for determining the remuneration policy of HSBC including the terms of bonus plans, share plans and other long-term incentive plans, and for agreeing the individual remuneration packages of executive Directors and other senior Group employees. No Directors are involved in deciding their own remuneration.

The Remuneration Committee applies the following key principles:

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

In line with these principles:

- employees' salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. Allowances and benefits are largely determined by local market practice;
- employees participate in various bonus arrangements. The level of performance-related variable pay depends upon the performance of constituent businesses and the individual concerned. During 2004 variable bonus plans were reviewed to give greater emphasis to revenue growth whilst retaining a strong link to expense control; other key measures taken into account in determining individual bonus levels include customer relationships; full utilisation of professional skills; adherence to HSBC's ethical standards, internal controls and procedures. Bonus ranges are reviewed in the context of prevailing market practice; and

- HSBC has a long history of paying close attention to its customers in order to provide value for shareholders. This has been achieved by ensuring that the interests of HSBC and its employees are aligned with those of its shareholders and that HSBC's approach to risk management serves the interests of all. Accordingly, employees are encouraged to participate in the success they help to create, through participating in the HSBC Holdings savings-related share option plans and in local share ownership and profit-sharing arrangements.

During 2004, a comprehensive review of share-based remuneration arrangements was conducted. This review was undertaken in light of changing business needs, taking into account HSBC's expansion in certain markets and an evolving external environment.

Approval for The HSBC Share Plan will be sought at the forthcoming Annual General Meeting. The proposed arrangements for the most senior executives of HSBC are described under 'Long-term incentive plan' on page 51. Shareholders and their representatives were consulted and the proposed arrangements reflect feedback that has been received.

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

To encourage greater participation in the HSBC Holdings Savings-Related Share Option Plan: (International), two amendments to existing arrangements will be proposed for approval at the forthcoming Annual General Meeting. The first is the introduction of the facility to save in US dollars, Hong Kong dollars and euros as well as in pounds sterling. The maximum savings limit of £250 per month will continue to apply but be converted to the other currencies on a consistent and appropriate date. The second proposal is to offer individuals the choice of options over one year in addition to the existing three and five year terms. This change will carry tax advantages in certain jurisdictions.

The impact on existing equity of granting share options which are to be satisfied by the issue of new shares is shown in diluted earnings per share on the face of the consolidated profit and loss account, with further details disclosed in Note 10 of the 'Notes on the Financial Statements' on page 261 in the *Annual Report and Accounts*. The effect on basic earnings per share of exercising all outstanding share options would be to dilute it by 0.6 per cent.

At the Annual General Meeting in 2000, shareholders approved a limit of 848,847,000 ordinary shares (approximately 10 per cent of the ordinary shares then in issue) which may be issued or become issuable under all employee share plans in any 10-year period. Within this limit, not more than 5 per cent of the ordinary shares in issue from time to time (approximately 560,000,000 ordinary shares at 28 February 2005) may be put under option under the HSBC Holdings Group Share Option Plan and the HSBC Holdings Restricted Share Plan 2000. In the 10-year period to 31 December 2004, less than 650 million ordinary shares had been issued or could become issuable under all employee share plans and less than 350 million ordinary shares had been issued or could become issuable under discretionary employee share plans, including the HSBC Holdings Group Share Option Plan and the HSBC Holdings Restricted Share Plan 2000. At the forthcoming Annual General Meeting, revised limits on the number of shares that may be issued or become issuable under employee share plans will be proposed to reflect the increase in share capital since 2000.

Directors and Senior Management

HSBC's operations are substantial, diverse and international; for example, over 73 per cent of profit before tax is derived from outside the United Kingdom.

With effect from 1 March 2005, the HSBC Holdings' Board will comprise 15 non-executive Directors and seven executive Directors. With businesses in 77 countries and territories, HSBC aims to attract Directors with a variety of experience, both in its key areas of activity and internationally. The Board currently includes nationals of five different countries. The seven executive Directors, four Group Managing Directors and 23 Group General Managers have in total more than 793 years of service with HSBC.

Directors' fees

Directors' fees are regularly reviewed and compared with other large international companies. The current fee, which was approved by shareholders in 2004, is £55,000 per annum. With effect from 1 January 2005 Sir John Bond, D J Flint, M F Geoghegan, S K Green and A W Jebson waived their rights to receive a Director's fee from HSBC Holdings: an appropriate adjustment has been made to their basic salaries which, when taken with the consequent impact on bonuses, long-term incentive awards and pension benefits, will deliver a similar value to the fee that has been waived. W F Aldinger and D G Eldon had previously elected to waive any fees payable by HSBC Holdings.

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

Chairman, Audit Committee	£40,000 p.a.
Member, Audit Committee	£15,000 p.a.

During 2004, seven Audit Committee meetings were held. A Director's commitment to each meeting, including preparatory reading and review, can be 15 hours or more.

Chairman, Remuneration Committee	£20,000 p.a.
Member, Remuneration Committee	£15,000 p.a.

During 2004, seven meetings of the Remuneration Committee were held.

Chairman, Nomination Committee	£20,000 p.a.
Member, Nomination Committee	£15,000 p.a.

During 2004, two meetings of the Nomination Committee were held.

Chairman, Corporate Social Responsibility Committee	£20,000 p.a.
Member, Corporate Social Responsibility Committee	£15,000 p.a.

During 2004, four meetings of the Corporate Social Responsibility Committee were held.

Executive Directors

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

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

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

To ensure that the executive Directors' remuneration packages are competitive having regard to the broad international nature of the Group, each year the Remuneration Committee considers market data on senior executive remuneration arrangements within primarily:

- European banks with significant domestic and/or global operations/influences; these banks include Barclays PLC, Standard Chartered PLC, The Royal Bank of Scotland Group plc, ABN AMRO Holding N.V., Banco Bilbao Vizcaya Argentaria S.A., Banco Santander Central Hispano, S.A., BNP PARIBAS S.A., Commerzbank AG and Deutsche Bank AG; and
- other global UK-based organisations with significant exposure to US markets and competitors, including BP p.l.c., Diageo plc, GlaxoSmithKline plc, Unilever PLC and Vodafone Group plc.

The level of awards available to the executive Directors under the annual cash bonus scheme and as Performance Shares is entirely dependent on performance. Remuneration policy for executive Directors is intended to provide competitive rates of base salary but with the potential for the majority of the value of the remuneration package to be delivered in the form of both short and long-term incentives. This typically results in base salary comprising around 30 per cent of total direct pay and the remaining 70 per cent split between annual bonus and the expected value of Performance Share awards. The remuneration package of W F Aldinger has a smaller proportion of fixed salary and a higher proportion of annual bonus and Restricted Share awards. The awards are in accordance with the minimum level of awards set out under his employment agreement entered into on 14 November 2002 at the time of the acquisition of HSBC Finance Corporation ('the 2002 employment agreement').

It was noted by the Committee that the three-year term, and certain other terms, of the 2002 employment agreement represented an exception to HSBC's normal policy for executive Directors' service contracts, but that the background and reasons for this were explained in detail at the time of the acquisition and that the terms of the 2002 employment agreement were consistent with practice in the United States.

Since 31 December 2004, the Remuneration Committee has reviewed the financial and other terms proposed in connection with W F Aldinger's retirement on 29 April 2005 which are reflected in the amendment agreement dated 26 February 2005 between HSBC Finance Corporation and Mr Aldinger, details of which are summarised below. The Committee, having reviewed the relevant factors and circumstances, considered that these financial and other terms were appropriate and in order and in the best interests of the Group.

Each component of executive Directors' remuneration is explained in detail below.

Salary

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

Base salaries with effect from January 2005 will be:

W F Aldinger	US$1,000,000	M F Geoghegan	£632,500
Sir John Bond	£1,276,300	S K Green	£770,000
D G Eldon	US$425,503	A W Jebson	£535,000
D J Flint	£500,000		

Excluding the effect of adjustments to salaries following the waivers by Sir John Bond, D J Flint, M F Geoghegan, S K Green and A W Jebson of their HSBC Holdings Director's fee, this represents an average increase from 2004 of 5.02 per cent.

As an International Manager, D G Eldon's current base salary, shown above, is calculated on a net basis.

Annual cash bonus

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

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

Long-term incentive plan

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

The Remuneration Committee has generally provided, on a discretionary basis and reflective of individual performance, long-term share incentives to executive Directors and members of Senior Management through conditional awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000, rather than through the HSBC Holdings Group Share Option Plan.

As part of a comprehensive review of share-based remuneration, the Remuneration Committee considered whether the continued use of Performance Shares was appropriate. The Committee considered several other types of arrangement but concluded that Performance Shares remain the most appropriate vehicle for HSBC's executive Directors and Senior Management. However, the Committee recognised that there were a number of aspects to the current plan that could be improved to ensure the plan encouraged and rewarded growth and outperformance.

Accordingly, the adoption of The HSBC Share Plan, to replace the HSBC Holdings Restricted Share Plan 2000 and the HSBC Holdings Group Share Option Plan, will be proposed at the forthcoming Annual General Meeting. For executive Directors and members of Senior Management The HSBC Share Plan will:

- introduce absolute growth in earnings per share as a performance measure in addition to relative Total Shareholder Return; and
- require higher levels of performance for full vesting of the conditional awards.

The effect of these proposals is that the vesting of Performance Share awards will be more challenging and highly geared to performance than under the previous arrangements. To maintain the same approximate expected value (which takes into account factors such as the probability of vesting and risk of forfeiture for early departure) of Performance Share awards under The HSBC Share Plan as previously made under the HSBC Holdings Restricted Share Plan 2000, the face value of conditional awards under The HSBC Share Plan will be greater (as shown under '2005 Awards' below) than those previously made under the HSBC Holdings Restricted Share Plan 2000. It is proposed that awards under The HSBC Share Plan will be up to a maximum of seven times salary. Whilst having flexibility to make awards at this level in certain exceptional circumstances, the Remuneration Committee does not intend seven times salary to be the normal level of award. The average face value of the awards proposed for executive Directors is just over three times base salary; proposed individual awards are set out in the table below. Awards proposed for 2005 for Group Managing Directors and Group General Managers will generally be below two times salary.

Further details of the performance conditions and vesting arrangements for The HSBC Share Plan are set out below. A summary of the arrangements relevant to previous awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000 is also given. Subject to approval at the forthcoming Annual General Meeting, all future awards of Performance Shares, including the 2005 awards, will be made under The HSBC Share Plan.

2005 Awards

The Remuneration Committee is proposing that the conditional awards shown in the table below should be made to executive Directors in 2005. The table shows the face value of the full conditional awards and their approximate expected value.

	Face value £000	*Expected value £000*
Sir John Bond	4,000	1,760
D J Flint	1,500	660
M F Geoghegan	2,000	880
S K Green	2,500	1,100
A W Jebson	1,415	622
Total	11,415	5,022

As set out above, the higher face value of these awards than in previous years is balanced by the significantly more challenging vesting schedule of The HSBC Share Plan where maximum value will only be released to the individual if Group performance is at a very high level.

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

Under the terms of the 2002 employment agreement entered into at the time of the acquisition of HSBC Finance Corporation, W F Aldinger is entitled to receive an award of US$5.5 million which was to be used to purchase Restricted Shares in HSBC Holdings. However, as referred to below, Mr Aldinger is to retire on 29 April 2005 and it has been agreed that this award will not be made.

C F W de Croisset and W R P Dalton, who retired during 2004, did not receive a long-term incentive award in 2004.

D G Eldon, who is to retire at the forthcoming Annual General Meeting, will not receive a long-term incentive award in 2005.

Performance conditions

Subject to approval of The HSBC Share Plan at the forthcoming Annual General Meeting, awards of Performance Shares, commencing in 2005, will be divided into two equal parts to be subject to separate performance conditions measured over a three-year performance period:

- 'The Total Shareholder Return (TSR) award': one half of the award will be subject to a relative TSR measure. TSR is defined as the growth in share value and declared dividend income, measured in sterling, during the relevant period. In calculating TSR, dividend income is assumed to be reinvested in the underlying shares; and
- 'The earnings per share (EPS) award': the other half of the award will be based upon the absolute growth in EPS achieved by HSBC Holdings over the three-year performance period.

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

The comparator group at 28 February 2005 comprises ABN AMRO Holding N.V., Banco Bilbao Vizcaya Argentaria S.A., Banco Santander Central Hispano S.A., Bank of America Corporation, The Bank of New York Company, Inc., Barclays PLC, BNP PARIBAS S.A., Citigroup Inc., Credit Agricole S.A., Credit Suisse Group, Deutsche Bank AG, HBOS plc, JPMorgan Chase & Co., Lloyds TSB Group plc, Mitsubishi Tokyo Financial Group, Inc., Mizuho Financial Group, Inc., Morgan Stanley, National Australia Bank Limited, Royal Bank of Canada, The Royal Bank of Scotland Group plc, Société Générale, Standard Chartered PLC, UBS AG, UniCredito Italiano Bank plc, US Bancorp, Wachovia Corporation, Wells Fargo & Company and Westpac Banking Corporation.

The extent to which awards will vest will be determined by reference to HSBC Holdings' TSR measured against the comparator TSR. The calculation of the share price component within HSBC Holdings' TSR will be the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 2005 is 28 February. The starting point will be, therefore, the average over the period 28 February to 29 March inclusive. TSR for the comparator group constituents will be calculated on the same basis.

For TSR performance in line with the bank ranked 14th, only 30 per cent of the conditional award will vest; if HSBC's performance is in line with or above the bank ranked 7th in the ranked list, all of the TSR award shares will vest.

Vesting between the 14th and 7th ranked banks will be based on HSBC's position against the ranked list. In simple terms, the percentage vesting will rise in 10 per cent increments for each position that HSBC achieves higher than the 14th bank in the ranked list until full vesting is achieved for TSR performance equal to or greater than the 7th bank in the ranked list. Where HSBC's performance falls between these incremental steps, account will be taken of how far above or below the next ranked bank HSBC's TSR performance is positioned.

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

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. The EPS growth element will be the absolute level of EPS achieved during the three-year performance period. 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 2004 published EPS is restated to adjust for accounting standards changes during the performance period, the restated published EPS will be used for the EPS performance condition for awards made in 2005 under The HSBC Share Plan.

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.

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

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

In addition, awards will only vest if the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the date of grant.

In determining whether HSBC has achieved a sustained improvement in performance the Remuneration Committee will take account of, among other factors, the comparison against history and the peer group in the following areas:

1. revenue growth;
2. revenue mix;

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

Following the three-year performance period, awards of Performance Shares under The HSBC Share Plan will be tested and vesting will take place shortly afterwards.

Where events occur which cause the Remuneration Committee to consider that the performance condition has become unfair or impractical, the right is reserved to the Remuneration Committee to make such adjustments as in its absolute discretion it deems appropriate to make.

Awards will vest immediately in cases of death. In the event of redundancy, retirement on grounds of injury or ill health, early retirement, normal retirement and where a participant ceases to be employed by HSBC due to a company ceasing to be part of HSBC, awards will normally vest at the end of the vesting period on a time-apportioned basis to the extent that performance conditions have been satisfied. Awards will normally be forfeited if the participant is dismissed or resigns from HSBC. In all of these circumstances the Committee retains discretion to ensure fair and reasonable treatment.

Arrangements from 1999-2004

From 1999 to 2004, the vesting of awards was linked to the attainment of predetermined TSR targets over a three-year period from date of grant as set out below.

The TSR performance condition for awards of Performance Shares remained the same from 1999 to 2003. For awards made in 2004, changes were made to the peer group and re-testing provisions were eliminated such that awards will lapse if the performance condition is not satisfied after the initial three-year performance period.

A benchmark for HSBC Holdings' TSR, weighted by market capitalisation, was established which takes account of the TSR performance of:

1. a peer group of nine banks weighted by market capitalisation which were considered most relevant to HSBC in terms of size and international scope. For performance periods up to and including the one beginning in 2003, this group comprised ABN AMRO Holding N.V., The Bank of East Asia, Limited, Citigroup Inc., Deutsche Bank AG, JPMorgan Chase & Co., Lloyds TSB Group plc, Mitsubishi Tokyo Financial Group Inc., Oversea-Chinese Banking Corporation Limited and Standard Chartered PLC. To be more relevant to HSBC in terms of size and international scope, this peer group was amended for conditional awards made in 2004 and onwards by the replacement of Lloyds TSB Group plc, Oversea-Chinese Banking Corporation Ltd., Mitsubishi Tokyo Financial Group Inc. and The Bank of East Asia, Limited with Bank of America Corporation, The Royal Bank of Scotland Group plc, Banco Santander Central Hispano S.A. and UBS AG;
2. the five largest banks from each of the US, the UK, continental Europe and the Far East, other than any within paragraph 1 above, weighted by market capitalisation; and
3. the banking sector of the Morgan Stanley Capital International World Index, excluding any within paragraph 1 and paragraph 2 above, weighted by market capitalisation.

By combining the weighted average TSR for each of the above three groups and weighting that average so that 50 per cent is applied to paragraph 1, 25 per cent is applied to paragraph 2 and 25 per cent is applied to paragraph 3, a single TSR benchmark for market comparison was determined.

The extent to which each award will vest will be determined by reference to HSBC Holdings' TSR measured against the TSR benchmark. For each award, the calculation of the share price component within HSBC Holdings' TSR was the average market price over the 20 trading days commencing on the day when the annual results were announced. TSR for the benchmark constituents was based on their published share prices on the 20th trading day after the annual results were announced.

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

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

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

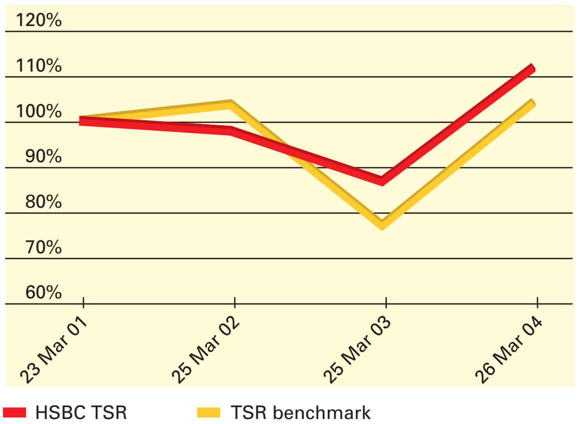
The Performance Shares awarded in 2000 passed their three-year TSR performance condition in March 2003 and will vest on the fifth anniversary of the award, 10 March 2005.

Total Shareholder Return

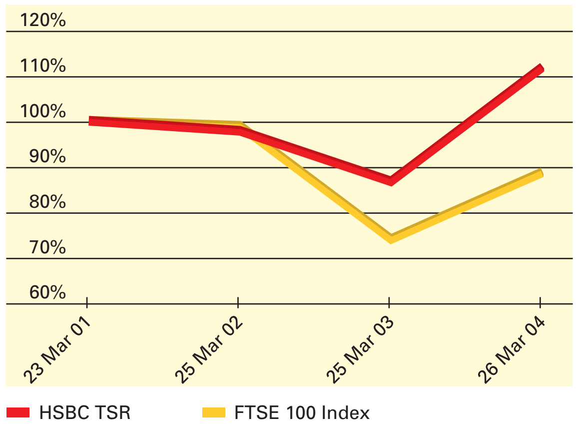
The graphs below show HSBC Holdings' TSR performance against the benchmark TSR (graph 1), the Financial Times-Stock Exchange ('FTSE') 100 Index (graph 2), the Morgan Stanley Capital International ('MSCI') World Index (graph 3) and MSCI Financials Index (graph 4) over the three-year period to March 2004. These measures have been chosen as they are the main published indices against which HSBC monitors its performance.

Pursuant to the Directors' Remuneration Report Regulations 2002, graph 5 shows HSBC Holdings' TSR performance against a broad equity market index, the Financial Times-Stock Exchange ('FTSE') 100 Index, for the five-year period ended 31 December 2004.

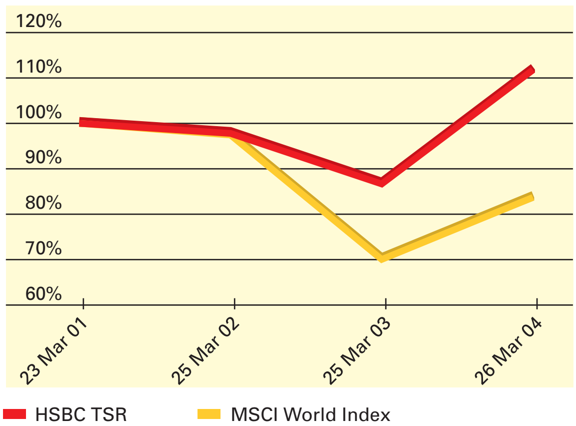
Graph 1: HSBC TSR and benchmark TSR



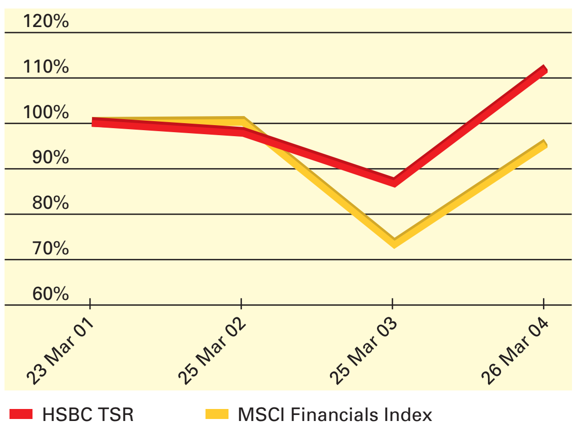
Graph 2: HSBC TSR and FTSE 100 Index



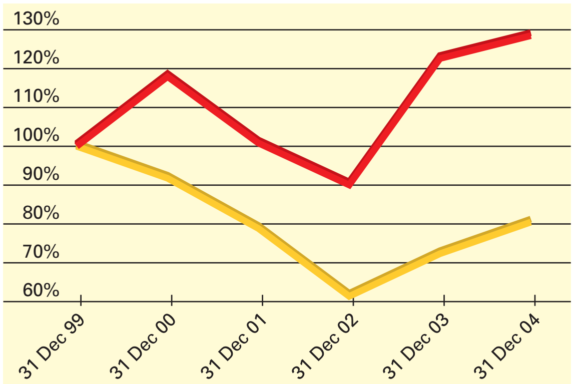
Graph 3: HSBC TSR and MSCI World Index



Graph 4: HSBC TSR and MSCI Financials Index



Graph 5: HSBC TSR and FTSE 100 Index



Source: Datastream

Pensions

The pension entitlements earned by the executive Directors during the year are set out on pages 60 to 61.

Service Contracts and Terms of Appointment

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

No executive Director has a service contract with HSBC Holdings or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind, save as referred to below. There are no provisions for compensation upon early termination of executive Directors' service contracts save for W F Aldinger, details of which are set out below.

As referred to above, Mr Aldinger entered into a new employment agreement with HSBC Finance Corporation on 14 November 2002 for a term of three years, such term to commence on the effective date of the acquisition of HSBC Finance Corporation by HSBC. Full details of the agreement were set out in the Discloseable Transaction Circular relating to the acquisition of HSBC Finance Corporation sent to shareholders on 26 February 2003 in advance of the Extraordinary General Meeting to approve the acquisition. The effective date of the acquisition, and commencement date of the 2002 employment agreement, was 28 March 2003. The terms of the 2002 employment agreement were amended by an agreement ('amendment agreement') entered into between HSBC Finance Corporation and Mr Aldinger, as referred to below.

During the term of the 2002 employment agreement Mr Aldinger is entitled to be paid an annual base salary equal to his annual base salary as at the date of the merger agreement between HSBC Finance Corporation and HSBC (US$1 million) and an annual bonus in an amount at least equal to the annual average of Mr Aldinger's bonuses earned with respect to the three-year period ended 2001 (pro rated for any partial year) (US$4 million). Within 30 days of the effective date of the acquisition, Mr Aldinger received a one-time special retention grant of HSBC Holdings ordinary shares under the HSBC Holdings Restricted Share Plan 2000 with a value equal to US$10 million on terms that these Restricted Shares will vest in three equal instalments on each of the first three anniversaries of the effective date, as set out on page 64. After each of the first and second anniversaries of the effective date, subject to the approval of the Trustee of the HSBC Holdings Restricted Share Plan 2000, Mr Aldinger is entitled to receive an additional grant of HSBC Holdings ordinary shares with a value equal to at least US$5.5 million. The purpose of these arrangements was to retain the services of Mr Aldinger through the initial integration of HSBC Finance Corporation. HSBC considered it essential that the experience, knowledge and skills of Mr Aldinger be retained for the benefit of HSBC shareholders.

Under the 2002 employment agreement, if Mr Aldinger's employment is terminated by him during its term for 'good reason', or by HSBC Finance Corporation for reasons other than 'cause' or disability, he is entitled to: a *pro rata* target annual bonus for the financial year of the date of termination; a payment equal to his annual base salary, plus the average of his annual bonuses with respect to the three-year period ended 2001, times the number of full and partial months from the date of termination until the third anniversary of the effective date, divided by 12; the immediate vesting and exercisability of each stock option, restricted stock award and other equity-based award or performance award (or cash equivalent) that is outstanding as at the date of termination and treatment as retirement eligible for purposes of exercising any such award; for the remainder of his life and that of his current spouse, continued medical and dental benefits at HSBC Finance Corporation's cost; and his retirement benefits (as set out on page 60) in a lump sum.

Following discussion with Mr Aldinger, it has been agreed that Mr Aldinger will retire as Chairman and Chief Executive of HSBC Finance Corporation and HSBC North America Holdings Inc on 29 April 2005 and will retire as a director of HSBC Holdings on the same date and resign from his directorships and other appointments with Group companies. As indicated above, the original purpose of the 2002 employment agreement was to retain the services of Mr Aldinger before the initial integration of HSBC Finance Corporation with the Group's other North American businesses. The discussions with Mr Aldinger about his retirement before the expiry of the three-year term took into account that the integration process has now been completed successfully and faster than expected.

Under the amendment agreement, Mr Aldinger will be entitled to receive, on termination of the 2002 employment agreement on 29 April 2005, the same terms and benefits (summarised above) as if his employment had been terminated by him for 'good reason' or by HSBC Finance Corporation for reasons other than 'cause' or disability, except that he will not be entitled to receive the 2005 restricted share award (or cash equivalent) with a value to at least US$5.5 million that he would have been entitled to receive on or before 28 April 2005. Mr Aldinger will, however, receive a payment of US$4.6 million in lieu of salary and bonus in respect of the remainder of the three-year period. The amendment agreement also provides that the 'non-competition' provision in the 2002 employment agreement for a period of one year after termination of his employment, and certain other restrictions, will continue to apply. Under this provision he may not become associated with certain competitive entities that are actively engaged in the consumer lending business (including mortgage and credit card lending).

Sir John Bond, who is to stand for re-election at the forthcoming Annual General Meeting, is employed on a rolling contract dated 14 July 1994 which requires 12 months' notice to be given by either party.

W R P Dalton, who retired as a Director on 28 May 2004, was employed on a rolling contract dated 5 January 1998 that required 12 months' notice to be given by either party.

D G Eldon is employed on a rolling contract dated 1 January 1968 which requires three months' notice to be given by either party. D G Eldon will retire as a Director at the conclusion of the forthcoming Annual General Meeting.

D J Flint, who is to stand for re-election at the forthcoming Annual General Meeting, is employed on a rolling contract dated 29 September 1995 which requires 12 months' notice to be given by the Company and nine months' notice to be given by Mr Flint.

M F Geoghegan is employed on a rolling contract dated 25 May 2004 which requires 12 months' notice to be given by either party.

S K Green is employed on a rolling contract dated 9 March 1998 which requires 12 months' notice to be given by either party.

A W Jebson is employed on a rolling contract dated 14 January 2000 which requires 12 months' notice to be given by either party.

Members of Senior Management are employed on service contracts which generally provide for a term of service expiring at the end of a period of up to two years, or the individual's sixtieth birthday, whichever is earlier.

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at subsequent Annual General Meetings. Non-executive Directors have no service contract and are not eligible to participate in HSBC's share plans. Non-executive Directors' terms of appointment will expire as follows: in 2006, Baroness Dunn, Sir John Kemp-Welch, S W Newton, H Sohmen, C S Taylor and Sir Brian Williamson; in 2007, Lord Butler, R K F Ch'ien, R A Fairhead, W K L Fung, S Hintze, Sir Brian Moffat and Sir Mark Moody-Stuart; and (assuming re-election at the 2005 Annual General Meeting) in 2008, J D Coombe and J W J Hughes-Hallett.

Other Directorships

Executive Directors, if so authorised by either the Nomination Committee or the Board, may accept appointments as non-executive Directors of suitable companies which are not part of HSBC. Approval will not be given for executive

Directors to accept a non-executive directorship of more than one FTSE 100 company. When considering a non-executive appointment, the Nomination Committee or Board will take into account the expected time commitment of such appointment. The time commitment for executive Directors' external appointments will be reviewed as part of the annual Board review. Any remuneration receivable in respect of an external appointment is normally paid to the HSBC company by which the executive Director is employed, unless otherwise approved by the Remuneration Committee.

Sir John Bond retains his fees as a non-executive director of the Ford Motor Company, which are provided partly in the form of restricted shares, which become unrestricted over a period of five years. During 2004, the fees received were US$82,500 in cash and US$77,500 deferred into Ford common stock units. In addition, Ford provides US$200,000 of life assurance and US$500,000 of accidental death or dismemberment insurance. The life assurance can be continued after retirement from the Board or Sir John Bond could elect to have it reduced to US$100,000 and receive US$15,000 a year for life. The accidental death or dismemberment insurance ends upon retirement from the Board.

W F Aldinger retains his fees as a non-executive director of Illinois Tool Works, Inc. and as a non-executive director of AT&T Corp. During 2004, the fee received from Illinois Tool Works, Inc. was US$67,000 in the form of deferred stock and the fee received from AT&T Corp. was US$84,500 in cash and US$7,785 in cash instead of dividend due on deferred shares. In addition, AT&T Corp. provide travel accident insurance when on AT&T Corp. company business and US$100,000 of life assurance.

Employees' Emoluments

Set out below is information in respect of the five individuals who are not Directors of HSBC Holdings whose emoluments (excluding commissions or bonuses related to the revenue or profits generated by employees individually or collectively with others engaged in similar activities) were the highest in HSBC for the year ended 31 December 2004.

	£000
Basic salaries, allowances and benefits in kind	976
Pension contributions	90
Bonuses paid or receivable	34,038
Inducements to join paid or receivable	820
Compensation for loss of office	
– contractual	–
– other	–
Total	35,924
Total (US$000)	65,803

Their emoluments are within the following bands:

	Number of Employees
£4,600,001 – £4,700,000	1
£5,200,001 – £5,300,000	2
£7,300,001 – £7,400,000	1
£13,500,001 – £13,600,000	1

The basic salaries of Group Managing Directors and Group General Managers are within the following bands:

	Number of Group Managing Directors and Group General Managers
£150,001 – £250,000	6
£250,001 – £350,000	17
£350,001 – £450,000	4
£450,001 – £550,000	1

The aggregate remuneration of Directors and Senior Management for the year ended 31 December 2004 was US$118,290,000.

The aggregate amount set aside or accrued to provide pension, retirement or similar benefits for Directors and Senior Management for the year ended 31 December 2004 was US$6,261,000.

At 31 December 2004, executive Directors and Senior Management held, in aggregate, options to subscribe for 11,398,184 HSBC Holdings ordinary shares under the HSBC Holdings Executive Share Option Scheme, HSBC Holdings Group Share Option Plan and HSBC Holdings savings-related share option plans. These options are exercisable between 2005 and 2014 at prices ranging from £3.3334 to £8.2830.

Directors' Emoluments

The emoluments of the Directors of HSBC Holdings for 2004 were as follows:

	Fees £000	*Salary and other remuneration £000*	*Benefits in kind[1] £000*	*Bonuses £000*	*Total 2004 £000*	*Total 2003 £000*
Executive Directors						
W F Aldinger	–[2]	559	79	2,184[3]	2,822	2,157
Sir John Bond	55	1,183	5	2,406[4]	3,649	2,147
C F W de Croisset[5]	9	71	–	2,116[5]	2,196	1,334
W R P Dalton[6]	23	246	–	326[4]	595	631
D G Eldon[7]	31	395	435	456[4]	1,317	1,180
D J Flint	55	603[8]	8	500[4]	1,166	1,057
M F Geoghegan[9]	46	486	14	–[10]	546	–
S K Green	55	695	7	1,000[4]	1,757	1,237
A W Jebson	55	521	–	450[4]	1,026	958
Non-executive Directors						
Lord Butler	90	–	–	–	90	45
R K F Ch'ien	186[11]	–	–	–	186	159
Baroness Dunn	70	–	–	–	70	35
R A Fairhead[9]	58	–	–	–	58	–
W K L Fung	117[12]	–	–	–	117	65
S Hintze	85	–	–	–	85	35
Sir John Kemp-Welch	85	–	–	–	85	55
Lord Marshall	23	–	–	–	23	35
Sir Brian Moffat	115	–	–	–	115	50
Sir Mark Moody-Stuart	75	–	–	–	75	50
S W Newton	55	–	–	–	55	35
H Sohmen	39[13]	–	–	–	39	25
C S Taylor	95[14]	–	–	–	95	64
Sir Brian Williamson	59	–	–	–	59	35
Total	1,481	4,759	548	9,438	16,226	12,272[15]
Total (US$000)	2,713	8,717	1,004	17,288	29,722	20,052

1 *Benefits in kind for executive Directors include provision of company car, medical insurance, other insurance cover and travel assistance.*
2 *W F Aldinger has elected to waive any fees payable to him by HSBC Holdings (2004: £55,000; 2003: £23,300).*
3 *Under the terms of his employment contract dated 14 November 2002, W F Aldinger is entitled to a bonus of US$4,000,000 in respect of 2004, which will be paid in 2005.*
4 *These discretionary bonuses are in respect of 2004 and will be paid in 2005.*
5 *Retired as a Director on 27 February 2004. He had a contract of employment dated 7 January 1980 that was in force before he joined the Board of CCF. The contract had no set term but provided for three months' notice to be given by either party. Under the terms of the contract, Mr de Croisset would be entitled to receive one month's salary for each year of service with CCF on termination of his employment with CCF. In accordance with French legal requirements and practice, this contract was suspended while he served as an executive Director of CCF. In consideration of Mr de Croisset's early retirement from the Group and in light of French legal requirements, a review of market practice was undertaken and a one-off payment of €2,633,742 was made to Mr de Croisset, which was considered to be appropriate in all the circumstances.*
6 *Retired as a Director on 28 May 2004.*
7 *The emoluments of D G Eldon include a fee from The Hongkong and Shanghai Banking Corporation and housing and other expatriate benefits in kind that are normal within the location in which he is employed. Mr Eldon has elected to waive any fees payable to him by HSBC Holdings (2004: £55,000; 2003: £35,000).*
8 *Includes an executive allowance of £137,100 (2003: £96,863) paid to fund personal pension arrangements.*
9 *Appointed a Director on 1 March 2004.*
10 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount of £1,200,000 (2003: nil) which would otherwise have been paid.*
11 *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.*
12 *Includes fee as a non-executive Director of The Hongkong and Shanghai Banking Corporation.*
13 *Fees as a non-executive Director and member of the Audit Committee of The Hongkong and Shanghai Banking Corporation. H Sohmen has elected to waive any fees payable to him by HSBC Holdings (2004: £55,000; 2003: £35,000).*
14 *Includes fees as a non-executive Director of HSBC Bank USA and HSBC USA Inc.*
15 *Includes the emoluments of a Director who retired in 2003.*

Pensions

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

Before commencement of the 2002 employment agreement on 28 March 2003, W F Aldinger participated in HSBC Finance Corporation's 'qualified' and 'non-qualified' defined benefit pension plans. The annual pension benefit under these arrangements was a function of service and a percentage of Final Average Earnings (which included bonus). The 'non-qualified plans' were enhanced before commencement of the 2002 employment agreement. The benefits under the 'qualified' and 'non-qualified' defined benefit pension plans were then frozen and will be payable in a lump sum on the earlier of the termination of Mr Aldinger's employment or on Mr Aldinger's retirement (these benefits will be payable in a lump sum following Mr Aldinger's retirement on 29 April 2005, referred to above). No further benefits have accrued under these arrangements since 28 March 2003.

Since commencement of the 2002 employment agreement on 28 March 2003, Mr Aldinger has continued to participate in the HSBC Finance Corporation Tax Reduction Investment Plan ('TRIP'), which is a 'qualified' funded deferred profit-sharing and savings plan for eligible employees. Employer contributions of US$10,250 were made to this plan on behalf of Mr Aldinger in 2004 (2003: nil). On 1 January 2005, the plan name was changed to HSBC-North America (U.S.) Tax Reduction Investment Plan (TRIP). Mr Aldinger also participated in Supplemental TRIP (a 'non-qualified' plan), which is an unfunded arrangement under which additional employer provision of US$289,749 has been made for 2004 (2003: US$41,539).

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

Until his retirement from CCF on 29 February 2004, C F W de Croisset was eligible for pension benefits which were supplementary to those accrued under the French State and Compulsory arrangements. The amount of this supplementary pension, payable from age 60, accrued at the rate of €6,098 per annum for each year of service (maximum 18 years) as an executive Director of CCF. Consequent upon Mr de Croisset's early retirement from CCF and following a review of market practice, it was agreed to provide a total pension of €341,467 per annum (equivalent to 32.5 per cent of his average total cash compensation over a three-year period) payable from 1 March 2004. In 2004, CCF paid €213,003 to Mr de Croisset under this arrangement.

The pension arrangements for W R P Dalton to contractual retirement age of 60 were provided on a defined benefit basis (details of which are set out in the table below) under the HSBC Canada Pension Plan A, at an accrual rate of one-thirtieth of pensionable salary per year of pensionable service until his transfer to the UK in 1998. On taking up his appointment in the UK, he joined the HSBC Holdings Overseas (No.1) Pension Plan on a defined contribution basis, with an employer contribution in respect of 2004 of £129,000 (2003: £1,379,000 inclusive of a bonus waiver of £1,250,000).

The pension arrangements for D J Flint to contractual retirement age of 60 are provided through an executive allowance paid to fund personal pension arrangements set at 30 per cent of basic salary. This is supplemented through the HSBC Holdings plc Funded Unapproved Retirement Benefits Scheme on a defined contribution basis with an employer contribution during 2004 of £86,013 (2003: £81,943). The intention of these arrangements is to provide benefits broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service.

The pension arrangements for D G Eldon and M F Geoghegan are provided under the HSBC International Staff Retirement Benefits Scheme. The pensions accrue at a rate of one twenty-seventh of pensionable salary per year of pensionable service. In addition, Mr Geoghegan has joined the HSBC Asia Holdings Pension Plan, on a defined contribution basis, with an employer contribution in respect of 2004 of £1,200,000, arising entirely from a bonus sacrifice. There were no other employer contributions made to this plan.

	Accrued annual pension at 31 December 2004 £000	*Increase in accrued pension during 2004 £000*	*Increase in accrued pension during 2004, excluding any increase for inflation £000*	*Transfer value of accrued pension at 1 January 2004 £000*[1]	*Transfer value of accrued pension at 31 December 2004 £000*[1]	*Increase of transfer value of accrued pension (less personal contributions) in 2004 £000*[1]	*Transfer value (less personal contributions) at 31 December 2004 relating to increase in accrued pensions during 2004, excluding any increase for inflation £000*[1]
Sir John Bond[2]	481	57	44	7,924	9,230	1,306	840
C F W de Croisset[3]	193	128	128	860	2,623	1,763	1,747
W R P Dalton[4]	13	3	(3)	4,258	4,562	304	226
D G Eldon[5]	278	27	18	5,045	5,275	328[6]	215[6]
M F Geoghegan[7]	185	34	29	3,652	4,042	620[8]	376[8]
S K Green	288	110	105	2,367	4,401	2,034	1,599
A W Jebson	182	41	37	1,769	2,612	843	529

1 *The transfer value represents a liability of HSBC's pension funds and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.*
2 *On attaining age 60, Sir John Bond has been able, under the terms of the scheme, to retire at any time with an immediate pension equal to his accrued pension which, at 31 December 2004, is shown above.*
3 *Retired as a Director on 27 February 2004.*
4 *W R P Dalton retired from HSBC with effect from 31 May 2004 with a gross pension of £277,000 per annum. Mr Dalton elected to commute part of this pension for a lump sum payment of £4,256,000, leaving a residual pension of £13,000 per annum. As a result the pension in payment at 31 December 2004 is lower than the accrued pension at 1 January 2004. The increase in accrued pension during 2004 reflects the gross pension before commutation. The transfer value of benefits at 31 December 2004 reflects both the pension in payment and the commutation lump sum, increased with interest.*
5 *On attaining age 53, D G Eldon has been able, under the terms of the scheme, to retire at any time with an immediate pension equal to his accrued pension which, at 31 December 2004, is shown above.*
6 *D G Eldon made personal contributions towards his pension of £15,445 in respect of 2004.*
7 *Appointed as a Director on 1 March 2004.*
8 *M F Geoghegan made personal contributions towards his pension of £14,182 in respect of 2004.*

In addition to the unfunded pension payments as from 1 March 2004 to C F W de Croisset referred to above, the following unfunded pension payments, in respect of which provision has been made, were made during 2004 to four former Directors of HSBC Holdings:

	2004 £	*2003* £
B H Asher	85,443	83,277
R Delbridge	122,891	119,777
Sir Brian Pearse	51,246	49,947
Sir William Purves	90,453	88,158
	350,033	341,159

The payments in respect of R Delbridge and Sir Brian Pearse were made by HSBC Bank plc as former Directors of the bank.

Share Options

At 31 December 2004, the undernamed Directors held options to acquire the number of HSBC Holdings ordinary shares set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the HSBC Holdings savings-related share option plans before 2001 are exercisable at a 15 per cent discount to the market value at the date of award and those awarded since 2001 at a 20 per cent discount. Under the Securities and Futures Ordinance of Hong Kong the options are categorised as unlisted physically settled equity derivatives.

Except as otherwise indicated, no options were exercised or lapsed during the year and there are no remaining performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares at 31 December 2004 was £8.79. The highest and lowest market values during the year were £9.535 and £7.84. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date.

	Options held at 1 January 2004	*Options awarded during year*	*Options exercised during year*	*Options held at 31 December 2004*	*Exercise price (£)*	*Date of award*	*Exercisable from*[1]	*Exercisable until*
Sir John Bond	2,798	–	–	2,798[2]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
C F W de Croisset[3]	206,000	–	–	206,000[4]	8.7120	23 Apr 2001	23 Apr 2004	23 Apr 2011
	206,000	–	–	206,000[4]	8.4050	7 May 2002	7 May 2005	7 May 2012
	206,000	–	–	206,000[5]	6.9100	2 May 2003	2 May 2006	1 May 2013
W R P Dalton[6]	2,798[2]	–	–	2,798[7]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D J Flint	27,000	–	27,000[8]	–	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,617	–	–	2,617[2]	6.3224	2 May 2002	1 Aug 2007	31 Jan 2008
M F Geoghegan	1,248[2, 9]	–	1,248[10]	–	5.3980	1 Apr 1999	1 Aug 2004	31 Jan 2005
	559[9]	–	–	559[2]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
	573[2, 9]	–	573[10]	–	6.7536	11 Apr 2001	1 Aug 2004	31 Jan 2005
S K Green	3,070	–	–	3,070[2]	5.3496	23 Apr 2003	1 Aug 2008	31 Jan 2009
A W Jebson	1,434[2]	–	1,434[11]	–	6.7536	11 Apr 2001	1 Aug 2004	31 Jan 2005

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *Options awarded under the HSBC Holdings Savings-Related Share Option Plan.*
3 *Retired as a Director on 27 February 2004.*
4 *Options held under the HSBC Holdings Group Share Option Plan at date of retirement as a Director (27 February 2004). In accordance with the transitional arrangements agreed with CCF in 2000 the awards were not subject to performance conditions.*
5 *Options held under the HSBC Holdings Group Share Option Plan at date of retirement as a Director (27 February 2004). In accordance with the transitional arrangements agreed with CCF in 2000, vesting of 50 per cent of the award is subject to the performance tests set out in the section headed 'Arrangements from 1999-2004' on pages 54 to 55.*
6 *Retired as a Director on 28 May 2004.*
7 *Options held at date of retirement as a Director (28 May 2004). On 11 November 2004, in accordance with the rules of the Plan, the option was exercised in respect of 2,070 ordinary shares and options over 728 shares lapsed. At the date of exercise, the market value per share was £9.38.*
8 *At the date of exercise, 4 March 2004, the market value per share was £8.515. The exercise of these options was conditional upon the growth in earnings per share over a three-year period being equal to or greater than a composite rate of inflation (comprising 50 per cent of the Hong Kong Composite Consumer Price Index, 35 per cent of the UK Retail Price Index and 15 per cent of the USA All Urban Consumer Price Index) plus 2 per cent per annum. This condition has been satisfied.*
9 *Interests at date of appointment as a Director (1 March 2004).*
10 *At the date of exercise, 16 August 2004, the market value per share was £8.265.*
11 *At the date of exercise, 2 August 2004, the market value per share was £8.335.*

At 27 February 2004, the date he retired as a Director, C F W de Croisset held the following options to acquire CCF shares of €5 each. On exercise of these options each CCF share will be exchanged for 13 HSBC Holdings ordinary shares. The options were granted by CCF for nil consideration at a 5 per cent discount to the market value at the date of award. There are no remaining performance criteria conditional upon which the outstanding options are exercisable. Save as indicated in the following table no options over CCF shares were awarded to or exercised by Mr de Croisset during 2004.

CCF shares of €5

Options held at 1 January 2004	Exercise price per share (€)	Options held at 27 February 2004	Equivalent HSBC Holdings ordinary shares at 27 February 2004	Date of award	Exercisable from	Exercisable until
10,000	32.78	10,000[1]	130,000	23 Jun 1994	23 Jun 1996	23 Jun 2004
30,000	34.00	30,000	390,000	22 Jun 1995	22 Jun 1997	22 Jun 2005
30,000	35.52	30,000	390,000	9 May 1996	9 May 1998	9 May 2006
30,000	37.05	30,000	390,000	7 May 1997	7 Jun 2000	7 May 2007
30,000	73.50	30,000	390,000	29 Apr 1998	7 Jun 2000	29 Apr 2008
28,000	81.71	28,000	364,000	7 Apr 1999	7 Jun 2000	7 Apr 2009
28,000	142.50	28,000	364,000	12 Apr 2000	1 Jan 2002	12 Apr 2010

1 *Options exercised on 24 March 2004. At the date of exercise, the market value per HSBC Holdings ordinary share was £8.21.*

At 31 December 2004, W F Aldinger held options to acquire HSBC Holdings ordinary shares as set out in the table below. These options arise from options he held over shares of Household International (now HSBC Finance Corporation) before its acquisition, which were converted into options over HSBC Holdings ordinary shares in the same ratio as the offer for HSBC Finance Corporation (2.675 HSBC Holdings ordinary shares for each HSBC Finance Corporation common share) and the exercise prices per share adjusted accordingly. The HSBC Finance Corporation options were granted at nil consideration.

No options over HSBC Holdings ordinary shares were awarded to Mr Aldinger during 2004.

HSBC Holdings ordinary shares of US$0.50

Options held at 1 January 2004	Exercise price per share (US$)	Options exercised during year	Options held at 31 December 2004	Date of award	Exercisable from	Exercisable until
971,025	7.43	971,025[1]	–	13 Nov 1995	13 Nov 1996	13 Nov 2005
1,003,125	11.43	1,003,125[2]	–	11 Nov 1996	11 Nov 1997	11 Nov 2006
1,203,750	14.60	–	1,203,750	10 Nov 1997	10 Nov 1998	10 Nov 2007
1,337,500	13.72	–	1,337,500	9 Nov 1998	9 Nov 1999	9 Nov 2008
1,230,500	16.96	–	1,230,500	8 Nov 1999	8 Nov 2000	8 Nov 2009
1,605,000	18.40	–	1,605,000	13 Nov 2000	13 Nov 2001	13 Nov 2010
2,140,000	21.37	–	2,140,000	12 Nov 2001	12 Nov 2002	12 Nov 2011
2,140,000	10.66	–	2,140,000	20 Nov 2002	20 Nov 2003[3]	20 Nov 2012

1 *At the date of exercise, 2 September 2004, the market value per share was £8.755.*
2 *At the date of exercise, 7 December 2004, the market value per share was £8.855.*
3 *535,000 options are exercisable on each of the first, second, third and fourth anniversaries of the date of award. May be advanced, under the terms of the HSBC Finance Corporation stock option plan, to an earlier date in certain circumstances e.g.retirement. 1,070,000 options remaining unvested will therefore vest on Mr Aldinger's retirement on 29 April 2005. Based on the market price of HSBC Holdings shares on 24 February 2005 and after deduction of the option subscription price these options have a value of approximately £3,512,000.*

As a beneficiary of an employee benefit trust, W F Aldinger has an interest in the HSBC Holdings ordinary shares held by the trust which may be used to satisfy exercises of his share options. Under the Securities and Futures Ordinance of Hong Kong, the interest is categorised as a 'beneficiary of a trust'. At 31 December 2004, the trust held 1,525,850 HSBC Holdings ordinary shares and 500,000 ADSs.

Save as stated above, none of the Directors, or members of their immediate families, were awarded or exercised any right to subscribe for any shares or debentures during the year.

Restricted Share Plan

HSBC Holdings ordinary shares of US$0.50

	Awards held at 1 January 2004	Awards made during the year	Monetary value of awards made during the year £000	Awards vested during the year[1]	Monetary value of awards vested during the year £000	Awards held at 31 December 2004[1]	Date of award	Year in which awards may vest
W F Aldinger	960,662	–	–	319,521[2]	2,585	670,821	15 Apr 2003	2005 to 2006[3]
	–	372,587[4]	3,068	–	–	379,232	10 May 2004	2005 to 2007[5]
Sir John Bond	71,386	–	–	71,948[6]	613	–	4 Mar 1999	2004
	89,621	–	–	–	–	93,405	10 Mar 2000	2005
	83,988	–	–	–	–	87,535	12 Mar 2001	2006
	125,767	–	–	–	–	131,077	8 Mar 2002	2007
	167,843	–	–	–	–	174,929	5 Mar 2003	2008
	–	244,445[7]	2,100	–	–	252,771	4 Mar 2004	2009
W R P Dalton	41,643	–	–	41,969[6]	357	–	4 Mar 1999	2004
	40,738	–	–	41,714[8]	342	–	10 Mar 2000	2005
	47,994	–	–	49,145[8]	403	–	12 Mar 2001	2006
	79,432	–	–	–	–	81,335[9]	8 Mar 2002	2007
	114,438	–	–	–	–	117,180[9]	5 Mar 2003	2008
D G Eldon	41,643	–	–	41,969[6]	357	–	4 Mar 1999	2004
	40,738	–	–	–	–	42,458	10 Mar 2000	2005
	47,994	–	–	–	–	50,021	12 Mar 2001	2006
	7,072	–	–	7,240[10]	58	–	30 Apr 2001	2004
	52,955	–	–	–	–	55,191	8 Mar 2002	2007
	9,806	–	–	–	–	10,220	15 May 2002	2005
	76,292	–	–	–	–	79,513	5 Mar 2003	2008
	13,329	–	–	–	–	13,892	12 May 2003	2006
	–	87,302[7]	750	–	–	90,276	4 Mar 2004	2009
D J Flint	41,643	–	–	41,969[6]	357	–	4 Mar 1999	2004
	36,663	–	–	–	–	38,211	10 Mar 2000	2005
	59,992	–	–	–	–	62,525	12 Mar 2001	2006
	79,432	–	–	–	–	82,786	8 Mar 2002	2007
	114,438	–	–	–	–	119,270	5 Mar 2003	2008
	–	121,058[7]	1,040	–	–	125,182	4 Mar 2004	2009
M F Geoghegan	35,975[11]	–	–	35,974[6]	306	–	4 Mar 1999	2004
	32,846[11]	–	–	–	–	33,965	10 Mar 2000	2005
	36,280[11]	–	–	–	–	37,515	12 Mar 2001	2006
	40,030[11]	–	–	–	–	41,393	8 Mar 2002	2007
	53,827[11]	–	–	–	–	55,661	5 Mar 2003	2008
	–	90,794[7]	780	–	–	93,887	4 Mar 2004	2009
S K Green	41,643	–	–	41,969[6]	357	–	4 Mar 1999	2004
	40,738	–	–	–	–	42,458	10 Mar 2000	2005
	83,988	–	–	–	–	87,535	12 Mar 2001	2006
	99,290	–	–	–	–	103,482	8 Mar 2002	2007
	114,438	–	–	–	–	119,270	5 Mar 2003	2008
	–	166,455[7]	1,430	–	–	172,125	4 Mar 2004	2009
A W Jebson	35,693	–	–	35,974[6]	306	–	4 Mar 1999	2004
	32,589	–	–	–	–	33,965	10 Mar 2000	2005
	71,990	–	–	–	–	75,030	12 Mar 2001	2006
	92,671	–	–	–	–	96,584	8 Mar 2002	2007
	114,438	–	–	–	–	119,270	5 Mar 2003	2008
	–	121,058[7]	1,040	–	–	125,182	4 Mar 2004	2009

Unless otherwise indicated, vesting of these shares is subject to the performance tests set out in the section headed 'Arrangements from 1999-2004' on pages 54 to 55.

1 *Includes additional shares arising from scrip dividends.*
2 *At the date of vesting, 31 March 2004, the market value per share was £8.09. At the date of award, 15 April 2003, the market value per share was £6.81.*
3 *Under the terms of this award the shares will vest in three instalments on each of the first three anniversaries of 28 March 2003 so long as Mr Aldinger remains employed on the relevant vesting date, subject to accelerated vesting upon a termination of cause, or by Mr Aldinger for good reason or due to his death or disability. Pursuant to the amendment agreement referred to above the 337,976 shares (having a value of approximately £2,994,000 based on the market price on 24 February 2005) not vested at retirement will vest on Mr Aldinger's retirement on 29 April 2005.*
4 *At the date of the award, 10 May 2004, the market value per share was £7.94. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.235.*
5 *Under the terms of this award the shares will vest in three instalments on each of 31 March 2005, 2006 and 2007 so long as Mr Aldinger remains employed on the relevant vesting date, subject to accelerated vesting upon a termination of cause, or by Mr Aldinger for good reason or due to his death or disability. Pursuant to the amendment agreement referred to above the 254,755 shares (having a value of approximately £2,257,000 based on the market price on 24 February 2005) not vested at retirement will vest on Mr Aldinger's retirement on 29 April 2005.*
6 *The performance tests described in the 'Report of the Directors' in the* Annual Report and Accounts 1998 *and set out in the section headed 'Arrangements from 1999-2004' on pages 54 to 55 have been met and the shares have vested. At the date of vesting, 4 March 2004, the market value per share was £8.515. The market value per share (adjusted for the share capital reorganisation implemented on 2 July 1999) at the date of the award, 4 March 1999, was £5.92.*
7 *At the date of the award, 4 March 2004, the market value per share was £8.515. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.5909.*
8 *Retired as a Director on 28 May 2004. The awards held at the date of retirement that had passed the performance tests set out in the section headed 'Arrangements from 1999-2004' on pages 54 to 55 (the awards made in 2000 and 2001) were released to Mr Dalton on 30 June 2004. At 30 June 2004 the market value per share was £8.20. The market values per share at the dates of the awards, 10 March 2000 and 12 March 2001, were £7.09 and £8.62 respectively.*
9 *Interests at date of retirement as a Director (28 May 2004).*
10 *50 per cent of D G Eldon's discretionary bonus in respect of 2000, 2001 and 2002 respectively was awarded in Restricted Shares with a three-year restricted period.*
11 *Interests at date of appointment (1 March 2004).*

On behalf of the Board
Sir Mark Moody-Stuart, *Chairman of Remuneration Committee* 28 February 2005

Summary Consolidated Profit and Loss Account

2003 US$m	Year ended 31 December	2004 US$m	2004 £m	2004 HK$m
39,968	Interest receivable	**50,203**	*27,411*	*391,031*
(14,370)	Interest payable	**(19,179)**	*(10,471)*	*(149,385)*
25,598	**Net interest income**	**31,024**	*16,940*	*241,646*
15,474	Other operating income	**19,563**	*10,681*	*152,376*
41,072	**Operating income**	**50,587**	*27,621*	*394,022*
(21,082)	Operating expenses	**(25,875)**	*(14,128)*	*(201,540)*
(1,450)	Goodwill amortisation	**(1,814)**	*(990)*	*(14,129)*
18,540	**Operating profit before provisions**	**22,898**	*12,503*	*178,353*
(6,093)	Provisions for bad and doubtful debts	**(6,357)**	*(3,470)*	*(49,515)*
(44)	Provisions for contingent liabilities and commitments	**(27)**	*(15)*	*(210)*
(106)	Amounts written off fixed asset investments	**–**	*–*	*–*
12,297	**Operating profit**	**16,514**	*9,018*	*128,628*
(116)	Share of losses from joint ventures	**5**	*3*	*39*
221	Income from associated undertakings	**287**	*157*	*2,235*
	Gains on disposal of:			
451	— investments	**770**	*420*	*5,998*
(37)	— tangible fixed assets	**32**	*17*	*249*
12,816	**Profit on ordinary activities before tax**	**17,608**	*9,615*	*137,149*
(3,120)	Tax on profit on ordinary activities	**(4,507)**	*(2,461)*	*(35,105)*
9,696	**Profit on ordinary activities after tax**	**13,101**	*7,154*	*102,044*
	Minority interests:			
(487)	— equity	**(586)**	*(320)*	*(4,564)*
(435)	— non-equity	**(675)**	*(369)*	*(5,258)*
8,774	**Profit attributable to shareholders**	**11,840**	*6,465*	*92,222*
(6,532)	Dividends	**(7,301)**	*(3,986)*	*(56,867)*
2,242	**Retained profit for the period**	**4,539**	*2,479*	*35,355*
US$		**US$**	*£*	*HK$*
0.99	Earnings per ordinary share excluding goodwill amortisation	**1.25**	*0.68*	*9.74*
0.84	Basic earnings per ordinary share	**1.09**	*0.60*	*8.49*
0.83	Diluted earnings per ordinary share	**1.07**	*0.58*	*8.33*

Summary Consolidated Balance Sheet

2003 US$m		2004 US$m	2004 £m	2004 HK$m
	ASSETS			
7,661	Cash and balances at central banks	**9,872**	*5,104*	*76,735*
6,628	Items in the course of collection from other banks	**6,352**	*3,284*	*49,374*
20,391	Treasury bills and other eligible bills	**30,284**	*15,657*	*235,398*
10,987	Hong Kong Government certificates of indebtedness	**11,878**	*6,141*	*92,334*
117,173	Loans and advances to banks	**142,712**	*73,782*	*1,109,300*
528,977	Loans and advances to customers	**669,831**	*346,303*	*5,206,596*
205,722	Debt securities	**240,999**	*124,596*	*1,873,285*
12,879	Equity shares	**19,319**	*9,988*	*150,167*
10	Interests in joint ventures	**12**	*6*	*93*
1,263	Interests in associated undertakings	**3,440**	*1,778*	*26,739*
690	Other participating interests	**881**	*455*	*6,848*
28,640	Intangible assets	**29,382**	*15,190*	*228,386*
15,748	Tangible fixed assets	**18,829**	*9,735*	*146,358*
63,128	Other assets	**73,498**	*37,999*	*571,294*
14,319	Prepayments and accrued income	**19,489**	*10,076*	*151,488*
1,034,216	Total assets	**1,276,778**	*660,094*	*9,924,395*
	LIABILITIES			
10,987	Hong Kong currency notes in circulation	**11,878**	*6,141*	*92,334*
70,426	Deposits by banks	**83,539**	*43,190*	*649,349*
573,130	Customer accounts	**693,751**	*358,669*	*5,392,527*
4,383	Items in the course of transmission to other banks	**5,301**	*2,741*	*41,205*
153,562	Debt securities in issue	**208,593**	*107,843*	*1,621,393*
94,669	Other liabilities	**123,315**	*63,752*	*958,520*
13,760	Accruals and deferred income	**16,500**	*8,531*	*128,255*
	Provisions for liabilities and charges			
1,670	— deferred taxation	**2,066**	*1,068*	*16,059*
5,078	— other provisions	**5,532**	*2,860*	*43,000*
	Subordinated liabilities			
3,617	— undated loan capital	**3,686**	*1,906*	*28,651*
17,580	— dated loan capital	**22,800**	*11,788*	*177,224*
	Minority interests			
2,162	— equity	**2,476**	*1,280*	*19,246*
8,719	— non-equity	**10,718**	*5,541*	*83,311*
5,481	Called up share capital	**5,587**	*2,888*	*43,428*
68,992	Reserves	**81,036**	*41,896*	*629,893*
74,473	Shareholders' funds	**86,623**	*44,784*	*673,321*
1,034,216	Total liabilities	**1,276,778**	*660,094*	*9,924,395*
	MEMORANDUM ITEMS			
	Contingent liabilities			
5,412	— acceptances and endorsements	**7,214**	*3,730*	*56,074*
54,439	— guarantees and assets pledged as collateral security	**64,921**	*33,564*	*504,631*
29	— other contingent liabilities	**57**	*29*	*443*
59,880		**72,192**	*37,323*	*561,148*
428,764	Commitments	**567,696**	*293,499*	*4,412,701*

Sir John Bond, *Group Chairman*

1 Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings and in accordance with applicable accounting standards. The accounting policies adopted are consistent with those described in the *Annual Report and Accounts 2004*.

2 Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings plc, computed in accordance with Part I of Schedule 6 of the UK Companies Act 1985, were US$29,722,000 (2003: US$20,093,000; 2002: US$14,579,000). Aggregate gains on the exercise of the share options were US$14,078,000 (2003: US$17,602,000; 2002: US$514,000). Restricted Share Plan awards of US$9,598,000 (2003: US$1,728,000; 2002: US$nil) vested.

There were annual commitments under retirement benefit agreements with former Directors of US$906,000 (2003: US$557,000). The provision as at 31 December 2004 in respect of unfunded pension obligations to former Directors amounted to US$17,016,000 (2003: US$7,273,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$4,423,122 (2003: US$3,337,433), including US$2,198,072 (2003: US$2,042,469) arising from a Director's waiver of bonus.

3 Related party transactions

Transactions, arrangements and agreements involving Directors and others

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

	2004		*2003*	
	Number	**US$m**	*Number*	*US$m*
Directors and connected persons and companies controlled by them				
Loans and credit card transactions (including US$324,171 in credit card transactions (2003: US$274,198) and US$21,627,562 in guarantees (2003: US$25,776,133))	**82**	**332**	82	353
Officers				
Loans and credit card transactions (including US$394,532 in credit card transactions (2003: US$377,611) and US$167,993 in guarantees (2003: US$224,769))	**34**	**48**	32	38

Particulars of Directors' transactions are recorded in a register held at the Registered Office of HSBC Holdings which is available for inspection by members for 15 days prior to the HSBC Holdings Annual General Meeting and at the Annual General Meeting itself. The transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

4 Called up share capital

Authorised:

The authorised ordinary share capital of HSBC Holdings at 31 December 2004, 2003 and 2002 was US$7,500 million divided into 15,000 million ordinary shares of US$0.50 each, and £301,500 divided into 301,500 non-voting deferred shares of £1 each.

	Number of US$0.50 shares	US$m
At 1 January 2004	10,960,018,480	5,481
Shares issued in connection with the early settlement of HSBC Finance Corporation 8.875 per cent Adjustable Conversion-Rate Equity Security Units	1,590,319	1
Shares issued under HSBC Finance Corporation share plans	293,254	—
Shares issued to QUEST	1,079,099	—
Shares issued under other employee share plans	49,052,156	25
Shares issued in lieu of dividends	160,042,242	80
At 31 December 2004	**11,172,075,550**	**5,587**

5 Foreign currency amounts

The Hong Kong dollar and sterling figures shown in the consolidated profit and loss account and the balance sheet are for information only. They are translated from US dollars at the average rate of exchange for the year ended 31 December 2004 and the closing rate at that date respectively. These were as follows:

	Average rate	*Closing rate*
US$1.00 = HK$	7.789	7.773
US$1.00 = £	0.546	0.517

6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2004.* 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.*

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2004* from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC-North America, 2700 Sanders Road, Prospect Heights, Illinois 60070, USA; or from Direction de la Communication, CCF S.A., 109 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Central Registration Hong Kong Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on the inside back cover. The 'Directors' Remuneration Report' in this Summary Financial Statement is the complete Report contained in the *Annual Report and Accounts.*

The *Annual Report and Accounts 2004* may be viewed on our web site: www.hsbc.com.

7 Approval of the Summary Financial Statement

This Summary Financial Statement was approved by the Board of Directors on 28 February 2005.

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

We have examined the Summary Financial Statements set out on pages 44 to 68.

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 assure 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 law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the *Annual Review* with the full annual accounts and 'Directors' Report' and the 'Directors' Remuneration Report', and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the *Annual Review* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion
We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom. Our unqualified report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion
In our opinion the Summary Financial Statement is consistent with the full annual accounts, 'Directors' Report' and the 'Directors' Remuneration Report' of HSBC Holdings plc for the year ended 31 December 2004 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

28 February 2005

Shareholder Information

Fourth Interim Dividend for 2004

The Directors have declared a fourth interim dividend of US$0.27 per ordinary share (in lieu of a final dividend) which, together with the first, second and third interim dividends of US$0.13 each already paid, will make a total distribution for the year of US$0.66 per share, an increase of 10 per cent on 2003. 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 31 March 2005. The timetable for the dividend is:

	2005
Shares quoted ex-dividend in London, Hong Kong and Bermuda; American Depositary Shares ('ADSs') quoted ex-dividend in New York	16 March
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	18 March
Shares quoted ex-dividend in Paris	21 March
Mailing of *Annual Report and Accounts* and /or *Annual Review*, Notice of Annual General Meeting and dividend information	31 March
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	21 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	25 April
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	4 May

Annual General Meeting

The 2005 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on 27 May 2005 at 11 a.m.

Interim Results

The interim results for the six months to 30 June 2005 will be announced on Monday 1 August 2005.

Interim Dividends for 2005

The Board has adopted a policy of paying quarterly dividends. Under this policy, it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2005 will be US$0.14 per share. The proposed timetables for the dividends in respect of 2005 are:

First interim dividend for 2005	**2005**
Announcement	3 May
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	18 May
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	20 May
Shares quoted ex-dividend in Paris	23 May
Payment date	6 July

Second interim dividend for 2005	
Announcement	1 August
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	17 August
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	19 August
Shares quoted ex-dividend in Paris	22 August
Payment date	5 October

Third interim dividend for 2005	**2005**
Announcement	7 November
ADSs quoted ex-dividend in New York	22 November
Shares quoted ex-dividend in London, Hong Kong and Bermuda	23 November
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	25 November
Shares quoted ex-dividend in Paris	28 November
	2006
Payment date	19 January

Fourth interim dividend for 2005	**2006**
Announcement	6 March
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	22 March
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	24 March
Shares quoted ex-dividend in Paris	27 March
Payment date	11 May

Shareholder Enquiries

Any enquiries relating to your shareholding, e.g. transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent in writing to:

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, 46th Floor
183 Queen's Road East
Wan Chai
Hong Kong
Telephone: 852 2862 8555

Bermuda Overseas Branch Register
Corporate Shareholder Services Limited
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 in France
CCF S.A.
103 avenue des Champs Elysées
75008 Paris
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Investor Relations

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

Senior Manager Investor Relations
HSBC Holdings plc
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Senior Manager External Relations
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Shareholder Information (continued)

Annual Review 2004

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

For those in Europe, the Middle East and Africa:
Group Corporate Affairs
HSBC Holdings plc
8 Canada Square
London E14 5HQ
UK

For those in Asia-Pacific:
Group Public Affairs
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

For those in the Americas:
Employee Communications
HSBC-North America
2700 Sanders Road
Prospect Heights
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Electronic communications

Shareholders may, at any time, choose to receive corporate communications in printed form or electronically. To register online to receive electronic communications, or revoke or amend an instruction to receive electronic communications, go to www.hsbc.com and select 'Investor Centre' and then 'Electronic Communications'. If you received this document electronically and would like to receive a printed copy or would like to receive future shareholder communications in printed form, please write to the appropriate Registrars listed under 'Shareholder Enquiries'. Printed copies will be provided without charge.

Chinese translation

A Chinese translation of this *Annual Review* and future documents is available on request from the Registrars listed under 'Shareholder Enquiries'. Please also contact the Registrars if you have received a Chinese translation of this document and do not wish to receive such translations in future.

《年度回顧》及本公司日後其他文件備有中譯本，請向「股東查詢」一欄所列示的股份登記處索閱。如閣下收到本文件的中譯本，但日後不擬繼續收取譯本，亦請聯絡有關之股份登記處。

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:

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Web Site

This *Annual Review*, and other information on the HSBC Group, may be viewed on our web site: www.hsbc.com.

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